From: Mary Cover [Mary_Cover@otpp.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Gaetan Daigneault [Gaetan_Daigneault@otpp.com]; Jon Olson [Jon_Olson@otpp.com]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Accounting Results
Date: Friday, January 26, 2018 18:48:08
Attachment 1: image001.gif
Attachment 2: image002.png
Attachment 3: MoF - financial information - January 26, 2018.pdf
Attachment 4: Cover Jan 26 2018 Ministry Info ltr.pdf

Dear Ms. Veinot,

Please find attached the information requested by the Ministry on December 5, 2017 related to the Ontario Teachers' Pension Plan. Please let me know if you have any questions.

Regards, Mary Cover

Mary Cover, FSA, FCIA
Managing Director, Pension Strategy & Enterprise Risk
mary_cover@otpp.com
Direct 416-730-2976
www.otpp.com

Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada

http://www.otpp.com/

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ONTARIO
TEACHERS'
PENSION PLAN

ONTARIO TEACHERS' PENSION PLAN

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January 26, 2018

Cindy Veinot, Assistant Deputy Minister & Provincial Controller
Office of the Provincial Controller Division
Treasury Board Secretariat
2nd Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

Via email: cindy.veinot@ontario.ca

Dear Ms. Veinot:

I am responding to a letter dated December 5, 2017 from Mr. Alex Killoch that requested actuarial and financial information about the Ontario Teachers' Pension Plan (registered pension plan - RPP) and the Retirement Compensation Arrangement (RCA) at December 31, 2017.

Items 1, 3 (except the benefit payment breakdown), 6, 10, 11 and 12 are included in the enclosed letter from Mercer (Canada) Limited.

Item 2 - Market Value of Pension Fund Assets ($ millions)

Please note that we no longer use an asset smoothing method for our financial statements. As such, there is no separate "actuarial" value of assets.

Preliminary market value of assets at December 31, 2017	$ 189,230

Item – 3(a) RPP Benefits Paid ($ millions)

Retirement Pensions	$ 5,407
Survivor Pensions	308
Disability Pensions	26
Lump Sum Death Benefits	72
Refunds	0
Commuted Value Transfers	74
Transfers to Other Plans	8
Family Law Value Transfers	32
Total	$ 5,927

Item – 3(b) RCA Benefits Paid

The RCA pension payments made in 2017 were $8.7 million and the RCA lump sum payments in 2017 were $0.3 million.

Item - 4(a) RPP Contributions ($ millions)

Members		
Current Service	$	1,625
Optional Credit		37
Total	$	1,662
Province of Ontario		
Current Service	$	1,610
Interest		32
Optional Credit		34
Total	$	1,676
Other Employers	$	36
Transfers from Other Plans		11
Total	$	47
Grand Total	$	3,385

Item 4(b) - RCA Contributions ($ millions)

Members	$	8.9
Province of Ontario		6.9
Other Employers		2.1
Total	$	17.9

Item 4(c) - Payments re: Foregone Inflation Adjustments

The RPP foregone inflation amounts in respect of 2016 which are part of the government billing for payment in January 2018 are $1,407,225. The RCA foregone inflation amounts in respect of 2017 which were part of the government billing for payment in December 2017 were $1,195.

Item 5 - Economic Assumptions	**RPP**	**RCA**
Discount Rate	2.95%	1.475%
Salary Escalation Rate	2.70%	2.70%
Inflation Rate	1.70%	1.70%

Item 7 - Net Gain and Loss on Actuarial Value of Assets

Not applicable. Please note that we no longer use an asset smoothing method for our financial statements. As such, there is no separate "actuarial" value of assets.

Item 8 - Schedule of Contributions and Interest Receivable ($ millions)

Contributions	$	1,627
Interest		33
Total	$	1,660

Item 9 - Number of Pensioners and Active Members

Pensioners	139,000
Active Members[1]	184,000

Item 13 – Financial Statements

Not yet available.

We will provide any outstanding information as soon as it is available. In addition, we will send an updated version of this letter if any of the information contained herein is subsequently changed.

Please do not hesitate to call if you have any questions.

Sincerely,

Mary Cover, FSA, FCIA
Managing Director, Pension Strategy and Enterprise Risk
(416) 730-2976
mary_cover@otpp.com

cc: Alex Killoch – Ministry of Finance

[1] The active member count as at 31 December 2017 includes 2,400 members that were on a leave of absence (LOA) in 2017. In previous years, these LOA's were included in the inactive member count. As at 31 December 2016, the LOA's amounted to 2,300.

Security settings or invalid file format do not permit using Cover Jan 26 2018 Ministry Info ltr.pdf (76045 Bytes).

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Actuary for expert panel
Date: Thursday, October 06, 2016 15:38:59
Attachment 1: Independent Pension Asset Expert Panel _Final_Oct 5 2016.docx

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Hi Alex,

In connection with setting up the expert panel, I'm looking for an actuary who has a high level of expertise in JSPPs. Ideally, it would be someone from one of the actuarial firms (could be retired). I've attached the terms of reference.

Would you be able to reach out to your actuarial contacts for suggestions. I don't think we'll be able to appoint someone who does work for the Province (e.g. Allan Shapira who has the skill set we would need), but thought he or your other contacts may have someone in their network with the required skills.

There is a report back date by the end of this calendar year, so we need to get moving on this.

Thanks,

Cindy

Independent Pension Asset Expert Panel

Terms of Reference

Background

In connection with the preparation and audit of the 2015-16 Public Accounts, the Auditor General and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors – Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan. The government passed a time-limited regulation to require the accounting for these pension assets align with the interpretation of the Auditor General. This time-limited regulation enabled the professional accounting staff to take responsibility for the preparation of the Public Accounts in accordance with legislation and PSAS.

The government released an annual report and unaudited financial statements on October 3, 2016, and concurrently announced that an expert panel would be formed to review the application of PSAS to these pension assets.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to write off the pension assets.

Governance

An Expert Panel is established as a short-term advisory body appointed by the President of the Treasury Board to review the application of the PSAS to accounting for pension assets and provide advice to government. The final report will be submitted to the President of the Treasury Board and provided to the Auditor General of Ontario, and made public thereafter. The future accounting for the pension assets in the preparation of the Province's financial statements will be guided by the report of the panel.[1]

Mandate

The Expert Panel's mandate is to deliver advice and recommendations to the government on the application of PSAS to the recognition and measurement of pension assets. The Expert Panel's advice and recommendations to the government will consider:

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan.

[1] The Public Sector Accounting Board established a task force to review the standards on pension plans. Should their review results in changes to the standards, these new standards would be applied by the Province.

- The requirement regarding control with respect to recognizing a pension asset for other pension plans.
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in their review of the retirement and post-employment benefits standards.

Timelines

A report to the President of the Treasury Board and the Auditor General of Ontario is due by the end of 2016.

Membership

The membership of the Panel will comprise experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards. All members will be appointed by the President of the Treasury Board.

The identified members should attend/participate in the meetings; no substitutes or alternates should attend in place of a member.

Support

The Province will identify individuals to support the Panel and work collaboratively to provide information related to the pension plans sponsored by the Province of Ontario.

Funding

The Province will be responsible for the costs of the appointed members to attend the meetings. The costs of any individuals supporting the work of the Panel will also be borne by the Province.

From: Chan, Sybille (MOF) []
To: Helfand, Norman (MOF) [Norman.Helfand@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; FIN-R-TOR.FrostSouth.Boardroom 575 [FS.Boardroom575@ontario.ca]; Skoberne, Vivienne (MOF) [SOM.Vivienne.Skoberne1@ontario.ca]
CC: DiBellonia, Samantha (MOF) [Samantha.DiBellonia@ontario.ca]; Bessiris, Mary (MOF) [Mary.Bessiris@ontario.ca]
Subject: Associate's briefing on Pension Expense
Date: Tuesday, November 21, 2017 15:55:32
Attachment 1: Development of the Province's Economic Assumptions for the 2018 Budget -....pptx

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Requesting Division:	ISPPD
Meeting name and purpose:	Name: A/DM Briefing | Pension Expense Purpose: To provide an overview of ISPPD's role in the process for developing the economic assumptions that are an input into the accounting valuation, which determines the pension expense for the following plans that are consolidated in the Province's financial statements – HOOPP, Teachers', PSPP, OPSEUPP and CAATPP. Last year, the Auditor General had questions about the economic assumptions provided by MOF in the context of the pension expense. This briefing would provide some background on potential future questions that may arise from the Provincial Auditor on the assumptions from ISPPD.
Audience: A/DM, DM and/or Minister *(please include DMO, MO if appropriate)*	A/DM
Proposed meeting date:	November 23
Proposed meeting length:	30 minutes

Internal attendees: *(please include ADM and A/DM EA's)*	Nancy Kennedy Vivienne Skoberne Norm Helfand Catherine Mah Alex Killoch Rob Pomykacz Ingrid Tsang
External attendees:	N/A
Materials (to be included in the request or to follow at a later date):	Included in the request

Development of the Province's Economic Assumptions for the 2018 Budget

BPS Pensions Branch
Ministry of Finance
November 2017

Ontario

PURPOSE

PART I

- Explain the differences and similarities between the funding basis and accounting basis for public sector pensions

- Explain the role of BPS Pensions and other branches/Ministries in the development of pension expense estimates

PART II

- Outline the assumptions and rationale for the 2018 Budget for the following five plans that are consolidated in the Province's financial statements:
  1. Ontario Teachers' Pension Plan (OTPP),
  2. Public Service Pension Plan (PSPP),
  3. Ontario Public Service Employees' Union Pension Plan (OPSEUPP),
  4. Healthcare of Ontario Pension Plan (HOOPP), and
  5. Colleges of Applied Arts and Technology Pension Plan (CAATPP).

PART I: COMPARISON OF FUNDING VS. ACCOUNTING BASIS

- The funding valuation and accounting valuation are alternatives for estimating the cost of providing pension benefits:

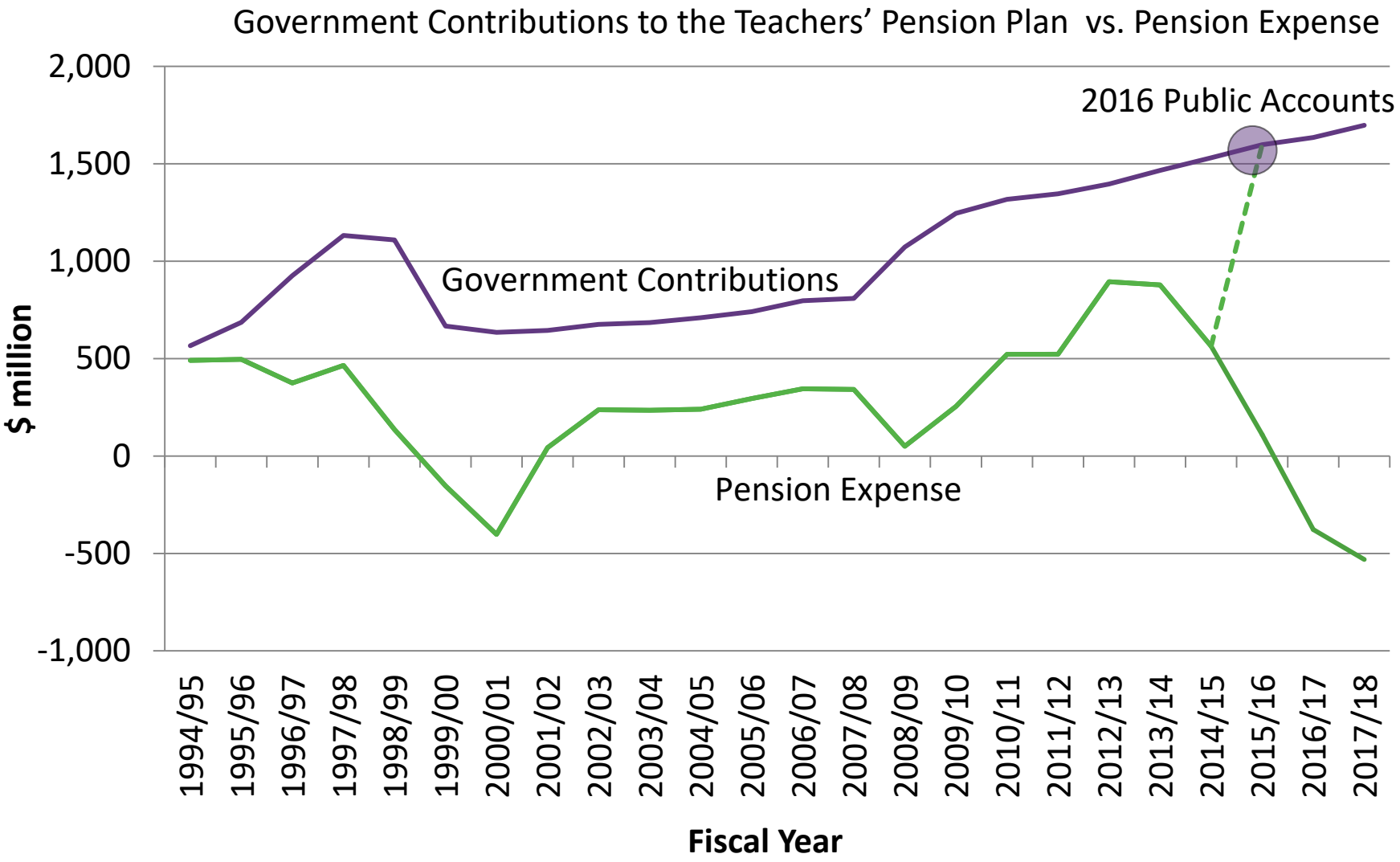
Funding Valuation	Accounting Valuation

• Determines the required cash contributions that, combined with income earned by the plan, will secure benefits	• Determines the fiscal expense of the pension benefit
	  • Does not represent a cash payment of any kind
	  • Attributes the cost of the pension benefit obligation to the period in which the related service is rendered
	  • Purpose is to allow for the comparability of distinct entities

• Governed by the Pension Benefits Act (PBA) and actuarial standards	• Based on accounting principles as recommended by the Public Sector Accounting Board (PSAB)
• A funding valuation will often contain an element of conservatism	• Includes best estimates as required by PSAB (i.e. no conservatism)
Regardless of the method used, both methods converge to the actual cost over the long term.	

PART I: HOW THE FUNDING AND EXPENSE AMOUNTS DIFFER

- Since pension expense is determined by applying PSAB standards to accounting valuations, it is likely to be different from cash contributions at any point in time:



PART I: THE FOUR COMPONENTS OF THE PENSION EXPENSE

1. **Service cost**
   - Discount rate, which is used to calculate the present value of the benefits earned in the current period
   - Growth in the number of employees
   - Salary increases
   - Benefit enhancements

2. **Interest**
   - On the net plan surplus or deficit (a notional amount, for fiscal purpose)

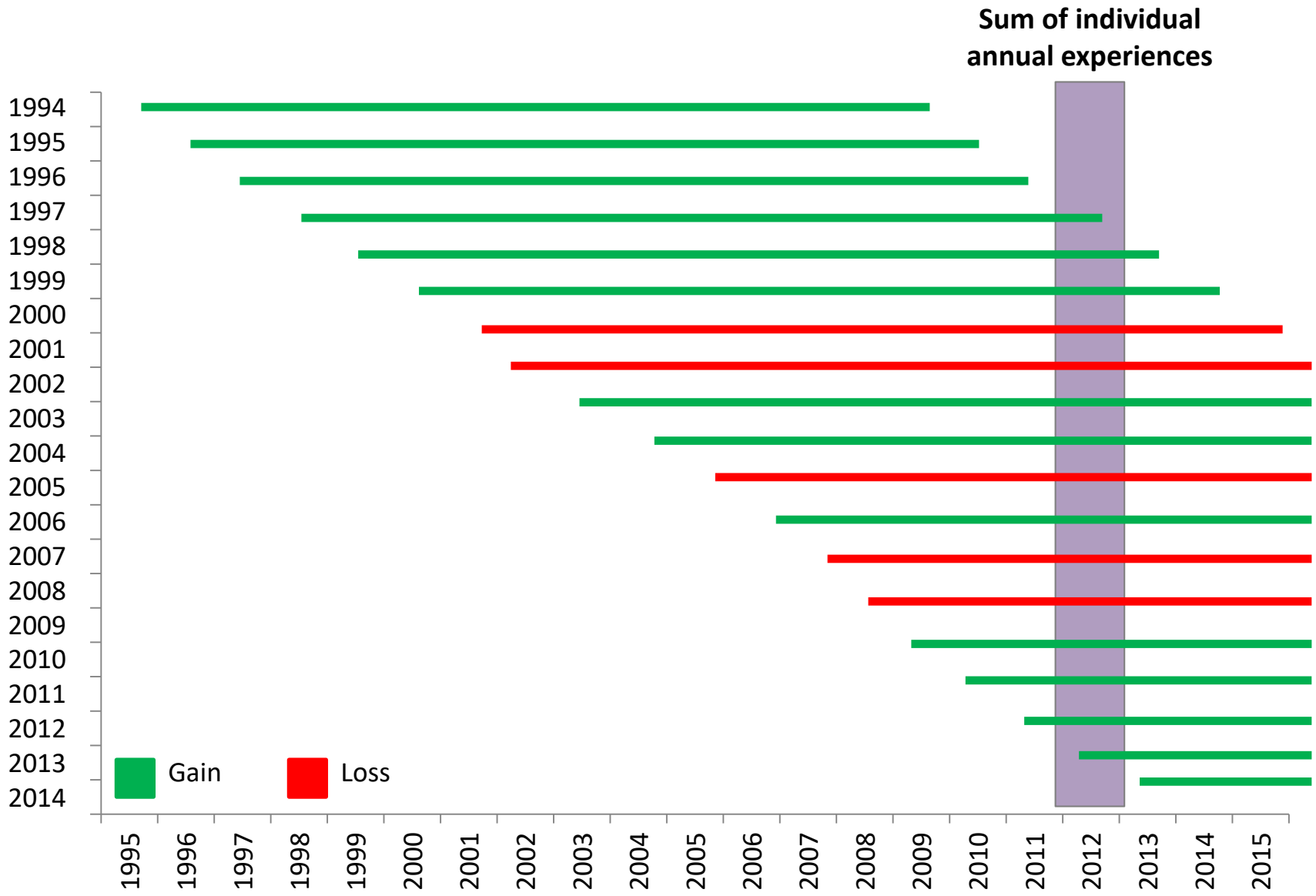
3. **Amortization of Net Actuarial Gains/Losses**
   - At each valuation, assumptions are compared to the plan's actual experience.
   - Actuarial gains or losses are due to:
     - actual return on investments being different from the assumed discount rate.
     - actual wage growth or inflation being different from what was assumed.
     - changes in actuarial assumptions on rate of return, wage growth or inflation.
   - Any differences are amortized over the expected average remaining service life of the membership for the specific plan.
   - Each year pension expense includes the impact of prior year amortization schedules (see example on slide 7).

4. **Cost of Plan Amendment**
   - Changes in benefits granted related to years of past service

PART I: DRIVERS OF THE PENSION EXPENSE (CONT'D)

Variable	Effect on Pension Expense
↑ Discount Rate	↓
↑ Inflation	↑
↑ Salary Escalation Rate	↑
Amortization of past gains	↓
Amortization of past losses	↑

PART I: HOW INVESTMENT RETURNS IMPACT THE PENSION EXPENSE



PART I: MOF'S ROLE IN THE PROCESS

- Accounting valuations must be prepared for the five plans that are consolidated in the Province's financial statements:
  1. Ontario Teachers' Pension Plan (OTPP),
  2. Public Service Pension Plan (PSPP),
  3. Ontario Public Service Employees' Union Pension Plan (OPSEUPP),
  4. Healthcare of Ontario Pension Plan (HOOPP), and
  5. Colleges of Applied Arts and Technology Pension Plan (CAATPP)

- While the accounting valuations are prepared by each pension board, the economic assumptions used in the valuations are determined by MOF (BPS Pensions Branch).
  - PSAB requires that key economic assumptions should be government's best estimate of those future events that have an effect on pension liabilities.

- Each fall, MOF completes a well-established process to evaluate past assumptions and to develop assumptions to be used in upcoming accounting valuations. This includes the:
  - discount rates (i.e. expected returns on plan assets over the long term);
  - future inflation rate; and
  - future salary escalation rates.

PART I: MOF'S ROLE IN THE PROCESS (CONT'D)

- MOF staff collect and review data from each of the consolidated pension plans as well as independent sources available at the time the assumptions are set.
  - Staff also engage expertise in other areas of the government in developing its economic assumptions.
    - BPS staff consult with the Office of Economic Policy (OEP) on the inflation assumption and the Labour Relations Policy and Strategic Initiatives Branch at the Treasury Board Secretariat (TBS) on collective agreement outcomes.
- If a change in the long-term trend in any of the assumptions is found, then assumptions are adjusted.
- MOF staff recommend the basis to be used and develop a number of scenarios for sensitivity analysis purposes.
- Once the assumptions are finalized, they are provided to each plan administrator in mid-December. Each administrator is requested to prepare an accounting valuation based on these scenarios and submit the results by late January.

PART I: TIMELINE

- On receipt of the assumptions, administrators will start preparing programs based on the scenarios. However, they cannot begin the valuation process and other calculations until after December 31st, as this work requires the input of year-end information (e.g. finalizing asset values and membership data).

- In February, staff at the Office of the Provincial Controller Division (OPCD) use the valuation results to calculate the pension expense for each plan based on PSAB requirements.

- As part of the process, MOF staff prepare documentation that provides a rationale for the assumptions for the Office of the Auditor General of Ontario (AG).

- The following slides provide MOF staff's analysis and recommendations on each of the economic assumptions.

PART II: 2018 ASSUMPTIONS: DISCOUNT RATE

Recommendation

- MOF staff recommend the following changes to the Province's 2018 real discount rate to reflect changes in market conditions and the long-term outlook:

(%)	OTPP	PSPP	OPSEUPP	HOOPP	CAATPP
Current discount rate	4.00	3.75	3.90	3.75	3.75
Proposed discount rate	4.00	3.75	3.75*	3.75	3.75
Change	0.00	0.00	-0.15	0.00	0.00

*The asset mix of the OPSEUPP has become similar to that of the PSPP. For this reason, MOF staff reduced the discount rate last year and recommend reducing it again this year.

Implication

- Lowering the discount rate increases the pension expense, all else the same.
  - A lower discount rate is an acknowledgement that the fund is expected to earn less over time.

PART II: 2018 ASSUMPTIONS: DISCOUNT RATE (CONT'D)

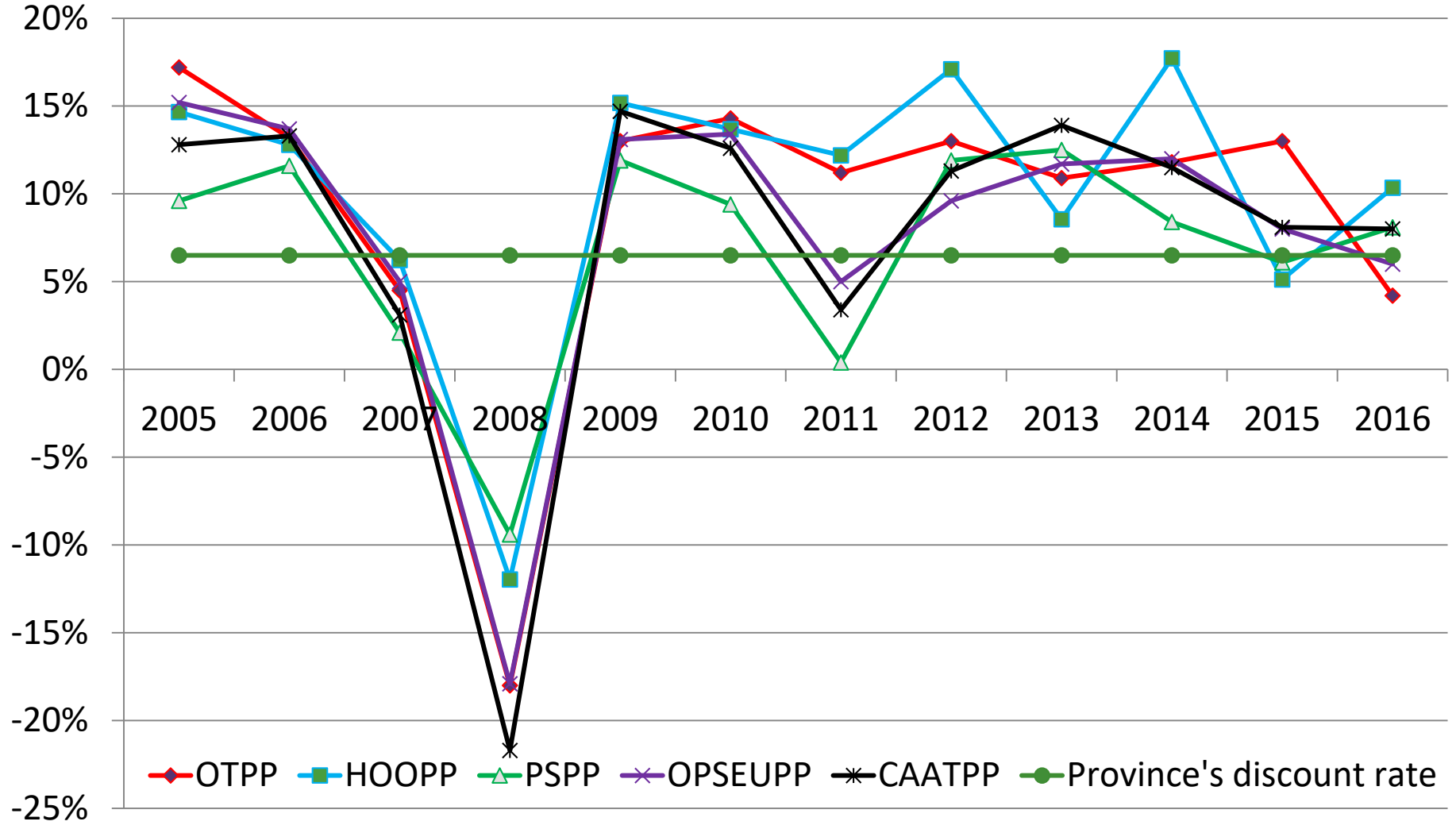
Rationale for Recommendation

- Following PSAB requirements, the discount rate assumption is developed based on the target/policy asset allocation of each of the plans and the expected return for each of the asset classes over the long term.

- Although the actual annual return in most instances has exceeded the Province's return assumptions in recent years, the average return has been consistent with the Province's assumptions. This provides evidence that the assumptions are within a reasonable range.

PART II: 2018 ASSUMPTIONS: DISCOUNT RATE (CONT'D)

Historical Actual Performance vs. Province's Discount Rate for Consolidated Plans



PART II: 2018 ASSUMPTIONS: DISCOUNT RATE (CONT'D)

- Staff also considered discount rates used by each plan in their three most recently filed funding valuations.
  - Note that most of the plans include a provision for adverse deviation (PfAD) of approximately 50bp in their discount rate. The implicit discount rate is therefore higher than the stated discount rate.

Discount Rate Assumptions Used by the Pension Boards (%)

	OTPP			PSPP*			OPSEUPP			HOOPP			CAATPP		
	2015	2016	2017	2014	2015 /16	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Nominal	4.85	4.80	4.80	5.95	-	-	5.85	5.55	5.40	5.85	5.65	5.45	5.80	5.70	5.60
Real	2.85	2.80	2.80	3.85	-	-	3.85	3.55	3.40	3.60	3.65	3.45	3.80	3.70	3.60

Province's Discount Rate Assumptions (%)

Nominal	6.50	6.25	6.00	6.25	6.00	5.75	6.50	6.25	5.90	6.00	5.75	5.75	6.25	6.00	5.75
Real	4.25	4.25	4.00	4.00	4.00	3.75	4.25	4.25	3.90	3.75	3.75	3.75	4.00	4.00	3.75
2018 Real			4.00			3.75			3.75			3.75			3.75

*PSPP has not filed a funding valuation since Dec. 31, 2013. Once its application to Stage 2 of the Temporary Solvency Funding Relief program is approved, a new valuation is expected for Dec. 31, 2017.

PART II: 2018 ASSUMPTIONS: INFLATION

Recommendation

- MOF staff recommend maintaining the Province's inflation assumption at 2%.

Year	2016	2017	2018
(%)	2.00	2.00	2.00

Implication

- No fiscal impact as no change to the assumption.
  - Inflation is important to pension expense as plans are indexed.

Rationale

- This rate is consistent with the Office of Economic Policy's long-term economic outlook, projecting 2.0% (2026+). In addition, staff considered long-term inflation assumptions from the following sources:

CPP Board	2%
QPP Board	2.2%
Conference Board of Canada	2%
Bank of Canada Inflation Rate Target	2% (mid-point of the 1% to 3% range)

PART II: 2018 ASSUMPTIONS: INFLATION (CONT'D)

- Among private sector organizations*, short-term inflation is expected, on average, to be 1.7% in 2017 and will increase from 1.9% to 2.1% from 2018 to 2020.
- Staff also considered inflation rates used by each plan in both their funding and financial statement valuation:

Inflation Assumptions Used by the Pension Boards (%)

	Funding Valuation	Financial Statement Valuation
PSPP	2.1	2.0
OPSEUPP	2.0	2.0
OTPP	2.0	1.8
HOOPP	2.0	2.0
CAATPP	2.0	2.0

*Includes forecasts from the Conference Board, Global Insight, C_4SE, University of Toronto, RBC Financial Group, TD Bank, Desjardins, BMO Capital Markets, Central 1, Laurentian Securities and National Bank.

PART II: 2018 ASSUMPTIONS: SALARY ESCALATION RATE

Recommendation

- MOF staff recommend the following with respect to the Province's real salary escalation rate assumption:

(%)	OTPP	PSPP	OPSEUPP	HOOPP	CAATPP
Current salary rate	0.75	0.75	0.75	2.00	1.25
Proposed salary rate	0.75	0.75	0.75	2.00*	1.25
Change	0.00	0.00	0.00	0.00	0.00

*Last year, the Auditor General noted that the Province's salary assumption for HOOPP was high compared to the assumption used in HOOPP's financial statements. However, in a letter from HOOPP to MOF, the Board indicated that the Province's salary assumption is close to the actual plan experience.

Implication

- No impact on pension expense.

PART II: 2018 ASSUMPTIONS: SALARY ESCALATION RATE (CONT'D)

Rationale for Recommendation

- To assess the appropriateness of the salary escalation assumptions, MOF staff reviewed recent increases in the annual YMPE as well as salary assumptions used in the plans' funding valuations.
  - The annual nominal rate of YMPE increase has been between 2% to 3% for the last decade until 2016. The annual increase from 2017 to 2018 has been only 1.1% (from $55,300 to $55,900).
  - This is consistent with the Ontario Average Industrial Nominal Wage growth rate which was about 1.1% from August 2016 to August 2017.

PART II: 2018 ASSUMPTIONS: SALARY ESCALATION RATE (CONT'D)

- Staff also considered salary escalation rates used by each plan in their funding valuation:

Salary Escalation Rate Assumptions Used by the Pension Boards (%)

	OTPP			PSPP*			OPSEUPP			HOOPP**			CAATPP		
	2015	2016	2017	2014	2015 /16	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Nominal	3.00	3.00	3.00	3.10	-	-	2.75	2.75	2.75	3.75	3.50	3.50	3.75	3.75	3.75
Real	1.00	1.00	1.00	1.00	-	-	0.75	0.75	0.75	1.50	1.50	1.50	1.75	1.75	1.75

Province's Salary Escalation Rate Assumptions (%)

Nominal	3.25	3.00	2.75	3.25	3.00	2.75	3.25	3.00	2.75	4.50	4.25	4.00	3.25	3.00	3.25
Real	1.00	1.00	0.75	1.00	1.00	0.75	1.00	1.00	0.75	2.25	2.25	2.00	1.00	1.00	1.25
2018 Real			0.75			0.75			0.75			2.00			1.25

*PSPP has not filed a funding valuation since Dec. 31, 2013. Once its application to Stage 2 of the Temporary Solvency Funding Relief program is approved, a new valuation is expected for Dec. 31, 2017.
**HOOPP develops their assumptions based on the entire plan membership while the Province includes only hospital employees in its financial statements. As a result, the Province's assumptions are based on the expected salary growth for only these members, which is expected to be higher than the general plan membership.

SUMMARY & NEXT STEPS

SUMMARY

- MOF staff are proposing one change to the Province's economic assumptions:
  - Reduce the OPSEU discount rate by 0.15%
  - No change to the inflation rate
  - No change to salary escalation assumptions across all plans
- No significant fiscal impact is expected as a result of a change in the economic assumptions.

NEXT STEPS

- Finalize assumptions and scenarios for sensitivity analysis, prepare the letters to the plans and send out by late November.
- Deadline to submit accounting valuation results to OPCD is January 26, 2018.

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: BPS Comparison Chart
Date: Thursday, November 03, 2016 09:59:16
Attachment 1: BPS Comparison Chart.docx

Hi Garima

We have prepared the attached table for OPCD. It is a summary of plan provisions across the BPS, with representation from SEPP's, based on what we have, and from the JSPP's. It lists most of the benefits offered by plans and the employee contribution rates.

I would like to provide to OPCD in response to their request for some comparators to Teachers', once Leah is comfortable with it.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

Comparison of key features of Ontario Teachers' Pension Plan with major SEPP pension plans.

Benefit Provision	Ontario Teachers' Pension Plan (OTPP)	OPG	Hydro One	University of Guelph Professional Plan	WSIB
Averaging Period For Earnings (yrs.)	5	3	3 (5 for new non-represented and society members)[1]	3	5
Benefit Rate After Age 65 (per year of pensionable service)					
• Below CPP Wage Base	1.55%	1.50%	1.50% (1.375% for non-represented and new society)[1]	1.50%	1.50%
• Above CPP Wage Base	2.00%	2.00%	2.00%	2.00%	2.00%
Benefit Rate Before Age 65 (per year of pensionable service)	2.00%	2.229%	2.229% (2.10% for non-represented) No bridge for new non-represented and society members[1]	2.00%	2.00%
Subsidized Payment Form					
• With Spouse	50% J&S	66⅔% J&S	66⅔% J&S	66⅔% J&S	66⅔% J&S
• Without Spouse	LG10	LG5 (life annuity with 5 years guaranteed)	LG5	LG5	
Earliest Age For Unreduced Early Retirement Pension	85 points	82 points (84 points non-represented), or age 60 + 25 years, or 35 years	82 points (85 points for new non-represented and society members)[1], or age 60 + 25 years, or 35 years	Age 55 plus 85 points	Age 60 with 20 years of service or 85 points
Indexation of Pension Benefits	Pre-2010 Benefits:100% of CPI 2010–2013 Benefits:50% of CPI plus conditional up to 100% of CPI Post-2013 Benefits: conditional up to 100% of CPI	100% of CPI	100% of CPI (75% of CPI for new non-represented and society members)[1]	CPI less 2%	75% of CPI
Member Contribution Rates				Varies by union. Highest level for Faculty is:	
• Below/Above CPP Wage Base	11.50% / 13.10%	PWU: 5.0% / 7.0% Society/non-represented: 7.0%	Non-represented: 4.75% / 6.75% Society: 4.0%/6.0% increasing to 6.5%/8.5%[3] PWU: 4.5%/6.5% increasing to 6.25%/8.25%[4]	7.78% / 9.48%	5.2% / 7.0%

1 Non-represented hired on or after January 1, 2004 or Society members hired on or after November 17, 2005.
2 Post-2006 Non-represented new hires.
3 Effective April 1, 2015.
4. Effective April 1, 2014 and rates 0.5% lower for post-November 2005 Society hires.
5. Effective April 1, 2014.

Comparison of key features of Ontario Teachers' Pension Plans with major JSPP pension plans.

Benefit Provision	Ontario Teachers' Pension Plan (OTPP)	HOOPP	OMERS	Ontario Public Service Pension Plan (OPB)	OPSEU Pension Plan (OPT)	CAAT
Averaging Period For Earnings (yrs.)	5	5	5	5	5	5
Benefit Rate After Age 65 (per year of pensionable service)						
• Below CPP Wage Base	1.55%	1.50%	1.325%	1.30%	1.35%	1.30%
• Above CPP Wage Base	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Benefit Rate Before Age 65 (per year of pensionable service)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Subsidized Payment Form						
• With Spouse	50% J&S	60% J&S	66⅔% J&S	50% J&S	60% J&S	50% J&S
• Without Spouse	LG10	LG15	ROC	ROC	ROC	LG
Earliest Age For Unreduced Early Retirement Pension	85 points	age 60, or age 55 + 30 years	age 55 + 30 years, or age 55 + 90 points	age 60 + 20 years, or 90 points	age 60 + 20 years, or 90 points	age 60 with 20 years of service or 85 points
Indexation of Pension Benefits	Pre-2010 Benefits: 100% of CPI 2010–2013 Benefits: 50% of CPI plus conditional up to 100% of CPI Post-2013 Benefits: 0% of CPI plus conditional up to 100% of CPI	Pre-2006 Benefits: 75% of CPI Post-2005 Benefits: Conditional up to 75% of CPI	100% of CPI	100% of CPI	100% of CPI	Pre-2007 Benefits: 75% CPI Post -2008 Benefits: 0% CPI, ad-hoc based on funded status
Member Contribution Rates • Below/Above CPP Wage Base	11.50% / 13.10%	6.90% / 9.20% (employer pays 125% of employee contribution)	9.00% / 14.60%	6.40% / 9.50%	9.40% / 11.00%	11.2% / 14.8%

From: Roberto, Nicole (EDU) []
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CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Cabinet_Binder_Note_ OTPP Asset in the Public Accounts v.01 19-09-2016
Date: Monday, September 19, 2016 16:39:09
Attachment 1: Cabinet_Binder_Note_ OTPP Asset in the Public Accounts v.01 19-09-2016.doc

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Hi Rob,

Further to our chat please find attached our draft cabinet note for our Minister. We've included a reference to the potential financial impact for EDU's plan at the beginning of the EDU implications section. Can you please review let us know if you have any additional feedback we should include?

Thanks,

Nicole

CABINET MEETING – September 21, 2016
TREASURY BOARD SECRETARIAT ITEM – Annual Publication of Ministry Plans (2016-17) and Annual Reports (2015-16)

ISSUE

In advance of the release of the 2015-16 Public Accounts, the Auditor General of Ontario (AG) has questioned whether the Ontario Teachers' Pension Plan (OTPP) pension asset is properly positioned in the government's financial statements. Specifically, the AG has been engaged in discussions with Treasury Board Secretariat (TBS) and the Ministry of Finance (MOF) about whether the Province has sufficient control over the OTPP's decisions to warrant the inclusion of the OTPP pension asset in the 2015-16 Public Accounts.

The Ministry of Education has provided support to TBS and MOF in these discussions by sharing information on the OTPP's governance structure and how historical funding decisions have had positive implications for both the Province and plan members.

CONTEXT / BACKGROUND

- OTPP is a globally active investor with holdings in more than 50 countries across diversified sectors and asset classes. Since its establishment as an independent organization in 1990, more than three-quarters of the OTPP's income has come from investment returns, with the remainder from member and government contributions.
- In 2015, the plan earned a 13.0% rate of return and its portfolio generated $19.6 billion of investment income. Net assets increased to a record $171.4 billion. The OTPP has also been listed as one the 20 largest pension plans in the world (Source: Boston Consulting Group).
- The pension plan is jointly sponsored by the Ontario government, through the Minister of Education, and the executive of the Ontario Teachers' Federation (OTF). The OTF represents teachers, while the government represents employers. The sponsors jointly:
    - Set benefit levels;
    - Establish the contribution rate paid by working teachers (which is matched by the Ontario government and other designated employers); and,
    - Decide how to address funding shortfalls or use surplus funds when they arise.
- OTF and the government are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations.
- The OTPP is required to perform two different valuations each year, one on a funding basis and one on an accounting basis. These valuations are two different ways to estimate the cost to provide benefits to be paid in the future.
- The funding valuation determines the Plan's annual contribution requirements, and is used for public communication purposes by the Plan and its sponsors, while the accounting valuation determines the OTPP expense for the fiscal plan and the province's financial statements.
    - As of January 1, 2016 the preliminary funding valuation reported a surplus of approximately $13.5 billion, while the accounting valuation reported a surplus of approximately $20.0 billion. Variations between these outlooks are due to differences in calculation methods and underlying assumptions (e.g., of discount rates, wages or inflation).

- The Province's 50% share of the OTPP pension asset would be recorded in the 2015-16 Public Accounts as an approximately $10 billion surplus (per the 2015 accounting valuation).

EDU IMPLICATIONS

In terms of financial impact, if the OTPP pension asset is no longer included in the government's financial statements, it could create the need for a significant adjustment to the Ministry's multi-year fiscal outlook. EDU would not be able to manage such an increase from within.

Broadly speaking, a public disagreement between the AG and the government over the value of the OTPP pension asset creates two minimal risks for the OTPP and the Plan's sponsors– stakeholder risk and reputational risk.

Stakeholder risk

- The OTF has not traditionally concerned itself with the results of the annual accounting valuation of the OTPP, since a separate funding valuation is used to determine whether the Plan has sufficient assets to meet its obligation to pay pensions to members.
- A public disagreement over the accounting valuation will highlight that the assumptions underpinning the accounting valuation (used solely for reporting in the Province's financial statements) include a much higher discount rate than what is set by the OTPP Board for the funding valuation.
- By highlighting this difference, there is risk that the government will be subject to increased pressure from stakeholders (possibly including the OTF itself) to change the discount rate used for the funding valuation to allow for costly benefit improvements. Although difficult to quantify, note that a change of 10 basis points in the discount rate can have an impact of greater than $3 billion.
    - The discount rate used to inform the funding valuation is determined each year by the OTPP board; the sponsors are not involved in this process. The discount rate has been reviewed by independent experts three times in the past 10 years - each review concluded that the rate selected by the OTPP board was appropriate.

Reputational Risk

- The OTPP has an excellent reputation both nationally and internationally. At times, the OTPP leverages this reputation in discussions with ratings agencies and potential investment partners. A public dispute over the value of the pension asset could bring into question the ability of OTPP to properly value its assets.
- This could mean that as part of the due diligence process, potential investment partners may be less inclined to enter agreements with the OTPP. Additionally, ratings agencies, who have sought clarity on the OTPP's governance structure in the past, may express concern if the OTPP's ability to properly value its assets is being publicly disputed.

RECOMMENDATION

EDU is supportive of TBS and MOF's position that the OTPP pension asset should be included in the government's financial statements, including the 2015-16 Public Accounts.

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CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Derivation of the $4.3B Reduction
Date: Thursday, September 22, 2016 16:57:37
Attachment 1: Derivation of $4 3B.docx
Attachment 2: OTPP Funding Position Update Sept 15 2016.pdf
Attachment 3: OTPP Preliminary Result Jan 1 '16.pdf

As requested, please find attached an explanation of the derivation of the $4.3B reduction in the present value of the government's share the pain payments. Also attached are the two supporting OTPP slide decks.

We do not have any material from the OTPP confirming the $8.6B.

Josh/Nicole, would you have any documents from the OTPP showing this amount?

Rob

Derivation of the $4.3 billion reduction in the government's "share the pain" payments:

The January 1, 2016 preliminary valuation revealed a surplus of $13.2 billion

- The surplus reflected 70% CIP
- The present value of the government's share the pain payments was $6.6B

The Partners agreed to use $8.6B of the surplus to increase CIP from 70% to 90%

- Since more indexation is to be provided, the government's share the pain payments decreased
- As a result, the present value of the government's share the pain payments was reduced to $2.3B.

The difference of $4.3 billion ($6.6B - $2.3B) is the present value of the corresponding reduction in the government's share the pain payments

The liabilities increased by an identical amount given that higher benefits would be paid in the future.

The January 1, 2016 valuation is to be filed with a remaining surplus of $4.6B.

The following table summarizes these calculations:

	Present Value of "Share the Pain" Payments
Jan 1, 2016, Preliminary Valuation With 70% CIP **(p. 4 of Feb 16, 2016 presentation)**	**$6.6 Billion**
Jan 1, 2016, Filed Valuation With 90% CIP **(p. 4 of Sep 15, 2016 presentation)**	**$2.3 Billion**
Present Value of Reduction in the Government's "Share the Pain" Payments	**$4.3 Billion**

Funding Position Update

Partners' Consultative Committee – September 15, 2016

Mary Cover, FSA, FCIA

Director, Pension Strategy

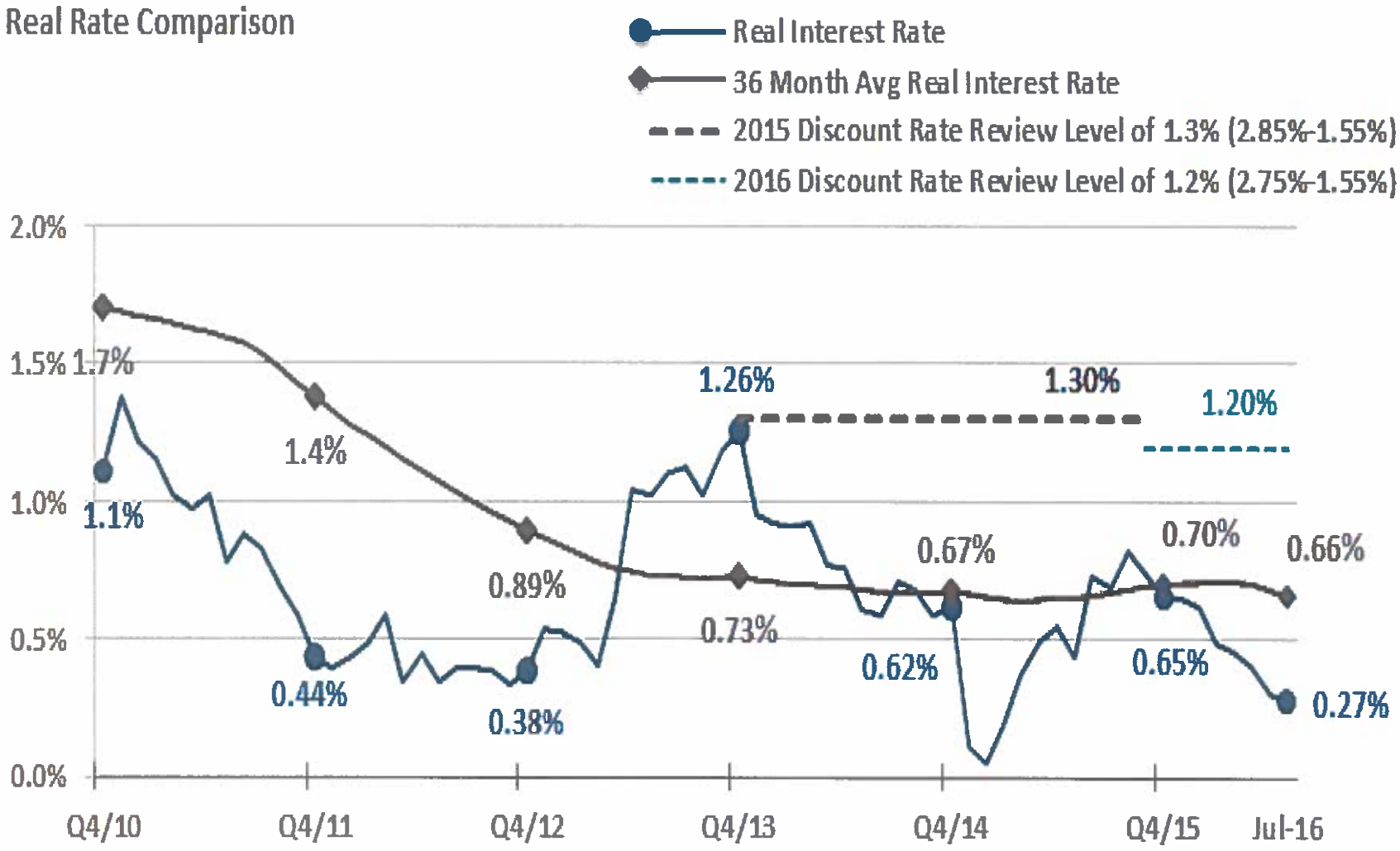
& Enterprise Risk

ONTARIO TEACHERS' PENSION PLAN

Agenda

- Real Yield Update
- Funding Estimate as of July 31, 2016
- Status of Valuation Filing Report
- Funding Management Policy

Real Yield Update



RRB yields have ranged from 18 bps to 76 bps year to date

Funding Estimate as of July 31, 2016

Funding Status ($Billions)

	January 1, 2016 Preliminary	January 1, 2016 Filed	July 31, 2016 Estimate	
Market Value of Assets	$171.4	$171.4	$172.2	
Smoothing Adjustment	($10.8)	($10.8)	($4.7)	
Actuarial Value of Assets	**$160.6**	**$160.6**	**$167. 5**	↑ **$6.9**
Present Value of Basic Contributions	$41.5	$41.5	$42.4	
Present Value of Special Contributions	$3.1	$3.1	$3.1	
Present Value of Benefits (100% indexing)	($205.3)	($205.3)	($209.9)	
Reduction in PV of Benefits due to CIP	$6.6	$2.3	$2.4	
Present value of Matching Contributions	$6.6	$2.3	$2.4	
Net Liability	**($147.5)**	**($156.1)**	**($159.6)**	↑ **$3.5**
Surplus/(Deficit) (CIP invoked)	**$13.1**	**$4.5**	**$7.9**	↑ **$3.4**
Surplus/(Deficit) (100% Indexing, no specials)	**($3.2)**	**($3.2)**	**$0.0**	
Funding Ratio (CIP invoked)	**106.6%**	**102.2%**	**103.8%**	↑ **1.6%**
Funding Ratio (100% Indexing, no specials)	**98.4%**	**98.4%**	**100.0%**	

Notes:

- Private Investments have not been revalued since the beginning of the year.
- Nominal discount rate: 4.8% (2.75% real, 2% inflation)
- CIP level per filed valuation: 90%
- CIP level per preliminary valuation: 70%

Status of Valuation Filing Report

- Robust 70 page report and related forms
- Will be filed with FSCO and CRA
- Deadline of September 30th
- Next filing required no later than January 1, 2019

FMP Framework Description

Valuation Basis

Assets = 110% of Liabilities valued at Ref Rate + 0.5%

Zone: Permanent Plan Improvements

Mechanism: Improve benefits as negotiated

Assets = Liabilities valued at Ref Rates + 1.25%

Zone: Temporary Plan Improvements

Mechanism: Improve benefits or lower contributions as negotiated

Assets = Liabilities valued at Ref. Rate + 1.55%

Zone: Fully Funded (Do Nothing)

Mechanism: Maintain Base Benefits and Contributions

Zone: Additional Support Required From Current FMP Levers

Mechanism: Raise Contribution Rates and/or Invoke Conditional Inflation Protection as negotiated

Zone: Additional Support Required From New/Additional Changes

Mechanism: Negotiate other plan changes

FMP Zones as of July 31, 2016

Valuation Basis

FP: Funding Position **FR:** Funding Ratio

Assets = 110% of Liabilities valued at interest rates + 0.5%

That is, Assets ~ 133% Liabilities valued at interest rates + 1.55%

Net Liability valued at Distribution Basis
w/o DR Review Adj. (1.15%[1]): 110% of Net Liability = $280.9B, FP[2] = -$113.4B, FR = 66.2%
w/ DR Review Adj. (1.70%[1]): 110% of Net Liability = $241.1B, FP[2] = -$73.6B, FR = 74.9%

Assets = Liabilities valued at interest rates + 1.25%

That is, Assets ~ 107% Liabilities valued at interest rates + 1.55%

Net Liability valued at Temporary Basis
w/o DR Review Adj. (1.90%[1]): Net Liability = $207.7B, FP = -$40.2B, FR = 84.1%
w/ DR Review Adj. (2.45%[1]): Net Liability = $180.0B, FP = -$12.6B, FR = 94.4%

Assets = Liabilities valued at interest rates + 1.55%

Net Liability valued at Restoration Basis
w/o DR Review Adj. (2.20%[1]): Net Liability = $191.9B, FP = -$24.5B, FR = 89.7%
w/ DR Review Adj. (2.75%[1]): Net Liability = $167.5B, FP = $0.0B, FR = 100.0%

Actual Plan Position
Net Liability valued at the Restoration Basis (2.75% real) = $159.6B
FP at 31.July.2016 = $7.9B (FR = 103.8%)

*Special CR: 1.1%, Post 2009-Pre2014 indexation: 90%, Post 2013 indexation: 90%

Diff. in F

$73.2B - $61.0B

$15.7B - $12.6B

$32.4B - $7.9 B

[1] Discount Rates reported in real terms
[2] Smoothed assets/liabilities used for funding positions

HEALTH WEALTH CAREER

ONTARIO TEACHERS' PENSION PLAN

Actuarial Funding Valuations

Preliminary Results as at January 1, 2016

Scott Clausen, FSA, FCIA
Partner

Lise Houle, FSA, FCIA
Principal

February 16, 2016

HIGHLIGHTS OF THE FUNDING VALUATION

- Preliminary valuation results are based on:
  - Preliminary December 31, 2015 asset values as provide by OTPP[1]
    - 2015 investment return (net of expenses) roughly 12.4% before smoothing and 11.3% with smoothing assuming mid-year cash-flows
    - Actual fund returns slightly higher based on actual cash flow timing
  - Membership data as at August 31, 2015 with liabilities projected to December 31, 2015
  - Current level of CIP invoked in the January 1, 2015 funding valuation
    - 70% of inflation for post-2009 service, and
    - Inflation restored to 100% for retirees receiving less than full inflation adjustment on January 1, 2015

- Changes from last valuation that impact the preliminary results include:
  - Adoption of updated retirement, termination and reinstatement rates along with experience-related salary increases based on Mercer's 2015 experience study
  - Recognition of the strike period ending May 26, 2015 for 3 school boards as credited service
  - Negotiations concerning wage increases resulting in the following agreement:
    - Sept 1, 2014 – 0% increase
    - Sept 1, 2015 – 1% increase as a lump sum payment and restoration of grid movement
    - Sept 1, 2016 – 1% increase plus a 0.5% increase on the 98th day of the 2016/2017 school year

- Based on a 2.75% real discount rate as provided by the Board, current level of contributions and CIP, the preliminary valuation results discloses a $13 billion funding excess

(1) Provided on January 19, 2016

KEY INSIGHTS FROM 2015 PLAN EXPERIENCE STUDY

- **Retirement experience** for the 2014/2015 school year was consistent with the prior three years
  - Fewer teachers with 84-86 points are retiring, more retiring at 87-88 points
  - Fewer teachers retiring with a reduced pension at 70-75 points
  - Modest changes to the assumed rates for the January 1, 2016 valuations
- **Termination and inactive re-instatement experience** was reviewed in 2015, reflecting data for teachers taking leaves of absences, resulting in a new approach
  - **Membership data** – segregation of inactive members as of the valuation date between members on LOAs and other inactive members
  - **Valuation of members on LOAs** – treated similar to active members
  - **Termination rates and re-instatement rates** – assumptions adjusted to reflect experience excluding members on approved LOAs
- Actual experience-related **salary increases** for long service teachers continues to remain flat whereas the assumed salary escalation rates decline at 23+ years of service
  - Adjustment made to the assumed rate at 23+years of service for the January 1, 2016 valuation

PRELIMINARY FUNDING VALUATION

THE PRELIMINARY ECONOMIC ASSUMPTIONS FOR FUNDING PURPOSES BASED ON RESTORATION BASIS UNDER FUNDING MANAGEMENT POLICY WILL BE...

	Jan. 1, 2016			Jan. 1, 2015		
	FMP Rates[1]			FMP Rates[1]		
	No Smoothing	With 36 month Smoothing	Discount Rate Review [5]	No Smoothing	With 36 month smoothing	Filed Valuation [4]
Nominal Valuation Rate	3.75%	4.15%	4.80%	3.90%	4.20%	4.85%
Real Valuation Rate	2.20%	2.25%	2.75%	2.20%	2.20%	2.85%
Inflation[2]	1.50%	1.85%	2.00%	1.70%	2.00%	2.00%
Salary and YMPE Growth[3]	2.50%	2.85%	3.00%	2.70%	3.00%	3.00%

(1) FMP Rates are based on the Long Canada Bond yield (CANSIM V39056) and the Real Return Canada Bond yield (Cansim V39057), annualized and rounded plus 1.55% (Restoration Basis)

(2) FMP Inflation rate equal to geometric difference between the nominal Long Canada Bond yield (CANSIM V39056) and the Real Return Canada Bond yield (CANSIM V39057), adjusted and rounded. Discount Rate Review Inflation rate equal to the long-term inflation rate assumption used for economic projections under the Discount Rate Review.

(3) Salary and YMPE Growth assumes 1% real wage growth in the long-term; experience-related salary increases are in addition to the rates shown in the table. Ratified wage agreement incorporated for periods up to and including 2016/2017 school year.

(4) Jan 1, 2015 Filed Valuation based on 36 month average plus a spread of 2.20%. Real valuation rates shown for January 1, 2015 based on the arithmetic difference between the nominal valuation rate and the inflation rate (e.g. 4.85%-2.00%).

(5) Jan 1, 2016 Discount Rate Review based on 36 month average plus a spread of 2.05%. Real valuation rates shown for January 1, 2016 based on the geometric difference between the nominal valuation rate and the inflation rate (e.g. 1.048/1.020-1).

PRELIMINARY FUNDING VALUATION

ESTIMATED VALUATION RESULTS – FUNDING BASIS (IN $MILLIONS)

Member contribution rate from 2014 (above YMPE):		13.1%	13.1%	13.1%
Conditional indexing post 2009 service:		70%	70%	70%
		Jan. 1, 2016 (2.25% real)	**Jan. 1, 2016 (2.75% real)**	**Jan. 1, 2015 Filed Valuation**
Actuarial value of assets	(A_1)	$160,533	$160,533	$146,348
Present value of accrued benefits[1] [3]	(A_2)	(158,414)	(145,490)	(142,569)
Surplus (deficit) with respect to past service	(A)	2,119	15,043	3,779
Present value of future Basic contributions[1]	(B_1)	$43,548	$41,543	$38,817
PV of previously scheduled contributions in excess of Basic [2]	(B_2)	3,187	3,102	3,406
Present value of benefits for future service[1] [3]	(B_3)	(70,649)	(59,815)	(54,774)
	(B)	(23,914)	(15,170)	(12,551)
Plus:				
Reduction in PV of benefits reflecting less than 100% indexing for post-2009 service (up to 50%)	(C)	$7,522	$6,648	$5,947
PV of special contributions from province to match reduction	(D)	7,522	6,648	5,947
Reduction in PV of benefits reflecting less than 50% indexing for post-2013 service	(E)	0	0	0
Total surplus (deficit) with asset and discount rate smoothing (=A+B+C+D+E)		($6,751)	$13,169	$3,122
Funded Status[4] (100% indexing / no special contributions)		89%	98%	94%
Funded Status[5] (invoked indexing / incl. special contributions)		97%	107%	102%

1. In respect of existing members at the valuation date only
2. In respect of existing and estimated future members under current schedule that continues to the end of 2026
3. Based on 100% indexing for all service
4. Determined as $(A_1 + B_1) / (A_2 + B_3)$
5. Determined as $(A_1 + B_1 + B_2 + D) / (A_2 + B_3 - C - E)$

PRELIMINARY FUNDING VALUATION

EXPLANATION OF CHANGES IN THE FUNDING POSITION (IN $MILLIONS)

Surplus (deficit) at 1/1/2015	**$3,122**
Interest on surplus (deficit)	151
Investment gain (before smoothing)	11,610
Gain (loss) from asset smoothing	(2,192)
Impact of changes to economic assumptions	(1,545)
Impact of demographic assumption changes	(1,950)
Impact of 2015 negotiated salary contracts	2,544
Other gains (losses), including all demographic impacts	1,429
Surplus (deficit) at 1/1/2016 @ 2.75% real	**$13,169**

PRELIMINARY FUNDING VALUATION
DEMOGRAPHIC ASSUMPTION CHANGES

- Retirement Assumptions:
  - Small adjustments to reflect fewer teachers around 85 points
  - Decreased net liabilities by $0.1 billion
- Salary Escalation Assumptions:
  - Increased experience related annual increase from 0.2% to 0.4% for teachers between 24 and 35 years of service
  - Increased net liabilities by $0.5 billion
- Termination/Reinstatement Assumptions:
  - Updated assumptions based on availability of new data that allows teachers on approved leaves to be excluded from the termination/reinstatement data
  - Increased net liabilities by $1.6 billion (including $0.3 billion for valuing teachers on approved leaves of absence as active plan members)
  - Note: The plan experienced termination/reinstatement experience losses totaling $1.0 billion over the 7 year valuation periods January 1, 2009 to January 1, 2016.

PRELIMINARY FUNDING VALUATION

THE ESTIMATED $10.7 BILLION OF UNRECOGNIZED GAINS ON ASSETS WILL BE RECOGNIZED AS FOLLOWS (IN $MILLIONS):

	Total Unrecognized Gains (Losses) at January 1, 2016	Annual Gain (Loss) To Be Recognized	
		2016	2017
Smoothing of Assets			
2014	2,974	2,974	
2015	7,740	3,870	3,870
	10,714	6,844	3,870

SOLVENCY/WIND-UP VALUATIONS

- For solvency and windup valuations assumptions are made regarding:
  - Portion of members whose benefit would be settled as a lump sum commuted value
  - Portion of members whose pension would be secured by means of an annuity purchase with an insurer
- Guidance from the Canadian Institute of Actuaries (CIA) on annuity proxy assumptions is updated periodically for changes in the underlying market price of buying annuities
  - Guidance is set as a spread relative to the Government of Canada bond yields while using standard industry mortality tables published by the CIA
- As insurers are increasingly considering occupational and demographic factors in establishing mortality assumptions for annuity pricing, the 2015 CIA Guidance proposes adjustments for super-standard/substandard mortality
  - For OTPP wind-up/solvency valuations, OTPP mortality tables will be used as a proxy for a super-standard mortality assumption

APPENDIX

BACKGROUND MATERIAL

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS
(NO CHANGES OVER PRIOR)

	Funding
Valuation Method	Modified Aggregate Method
Real and Nominal Discount rate/ Inflation	Tied to market rates Averaged over 36 months (real valuation rate = average RRB + 1.55%) Rate also subject to Discount Rate Review process
Assets	All gains/losses smoothed over 3 years
Non-economic assumptions	Best estimate based on plan experience

FUNDING MANAGEMENT POLICY

- No filing required at January 1, 2016
- Funding Management Policy (FMP) specifies three assumptions for the real valuation interest rate to consider for a funding valuation:
  - "Distribution basis" of Reference Rate + 0.5%
  - "Temporary basis" of Reference Rate + 1.25%
  - "Restoration basis" of Reference Rate + 1.55%
  - Reference Rate is chosen by the Board and has been based on RRB yields
- A 36 month average of nominal and real yields is applied for the Reference Rate
- Under current conditions, the restoration basis is used
- Levers available for adjusting funding valuation
  - **Contribution rates** up to 15% (on earnings above the YMPE) for members, matched by province (currently 13.1% effective January 1, 2014). However, we understand that the government's policy framework will not permit government contributions to exceed the planned 13.1%.
  - **Conditional indexing of 50% - 100%** of CPI for service between January 1, 2010 and December 31, 2013 – matched by province (currently 70% commencing January 1, 2016)
  - **Conditional indexing of 0% - 100%** of CPI for service from January 1, 2014 with first 50% matched by province (currently 70% commencing January 1, 2016)

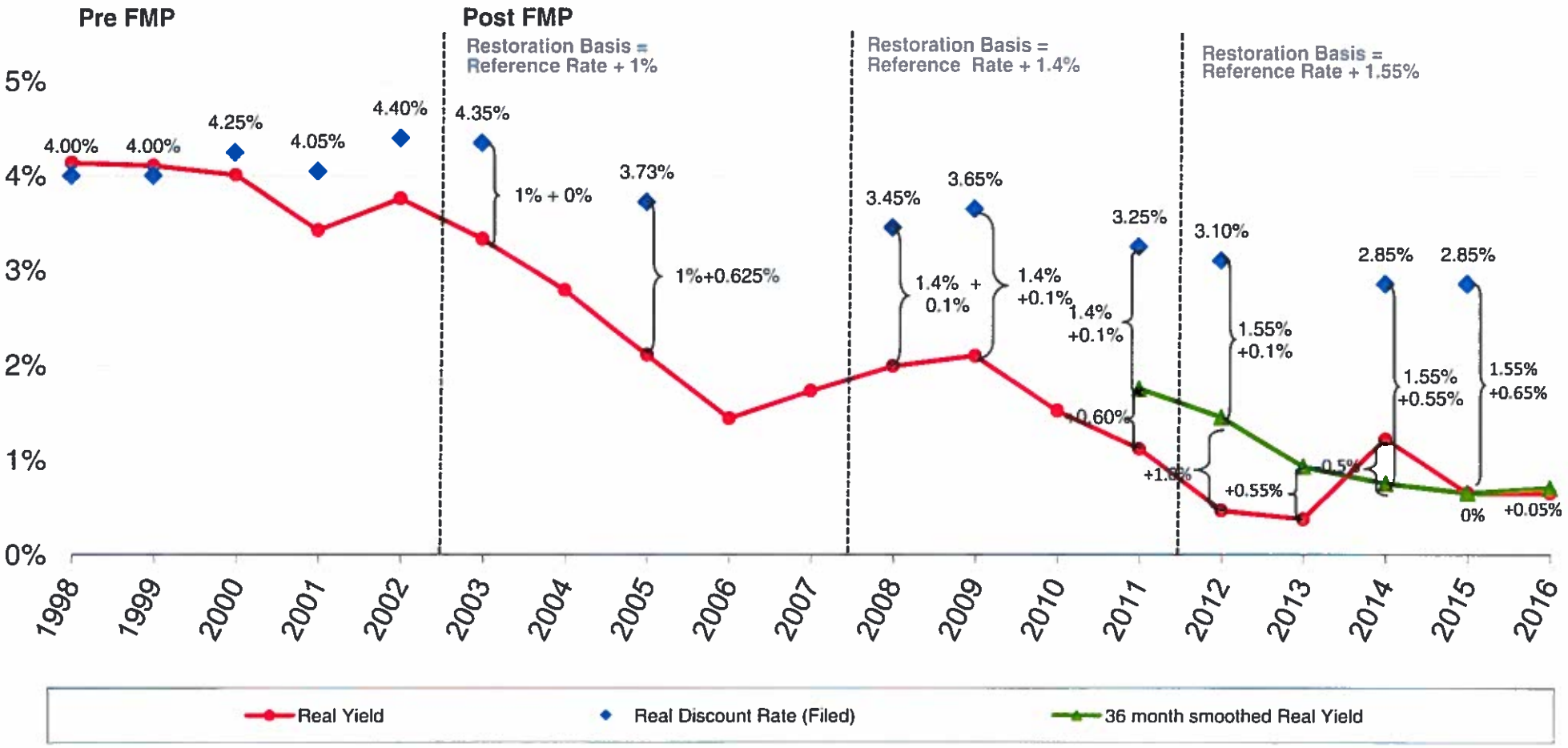
MONTHLY LONG TERM REAL RETURN BOND YIELDS
2008 TO 2015

	Long Canada Bond Yields (CANSIM Series V39057) Year							
	2008	2009	2010	2011	2012	2013	2014	2015
Month End:								
January	1.96%	2.27%	1.49%	1.38%	0.38%	0.54%	0.95%	0.11%
February	1.85%	2.32%	1.58%	1.22%	0.44%	0.53%	0.92%	0.05%
March	1.60%	1.81%	1.56%	1.15%	0.51%	0.49%	0.91%	0.19%
April	1.72%	2.05%	1.49%	1.00%	0.57%	0.41%	0.92%	0.37%
May	1.61%	2.00%	1.45%	0.98%	0.34%	0.65%	0.77%	0.50%
June	1.47%	1.86%	1.42%	1.03%	0.44%	1.05%	0.76%	0.55%
July	1.54%	1.73%	1.51%	0.79%	0.33%	1.02%	0.61%	0.44%
August	1.57%	1.81%	1.34%	0.88%	0.40%	1.10%	0.59%	0.73%
September	2.23%	1.74%	1.20%	0.82%	0.36%	1.13%	0.71%	0.69%
October	2.51%	1.60%	1.09%	0.67%	0.38%	1.02%	0.68%	0.82%
November	2.65%	1.58%	1.12%	0.61%	0.33%	1.18%	0.59%	0.74%
December	2.10%	1.53%	1.11%	0.45%	0.38%	1.25%	0.62%	0.65%
36 month average			**1.71%**	**1.38%**	**0.89%**	**0.73%**	**0.67%**	**0.70%**

Notes:
Rates shown are unadjusted semi-annual rates as published by Bank of Canada
Rates used are annualized and rounded

REAL DISCOUNT RATE ASSUMPTION

Market Yields on Real Return Bonds vs. Funding Valuation Real Rate of Return Assumption



SUMMARY OF POSSIBLE ASSUMPTION CHANGES
KEY NON-ECONOMIC ASSUMPTIONS

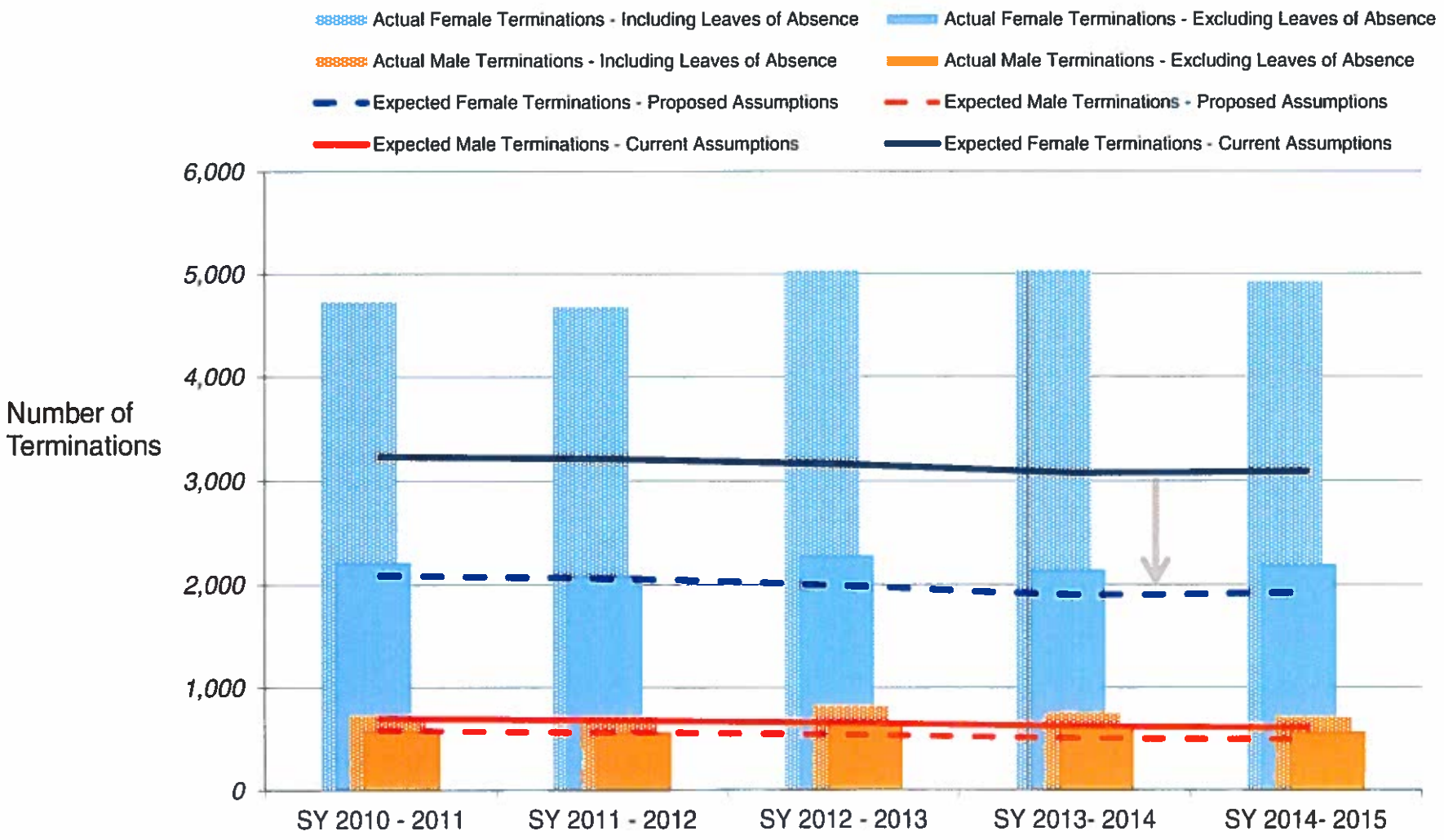
SUMMARY

● Changes required ● Updates could be made ● No changes required

PORTION MARRIED AT RETIREMENT	Assumption is reasonably aligned with data
MORTALITY	Assumption is reasonably aligned with data
PT/CASUAL TRANSITION TO FT	No change proposed but experience/approach should continue to be monitored/reviewed
RETIREMENT	Modest changes to retirement at 70-72 and 84-94 points are recommended
EXPERIENCE RELATED SALARY INCREASES	Adjustment to the rates at 23+ years of service is recommended
TERMINATION AND REINSTATEMENT	Adjustments to reflect new data on leaves of absences are recommended

TERMINATION EXPERIENCE
YEAR BY YEAR REVIEW OF ACTUAL VS. EXPECTED

Comparison of Actual Number of Terminations Versus Expected



RE-INSTATEMENT RATES
UPDATES SINCE LAST STUDY

- In the past few years, we observed that the number of annual re-instatements has increased, particularly in the last 4 years:

Valuation Period	Inactive Headcount at Beginning of Period	Inactive Members Re-instated in the Period	Percentage of Members Re-instated
2001-2004	91,563	5,625	2.0%
2004-2006	87,310	3,699	2.1%
2006-2007	78,045	1,678	2.2%
2007-2008	73,861	1,699	2.3%
2008-2009	70,707	1,779	2.5%
2009-2011	68,068	4,404	3.9%
2011-2012	70,241	3,686	5.2%
2012-2013	70,436	3,573	5.1%
2013-2014	71,292	3,927	5.5%
2014-2015	71,795	4,029	5.6%

As 2015 study is based on last 4 years (where data on LOAs is available), need to consider if current trends will continue

RE-INSTATEMENT RATES
PLAN EXPERIENCE – FULL TIME TEACHERS

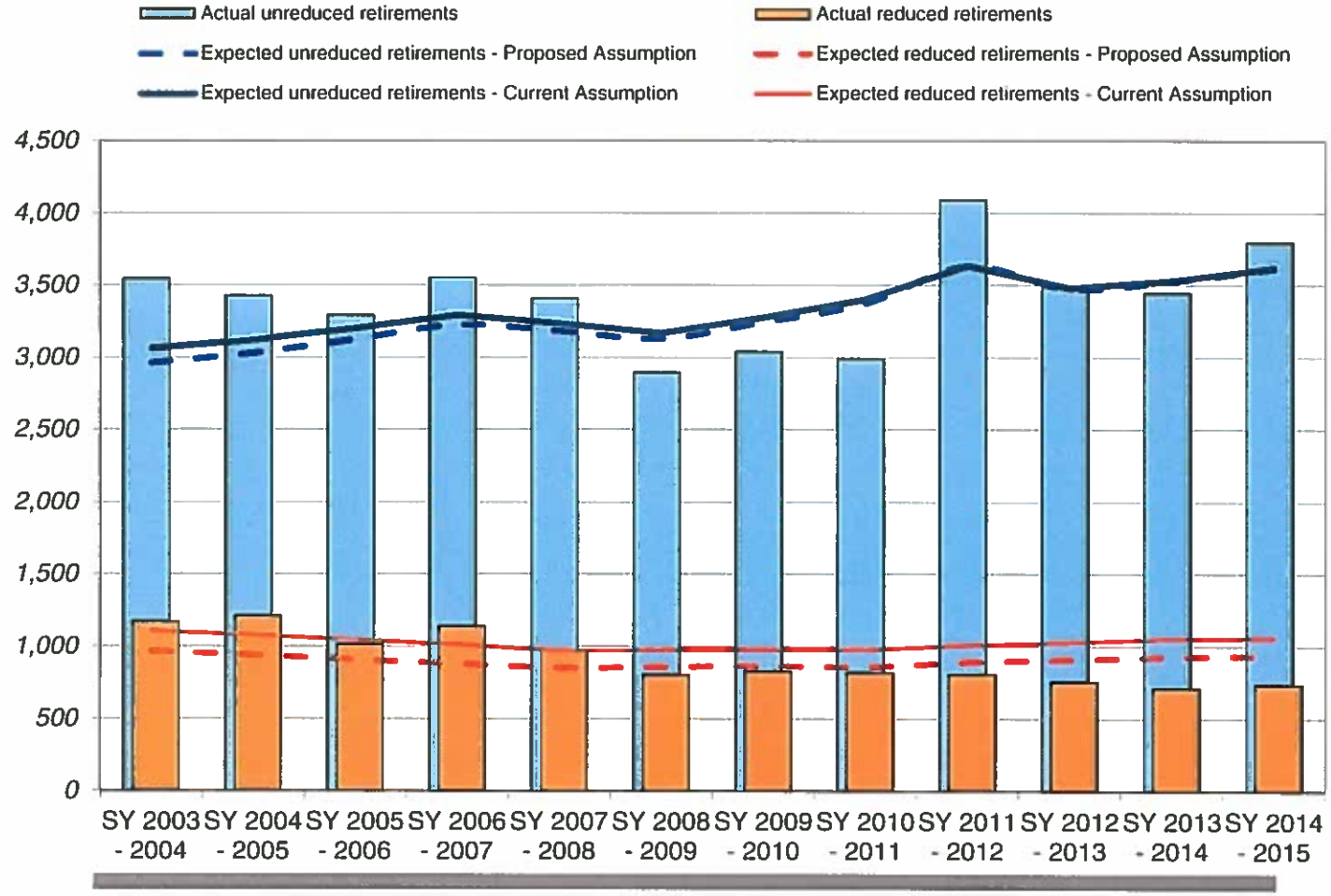
Re-Instatement of Inactive Members												
	Full-time											
Number of Complete School Years of Inactivity	Current Assumption	Actual Including Members on Leaves of Absences					Actual Excluding Members on Leaves of Absences					Proposed Assumption Range
		2014/ 2015	2013/ 2014	2012/ 2013	2011/ 2012	4-Year Average	2014/ 2015	2013/ 2014	2012/ 2013	2011/ 2012	4-Year Average	
0 - 1	16.0%	70.4%	69.7%	69.0%	67.3%	69.1%	38.5%	32.1%	36.7%	36.0%	36.0%	25% - 35%
2	5.0%	33.5%	29.4%	28.9%	22.6%	28.5%	27.9%	24.8%	24.4%	20.3%	24.2%	15% - 23%
3	4.0%	15.2%	12.6%	10.1%	11.3%	12.1%	15.2%	12.6%	10.1%	11.3%	12.1%	8% - 10%
4	2.5%	9.9%	8.2%	5.5%	5.9%	7.2%	9.9%	8.2%	5.5%	5.9%	7.2%	5% - 6%
5-9	2.0%	3.0%	3.6%	3.1%	3.0%	3.2%	3.0%	3.6%	3.1%	3.0%	3.2%	2.0%
10 or more	0.0%	0.2%	0.4%	0.4%	0.4%	0.4%	0.2%	0.4%	0.4%	0.4%	0.4%	0.0%

Experience relating to members on LOAs prior to 2010/2011 school year is unavailable at this time.

Proposed assumptions for the Jan 1, 2016 valuation are based on the lower end of the range

RETIREMENT RATES
PLAN EXPERIENCE VS CURRENT AND PROPOSED ASSUMPTION

Comparison of Actual Number of Retirements Versus Expected

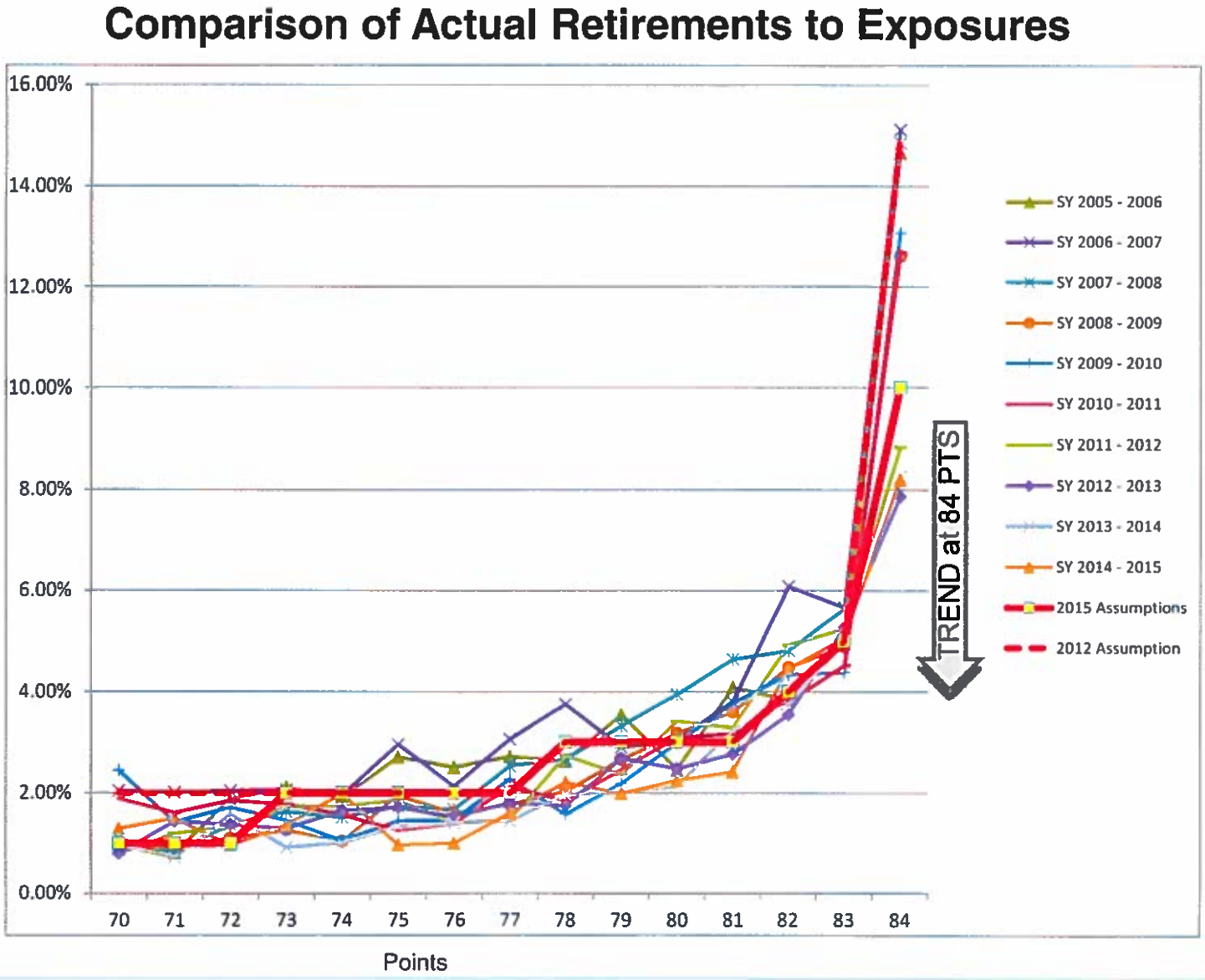


Number of Retirements

Historical data was regrouped into school year periods

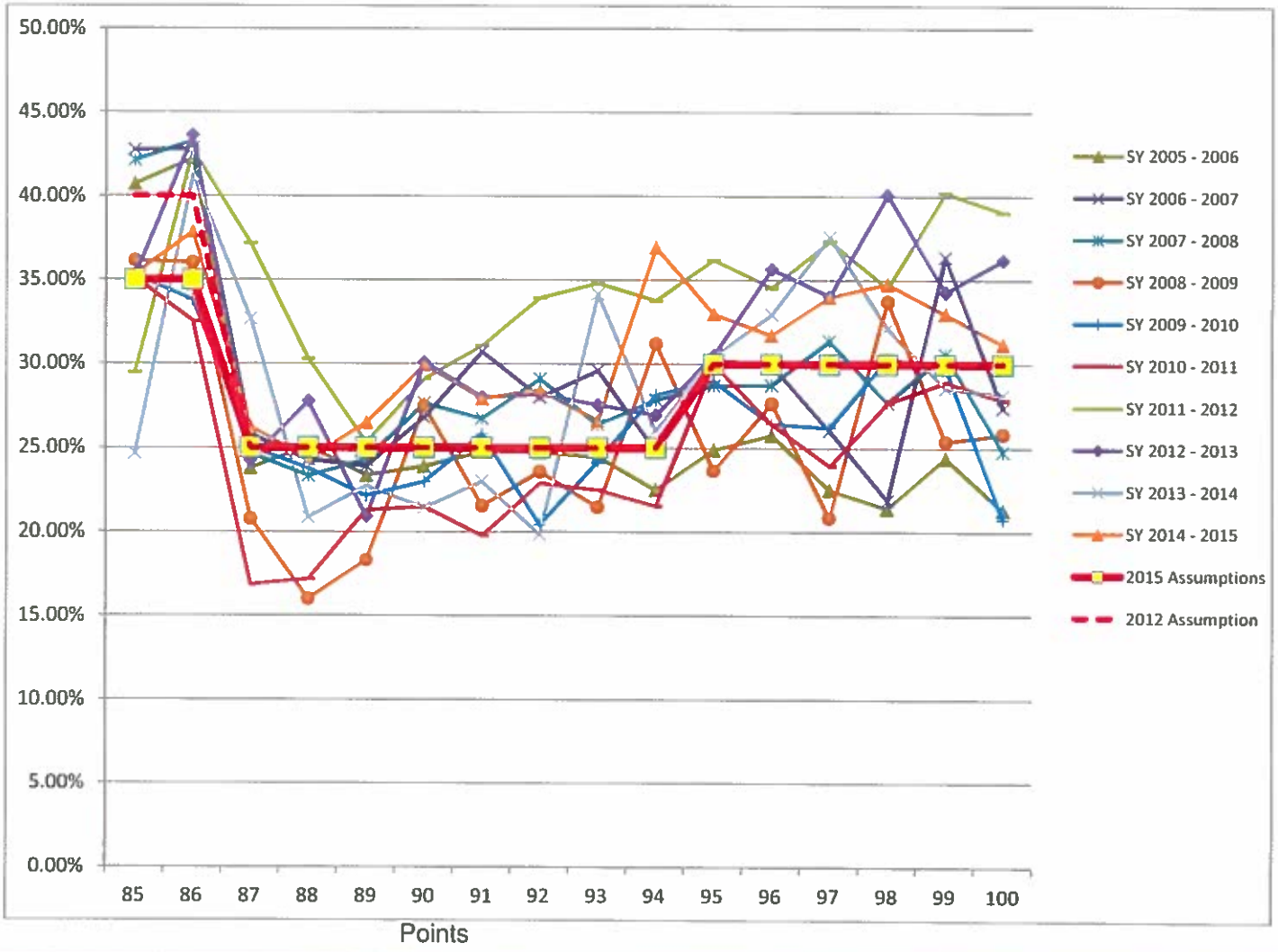
For the group overall, actual number of retirements is roughly 97% of expected (using proposed assumption) based on a 3 year average and 98% of expected (using proposed assumption) based on a 5 year average.

RETIREMENT EXPERIENCE FOR MEMBERS WITH REDUCED PENSIONS



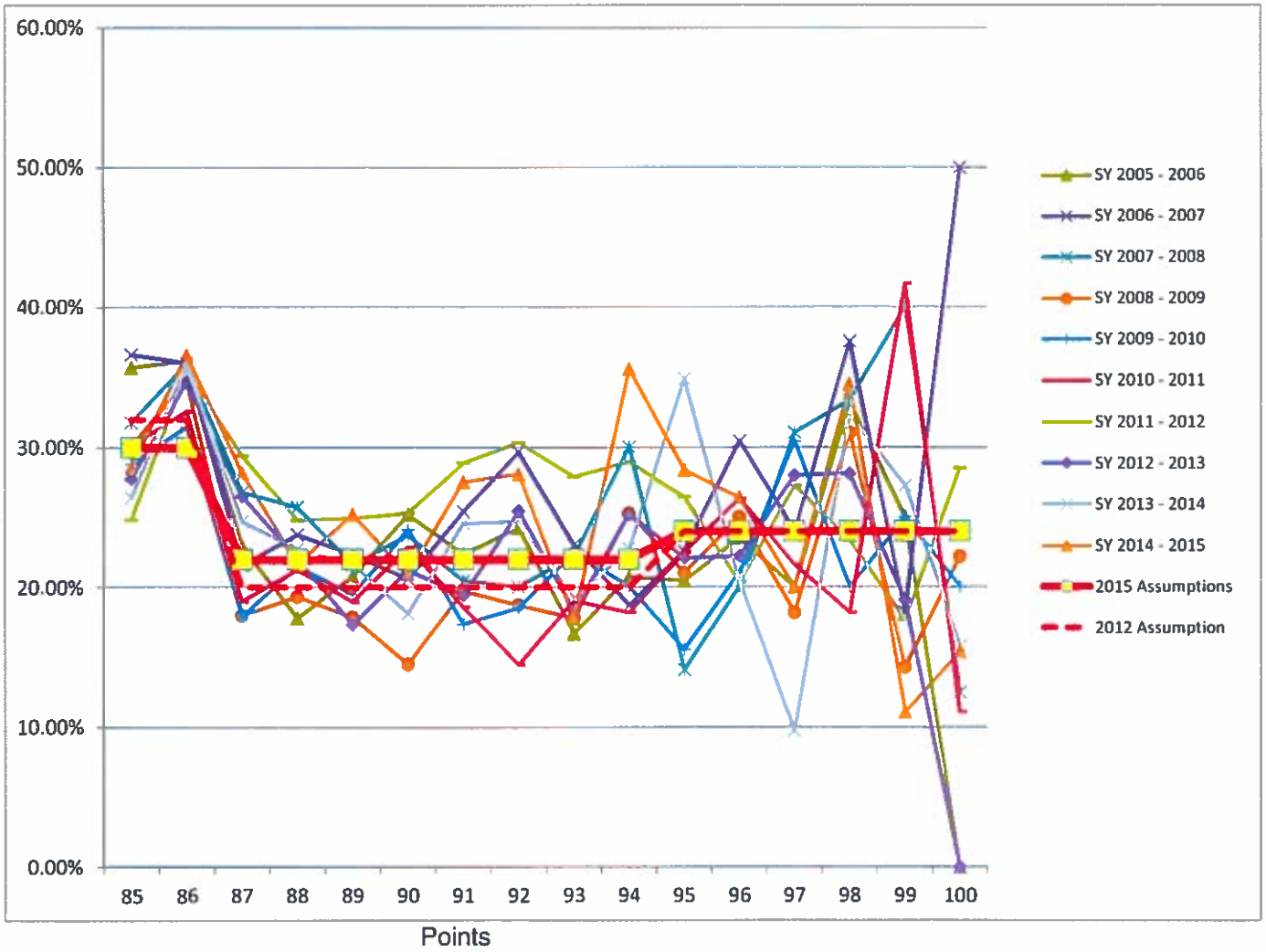
RETIREMENT EXPERIENCE FOR MEMBERS WITH UNREDUCED PENSIONS (OVER 30 YEARS OF SERVICE)

Comparison of Actual Retirements to Exposures

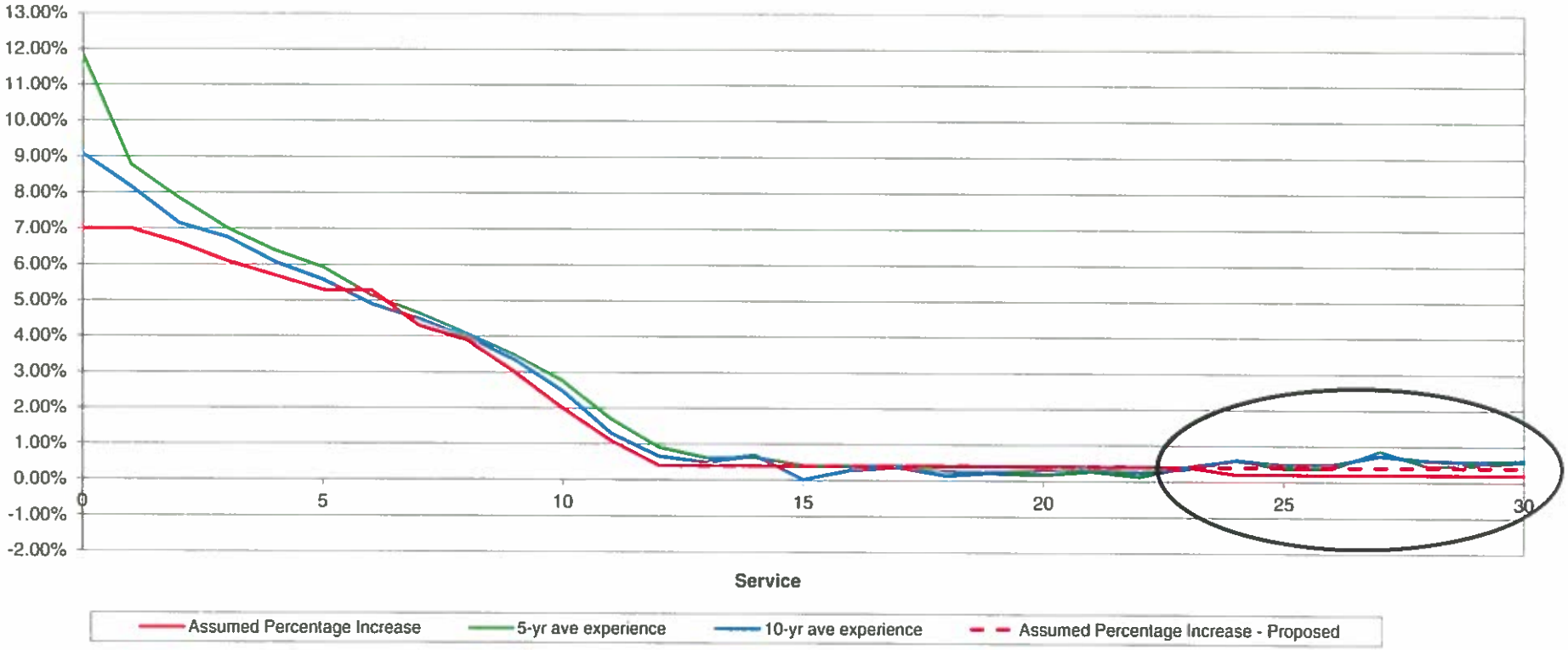


RETIREMENT EXPERIENCE FOR MEMBERS WITH UNREDUCED PENSIONS (UNDER 30 YEARS OF SERVICE)

Comparison of Actual Retirements to Exposures

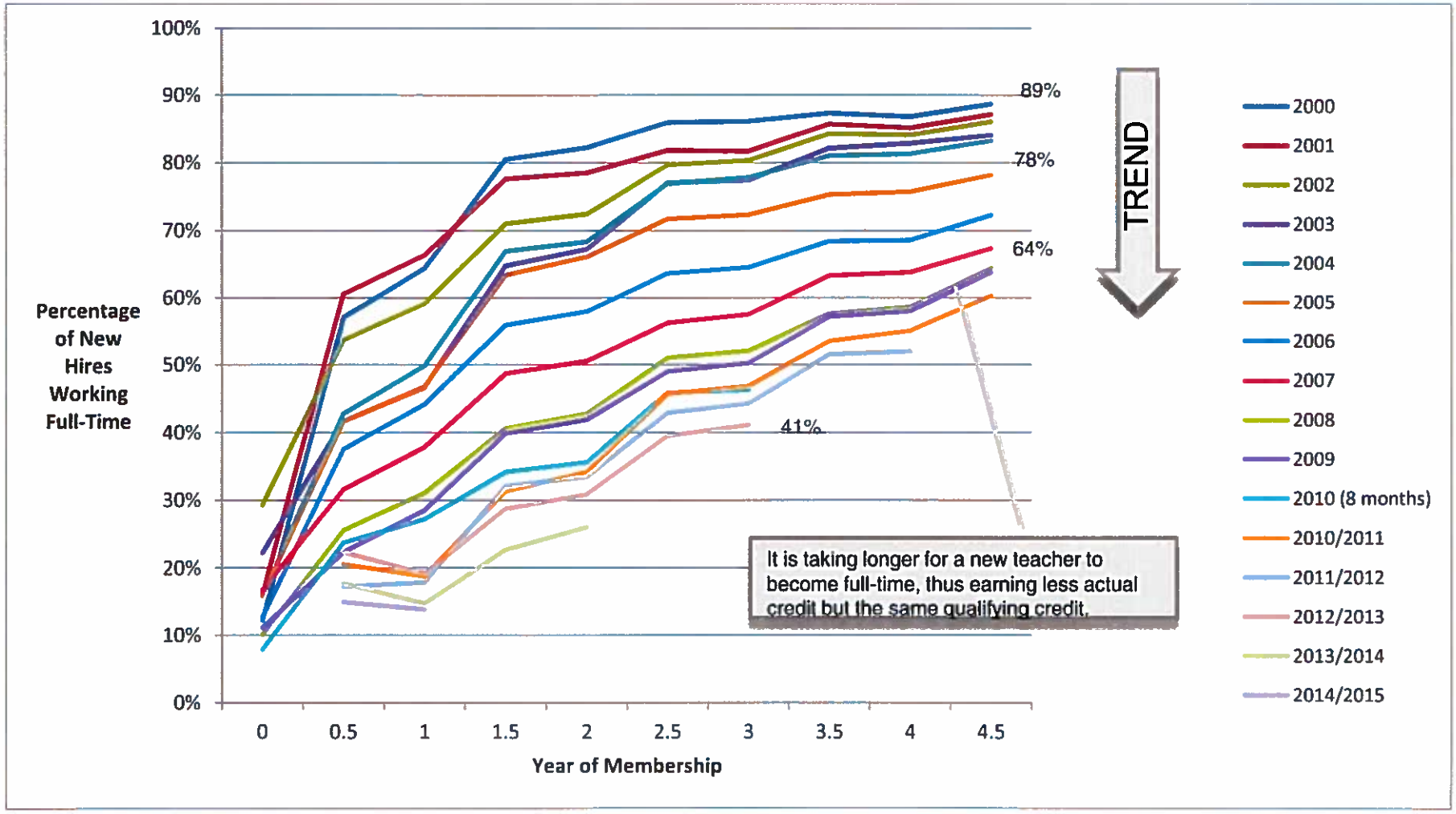


ASSUMED ANNUAL SALARY: EXPERIENCE-RELATED INCREASES



TRANSITION OF NEW TEACHERS TO FULL-TIME STATUS

RECENT TREND FOR NEW HIRE

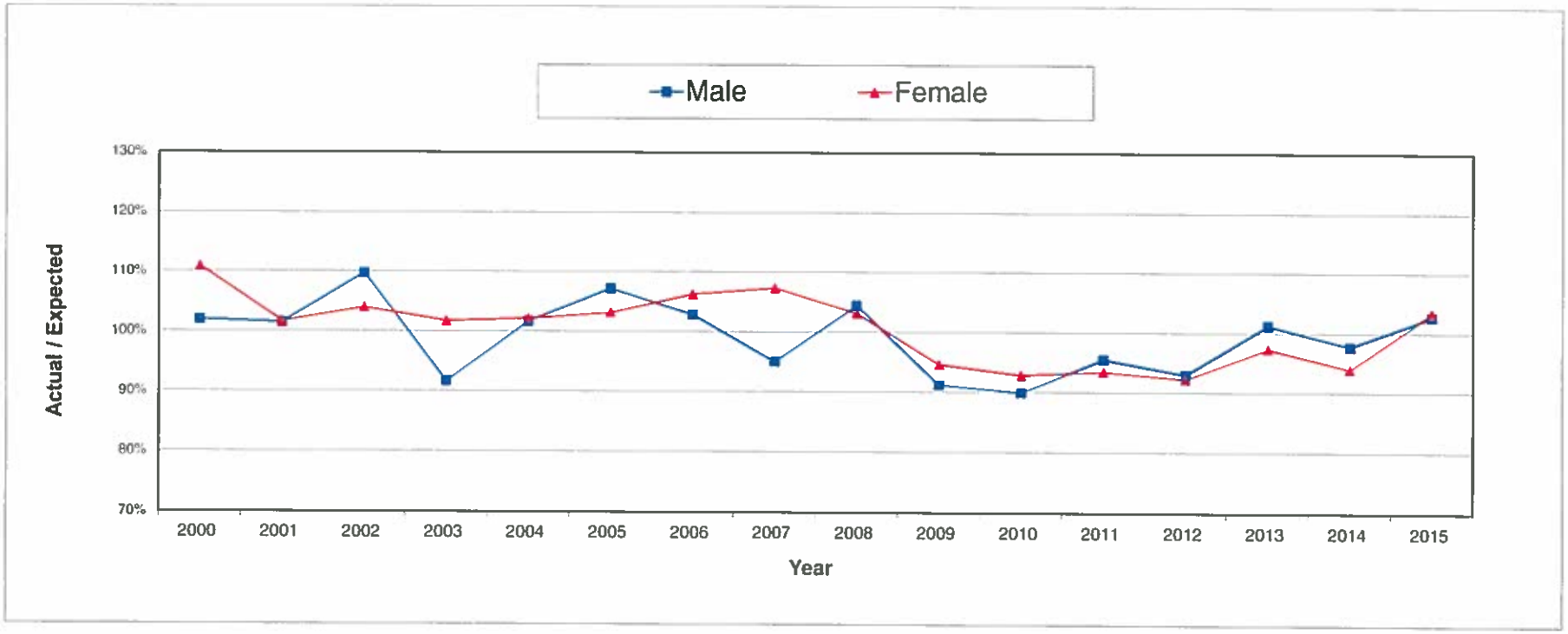


Source of data: OTPP board staff

LONGEVITY – 2014 MORTALITY TABLES
PLAN EXPERIENCE (REGULAR PENSIONERS ONLY)

Comparison of Actual Number of Deaths Versus Expected

(Based on 2014 Assumed Mortality Rates)



2000 to 2009 refers to calendar years; 2010 covers the 8 months from 12.31.2009 to 9.1.2010 (annualized); 2011 onwards covers school years (ie 2011 refers to 2010/2011 school year)

MORTALITY DEVELOPMENTS – OTPP MORTALITY VS CIA TABLES

Life Expectancy for a 60 year old	In 2015	In 2035
CIA Tables and projection scales (CPMR2014, projected using scale CPM-B(1))	Male: 26.8 Female: 29.3	Male: 27.9 Female: 30.3
CIA Tables and projection scales (CPMR2014Publ, projected using scale CPM-B(1))	Male: 27.3 Female: 29.3	Male: 28.4 Female: 30.3
2014 OTPP Tables and projection scales (2 dimensional)	Male: 29.2 Female: 31.4	Male: 30.5 Female: 32.5

1) Excluding any adjustment factors reflecting experience variation by pension size

PRELIMINARY MEMBERSHIP RECONCILIATION AS AT AUGUST 31, 2015

	Active	Inactive	Pensioner & Survivor	Total
Number @ 31/08/2014	**175,460**	**71,795**	**132,909**	**380,164**
New Entrants	7,410	35	893[1]	8,338
Retired	(4,537)	(336)	4,873	
Paid Out	(211)	(1,012)		(1,223)
Death With Survivor	(14)	(11)	(850)	(875)
Death Without Survivor	(63)	(77)	(1,642)	(1,782)
Death Pending Payment	(55)	55		
Stopped Teaching	(5,409)	5,409		
Re-activated	4,029	(4,029)		
Pension Benefit Stopped			(36)	(36)
Data Correction	1	(1)	8	8
IRN Merge/Pension Split	(14)		4	(10)
Number @ 31/08/2015	**176,597**	**71,828**	**136,159**	**384,584**

(1) Includes active deaths where more than one beneficiary record was created upon the member's death as well as new beneficiaries from deaths prior to August 31, 2014 but not in payment until after August 31, 2014

FULL TIME ACTIVE MEMBERSHIP SUMMARY

	Aug. 31/2015	Aug. 31/2014
– Number	136,215	135,687
– Average salary[(1)]	$87,623	$86,509
– Average age	43.9	43.7
– Average credited service	14.0	13.8

(1) Estimated salary for the school year starting in the calendar year

PENSIONER AND SURVIVOR SUMMARY

	Aug. 31/2015	Aug. 31/2014
Pensioners		
– Number	123,994	121,123
– Average age	70.3	69.9
– Average lifetime pension	$40,200	$39,500
– Average bridge pension	$5,800	$5,700
Survivors		
– Number	12,165	11,786
– Average age	76.1	75.6
– Average lifetime pension	$22,500	$21,900

DETAILS OF SIMPLIFIED RATE OF RETURN CALCULATION FOR 2015

	Actuarial Value ($millions)	Market Value ($millions)
A) Value at beginning of year	146,348	154,476
B) Total contributions to plan in year	3,261	3,261
C) Total of benefits paid in year	(5,537)	(5,537)
D) Total investment return in year (net of expenses)	16,461	19,047
E) Value at end of year	160,533	171,247
Mid-year cash flow rate of return:	11.3%	12.4%
Simplified rate of return assuming mid-year cash flows	= 2 x D/(A + E – D)	

Important Notices

Mercer has prepared this report exclusively for OTPPB and the Sponsors of the Plan to present preliminary results for the January 1, 2016 valuations. This report is intended to facilitate decision making relating to these valuations. This report may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any such other use. Its content may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission.

All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used or relied upon without reference to the report as a whole.

The results presented herein are preliminary and subject to change. This report is not a substitute for a formal valuation report.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made solely on the basis of this preliminary valuation, but only after careful consideration of alternative economic, financial, demographic and societal factors, including financial scenarios that assume future sustained investment losses.

OTPPB is responsible for selecting the plan's funding policy (including margins, if any, for adverse deviations in the going concern valuation), and the actuarial and asset valuation methods in the going concern valuation. The actuarial assumptions used in the going concern valuation reflect the actuary's best estimate, except for the discount rate which has been selected by OTPPB. We believe the discount rates being considered are within accepted actuarial practice and include a margin for adverse deviation. OTPPB is responsible for reviewing the going concern valuation assumptions referenced and advising Mercer as to any information it deems worthy of consideration in the determination of such assumptions.

Important Notices

To prepare the results in this report, actuarial assumptions are used to model a single scenario from a range of possibilities for each valuation basis. The results based on that single scenario are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. Different assumptions or scenarios within the range of possibilities may also be reasonable, and results based on those assumptions would be different. Furthermore, actuarial assumptions may be changed from one valuation to the next because of changes in regulatory and professional requirements, developments in case law, plan experience, changes in expectations about the future and other factors. The key economic and demographic assumptions used for the valuation are described in this presentation.

Mercer has used and relied on the membership data as at August 31, 2015 supplied by OTPP. If the data supplied are not sufficient and reliable for its intended purpose, the results of our calculation may differ significantly from the results that would be obtained with such data. Although Mercer has reviewed the suitability of the data for its intended use in accordance with accepted actuarial practice in Canada, Mercer has not verified or audited any of the data or information provided. Statistics on, reconciliation of and distribution of the membership data are provided in this presentation.

Mercer has used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by OTPP. If any plan provisions supplied are not accurate and complete, the results of any calculation may differ significantly from the results that would be obtained with accurate and complete information. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and the results of estimates under each of the different interpretations could vary.

We used financial data submitted by OTPP as of December 31, 2015 without further audit. Customarily, this information would not be verified by a plan's actuary. We have reviewed the information for internal consistency and general reasonableness.

Funding calculations reflect our understanding of the requirements of Ontario's legislation, the Income Tax Act and related regulations that are effective as of the valuation date. Mercer is not engaged in the practice of law or tax advice. This report does not constitute and is not a substitute for legal or tax advice. The plan administrator is solely responsible for selecting the plan's investment policies, asset allocations and individual investments.

MAKE TOMORROW, TODAY

From: Petsche, Nadine (TBS) []
To: Bill Pelow (Bill.Pelow@auditor.on.ca) [Bill.Pelow@auditor.on.ca]; David.Catarino@auditor.on.ca [David.Catarino@auditor.on.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Derivation of the $4.3B Reduction
Date: Saturday, September 24, 2016 08:49:09
Attachment 1: 2014 to 2016 Reduction in Payments (3).docx

Hi Bill/David.

Our Pension Policy Division team compiled some additional explanations/support for the indexation splits in 2014 and 2015. They observed that both were more complicated than the one for 2016.

A couple of points to note:
In 2014 indexation was below 50 percent so the valuation does not reflect dollar for dollar matching for share all the pain (as we only match down to 50 percent).

In 2015 there was also a change to the discount rate after the preliminary discount rate was established. That makes it hard to compare the preliminary valuation against what was finally decided.

Nadine

2016

Derivation of the $4.3 billion reduction in the government's "share the pain" payments:

The January 1, 2016 preliminary valuation revealed a surplus of $13.2 billion

- The surplus reflected 70% CIP
- The present value of the government's share the pain payments was $6.6B

The Partners agreed to use $8.6B of the surplus to increase CIP from 70% to 90%

- Since more indexation is to be provided, the government's share the pain payments decreased
- As a result, the present value of the government's share the pain payments was reduced to $2.3B.

The difference of $4.3 billion ($6.6B - $2.3B) is the present value of the corresponding reduction in the government's share the pain payments

The liabilities increased by an identical amount given that higher benefits would be paid in the future.

The January 1, 2016 valuation is to be filed with a remaining surplus of $4.6B.

The following table summarizes these calculations:

	Present Value of "Share the Pain" Payments
Jan 1, 2016, Preliminary Valuation With 70% CIP (p. 4 of Feb 16, 2016 presentation)	**$6.6 Billion**
Jan 1, 2016, Filed Valuation With 90% CIP (p. 4 of Sep 15, 2016 presentation)	**$2.3 Billion**
Present Value of Reduction in the Government's "Share the Pain" Payments	**$4.3 Billion**

2015

Derivation of the $1.9 billion reduction in the government's "share the pain" payments:

The January 1, 2015 preliminary valuation revealed a surplus of $6.8 billion

- The surplus reflected 60% CIP
- The present value of the government's share the pain payments was $7.8B

The Partners agreed to use $3.7B of the surplus to increase CIP from 60% to 70%

- Since more indexation was provided, the government's share the pain payments decreased
- As a result, the present value of the government's share the pain payments was reduced to $5.9B.

The difference of $1.9B ($7.8B - $5.9B) is the present value of the corresponding reduction in the government's share the pain payments

The liabilities increased by an identical amount given that higher benefits would be paid in the future.

The January 1, 2015 valuation is to be filed with a remaining surplus of $3.1B.

The following table summarizes these calculations:

	Present Value of "Share the Pain" Payments
Jan 1, 2015, Preliminary Valuation With 60% CIP	**$7.8 Billion**
Jan 1, 2015, Filed Valuation With 70% CIP	**$5.9 Billion**
Present Value of Reduction in the Government's "Share the Pain" Payments	**$1.9 Billion**

2014

Derivation of the $1.6 billion reduction in the government's "share the pain" payments:

The January 1, 2014 preliminary valuation revealed a surplus of $5.1 billion

- The surplus reflected 50/45*% CIP
- The present value of the government's share the pain payments was $9.0B

The Partners agreed to use $3.9B of the surplus to increase CIP from 50/45% to 60%

- Since more indexation was provided, the government's share the pain payments decreased
- As a result, the present value of the government's share the pain payments was reduced to $7.4B.

The difference of $1.6B ($9.0B - $7.4B) is the present value of the corresponding reduction in the government's share the pain payments

The liabilities increased by an identical amount given that higher benefits would be paid in the future.

The January 1, 2014 valuation is to be filed with a remaining surplus of $1.2B.

The following table summarizes these calculations:

	Present Value of "Share the Pain" Payments
Jan 1, 2014, Preliminary Valuation With 50/45% CIP	**$9.0 Billion**
Jan 1, 2014, Filed Valuation With 60% CIP	**$7.4 Billion**
Present Value of Reduction in the Government's "Share the Pain" Payments	**$1.6 Billion**

*50% CIP for 2010-13, 45% CIP for post 2013 service

From: Killoch, Alex (MOF) []
To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Document1
Date: Monday, November 14, 2016 10:51:43
Attachment 1: Document1.docx

Please put edits into this

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.
There are a couple of items that we need your help with. Rather than forwarding you the entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.
Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

Commented [KJ(1]: Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active

members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.
3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

   This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long

Commented [KJ(2]: Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[1] TPA, subsection 5(1.1)
[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.
[3] FMP, section 6.03

term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

   As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current

contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Commented [KJ(3]: Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB is reduced for 2 years by $1.7B at March 31, 2016.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. Every year, 50% of current year surplus is applied to improve member benefits	$12.9	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from

Commented [KJ(4]: I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

Commented [KJ(5]: Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.		2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	Increased contributions by 1% to 8.9%	Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a $0 surplus
1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for	N/A	$0.1 billion

		benefit improvements and RCA contributions		
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining special payments	$0
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion		

Commented [NP6]: Check if anything more recent?

From: Duffy, Paul (EDU) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: EDU Communication with the OTF and OTPP re: Public Accounts
Date: Wednesday, October 05, 2016 16:56:26

Alex, Nadine, we wanted to follow-up with you after recent conversations we've had with the OTPP (Mary Cover) and the OTF (Rhonda Kimberley-Young) regarding the treatment of pension assets in the Public Accounts.

Both parties were understanding of the treatment in the Public Accounts, and do not have large concerns at this point. They both noted that, when possible, they appreciate any advance communications we're able to provide on this issue.

Finally, they both indicated that they would be happy to contribute any information/advice/expertise that may be sought as part of the review process.

Please let me know if you have any questions,

Paul

Paul Duffy

Manager (A), Funding Policy and Pensions Unit

Education Finance Branch | Ministry of Education

416.325.2035 paul.duffy@ontario.ca

From: Tam, Nelson (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Expert Panel - HOOPP Trust Agreement
Date: Monday, December 19, 2016 17:18:13

Alex, Rob

The Panel requested the HOOPP Trust Agreement. We are trying to get the document and no response yet.

Do you have a copy of the HOOPP Trust Agreement? If yes, please share so I can send to the Panel.

Thanks

Nelson

X20514

From: Tam, Nelson (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Expert Panel - Relevance of Document for the Panel
Date: Thursday, November 17, 2016 09:32:41
Attachment 1: L - OTPP Memo of understanding– September 18, 2008.pdf

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Good morning Alex

Cindy and I were reviewing the contents of the binder for the panel. Currently, we included the attached document and wanted your advice whether the document is still relevant for the panel's work. Specifically the first six pages. We will be removing the last six pages (letters).

Please respond this morning as I am trying to finalize the binder materials.

Your advice is greatly appreciated.

Thanks

Nelson

X20514

MEMO OF UNDERSTANDING
ONTARIO TEACHERS' PENSION PLAN
SEPTEMBER 18, 2008

Interest Rate Assumption Adjustment

A. Interest rate assumption will be adjusted to allow the filing of the January 1, 2008 funding valuation (approximately RRB+1.5%) subject to the provisions set out below.

B. The Partners shall notify the Board, in writing, that the Funding Management Policy will not expire prior to the date the January 1, 2008 funding valuation is filed.

C. The Restoration Basis within the Funding Management Policy will be revised and documented as RRB+1.4%.

D. Establish a review process as per Attachment 1. Partners' Agreement needs to be revised to allow the payment of expenses as outlined in Attachment 1.

Contribution Rate Adjustment

E. Contribution rate maximum to remain at 15.0% as previously agreed
   1. Maximum applies to contribution rate on salaries above the CPP limit.

F. Basic contribution rate increased to 8.3/9.9% from 7.3/8.9%
   1. Special contributions adjusted accordingly to maintain same overall level.
   2. To be documented in Schedule 1 to the Teachers' Pension Act (Plan Text) before January 1, 2008 funding valuation is filed.

G. The total contribution rate established with the January 1, 2005 filed funding valuation will remain unchanged.

Conditional inflation protection for future service after January 1, 2010

H. To be documented in the appropriate Plan document before January 1, 2008 funding valuation is filed
   1. Benefits earned for service on or after January 1, 2010 will be subject to conditional indexing.
   2. Post-2009 benefit accruals will be subject to 50% conditional indexing (ie. 50% guaranteed indexing).
   3. Post-2009 benefit accruals will attract indexation adjustments between 50% to 100% of the CPI increase, as determined in future based on the Plan's financial position.
   4. Once a conditional indexation adjustment is granted, continued payment of that adjustment is a permanent obligation of the Plan and the adjustment shall be eligible for conditional indexation adjustments on a go-forward basis.

I. The goal of the Partners is to provide indexation adjustments at 100% of CPI on all service accruals when possible, subject to the funded status of the Plan and the Board will manage the Plan's investments appropriate to pursuing this goal.

J. Decisions regarding the level of adjustment (within the 50% to 100% range) will be made periodically by the Partners based on the Plan's emerging financial position, as part the valuation filing process. This decision is in effect until the date of the next filed funding valuation.

1. It is understood that, if Plan assets in tandem with scheduled future contributions are sufficient to both sustain 100% adjustments for the future and to provide catch-up in the "pension run rate" (in the event prior adjustment were less than 100%) then these adjustments will both be provided in full.
2. It is further understood that previously foregone inflation adjustments may be restored by the Partners where the resulting adjustments are expected to be sustainable (in light of the Plan's financial position and scheduled future contributions).
3. The above will be documented in the Funding Management Policy by March 31, 2009.

K. Finalize design of conditional indexation feature by March 31, 2009

1. Appoint a tri-party working group (OTF, Ontario Government and OTPP) to design and advise the parties.
2. Allows opportunity to consider other Canadian pension plans/risk sharing methods employed and to tailor the design to the parties' needs.
3. It is understood that costs reasonably incurred and agreed to by all three parties, for operating the working group will be paid from Plan funds. Partners' Agreement needs to be revised to allow the payment of these expenses.

L. Partners reserve the right (by their mutual agreement) for the finalized design to reflect a conditional indexation formula different from that outlined in H above, provided it results in a comparable reduction in net liability and risk profile using the same assumptions as the filed January 1, 2008 funding valuation.

M. Any foregone inflation increases to pensioners are to be matched by contributions made by Ontario government/participating employers. Since this commitment conflicts with the current provisions of The Teachers' Pension Act, the government will seek the approval of the Legislature to amend the Act in that regard. The Partners agree that these contributions shall be documented in Schedule 1 to the Teachers' Pension Act (Plan Text) as soon as possible.

Other

N. Establishment of a Consultative Committee as per Attachment 2. Partners' Agreement needs to be revised to allow the payment of expenses as outlined in Attachment 2

Jim Leech
President and Chief Executive Officer
Ontario Teachers' Pension Plan Board

Joe Lamoureux
President
Ontario Teachers' Federation

Nancy Naylor for
Steve Marshall
Deputy Minister of Education
Ministry of Education
Government of Ontario

Maureen Davis
Past President
Ontario Teachers' Federation

ATTACHMENT # 1
ONTARIO TEACHERS' PENSION PLAN
REVIEW PROCESS
TERMS OF REFERENCE
SEPTEMBER 18, 2008

General

The Ontario Teachers' Pension Plan Board ("the Plan Administrator") and the Ontario Teachers' Federation and the Government of Ontario ("the Partners") hereby establish a process by which the discount rate used by the Plan Actuary in preparing a funding valuation report for the Plan Administrator to be filed as required by the Pension Benefits Act regulations may be reviewed by an independent party. The purpose of the review is to allow the Plan Administrator and the Partners to address the matter of the valuation discount rate in the context of the Plan characteristics and to receive a report of the Hearing Officer noted below.

Caveat

Nothing in this process is intended to alter the roles and mandates of the parties as set out in the Partners' Agreement or otherwise, or under the requirements of the governing legislation.

This Review Process will not proceed if the conditions of the Memorandum of Agreement dated September 18, 2008 (MOU) have not been met and/or the Funding Management Policy, amended as contemplated under the MOU, is no longer in effect, unless agreed in writing by the Plan Administrator.

Triggering Event

If the real discount rate proposed by the Board to be used in the funding valuation report prepared on the Restoration Basis (as defined in the Funding Management Policy) to be filed by the Plan Administrator is less than 3.575 percent, the Partners, acting together, have the right to invoke the following process by giving notice in writing to the Plan Administrator by March 31 of the filing year. The notice shall be deemed received on the next business day.

Process

The Partners and the Plan Administrator shall mutually agree on the terms of engagement of the Hearing Officer including the terms of reference, procedures for addressing the matters which give rise to the process and timelines for the process by May 31, 2009.

Once the process is invoked, the Partners and the Plan Administrator shall meet within two weeks, or such other period as they may mutually agree after the giving of notice, to agree on an individual to act as a Hearing Officer to hear the matter or matters provided above which gave rise to the process.

Once a Hearing Officer has been agreed upon, he/she will determine, with the agreement of the Partners and the Plan Administrator, a time frame and schedule for completion of the process.

The Hearing Officer shall issue his/her report (including a concise Executive Summary) on the matters under review to the Partners and the Plan Administrator simultaneously by June 30 of the filing year to allow sufficient time for the Partners and the Plan Administrator to consider his/her report.

The Hearing Officer will keep confidential all information received during this process, including the engagement, and will not make any public comment on the report or any findings related to the process. Prior to the filing of the valuation report under the Pension Benefits Act, the Plan Administrator and the Partners will keep the report confidential, unless a written consent is executed by all three parties.

The report shall not be binding on the Partners nor the Plan Administrator.

After receiving the Hearing Officer report, the Plan Administrator will provide the Partners with reasons, in writing, for the discount rate chosen for the funding valuation report by August 15 of the filing year

Subsequent to the filing of the valuation report under the Pension Benefits Act, either Partner or Plan Administrator may disclose to the Plan members the Executive Summary, together with the written response provided by the Plan Administrator, .

Cost

The cost of the Hearing Officer will be covered by the Plan, subject to the approval of the Partners and the Plan Administrator.

General

The Partners' Consultative Committee is established by the Ontario Teachers' Pension Plan Partners to assist the Partners in maintaining an on-going awareness of the funded status of the Plan and in understanding the factors that may contribute to variations in the status over time.

Membership

The Committee shall be composed of a maximum of ten (10) members appointed from time to time by the Partners' Committee. Each sponsoring Partner is entitled to appoint five (5) members although either Partner may decide to appoint a smaller number of members.

Each Partner shall designate one of its appointees to act as co-chair.

Mandate

On behalf of the Partners' Committee, the Partners' Consultative Committee will maintain an awareness of the funded status of the Plan as well as the trends and issues that may affect the funded status of the Plan.

In fulfilling its mandate, the Committee will carry out the functions set out below.

1. The Committee will meet with the Plan Administrator and, if requested, the Plan Actuary on a quarterly basis to review the funded status of the Plan and to discuss the factors that underlay this position;
2. With the approval of the Partners' Committee, the Consultative Committee may request the Plan Administrator to undertake further research into any matter that bears on the funded status of the Plan. Where the Plan Administrator agrees that research using either external and internal resources is appropriate and cost effective, the cost of such research will be covered by the Plan; and
3. The Co-chairs will report quarterly to the Partners' Committee on the Consultative Committee's activities and findings.

Meetings and other procedures

Meetings will be scheduled by mutual agreement of the respective co-chairs and the Plan Administrator. The Committee has the power to determine its own procedures.

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Ministère de l'Éducation
Édifice Mowat
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Ontario Teachers' Federation
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Toronto, ON M4T 1X3

Federation des enseignantes
et des enseignants de l'Ontario
Suite 200, 1300 rue Yonge
Toronto ON M4T 1X3

April 14, 2014

Mr. Ron Mock
President and CEO
Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5

Dear Mr. Mock:

Re: Filing of the January 2014 Plan Valuation

The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2014 indicates that the Plan has a going concern surplus of $5.074 billion. Although this valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided that it would be to our mutual advantage to do so.

On account of the surplus and in keeping with the commitment made to Plan members when conditional inflation protection was introduced, we propose that for post-2009 service, inflation protection should be raised to 60 percent starting with the January 1, 2015 adjustment. Further, we propose to restore pensions to the level that would have been payable if full inflation protection had been provided since retirement, also effective January 1, 2015. It is our understanding that both of these measures can be taken within the framework of the available surplus funds.

We request that you instruct the Plan Actuary to prepare a revised valuation based on the Plan amendments outlined above so that this valuation may be filed with the regulator in accordance with the relevant regulations.

We are most grateful to you and your staff for your assistance in filing this valuation.

Yours sincerely,

Julie Pauletig
President
Ontario Teachers' Federation

George Zegarac
Deputy Minister
Ministry of Education

Ministry of Education
Mowat Block
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Toronto, ON M7A 1L2

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et des enseignants de l'Ontario
Suite 200, 1300 rue Yonge
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March 18, 2015

Mr. Ron Mock
President and CEO
Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5

Dear Mr. Mock:

Re: Filing of the January 2015 Plan Valuation

The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2015 indicates that the Plan has a going concern surplus in excess of $6 Billion. Although this valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided that it would be to our mutual advantage to do so.

On account of the surplus and in keeping with the commitment made to Plan members when conditional inflation protection was introduced, we propose that for post-2009 service, inflation protection should be raised to 70 percent starting with the January 1, 2016 adjustment. Further, we propose to restore pensions to the level that would have been payable if full inflation protection had been provided since retirement, also effective January 1, 2016. It is our understanding that both of these measures can be taken within the framework of the available surplus funds.

We request that you instruct the Plan Actuary to prepare a revised valuation based on the Plan amendments outlined above so that this valuation may be filed with the regulator in accordance with the relevant regulations.

We are most grateful to you and your staff for your assistance in filing this valuation.

Yours sincerely,

Rian McLaughlin
President
Ontario Teachers' Federation

George Zegarac
Deputy Minister
Ministry of Education

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August 8, 2016

Ron Mock
President and CEO
Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5

Dear Ron Mock:

Re: Filing of the January 2016 Plan Valuation

The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2016 indicates that the Plan has a going concern surplus of approximately $13 Billion. Although this valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided that it would be to our mutual advantage to do so.

On account of the surplus and in keeping with the commitment made to Plan members when conditional inflation protection was introduced, we propose that for post-2009 service, inflation protection should be raised to 90 percent starting with the January 1, 2017 adjustment. Further, we propose to restore pensions to the level that would have been payable if full inflation protection had been provided since retirement, also effective January 1, 2017. It is our understanding that both of these measures can be taken within the framework of the available surplus funds.

We request that you instruct the Plan Actuary to prepare a revised valuation based on the Plan amendments outlined above so that this valuation may be filed with the regulator in accordance with the relevant regulations.

We are most grateful to you and your staff for your assistance in filing this valuation.

Yours sincerely,

Francine LeBlanc-Lebel
President
Ontario Teachers' Federation

Nancy Matthews
Deputy Minister
Ministry of Education

FLL/NM/am

From: Tam, Nelson (TBS) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Expert Panel - Slides
Date: Thursday, November 17, 2016 11:47:15

Paul, Alex

Will you be providing any slides for the 1:15 scheduled with the panel?

I received some slides from legal.

Please advise. If yes, can you please send by 3PM so I can incorporate into the panel binder.

Thanks

Nelson

X20514

From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Expert Panel Report
Date: Tuesday, January 23, 2018 12:18:13

Alex / Rob,

Here is a brief summary of the issue that I put together. Hope it can be helpful. Let me if you would like to discuss further.

The amount of surplus on accounting basis is different from surplus on the funding basis. However, the question about whether the government can record a surplus on accounting basis depends on its entitlements to the surplus on a funding basis.

The answer for this question is whether the government can benefit from a surplus on a funding basis. If the government can benefit from the surplus on a funding basis, then, on an accounting basis, the accounting surplus has an economic benefit to the government and therefore, the government can record an accounting surplus in the financial statement.

So the exercise of the Panel is to figure out whether the government has any entitlements to surplus on a funding basis, regardless whether the surplus exists at the moment.

Because the FMP essentially states that the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly.

Below is the extra from the penal report. I have highlighted the facts that supports the government's accounting practice that the Panel has identified. As explained in my short summary, these are the foundation for the reason why the government can record a surplus in the financial statements.

https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report

Executive summary

Introduction

The Pension Asset Expert Advisory Panel (the Panel) was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General (OAG).

The Panel has specifically considered whether the government should include an asset in its financial statements representing its share of the surplus in two pension plans – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Sector Employees' Union Pension Plan (OPSEUPP). This is an important question because including or excluding the asset affects the picture the Public Accounts provide of the government's financial position at the year end and how it has managed its resources over the year (the annual surplus or deficit).

The Panel received and reviewed background information, including the governing documents of the plans and related agreements. It received analyses from both the government and the OAG, setting out their respective understanding of the facts and their conclusions. The Panel met with both the government's professional accounting staff and the Auditor General and her Public Accounts staff responsible for the pension issue to ensure we fully understood their thinking. The Panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members related to those issues.

The full report sets out in detail the Panel's analysis and the reasons for its conclusions. This summary gives the overall conclusions and the main considerations that influenced the Panel's thinking.

Panel conclusions and considerations

Both OTTP and OPSEUPP are jointly sponsored defined benefit plans. In these plans, the risks and rewards are shared between an Employee Sponsor (in these cases, the Ontario Teachers Federation or OPSEU) and an Employer Sponsor (the government). In accordance with the terms of the Plans, the Sponsors must agree on all decisions about the important features of the plan, including valuation assumptions, how shortfalls (deficits) are to be made up and how the benefits of overfunding (surpluses) are to be shared.

The Panel's analysis concludes that an asset exists for the government in both OTTP and OPSEUPPbecause:

- the accounting surplus in the plan has a future economic benefit – the surpluses in the plans can be used by reducing the contributions the government is required to make to the plans, freeing cash that would otherwise be required to make contributions to be used for other purposes.
- the government controls access to that accounting surplus – the government shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don't agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared "equitably," or fairly. Historically, surpluses have been shared approximately 50/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50/50, and each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. This indicates 50/50 sharing of surpluses is the principle.
- the accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.

The public sector pension accounting standard notes that the sponsors could benefit from a surplus by taking assets out of the Plans as well as by reducing their contributions. The standard includes several specific conditions for a sponsor to recognize an asset based on withdrawal. The Panel concluded that these conditions are not relevant to assessing the ability of a sponsor to reduce contributions because:

- The legal requirements for taking assets out of a plan and those for reducing contributions are very different. Removing assets requires permission to do so in the terms of the plan, agreement with plan members or approval of the joint sponsor, as well as approval of the Financial Services Commission of Ontario. In contrast, the joint plan sponsors are free to decide on their own level of required contributions as long as they comply with the terms of the plan and with the Pension Benefits Act. All that is required is for the joint sponsors to agree. No external approvals are needed. The Panel concluded that the accounting answer should reflect the significant differences between the legal regimes that apply to contribution reductions and asset withdrawals.
- In the case, of OPSEUPP, the terms of the plan explicitly prohibit asset withdrawals. However, they also explicitly provide that contribution reductions are not asset withdrawals. The terms of the OTTP are not as explicit when it comes to asset withdrawals. However, the Sponsors have agreed on a policy to guide the use of surpluses in the plan – once previous reductions in pension benefits have been restored, the next priority is to reduce contributions for both members and the government. Thus, the government does not currently have an intention or ability to benefit by taking assets out of the Plans.

The Panel also concluded there is no accounting standards requirement for any agreement to be in place specifying when and by how much contributions will be reduced for the government to record an asset beyond the agreements already in place (i.e., legislation and the various plan documents). The public sector accounting standards are clear that the benefits from the surplus need only be expected. In these cases, benefits can reasonably be expected based on the law, the terms of the Plans and the policies and past actions of the joint Sponsors in fulfilling their responsibilities to act fairly. Given all the uncertainties and estimates required in accounting for pensions, virtually nothing can be considered certain.

Because of those estimation uncertainties, like accounting for all other assets, the public sector pension accounting standard requires the government to consider whether the benefits it expects will be enough to recover the entire amount of the surplus asset. The standard provides specific guidance on how to measure the expected benefit of the asset based on reduced contributions. No contribution requirements are fixed because they must be renegotiated regularly. Following the guidance in the standard shows that the government will be able to benefit by the entire amount of the asset.

Stepping back

It is reasonable to expect that the plan Sponsors will be able to benefit from lower contribution levels in the future, if the plans have surplus assets. While the government (or teachers/OPSEU members) may not expect to receive refund cheques, it is reasonable for them to expect that fewer contributions will need to be made if there are surplus assets in the plans. On the other hand, all parties would expect that benefits will be reduced or additional contributions will need to be made should deficits emerge.

Established mechanisms exist to put these expectations into practice. History shows examples of plan sponsors benefiting from surpluses in these plans. Expecting that the joint sponsors will benefit from the surplus assets in the future is also reasonable. In fact, it would be unreasonable, absent any changes, to assume otherwise.

Given that the government can be expected to benefit from surplus assets, those assets have real economic value. It would be misleading not to recognize its share of them in the Public Accounts.

Panel advice

The Government should record an asset in the Public Accounts for its share of the surplus reported in the accounting valuations of OTTP and OPSEUPP. The estimated future benefit of the recorded asset should continue to be evaluated following the requirements of the public sector pension accounting standard each year.

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
CC: Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Expert Panel
Date: Thursday, January 26, 2017 10:45:24

Hi Josh

I have been asked about whether there will be any stakeholder reaction to the release of the expert report. I have not read it but I understand it will confirm OPCD's opinion.

The OTF has not had much to say about this so I am assuming no stakeholder reaction to a report confirming our historic treatment.

Make sense?

I have asked to see the comms material for the release.

Alex

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Extracts from Pension Asset Position Paper
Date: Sunday, November 13, 2016 06:18:56

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

There are a couple of items that we need your help with. Rather than forwarding you the entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in

future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the

Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working

together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.

$41.2

The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB[KJ(4] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

---

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[KJ(3]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5)]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Pensions and AGO accounting debate - message for the minister EDU
Date: Thursday, March 01, 2018 10:31:31
Attachment 1: image001.jpg
Attachment 2: image002.jpg

Interesting that EDU is answering questions about accounting at the Standing Committee, and not OPCD. Are they even there I wonder? Something doesn't seem right.

From: Di Pasquale, Romina (EDU)
Sent: March 1, 2018 9:28 AM
To: Sullivan, Bryant (TBS); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Bryant, it's for the Public Accounts Standing Committee. The AG raised this as a concern that they want to talk about and our ministry wanted to be prepared if it indeed is raised.

From: Sullivan, Bryant (TBS)
Sent: March-01-18 9:27 AM
To: Di Pasquale, Romina (EDU); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Romina, just curious what the messaging will be used for?

Thanks

Bryant

Bryant Sullivan, APR

Assistant Director, Corporate Communications

Treasury Board Secretariat

(o) 416-325-1378

(c) 647-330-5784

(e) Bryant.J.Sullivan@ontario.ca

Communications Branch

Your Strategic Partner

From: Di Pasquale, Romina (EDU)
Sent: March-01-18 8:58 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Thanks Mark. Much appreciated.

From: Donaldson, Mark (TBS)
Sent: March-01-18 8:35 AM
To: Di Pasquale, Romina (EDU)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Romina,

Comments inserted below re: accounting for pension assets – standard TBS comms approved language we use in addressing the pension asset issue.

The highlighted line – wasn't sure how this fits or what the point is getting at – don't think a letter would necessarily do either.

Mark

From: Di Pasquale, Romina (EDU)
Sent: February 28, 2018 12:13 PM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

And if you think we shouldn't be saying anything at all, which might your preference, we can relay that message back.

Thanks

From: Di Pasquale, Romina (EDU)
Sent: February-28-18 11:24 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: Pensions and AGO accounting debate - message for the minister EDU
Importance: High

Hi Mark,

Our minister is looking for some for messaging for tomorrow with respect to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple as that".

We don't want to get pulled into the accounting debate as I believe this is TBS' area of expertise, however, we are still being tasked with providing language for the minister. Could you please assist us with this matter.

We have attempted to draft language below. Please let me know if you think different messaging is required and what you prefer the message to be. Thanks for your assistance on this matter.

The Ontario government and the Ontario Teachers' Federation (OTF) jointly sponsor the Ontario Teachers' Pension Plan. This co-sponsorship arrangement was established through a partnership agreement whereby both the government and OTF agreed to jointly design, administer and manage the OTPP.

This partnership agreement is based on the principle of reaching consensus between the sponsors as no individual sponsor can unilaterally make a decision with regards to the pension plan itself or its surplus.

The recommendations of the Pension Asset Expert Advisory Panel and accepted by the government are well documented. There is no requirement under the accounting rules that any formal agreement exist between the joint sponsors regarding timing or amount of a reduction in contributions to record an asset, and the ability to deny the actions of the other sponsor is sufficient evidence to support the Province's reporting.

~~Requesting a letter from the OTF that half of any pension surplus belongs to the Province would undermine the established relationship with the OTF.~~

The government and the OTF are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations and one of the means to measure long-term sustainability is current pension fund surpluses. Surplus funds exist to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs and its related accounting treatment should be based on decisions made by the sponsors.

The government is not interested in potentially giving away rights associated with, nor stepping away from potential liabilities associated with the current surplus position.

The government remains committed to ongoing dialogue with our partner on how best to use pension plan surpluses in the best interest of its beneficiaries and the taxpayers of Ontario, and working with the Office of the Auditor General to resolve this matter.

Romina.

Romina Di Pasquale, CPA, CA

A/Director, Labour, Finance and Implementation Branch

Ministry of Education

2 Carlton St. Suite 710

Toronto ON M5B 1J3

romina.dipasquale@ontario.ca

(416) 325-2057

From: Davis, Andrew (EDU)
Sent: February-27-18 11:22 AM

To: Di Pasquale, Romina (EDU); Lamarche, Doreen (EDU)
Cc: Ngira-Batware, Douglas (EDU)
Subject: FW: Pensions

Please see Chris' q's below. Basically, we're being pulled into the accounting debate. My thought is something along the lines of:

· Plan changes require agreement of the parties.

· An agreement could be to not use any of the surplus, half of it, or more than half of it. In the absence of an agreement, the plan stays as is.

· We believe the accounting should reflect the decisions regarding the surplus at the current time.

· Requesting a letter from the OTF that half of the surplus is the Province's would be a change in the established relationship which we are not considering at this point.

· We are not interested in unilaterally giving away half of the surplus without a discussion of all the parties.

That said, I am not sure who the audience is. Is it the AG or unions. If the latter, than the last bullet needs to be changed. Comments welcomed.

From: Martin, Chris (EDU)
Sent: February 27, 2018 9:51 AM
To: Davis, Andrew (EDU) <Andrew.Davis@ontario.ca>
Cc: Li, Sharon (EDU) <Sharon.Li@ontario.ca>
Subject: Pensions

Hey Andrew,

So for the AG Committee meeting on Thursday – if we wanted to respond to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple

as that”

What would your advice be on responding to this statement?

If we were to say that there is no authority for the province or OTF to bind the OTPP alone. That this requires agreement between the parties, and that such an agreement is in place (the partnership agreement, which speaks to how surpluses can be used depending on the position of the plan).

Also using the elimination of the special payments as a proof point for how savings can be realized based on plan surpluses, guided by the agreement, cab be used to illustrate how the government can, guided by the agreement, realize benefit from plan surpluses?

Chris Martin

Senior Policy Advisor

Office of the Hon. Indira Naidoo-Harris

Minister of Education & Minister Responsible for Early Years and Child Care

P: 416-212-3758 | C: 416-303 4878

https://www.ontario.ca/page/ontario150

https://www.ontario.ca/page/ontario150

TBS

ONTARIO
150

From: Roberto, Nicole (EDU) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]
Subject: FW: 2011 Funding Decision
Date: Monday, September 19, 2016 10:23:05
Attachment 1: image001.jpg

Yes – contribution rates between the employee and employers are always equal, with one exception of 2008, when the OTF made a portion of the employee contribution. See table:

https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1-d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf

Note: the 1.1% was phased in over 3 years

Year

Up to CPP limit

Above CPP limit

Increase*

2011

10.4%

12.0%

N/A

2012

10.8%

12.4%

0.4%

2013

11.15%

12.75%

0.35%

2014

11.5%

13.1%

0.35%

Total increase

1.1%

* As a percentage of salary

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Monday, September 19, 2016 9:39 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Subject: Fw: 2011 Funding Decision

Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:38 AM

To: Petsche, Nadine (TBS)

Subject: 2011 Funding Decision

A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate

Was this contribution rate increase shared by the teachers?

Matthew Colley

Sr. Manager | Audit Advisory

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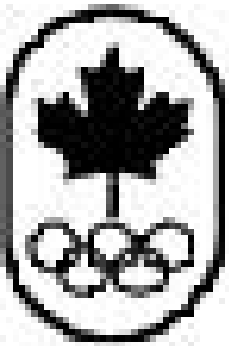

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NATIONAL
PARTNER

From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Action Items from today's meeting & Transcripts from Technicial Briefing
Date: Friday, November 25, 2016 15:11:08
Attachment 1: Financial Statement Summary & Latest Tweets
Attachment 2: MEDIA EVENT: MINISTER STATEMENTS AND MEDIA AVAILABILITY FOLLOWING TECHNICAL BRIEFING ON PROVINCE'S FINANCES
Attachment 3: image001.png
Attachment 4: Next Steps.docx
Attachment 5: Pension Asset Technical Briefing_Oct 3_final.ppt

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From: Fong, Pauline (TBS)
Sent: October 13, 2016 2:23 PM
To: Killoch, Alex (MOF); Paul, Joshua (EDU); Pomykacz, Rob (MOF); Smithies, Roger (TBS); Tsang, Ingrid (MOF); MacPherson, Michael (TBS)
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Hosick, Sarah (TBS); Jozefacki, Janette (TBS)
Subject: Action Items from today's meeting & Transcripts from Technicial Briefing

Hi All,

Thank you all for attending the Kick-off Meeting today. As promised, attached are:

- Action Items/Next steps
- Transcripts and Media around Technical Briefing
- Final Pension Asset Technical Briefing slide

Regards,

Pauline Fong, CPA, CA

Senior Analyst, External Reporting

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen’s Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 212-4007

Pauline.fong@ontario.ca

From: Doose, Ann (TBS) []
To: @TBS-L-Issues and Media [TBS-L-IssuesandMedia@msgov.gov.on.ca]; CIU, Current Issues (MOF) [CurrentIssues.CIU@ontario.ca]; Ostergard, Matt (TBS) [Matt.Ostergard@ontario.ca]; Prins, Sebastian (TBS) [Sebastian.Prins@ontario.ca]; Tedesco, Lauren (TBS) [Lauren.Tedesco@ontario.ca]; Balgobin, Sueanne (TBS) [Sueanne.Balgobin@ontario.ca]; Coulter, Travis (TBS) [som.1Travis.Coulter@ontario.ca]; Cusumano, Josephine (TBS) [Josephine.Cusumano@ontario.ca]; Habib, Zahra (TBS) [Zahra.Habib@ontario.ca]; MacIntyre, Kyle (TBS) [Kyle.MacIntyre@ontario.ca]; Simone, Nicole (TBS) [Nicole.Simone@ontario.ca]
CC: Laughton, Patrick (TBS) [Patrick.Laughton@ontario.ca]; Arbabzadeh, Nina (TBS) [Nina.Arbabzadeh@ontario.ca]; Hurley, Richard (TBS) [Richard.Hurley@ontario.ca]; Law, Rex (TBS) [Rex.Law@ontario.ca]; Orencsak, Greg (TBS) [Greg.Orencsak@ontario.ca]; Sawosch, Mercedes (TBS) [Mercedes.Sawosch@ontario.ca]; Arruda, Artur (TBS) [Artur.Arruda@ontario.ca]; Cheung, Dorothy (TBS) [Dorothy.Cheung@ontario.ca]; Coghill, Jay (TBS) [Jay.Coghill@ontario.ca]; Foster, Bruce (TBS) [Bruce.Foster@ontario.ca]; Graham, Helen (TBS) [Helen.Graham@ontario.ca]; Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; Kennedy, Richard (TBS) [Richard.Kennedy@ontario.ca]; Liscio, Joe (TBS) [Joe.Liscio@ontario.ca]; Sharda, Raj (TBS) [Raj.Sharda@ontario.ca]; Whitehead, Cam (TBS) [SOM.2Cam.Whitehead@ontario.ca]; Wuschnakowski, Gary (TBS) [Gary.Wuschnakowski@ontario.ca]
Subject: Financial Statement Summary & Latest Tweets
Date: Monday, October 03, 2016 15:58:37
Attachment 1: TWITTER COVERAGE OF PUBLIC ACCOUNTS October 3.docx

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Good afternoon,

Here is the IMMR summary of the Financial Statement technical briefing and follow-up news conference.

Please note this is **NOT** a transcript.

Attached are the latest Tweets including Adrian Morrow of the Globe & Mail tweeting the Auditor General's response to the unaudited financial statements.

IMMR continues to monitor and will send out a clippings package shortly, along with the CAB transcript when it comes in.

Regards,

Ann

Technical Briefing & IMMR Summary

2015-16 Annual Report

Deputy Orencsak – TBS

Deputy Thompson – MOF

Media: Robert Benzie – Toronto Star, Allison Jones – Canadian Press, Julie-Anne Lemieux – CBC/Radio Canada, Geoff Zochodne –QP Briefing, Jamie Tumelty – CityNews, Adrian Morrow – Globe & Mail, CHCH-Camera, Shawn Jeffords – Toronto Star, Sioban Morris – Newstalk 1010, John McGrath – TVO, Ethan – Reuters, Dave Marshall – Metroland Media.

Lisa MacLeod –PC MPP, Vic Fedeli – PC Finance Critic

Deputy Orencsak walked reporters through the technical briefing with a slide deck.

Highlights:

· Auditor General has said she cannot provide her audit opinion on these financial statements, however the government has decided to release the information to support transparency and accountability.

· $5-billion dollar deficit last year, $3.5 billion below planned deficit in budget.

· OPSEU Pension Plan and the Ontario Teachers' Pension Plan are jointly sponsored pension plans where the government co-sponsors.

· Plans are funded on a 50/50 basis, co-managed by the sponsors.

· The auditor general raised some concerns with regards to Ontario's accounting practises but the government has received clean audit opinions for the last 14 years and that the pension assets reflected on the Public Sector Accounting Board (PSAB) standards.

· Auditor General expressed a different interpretation of the PSAB standards would impact the reporting of pension assets of jointly sponsored plans. The AG received a revised audit planning report at the end of June, but didn't express her concern in writing until September 13th.

· September 27th, the government advised the House public accounts would be delayed and to move forward and finalize, Cabinet has approved a time limited regulation which legislates accounting for pension assets for 2015-16.

· Total debt remains unchanged by pension adjustment.

Media Conference – Minister Sandals and Minister Sousa

Highlights from Media Q/A:

· Confirming Ontario's unaudited deficit is $3.5-billion lower than projected in the budget.

· This marks the 7th year in a row that Ontario has beaten its deficit target and the government remains committed to reaching balance in 2917-18

· Treasury Board staff worked with the auditor general staff and earlier today both ministers met with AG.

· Unfortunately the AG has not provided an opinion and this is why the government is releasing, to ensure openness and transparency.

· The government believes it's in the public interest since we are 6 days past the legislated deadline.

· Staff and AG could not reach an agreement in relation to pension accounting while Ontario followed the same accounting treatment as in past years.

· Public Sector Accounting Board is working with governments across the country, Ontario will also be engaging with experts to

· Important to note, the OPSEU pension plan and the Ontario Teachers' Pension Plan are both healthy and well-funded.

Jones –C: Can you still get to balance?

Minister Sousa: We are on track to balance, our balance is not affected. In fact our budget is reduced now at $5-billion in keeping with new provisions you've provided.

It was simply a matter of not weighing in on the accounting, we'll ask experts to do that in the coming months. It was a way to get you the books so that you could see what is going on and the regulation is

Benzie – Toronto Star: Auditor General is disappointed that you've chosen to have this release. Are you playing politics?

Minister Sandals: This is really and truly not about politics. This is about according to September 27th was 180 days after the fiscal end of the year. Technically this is not the public accounts, but it makes the same financial information available to the public had

we tabled public accounts.

Morrow – Globe &Mail: It must be annoying after you've worked so hard to bring the deficit down.

Minister Sandals: It's challenging that we seem to have an insoluble problem because of the difference. I'm pleased and leave absolutely no question that we've reached the deficit targets.

Tumelty -- City News – Did you have a meeting with AG?

Minister Sousa: We had a meeting with the AG this morning, she cited that she would not provide an audited opinion.

Minister Sandals -- We identified we had an urgent need to get the financials to the public.

Opposition Response:

Lisa MacLeod- PC MPP :

This dispute shows the government wants to continually undermine the independent officers.

The question is what is the government continuing to hide? Who are we supposed to trust?

The government or the auditor general?

Vic Fedeli – PC Finance Critic:

The Auditor General has raised concerns and what does the government do? They issue a public statement and come out with an unaudited report.

When the auditor finds an $11 billion hole in the liberal budget, the answer is to release this unaudited reported.

The Liberals have obviously changed the rules, unacceptable and unparalleled and tells you the true state of the finances of the province of Ontario.

Benzie – Toronto Star:

Have we been deluded about the deficit and debt?

MPP Fedeli:

If the auditor has decided on the rules…there's 40 or 50 staff, this is full blown panic mode.

If they're so convinced that they're right, why not meet with the auditor general on an ongoing basis? I'm waiting to hear what the true deficit from the AG and the FAO.

MPP MacLeod:

-Former independent officer has become so disgruntled that he's running for a seat.

-We have known for close to a week that the government was in this dispute, we learned again on Friday that three senior bureaucrats with the government were planning to call the AG partial.

-We have 18 months to go before an election and the Liberals are down in popularity.

-And by the way they still haven't tabled the public accounts.

MPP Fedeli:

-At the end of the day surrounded by 40 or 50 staffers, they're trying to talk about the fact they're going to balance, but it's artificial.

-FAO says that once they sell Hydro we'll plunge back into deficit.

-Public accounts is a rear view mirror. It looks backwards. Here's exactly what was spent. Raw accounting and that is the biggest concern. If it was a budget and there's lots of fluff. This is public accounts and this is where the auditor tells you the numbers.

Ann Doose

Issues Management & Media Relations

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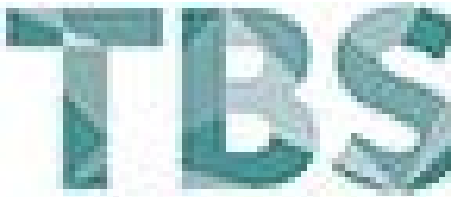
Phone: 416 326-8533

E-mail:Ann.Doose@ontario.ca

STATEMENTS AND MEDIA AVAILABILITY FOLLOWING TECHNICAL BRIEFING ON PROVINCE’S FINANCES.rtf (


TBS

Next Steps after Kick-Off Meeting

Meeting Topic: Pension Asset/Expert Panel/Economic Assumptions:

Attendees:

Cindy Veinot, Nadine Petsche, Sarah Hosick, Pauline Fong (*TBS Office of the Provincial Controller*)

Alex Kiloch, Rob Pomyckacz, Ingrid Tsang *(MOF Income Security & Pension Policy)*

Joshua Paul *(EDU Finance Policy & Business)*

Roger Smithies, Michael MacPherson (*TBS Pension Policy Unit, Bargaining and Compensation*)

Next Steps	
OPCD	**Target Time-line**
Pauline to work with Ingrid on updating the annual letters the boards for actuarial information with the additional request on asset ceiling calculations (i.e. present value of future contributions and present value of required contributions) for the upcoming year.	End of October.
Pauline to review OPSEU funding agreement and make arrangements to meet with TBS Pension Policy Unit to gain a better understanding on OPSEU plan (i.e. how things have done in the past, the processes on how funding decisions have been made, etc.)	Within next two weeks.
Sarah/Cindy will connect with appropriate people to provide update on technical briefing/transcripts/Q&As to Josh and to discuss issues regarding communications in with respect to the Estimates.	Immediately
MOF Income Security & Pension Policy	
Rob will look for analysis done from 2012 JSPP contribution cap study on corporate governance structure on HOOPP and CAATPP and provide to OPCD.	Immediately
Work with OPCD on the additional request on asset ceiling calculations for this year's letters to the boards for actuarial information.	End of October.
Work management best estimates on economic assumptions to be used for this year's annual request for actuarial information from the boards.	Before end of November
Document a process with respect the timelines and best way to engage on Auditor General in reviewing management best estimates prior to 2017 Budget cycle.	Immediately
TBS Pension Policy Unit	
Document the history of the OPSEU Plan and how the plan utilized it surpluses (i.e. rate stabilization), the processes in place on how decisions are made among sponsors and what decisions have been made by the Province in the past.	Within next two weeks.
Meet with Pauline (OPCD) to discuss the above.	Within next two weeks.

2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing

October 3, 2016

What is the Annual Report?

- The Annual Report provides an update on the Province's financial activities against the approved Budget plan for 2015-16.
- The Report is unaudited because the Auditor General has said that she cannot provide her audit opinion on these financial statements, that were submitted to her on September 29.
- An audit opinion is a requirement to table the Public Accounts with the Lieutenant-Governor-in-Council.
- In the absence of the Auditor General's audit report, the unaudited Report is being released to support transparency and accountability.

Ontario

Actions to Enhance Transparency and Accountability

- This year, the Province is using additional tools and features to enhance its financial reporting:
  - Expanded comparison of the current year's results to prior year(s) including expanded trend analysis over a five-year period.
  - Enhanced descriptions of the Province's capital assets.
  - A description of key risks that could impact the Province's financial results.
  - Discussion of key financial indicators.
  - Additional data visualization tools and data tables.
  - Increased number of open data sets for download.

Summary 2015-16 Results

2015-16 Actual Results*					
$ Billions	**2015-16 Budget**	**2015-16 Actual**	**2014-15 Actual**	**Change from Budget**	**% Change**
Revenues	124.4	**128.4**	118.5	4.0	3.2%
Expenses	131.9	**133.4**	128.8	1.5	1.1%
Reserve	1.0	**-**	-	(1.0)	
Annual Deficit	(8.5)	**(5.0)**	(10.3)	3.5	-41.2%
Net Debt		**(305.2)**	(284.6)		
Accumulated Deficit		**(202.7)**	(187.5)		

*unaudited

Ontario

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Jointly-Sponsored Pension Plans (JSPPs)

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- Well into the 2015-16 audit, the Auditor General raised some concerns with regards to Ontario's accounting practices, based on ways the province can recognize a future benefit for assets such as pension assets for the OPSEUPP and OTPP plans.
- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, professional staff and the Auditor General continue to have differences of opinion on how the pension assets for these plans should be accounted for under PSAB.

Accounting in Ontario for JSPPs

- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since they were last revised in 2001.
- Under PSAB, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- The OPSEUPP and OTPP have both been reported in an asset position on the Province's consolidated financial statements for the past 14 years.
- The Province has received clean audit opinions for each of the past 22 years by four different Auditors General.
- Pension assets of OTPP and OPSEUPP were $10.7 billion as of March 31, 2016.

Auditor General's Position

- Well into the 2015-16 audit, the Auditor General (AG) expressed a different interpretation of the existing PSAB standards which would materially impact the Province's reporting of pension assets of jointly sponsored pension plans.
- The AG communicated a view in writing on September 13 that:
  - The government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the Province's balance sheet.
  - Agreements to reduce future contributions would need to be in place with plan sponsors by each year end, before an asset could be reported in the Public Accounts.
  - The Province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for OTPP and OPSEUPP, which would eliminate these assets from the Province's consolidated financial statements.

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Province's Position

- Based on professional staff's interpretation of PSAB, the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the Province's financial position.
- Despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value, which reflects management's future expectations as required by PSAB.
- The Province has reported pension assets for OPSEUPP and OTPP on its books consistently since 2001, based on expected future benefits including reduced future contributions.
- The applicable standard (PS 3250) does acknowledge that an asset can exist and provides guidance on assessing whether a pension asset is impaired.
- Professional staff do not agree that irrevocable agreements to reduce future contributions need to be in place in order for an asset to be reflected on the Province's books under PSAB.

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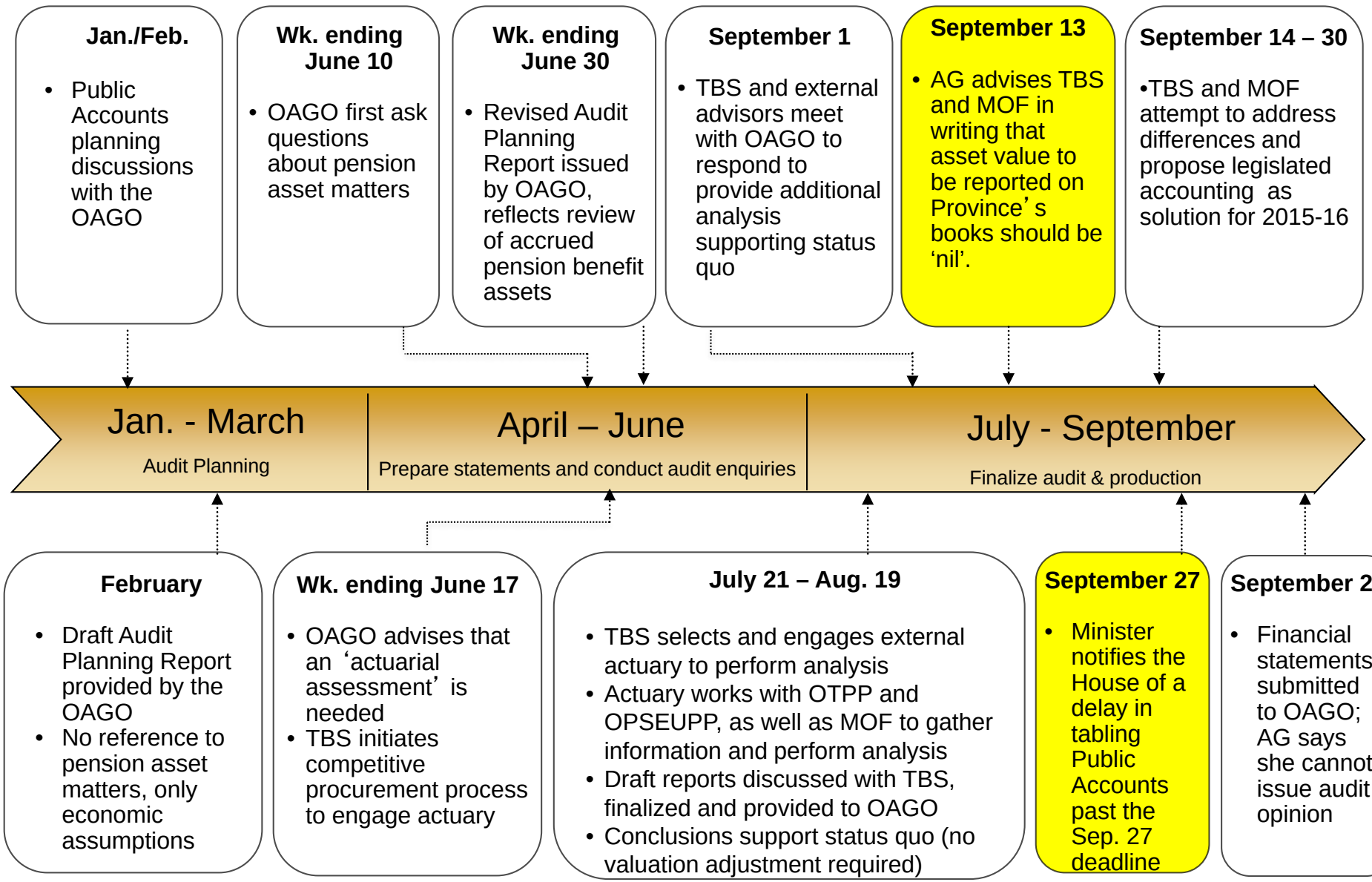
Timeline


Jan./Feb.
• Public Accounts planning discussions with the OAGO
Wk. ending June 10
• OAGO first ask questions about pension asset matters
Wk. ending June 30
• Revised Audit Planning Report issued by OAGO, reflects review of accrued pension benefit assets
September 1
• TBS and external advisors meet with OAGO to respond to provide additional analysis supporting status quo
September 13
• AG advises TBS and MOF in writing that asset value to be reported on Province's books should be 'nil'.
September 14 – 30
•TBS and MOF attempt to address differences and propose legislated accounting as solution for 2015-16
Jan. - March
Audit Planning
April – June
Prepare statements and conduct audit enquiries
July - September
Finalize audit & production
February
• Draft Audit Planning Report provided by the OAGO
• No reference to pension asset matters, only economic assumptions
Wk. ending June 17
• OAGO advises that an 'actuarial assessment' is needed
• TBS initiates competitive procurement process to engage actuary
July 21 – Aug. 19
• TBS selects and engages external actuary to perform analysis
• Actuary works with OTPP and OPSEUPP, as well as MOF to gather information and perform analysis
• Draft reports discussed with TBS, finalized and provided to OAGO
• Conclusions support status quo (no valuation adjustment required)
September 27
• Minister notifies the House of a delay in tabling Public Accounts past the Sep. 27 deadline
September 29
• Financial statements submitted to OAGO; AG says she cannot issue audit opinion

Legislated Accounting for Jointly-Sponsored Pension Plans

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, Cabinet has approved a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for 2015-16.
- The effect of the regulation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter.
- The regulation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets.
- The $9.2 billion amount of the asset that was built up over time has been added to opening net debt and accumulated deficit for 2015-16.
- The increase in the asset during the year ($1.5 billion) has been written off to increase pension expense in 2015-16.
- The change in accounting treatment is not any reflection on the funding status of the plans, or the quality of financial reporting by the Province.

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Fiscal Impact of Accounting Treatment Change

- The regulated accounting change results in the exact same fiscal impact as the AG's interpretation of the PSAB standards.
- Impact of regulated accounting 2015-16 consolidated financial statements:
  - Increase in opening net debt and accumulated deficit by $9.2 billion (value of OTPP and OPSEUPP pension assets in 2014-15 audited statements)
  - Increase in annual pension expense by $1.5 billion, which increases the annual deficit by the same amount
  - Increase in ending net debt, accumulated deficit and pension liabilities by $10.7 billion (as at March 31, 2016)
- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.
- Total debt remains unchanged by the pension adjustment.

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Impact of Regulated Accounting on 2015-16 Annual Report

($ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Annual Report
Consolidated Statement of Operations			
Total Expenses	131,892	1,514	133,406
Annual Deficit	(3,515)	(1,514)	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

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In-Depth Review of the Application of Accounting Standards

- The regulation for the legislated accounting treatment of jointly sponsored pension plans was made for 2015-16 only.
- The Province will initiate a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans and will conduct a valuation review of the pension assets.
- The review will seek the expert advice of individuals with a range of backgrounds and experience, including pension administrators, preparers and auditors of public sector financial reports.
- To support an informed discussion, participants would have an in-depth knowledge of public sector accounting standards as related to pension accounting and/or the specifics of the OTPP and OPSEUPP joint sponsor arrangements, as well as similar pension plans in other jurisdictions.

Ontario

Audited vs. Unaudited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an audit of an entity's financial results provides assurance by an independent party that the results of the entity present fairly, in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.
- The Province's unaudited financial statements include a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

Questions

Ontario

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Actuarial Pension Modelling
Date: Tuesday, November 29, 2016 16:05:44

Alex/Rob,

Please see Cindy's clarification below. I'm not sure what sort of cost information might be available, but it doesn't seem that she is looking for the 2014 model to be rerun. Wondering if you might have some details to share w.r.t. possible pricing input? Nadine

From: Veinot, Cindy (TBS)
Sent: November 29, 2016 3:02 PM
To: Petsche, Nadine (TBS)
Subject: RE: Actuarial Pension Modelling

I think there are three different issues;

1) What we talked about at the meeting last week re: negotiating with OTF – for that, I was looking for cost information re: the stochastic model (in the event the FMP was amended)

2) Work for the Panel – not sure what they will want yet if anything

3) Work for OPCD re: valuation for Public Accounts – which will be influenced by the recommendations of the panel.

Cindy

From: Petsche, Nadine (TBS)
Sent: November-29-16 2:06 PM
To: Veinot, Cindy (TBS)
Subject: Actuarial Pension Modelling

Cindy,

ISPPD has requested clarification of the nature of support that we and/or the Panel may require of OTPP's actuary (Mercers). In a discussion earlier today, he wondered if we were expecting the actuary to update the scenario analysis initially done in 2014 which provided estimates of the % of time that the plan would be in each of the funding zones. I didn't think that is what was being envisioned. Rather, I suggested that we/Panel might want to engage Mercers to assist with running different scenarios for purposes of the asset ceiling test?

Please advise.

Thanks.

Nadine

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Moadel, Maryam (MOF) [SOM.3Maryam.Moadel@ontario.ca]
Subject: FW: Derivation of the $4.3B Reduction
Date: Friday, September 23, 2016 15:34:52
Attachment 1: 2014 to 2016 Reduction in Payments (3).docx

Hi Alex,

Please find attached the requested information.

Rob

From: Petsche, Nadine (TBS)
Sent: September 23, 2016 10:51 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: Derivation of the $4.3B Reduction

Alex/Rob,

Please see Cindy's note below. How soon can we get the similar analysis for all three years of indexation improvements? Nadine

From: Veinot, Cindy (TBS)
Sent: September 23, 2016 9:38 AM
To: Petsche, Nadine (TBS)
Subject: RE: Derivation of the $4.3B Reduction

We need this for all three years

I agree let's share this with the AG

Cindy

From: Petsche, Nadine (TBS)
Sent: September-22-16 7:37 PM
To: Veinot, Cindy (TBS)
Subject: FW: Derivation of the $4.3B Reduction

I think that the firms might already have this info. Do we want to share with the OAG?
N

From: Pomykacz, Rob (MOF)
Sent: September 22, 2016 4:58 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU); Roberto, Nicole (EDU); Tsang, Ingrid (MOF)
Subject: Derivation of the $4.3B Reduction

As requested, please find attached an explanation of the derivation of the $4.3B reduction in the present value of the government's share the pain payments. Also attached are the two supporting OTPP slide decks.

We do not have any material from the OTPP confirming the $8.6B.

Josh/Nicole, would you have any documents from the OTPP showing this amount?

Rob

2016

Derivation of the $4.3 billion reduction in the government's "share the pain" payments:

The January 1, 2016 preliminary valuation revealed a surplus of $13.2 billion

- The surplus reflected 70% CIP
- The present value of the government's share the pain payments was $6.6B

The Partners agreed to use $8.6B of the surplus to increase CIP from 70% to 90%

- Since more indexation is to be provided, the government's share the pain payments decreased
- As a result, the present value of the government's share the pain payments was reduced to $2.3B.

The difference of $4.3 billion ($6.6B - $2.3B) is the present value of the corresponding reduction in the government's share the pain payments

The liabilities increased by an identical amount given that higher benefits would be paid in the future.

The January 1, 2016 valuation is to be filed with a remaining surplus of $4.6B.

The following table summarizes these calculations:

	Present Value of "Share the Pain" Payments
Jan 1, 2016, Preliminary Valuation With 70% CIP (p. 4 of Feb 16, 2016 presentation)	**$6.6 Billion**
Jan 1, 2016, Filed Valuation With 90% CIP (p. 4 of Sep 15, 2016 presentation)	**$2.3 Billion**
Present Value of Reduction in the Government's "Share the Pain" Payments	**$4.3 Billion**

2015

Derivation of the $1.9 billion reduction in the government's "share the pain" payments:

The January 1, 2015 preliminary valuation revealed a surplus of $6.8 billion

- The surplus reflected 60% CIP
- The present value of the government's share the pain payments was $7.8B

The Partners agreed to use $3.7B of the surplus to increase CIP from 60% to 70%

- Since more indexation was provided, the government's share the pain payments decreased
- As a result, the present value of the government's share the pain payments was reduced to $5.9B.

The difference of $1.9B ($7.8B - $5.9B) is the present value of the corresponding reduction in the government's share the pain payments

The liabilities increased by an identical amount given that higher benefits would be paid in the future.

The January 1, 2015 valuation is to be filed with a remaining surplus of $3.1B.

The following table summarizes these calculations:

	Present Value of "Share the Pain" Payments
Jan 1, 2015, Preliminary Valuation With 60% CIP	**$7.8 Billion**
Jan 1, 2015, Filed Valuation With 70% CIP	**$5.9 Billion**
Present Value of Reduction in the Government's "Share the Pain" Payments	**$1.9 Billion**

2014

Derivation of the $1.6 billion reduction in the government's "share the pain" payments:

The January 1, 2014 preliminary valuation revealed a surplus of $5.1 billion

- The surplus reflected 50/45*% CIP
- The present value of the government's share the pain payments was $9.0B

The Partners agreed to use $3.9B of the surplus to increase CIP from 50/45% to 60%

- Since more indexation was provided, the government's share the pain payments decreased
- As a result, the present value of the government's share the pain payments was reduced to $7.4B.

The difference of $1.6B ($9.0B - $7.4B) is the present value of the corresponding reduction in the government's share the pain payments

The liabilities increased by an identical amount given that higher benefits would be paid in the future.

The January 1, 2014 valuation is to be filed with a remaining surplus of $1.2B.

The following table summarizes these calculations:

	Present Value of "Share the Pain" Payments
Jan 1, 2014, Preliminary Valuation With 50/45% CIP	**$9.0 Billion**
Jan 1, 2014, Filed Valuation With 60% CIP	**$7.4 Billion**
Present Value of Reduction in the Government's "Share the Pain" Payments	**$1.6 Billion**

*50% CIP for 2010-13, 45% CIP for post 2013 service

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Allan Shapira (allan.shapira@aonhewitt.com) [allan.shapira@aonhewitt.com]
Subject: FW: Draft Memo on Asset Ceiling (for your review)
Date: Wednesday, September 21, 2016 11:17:13
Attachment 1: Ontario Teachers' Pension Plan – Limit on Accrued Benefit Asset memo. As....docx

---

Hi Allan

Is this the note you referenced?

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: Tuesday, August 02, 2016 4:55 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF); Fong, Pauline (TBS)
Subject: Draft Memo on Asset Ceiling (for your review)

Allan H. Shapira, FSA, FCIA | Managing Director
Aon Hewitt Canada
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
allan.shapira@aonhewitt.com | aonhewitt.com

****
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communication (and any attachments) without making a copy. Thank you.

****
La présente communication (et tout fichier rattaché) s'adresse uniquement au(x) destinataire(s) précité(s) et ne peut être autrement distribuée, copiée ou utilisée. Le contenu de cette communication peut être assujetti au privilège. Tout droit à ce privilège est expressément revendiqué et nullement abandonné. Si vous avez reçu cette communication par erreur, veuillez nous en avertir immédiatement en répondant à ce courriel ou en nous appelant. Veuillez également effacer cette communication (et tout fichier rattaché) sans en conserver une copie. Merci.

Memorandum

To: Alex Killoch/Rob Pomykacz, Ministry of Finance

From: Allan Shapira, Aon Hewitt

Date: August 2, 2016

Re: Ontario Teachers' Pension Plan – Limit on Accrued Benefit Asset

This memo will address the limit on the accrued benefit asset held on the Ontario Government's financial statements in respect of the Ontario Teachers' Pension Plan ("OTPP").

We are addressing this issue in our role as the actuary to the Ontario Government in its role as a sponsor of the OTPP. We note, however, that we do not prepare any of the accounting information for the OTPP for purposes of the Ontario Government's financial statements, which is prepared under Section PS 3250 of the Public Sector Accounting Standards.

Based on the information provided to us, there is currently an accrued benefit asset on the Government's financial statements in respect of the OTPP. Under PS 3250.050, the intent is to limit a government's accrued benefit asset to the amount it can realize in the future. Under PS 3250.050; "A government may benefit from an accrued benefit asset by either withdrawing surplus or taking a contribution holiday or receiving a refund of contributions. The accrued benefit may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully."

The protocol for the use of surplus under the OTPP is detailed in the Funding Management Policy ("FMP") adopted by the Ontario Government and Ontario Teachers Federation as sponsors of the OTPP. The sharing of any surplus would be on a 50/50 basis between the Government and members, consistent with the funding of the OTPP.

The FMP has five funding zones:

- The middle zone is the Fully Funded zone under which base benefits and contributions are maintained. In this zone, the plan is adequately funded to provide base benefits (including indexation at 100% of CPI) supported by the base contributions. Given the volatility of market factors and the numerous assumptions in the funding valuation, "fully funded" is considered a range.

- There are two zones below the Fully Funded zone that address the treatment of deficits.

- There are two zones above the Fully Funded zone that address the treatment of surpluses. The first zone is the Temporary Plan Improvement zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost). If the surplus reaches a specified level, the next zone, the Permanent Plan Improvement zone, provides for permanent changes to contribution rates and/or benefits.

DRAFT

Under the FMP, a surplus distribution or a benefit improvement can only be made if the partners have entered into a written agreement governing the manner in which contributions by the Minister will be adjusted to offset any surplus distribution or changes in benefits that are reflected in the liabilities.

Our interpretation of paragraph PS 3250.056 is the calculation of the expected future benefit on an open group basis. Based on the 50% methodology used to calculate the Government's obligations and pension expense under PS 3250, the expected future benefit would be calculated as 50% of the present value of future accruals for service. Based on the information provided to us, the total annual service accrual as of January 1, 2016 is $2,899 million, calculated using a discount rate of 6.25% and an ultimate salary increase assumption of 3% in the salary grid plus experience-related increases. Using the 6.25% discount rate and a 3% salary increase assumption (i.e. without the experience-related salary increases), the expected future benefit would be $44,600 million. We also requested the OTPP actuary to calculate this expected future benefit on a closed group basis for context and this resulted in an expected future benefit of $19,400 million. For further context, the present value of a decrease in the Government's contribution rate by 1% of salary calculated on an open group basis would be $4,300 million.

DRAFT

From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Emailing: OSPEU Pension Expense Slide
Date: Wednesday, September 28, 2016 15:56:32
Attachment 1: OSPEU Pension Expense Slide.ppt

From Pauline.

Thanks,
Ingrid

An Overview of Public Sector Pension Accounting for OPSEU Pension Plan

July 7th, 2014

Office of the Provincial Controller Division

Accounting Requirements

- The Public Sector Accounting Board (PSAB) standards are the primary source for public-sector accounting guidance for governments in Canada.

- Pension benefits provided to employees after retirement need to be accounted for while they are working or over their working lifetime. In pension accounting, the principle is to recognize the annual expense and build up the obligation over the employee's working life.

- Pension expense is determined by Public Sector Accounting Board's prescribed calculations, which requires various estimates from a financial statement basis actuarial valuation.

- The cash contribution required in a particular year are not the same as the pension expense and the funding deficit/surplus are not be the same as the accounting deficit/surplus, due to:
  - different methods being used to calculate funding vs accounting based pension deficit/surplus
  - different assumptions are used in the funding basis and accounting based actuarial valuations

OPSEU Pension Plan's Expense

- Pension plan expense for the jointly sponsored plans is reported in the Province's financial statements calculated based on PSAB standards and represents the government's portion (50%) of
  - Current service cost/annual cost of OPSEU's pensions earned by respective plan members during a given year;
  - Interest expense (revenue) on the net pension liability or (surplus);
  - Amortization of experience (gains) or losses
  - Other adjustments (i.e. plan amendment, amortization of differences in employee/employer contributions, etc.)

- The objective for government reporting is to provide a fair picture of the position of a pension plan in a government's financial statements. Assumptions used in financial statement based actuarial valuations are based on management's best estimates of future long-term events including expected inflation (2.5%) and salary escalation (3.5%) and investment return on plan assets (6.75%).

Budget and Public Accounts Process

- As part of the Budget process, the Ministry of Finance receives actuarial and financial information reflecting actual investment return and plan experience of the past calendar year (i.e. December 31) from OPTrust.

- Information received is used to update the Fiscal Plan for the fiscal year and to estimate OPSEU pension expense over the fiscal planning period.

- This information is also used for Public Accounts reporting purposes. In addition to reporting pension expense, the notes to the Consolidated Financial Statements in the Public Accounts disclose some more detailed information such as some assumptions used (e.g. annual inflation rate) and some funding information.

Summary of Impact of Government Decisions on Pension Expense

PENSION DECISIONS	IMPACT ON PENSION EXPENSE (and its related components)	
	IMMEDIATE	OVER TIME
BENEFIT REDUCTION	↓ Government's share of GAIN ON BENEFIT REDUCTION if reduction applied to past services ↑ RECOGNITION OF UNAMORTIZED ACTUARIAL LOSSES up to the gain on benefit reduction (if applicable) ↓ Government's share of decrease in CURRENT PERIOD BENEFIT COST resulting from benefit reduction for current and future services ↓ INTEREST EXPENSE on half of the government's share of gain on benefit reduction and decrease in current period benefit cost (if applicable)	↓ Lower AMORTIZATION OF ACTUARIAL LOSSES if there is recognition of unamortized actuarial losses in the year of benefit reduction ↓ Decrease in CURRENT PERIOD BENEFIT COST resulting from benefit reduction for future services ↓ INTEREST EXPENSE on half of the decrease in current period benefit cost (if applicable)
EMPLOYER CONTRIBUTION INCREASE ONLY	↓ Government's share of INTEREST REVENUE on additional contribution ↑ Government's share of AMORTIZATION OF EMPLOYER CONTRIBUTION INCREASE	↑ Government's share of AMORTIZATION OF EMPLOYER CONTRIBUTION INCREASE over EARSL

Summary of Impact of Government Decisions on Pension Expense

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EQUAL EMPLOYER AND EMPLOYEE CONTRIBUTION INCREASE	↓ Government's share of INTEREST REVENUE on additional contribution	
UNEQUAL EMPLOYER AND EMPLOYEE CONTRIBUTION INCREASE	↓ Government's share of INTEREST REVENUE on additional contribution ↑ Government's share of AMORTIZATION OF higher EMPLOYER CONTRIBUTION INCREASE Or ↓ Government's share of AMORTIZATION OF higher EMPLOYEE CONTRIBUTION INCREASE	↑ Government's share of AMORTIZATION OF higher EMPLOYER CONTRIBUTION INCREASE over EARSL Or ↓ Government's share of AMORTIZATION OF higher EMPLOYEE CONTRIBUTION INCREASE over EARSL

Appendix

Components of PSAB Calculation of Pension Benefit Expense

Appendix: Current Period Benefit Cost

- Represents the increase in the accrued benefit obligation that is attributed to services rendered or the cost of benefits earned by members in the accounting period. (i.e. The amount represents cost for the current year of service.)

- This amount is calculated by the actuary on an annual basis and reflects any changes in number of members, salary increases and benefit enhancements.

Appendix: Amortization of Actuarial Experience Gains and Losses

- A pension plan has experience gains or losses each year because the actual events during the year ("experience") do not exactly match the long-term assumptions previously made ("expected").

- Gains or losses on plan assets occur because the actual investment returns were higher or lower than anticipated (actual return versus management expected return). Gains and loses on actuarial liabilities can occur because long-term assumptions (e.g. mortality, salary increases, retirement, inflation) were not met.

- Actuarial experience gains and losses are determined by comparing the expected accrued benefit obligation and expected plan assets based on PSAB prescribed methods with the actual obligation and actual smoothed plan assets.

- Under PSAB, actuarial gains and losses are normalized (i.e. amortized) over the expected average remaining service life of the employees. The Province starts amortizing experience gains and losses in the year following the experience gains/losses are incurred.

Appendix: Interest Expense or Revenue

- Interest expense represents the difference between interest cost on the average accrued benefit obligations and expected return on the average plan assets for the period. When the pension plan is in a surplus position (i.e. pension assets are greater than the accrued benefit obligations) interest revenue is recorded.

- Interest is calculated based on PSAB prescribed methods. The Province's expected rate of return on plan assets (which reflects the investment policy of the plan) is used in the interest calculation. Interest expense/revenue may increase or decrease over time depending on the relative position of the accrued benefits obligations and pension assets.

From: Killoch, Alex (MOF) []
To: Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]; McGrath, Tara (MOF) [Tara.McGrath@ontario.ca]
Subject: FW: Emailing: OSPEU Pension Expense Slide
Date: Wednesday, September 28, 2016 15:59:32
Attachment 1: OSPEU Pension Expense Slide.ppt

FYI, this is the deck OPCD used to brief OPTrust on how pension expense works in 2014.

We got it from Pauline Fong in OPCD

An Overview of Public Sector Pension Accounting for OPSEU Pension Plan

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From: Pomykacz, Rob (MOF) []
To: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Expert Panel - HOOPP Trust Agreement
Date: Monday, December 19, 2016 17:29:50

Hi Nelson,

Below is the link to the plan text, which is not exactly what you're looking for. However, I'm sending it to you in case you don't have it.

Rob

From: Tsang, Ingrid (MOF)
Sent: December 19, 2016 4:26 PM
To: Pomykacz, Rob (MOF)
Subject: RE: Expert Panel - HOOPP Trust Agreement

https://hoopp.com/about-hoopp/plan-text

From: Tam, Nelson (TBS)
Sent: December 19, 2016 4:18 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: Expert Panel - HOOPP Trust Agreement

Alex, Rob

The Panel requested the HOOPP Trust Agreement. We are trying to get the document and no response yet.

Do you have a copy of the HOOPP Trust Agreement? If yes, please share so I can send to the Panel.

Thanks

Nelson

X20514

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Expert Panel - Relevance of Document for the Panel
Date: Thursday, November 17, 2016 12:31:20

Some minor edits to Ingrid's draft response…

The material is still relevant as it provides information on the genesis of Conditional Inflation Protection (CIP) and other related information and some history of it. However, we would suggest including in the package the MOU to file the 2013 funding valuation, dated early in 2012. That MOU summarized the decision to further amend the CIP provision, from 50% to 0% guarantee with government matching for the portion between 50% to 100%. The MOU dated September 18, 2008 only dealt with the CIP to 50%.

From: Pomykacz, Rob (MOF)
Sent: November 17, 2016 9:40 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: RE: Expert Panel - Relevance of Document for the Panel

I think it is relevant as it provides information on the genesis of CIP, the share the pain provision, the discount rate review process (i.e., the Hearing Officer), and the Partners Consultative Committee. A lot of the items were subsequently included in the Plan's governing documents, so I think it's a good document to include.

Ingrid, do you agree?

From: Killoch, Alex (MOF)
Sent: November 17, 2016 9:25 AM

To: Pomykacz, Rob (MOF)
Subject: FW: Expert Panel - Relevance of Document for the Panel

From: Tam, Nelson (TBS)
Sent: Thursday, November 17, 2016 8:33 AM
To: Killoch, Alex (MOF)
Subject: Expert Panel - Relevance of Document for the Panel

Good morning Alex

Cindy and I were reviewing the contents of the binder for the panel. Currently, we included the attached document and wanted your advice whether the document is still relevant for the panel's work. Specifically the first six pages. We will be removing the last six pages (letters).

Please respond this morning as I am trying to finalize the binder materials.

Your advice is greatly appreciated.

Thanks

Nelson

X20514

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Expert Panel - Relevance of Document for the Panel
Date: Thursday, November 17, 2016 10:24:58
Attachment 1: L - OTPP Memo of understanding– September 18, 2008.pdf

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From: Tam, Nelson (TBS)
Sent: Thursday, November 17, 2016 8:33 AM
To: Killoch, Alex (MOF)
Subject: Expert Panel - Relevance of Document for the Panel

Good morning Alex

Cindy and I were reviewing the contents of the binder for the panel. Currently, we included the attached document and wanted your advice whether the document is still relevant for the panel's work. Specifically the first six pages. We will be removing the last six pages (letters).

Please respond this morning as I am trying to finalize the binder materials.

Your advice is greatly appreciated.

Thanks

Nelson

X20514

MEMO OF UNDERSTANDING
ONTARIO TEACHERS' PENSION PLAN
SEPTEMBER 18, 2008

Interest Rate Assumption Adjustment

A. Interest rate assumption will be adjusted to allow the filing of the January 1, 2008 funding valuation (approximately RRB+1.5%) subject to the provisions set out below.

B. The Partners shall notify the Board, in writing, that the Funding Management Policy will not expire prior to the date the January 1, 2008 funding valuation is filed.

C. The Restoration Basis within the Funding Management Policy will be revised and documented as RRB+1.4%.

D. Establish a review process as per Attachment 1. Partners' Agreement needs to be revised to allow the payment of expenses as outlined in Attachment 1.

Contribution Rate Adjustment

E. Contribution rate maximum to remain at 15.0% as previously agreed
   1. Maximum applies to contribution rate on salaries above the CPP limit.

F. Basic contribution rate increased to 8.3/9.9% from 7.3/8.9%
   1. Special contributions adjusted accordingly to maintain same overall level.
   2. To be documented in Schedule 1 to the Teachers' Pension Act (Plan Text) before January 1, 2008 funding valuation is filed.

G. The total contribution rate established with the January 1, 2005 filed funding valuation will remain unchanged.

Conditional inflation protection for future service after January 1, 2010

H. To be documented in the appropriate Plan document before January 1, 2008 funding valuation is filed
   1. Benefits earned for service on or after January 1, 2010 will be subject to conditional indexing.
   2. Post-2009 benefit accruals will be subject to 50% conditional indexing (ie. 50% guaranteed indexing).
   3. Post-2009 benefit accruals will attract indexation adjustments between 50% to 100% of the CPI increase, as determined in future based on the Plan's financial position.
   4. Once a conditional indexation adjustment is granted, continued payment of that adjustment is a permanent obligation of the Plan and the adjustment shall be eligible for conditional indexation adjustments on a go-forward basis.

I. The goal of the Partners is to provide indexation adjustments at 100% of CPI on all service accruals when possible, subject to the funded status of the Plan and the Board will manage the Plan's investments appropriate to pursuing this goal.

J. Decisions regarding the level of adjustment (within the 50% to 100% range) will be made periodically by the Partners based on the Plan's emerging financial position, as part the valuation filing process. This decision is in effect until the date of the next filed funding valuation.

1. It is understood that, if Plan assets in tandem with scheduled future contributions are sufficient to both sustain 100% adjustments for the future and to provide catch-up in the "pension run rate" (in the event prior adjustment were less than 100%) then these adjustments will both be provided in full.
2. It is further understood that previously foregone inflation adjustments may be restored by the Partners where the resulting adjustments are expected to be sustainable (in light of the Plan's financial position and scheduled future contributions).
3. The above will be documented in the Funding Management Policy by March 31, 2009.

K. Finalize design of conditional indexation feature by March 31, 2009

1. Appoint a tri-party working group (OTF, Ontario Government and OTPP) to design and advise the parties.
2. Allows opportunity to consider other Canadian pension plans/risk sharing methods employed and to tailor the design to the parties' needs.
3. It is understood that costs reasonably incurred and agreed to by all three parties, for operating the working group will be paid from Plan funds. Partners' Agreement needs to be revised to allow the payment of these expenses.

L. Partners reserve the right (by their mutual agreement) for the finalized design to reflect a conditional indexation formula different from that outlined in H above, provided it results in a comparable reduction in net liability and risk profile using the same assumptions as the filed January 1, 2008 funding valuation.

M. Any foregone inflation increases to pensioners are to be matched by contributions made by Ontario government/participating employers. Since this commitment conflicts with the current provisions of The Teachers' Pension Act, the government will seek the approval of the Legislature to amend the Act in that regard. The Partners agree that these contributions shall be documented in Schedule 1 to the Teachers' Pension Act (Plan Text) as soon as possible.

Other

N. Establishment of a Consultative Committee as per Attachment 2. Partners' Agreement needs to be revised to allow the payment of expenses as outlined in Attachment 2

Jim Leech
President and Chief Executive Officer
Ontario Teachers' Pension Plan Board

Joe Lamoureux
President
Ontario Teachers' Federation

Nancy Naylor for
Steve Marshall
Deputy Minister of Education
Ministry of Education
Government of Ontario

Maureen Davis
Past President
Ontario Teachers' Federation

ATTACHMENT # 1
ONTARIO TEACHERS' PENSION PLAN
REVIEW PROCESS
TERMS OF REFERENCE
SEPTEMBER 18, 2008

General

The Ontario Teachers' Pension Plan Board ("the Plan Administrator") and the Ontario Teachers' Federation and the Government of Ontario ("the Partners") hereby establish a process by which the discount rate used by the Plan Actuary in preparing a funding valuation report for the Plan Administrator to be filed as required by the Pension Benefits Act regulations may be reviewed by an independent party. The purpose of the review is to allow the Plan Administrator and the Partners to address the matter of the valuation discount rate in the context of the Plan characteristics and to receive a report of the Hearing Officer noted below.

Caveat

Nothing in this process is intended to alter the roles and mandates of the parties as set out in the Partners' Agreement or otherwise, or under the requirements of the governing legislation.

This Review Process will not proceed if the conditions of the Memorandum of Agreement dated September 18, 2008 (MOU) have not been met and/or the Funding Management Policy, amended as contemplated under the MOU, is no longer in effect, unless agreed in writing by the Plan Administrator.

Triggering Event

If the real discount rate proposed by the Board to be used in the funding valuation report prepared on the Restoration Basis (as defined in the Funding Management Policy) to be filed by the Plan Administrator is less than 3.575 percent, the Partners, acting together, have the right to invoke the following process by giving notice in writing to the Plan Administrator by March 31 of the filing year. The notice shall be deemed received on the next business day.

Process

The Partners and the Plan Administrator shall mutually agree on the terms of engagement of the Hearing Officer including the terms of reference, procedures for addressing the matters which give rise to the process and timelines for the process by May 31, 2009.

Once the process is invoked, the Partners and the Plan Administrator shall meet within two weeks, or such other period as they may mutually agree after the giving of notice, to agree on an individual to act as a Hearing Officer to hear the matter or matters provided above which gave rise to the process.

Once a Hearing Officer has been agreed upon, he/she will determine, with the agreement of the Partners and the Plan Administrator, a time frame and schedule for completion of the process.

The Hearing Officer shall issue his/her report (including a concise Executive Summary) on the matters under review to the Partners and the Plan Administrator simultaneously by June 30 of the filing year to allow sufficient time for the Partners and the Plan Administrator to consider his/her report.

The Hearing Officer will keep confidential all information received during this process, including the engagement, and will not make any public comment on the report or any findings related to the process. Prior to the filing of the valuation report under the Pension Benefits Act, the Plan Administrator and the Partners will keep the report confidential, unless a written consent is executed by all three parties.

The report shall not be binding on the Partners nor the Plan Administrator.

After receiving the Hearing Officer report, the Plan Administrator will provide the Partners with reasons, in writing, for the discount rate chosen for the funding valuation report by August 15 of the filing year

Subsequent to the filing of the valuation report under the Pension Benefits Act, either Partner or Plan Administrator may disclose to the Plan members the Executive Summary, together with the written response provided by the Plan Administrator, .

Cost

The cost of the Hearing Officer will be covered by the Plan, subject to the approval of the Partners and the Plan Administrator.

General

The Partners' Consultative Committee is established by the Ontario Teachers' Pension Plan Partners to assist the Partners in maintaining an on-going awareness of the funded status of the Plan and in understanding the factors that may contribute to variations in the status over time.

Membership

The Committee shall be composed of a maximum of ten (10) members appointed from time to time by the Partners' Committee. Each sponsoring Partner is entitled to appoint five (5) members although either Partner may decide to appoint a smaller number of members.

Each Partner shall designate one of its appointees to act as co-chair.

Mandate

On behalf of the Partners' Committee, the Partners' Consultative Committee will maintain an awareness of the funded status of the Plan as well as the trends and issues that may affect the funded status of the Plan.

In fulfilling its mandate, the Committee will carry out the functions set out below.

1. The Committee will meet with the Plan Administrator and, if requested, the Plan Actuary on a quarterly basis to review the funded status of the Plan and to discuss the factors that underlay this position;
2. With the approval of the Partners' Committee, the Consultative Committee may request the Plan Administrator to undertake further research into any matter that bears on the funded status of the Plan. Where the Plan Administrator agrees that research using either external and internal resources is appropriate and cost effective, the cost of such research will be covered by the Plan; and
3. The Co-chairs will report quarterly to the Partners' Committee on the Consultative Committee's activities and findings.

Meetings and other procedures

Meetings will be scheduled by mutual agreement of the respective co-chairs and the Plan Administrator. The Committee has the power to determine its own procedures.

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Federation des enseignantes
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Toronto ON M4T 1X3

April 14, 2014

Mr. Ron Mock
President and CEO
Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5

Dear Mr. Mock:

Re: Filing of the January 2014 Plan Valuation

The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2014 indicates that the Plan has a going concern surplus of $5.074 billion. Although this valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided that it would be to our mutual advantage to do so.

On account of the surplus and in keeping with the commitment made to Plan members when conditional inflation protection was introduced, we propose that for post-2009 service, inflation protection should be raised to 60 percent starting with the January 1, 2015 adjustment. Further, we propose to restore pensions to the level that would have been payable if full inflation protection had been provided since retirement, also effective January 1, 2015. It is our understanding that both of these measures can be taken within the framework of the available surplus funds.

We request that you instruct the Plan Actuary to prepare a revised valuation based on the Plan amendments outlined above so that this valuation may be filed with the regulator in accordance with the relevant regulations.

We are most grateful to you and your staff for your assistance in filing this valuation.

Yours sincerely,

Julie Pauletig
President
Ontario Teachers' Federation

George Zegarac
Deputy Minister
Ministry of Education

Ministry of Education
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Queen's Park
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March 18, 2015

Mr. Ron Mock
President and CEO
Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5

Dear Mr. Mock:

Re: Filing of the January 2015 Plan Valuation

The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2015 indicates that the Plan has a going concern surplus in excess of $6 Billion. Although this valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided that it would be to our mutual advantage to do so.

On account of the surplus and in keeping with the commitment made to Plan members when conditional inflation protection was introduced, we propose that for post-2009 service, inflation protection should be raised to 70 percent starting with the January 1, 2016 adjustment. Further, we propose to restore pensions to the level that would have been payable if full inflation protection had been provided since retirement, also effective January 1, 2016. It is our understanding that both of these measures can be taken within the framework of the available surplus funds.

We request that you instruct the Plan Actuary to prepare a revised valuation based on the Plan amendments outlined above so that this valuation may be filed with the regulator in accordance with the relevant regulations.

We are most grateful to you and your staff for your assistance in filing this valuation.

Yours sincerely,

Rian McLaughlin
President
Ontario Teachers' Federation

George Zegarac
Deputy Minister
Ministry of Education

Ministry of Education
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August 8, 2016

Ron Mock
President and CEO
Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5

Dear Ron Mock:

Re: Filing of the January 2016 Plan Valuation

The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2016 indicates that the Plan has a going concern surplus of approximately $13 Billion. Although this valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided that it would be to our mutual advantage to do so.

On account of the surplus and in keeping with the commitment made to Plan members when conditional inflation protection was introduced, we propose that for post-2009 service, inflation protection should be raised to 90 percent starting with the January 1, 2017 adjustment. Further, we propose to restore pensions to the level that would have been payable if full inflation protection had been provided since retirement, also effective January 1, 2017. It is our understanding that both of these measures can be taken within the framework of the available surplus funds.

We request that you instruct the Plan Actuary to prepare a revised valuation based on the Plan amendments outlined above so that this valuation may be filed with the regulator in accordance with the relevant regulations.

We are most grateful to you and your staff for your assistance in filing this valuation.

Yours sincerely,

Francine LeBlanc-Lebel
President
Ontario Teachers' Federation

Nancy Matthews
Deputy Minister
Ministry of Education

FLL/NM/am

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Expert Panel - Relevance of Document for the Panel
Date: Thursday, November 17, 2016 13:13:33
Attachment 1: 13 Feb 7 - Letter to Jim Leech re Filing of Jan 2012 Plan Valuation.pdf

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Hi Alex,

I didn't include you in the copy list. Sorry about that!

Rob

From: Pomykacz, Rob (MOF)
Sent: November 17, 2016 12:11 PM
To: Tam, Nelson (TBS)
Cc: Talwar, Garima (MOF); Tsang, Ingrid (MOF)
Subject: FW: Expert Panel - Relevance of Document for the Panel

Hi Nelson,

Further to Alex's email, we asked Education if they had the 2012 MOU, but they don't seem to have it on file. What they did send us was the attached letter to the OTPP Board which summarizes the changes that the Partners agreed to as part of the filing of the 2012 valuation.

Please let us know if you have any questions.

Rob

From: Killoch, Alex (MOF)

Sent: November 17, 2016 11:59 AM
To: Tam, Nelson (TBS)
Cc: Pomykacz, Rob (MOF); Talwar, Garima (MOF)
Subject: RE: Expert Panel - Relevance of Document for the Panel

Hi Nelson

The material is still relevant as it provides information on the genesis of Conditional Inflation Protection (CIP) and other related information and some history of it.

However, we would suggest including in the package the MOU to file the 2013 funding valuation, dated early in 2012. That MOU summarized the decision to further amend the CIP provision, from 50% to 0% guarantee with government matching for the portion between 50% to 100%. The MOU dated September 18, 2008 only dealt with the CIP to 50%.

Alex

From: Tam, Nelson (TBS)
Sent: Thursday, November 17, 2016 8:33 AM
To: Killoch, Alex (MOF)
Subject: Expert Panel - Relevance of Document for the Panel

Good morning Alex

Cindy and I were reviewing the contents of the binder for the panel. Currently, we

included the attached document and wanted your advice whether the document is still relevant for the panel's work. Specifically the first six pages. We will be removing the last six pages (letters).

Please respond this morning as I am trying to finalize the binder materials.

Your advice is greatly appreciated.

Thanks

Nelson

X20514

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Feb. 7
January ~~25~~, 2013

Mr. Jim Leech
President and CEO
Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5

Re: Filing of the January 2012 Plan Valuation

Dear Mr. ~~L~~Jim Leech:

The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2012 indicated that the Plan's going concern liabilities exceeded its going concern assets by $9.895 Billion. During the course of the year, this funding shortfall was adjusted to reflect factors that were not part of the original estimate. The current revised deficit is estimated to be $11.915 Billion.

Although the 2012 valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided that it would be in our mutual best interest to do so. Accordingly, we are writing to advise you of the changes that we propose should be made to the terms of the Plan in order to eliminate the deficit and permit the 2012 valuation to be filed.

The Partners request that amendments to the Plan be drafted as described below.

- Reduce the inflation protection paid to members for service after 2009 from the current level of 60 percent to 50 percent, effective January 1, 2014.
- For service after 2013, all inflation protection paid to retired members will be subject to the availability of funds within the Plan.
- Should a funding shortfall still exist after the first two changes have been made, inflation protection could be reduced beyond 50 percent for post-2013 service, effective January 1, 2015, but only to the extent necessary to eliminate the remaining deficit. In any event, the inflation protection paid to members may not be less than 40 percent.

It should be noted that in accordance with The Teachers' Pension Act, the government will match foregone indexing up to 50 percent.

We request that you instruct the Plan Actuary to prepare a revised valuation based on the proposed Plan amendments so that this valuation may be filed with regulator in accordance with the relevant regulations.

Please note that this instruction is given subject to the approval of the above Plan amendments by the OTF and its affiliates which should be obtained prior to February 7, 2013.

In conclusion, we want to acknowledge and thank you and your staff for the assistance that you have provided to the Partners in determining an appropriate course of action in these extremely difficult circumstances.

Yours sincerely,

Terry Hamilton
President
Ontario Teachers' Federation

George Zegarac
Deputy Minister
Ministry of Education

From: Killoch, Alex (MOF) []
To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Extracts from Pension Asset Position Paper
Date: Tuesday, November 15, 2016 10:29:36
Attachment 1: BPS Comments Final.docx

From: Paul, Joshua (EDU)
Sent: Monday, November 14, 2016 11:32 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

See below for comments from Paul and his team.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Duffy, Paul (EDU) <Paul.Duffy@ontario.ca>

Sent: Monday, November 14, 2016 9:09 PM

To: Paul, Joshua (EDU)

Subject: FW: Extracts from Pension Asset Position Paper

Only one small comment on page 4 where they outline the special contributions, wondering if it would be helpful to add the avg special contribution made by government since 2011 – roughly $1.5B per year. We'll add in the morning and share again. Other than that, no comments. Rob was pretty thorough.

From: Duffy, Paul (EDU)
Sent: November 14, 2016 1:44 PM
To: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)

Subject: FW: Extracts from Pension Asset Position Paper

Steve and Nicole, I'd like you to both review the attached (and the extract). Ideally for end of day.

Paul

From: Paul, Joshua (EDU)
Sent: November 14, 2016 1:40 PM
To: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

Comments?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Monday, November 14, 2016 1:38 PM

To: Petsche, Nadine (TBS)

Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)

Subject: RE: Extracts from Pension Asset Position Paper

Hi Josh

Attached are our comments on the extracts

Alex

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 1:23 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)
Subject: RE: Extracts from Pension Asset Position Paper

Hi Alex. Thanks for getting back to me. I had not shared the email with EDU, so I am copying Josh on this response. I'll look forward to hearing back from both of you on any comments/edits (if possible by end of day today, that would be much appreciated).

Thanks.

Nadine

From: Killoch, Alex (MOF)
Sent: November 14, 2016 9:35 AM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Re: Extracts from Pension Asset Position Paper

Hi Nadine

Has this gone to EDU? They should see it as they are the signatory to the FMP.

We will look at it asap

From: Petsche, Nadine (TBS)

Sent: Sunday, November 13, 2016 5:18 AM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: Extracts from Pension Asset Position Paper

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

There are a couple of items that we need your help with. Rather than forwarding you the entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase

benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of "good faith"

negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty.

With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3)] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding

Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.

$41.2

The minimum contribution requirement applies to the current period of the funding

report and until a new report is completed. EFB[KJ(4] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

---

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can

you follow up with Len and perhaps Alex as well.

[KJ(3]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) ~~to~~from exceeding the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the

[1] TPA, subsection 5(1.1)

Commented [p1]: This seems to suggest that a surplus must be eliminated through negotiation, which is not correct. The Partners could decide to do nothing with the surplus and park it in the contingency reserve.

Commented [KJ(2]: Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)) ISPPD has provided benefit provisions for other BPS plans. No further analysis is possible.

time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of "good faith" negotiations between the Province and the OTF.

   This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, ~~a decrease in benefits by the employees~~reduced indexation for current retirees w~~ere~~as ~~offset~~ matched by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this ~~increase in benefits~~ restoration of indexation resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their

Commented [KJ(3]: Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

Commented [t4]: It is not material. To date, no credit has been accrued for OTF as there have been no benefit reductions to date during the freeze period. The freeze will end on December 30, 2017. As the plan has filed the 2016 actuarial valuation report, the next required filing will be in 2019 which is outside of the freeze period. It is unlikely any credit will be accrued before the expiration of the freeze period.

Commented [p5]: Mediation precedes arbitration.

Commented [p6]: For only the first 50% of indexation reduction.

Commented [p7]: A reduction in indexation is not a reduction in benefits, and likewise, an increase in indexation is not a benefit improvement.

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.
[3] FMP, section 6.03

substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

Commented [t8]: There is no minimum contributions stipulated in the plan text or legislation or partners' agreement.

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to partially restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Commented [KJ(9]: Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

Commented [p10]: Special payments scheduled to end December 2026.

Commented [t11]: Every valuation will review the funded status and if there is a new deficit, a new special contribution may be established to liquidate the new deficit. If the plan is well funded, the existing special contributions may end sooner than 2026.

Table 1: Summary of Asset Ceiling Models performed for OTPP

Commented [t12]: We are unsure about the accuracy of the table.

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB is reduced for 2 years by $1.7B at March 31, 2016.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.	$12.9	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

Commented [KJ(13]: I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

Commented [KJ(14]: Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting) date is 2026, unless conditions warrant an earlier change.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plan~~s~~ to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Commented [p15]: We suggest reversing the 3rd and 4th columns, as it is easier to read when it was the government that initiated changes.

Commented [p16]: The OTPP became a JSPP in 1992, not 1990.

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	~~Increased~~ ~~c~~Contributions by teachers increased ~~by 1%~~ percentage point (from 7.9% to 8.9%) effective January 1, 1990 per legislation.	Legislated an increase in matching contributions (from 7.9% to 8.9%) effective January 1, 1990 and responsibility to ~~Aagreed to~~ finance the initial unfunded liability through ~~make~~ a series of special payments ~~to eliminate the unfunded liability and match increased contributions~~	Special payments considered an asset bringing the plan to a $0 surplus

1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining special payments	$0
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion	$9.3 Billion	

Commented [NP17]: Check if anything more recent? The TPP has been in a deficit position since 2005 until recently. All uses of "surplus" in recent years have been used to restore indexation.

From: Kaufman, Paul (TBS) []
To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: FAA Reg re: 15/16 accounting practices
Date: Saturday, September 17, 2016 13:26:41

Alex, thanks much. Shemin fyi.

From: Killoch, Alex (MOF)
Sent: Saturday, September 17, 2016 1:14 PM
To: Kaufman, Paul (TBS); Provis, Ian (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: RE: FAA Reg re: 15/16 accounting practices

There are not many JSPPs in total and we only make contributions to OPTT and OPSEU.

HOOPP and CAAT are funded by employers (hospitals and colleges) and their members, so I think this works.

I am not sure what the definition of "participating employer" captures, but Shemin will know that

---

From: Kaufman, Paul (TBS)
Sent: September 17, 2016 1:05 PM
To: Provis, Ian (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: RE: FAA Reg re: 15/16 accounting practices

Thanks, Ian. "or to which the Province makes contributions" came from me - concern is that I didn't think we were technically a "participating employer" in respect of the OTPP so needed something further but (a) I've reached out to MOF legal to get help/confirmation on that wording (Shemin Manji, if that matters for you, Alex) and (b) Alex, do let us know if this might be overbroad or if my understanding is just plain wrong. I have legislative counsel lined up to do a draft of the regulation overnight so any further feedback this afternoon can be reflected

in the next draft.

From: Provis, Ian (TBS)
Sent: Saturday, September 17, 2016 12:54 PM
To: Kaufman, Paul (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: Re: FAA Reg re: 15/16 accounting practices

Looks really good. I wonder where or to which the Province makes contributions came from. I will check with Alex on what this might capture.

At first I was a little concerned about the talk on 14-15. But reading it carefully it seems ok using change 14-15 and with the clarification of not restating the original.

With nadines suggestion on asset we might as well include revenue as well to be fully inclusive

Thanks Ian

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Kaufman, Paul (TBS)
Sent: Saturday, September 17, 2016 11:22
To: Provis, Ian (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: FAA Reg re: 15/16 accounting practices

Hi Ian - we're trying to keep moving the reg forward - sorry for bothering you over the weekend but your views on this today would be appreciated. A revised version of the reg text is attached (and set out below in case you are on black berry) - this reflects your most recent input and some thoughts Nick had as well. Leg counsel might fiddle with some wording and we are going to seek input from MOF legal on the pension terminology, but can you let me know if this accurately reflects the accounting treatment, as that is obviously the key issue?

Change in accounting policies and practices for the 2015/2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared on a basis that:

(a) in respect of any jointly sponsored pension plan under which the Province is a participating employer or to which the Province makes contributions, deems a carrying value of zero in instances where the Province would have otherwise recorded an asset before any valuation allowance; and

(b) reflects the change required under clause (a) in all related liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

(2) For greater certainty, any change to the comparative financial results for the fiscal year ending March 31, 2015 required under subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for that fiscal year.

(3) In this section,

"jointly sponsored pension plan" has the same meaning as in the Pension Benefits Act. ("French");

Commencement

2. This Regulation comes into force on the day it is filed.

From: Buckland Foster, Jamie (MOF) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: FAO Information Request FA1709-01
Date: Monday, April 03, 2017 16:09:56
Attachment 1: image001.png
Attachment 2: FA1709 Information Request Cover Letter_vf.pdf
Attachment 3: Attachment 1 Cover Spreadsheet.xlsx
Attachment 4: Attachment 2 Guide to Responding to FAO Requests.pdf
Attachment 5: FA1709 - Att 3 Info Request.xlsx

FYI – the Financial Accountability Officer has requested information on the pension expenses, including the treatment of assets for JSPPs.

TBS is leading the request but I expect we may get looped in in some capacity.

Jamie

From: Pearce, Christopher (MOF)
Sent: April 3, 2017 3:53 PM
To: Buckland Foster, Jamie (MOF)
Subject: FW: FAO Information Request FA1709-01

FYI only for now. TBS will be the lead responding to this.

From: Catherine Robinson
Sent: Monday, April 03, 2017 3:27:44 PM (UTC-05:00) Eastern Time (US & Canada)
To: Angus, Helen (TBS); Thompson, Scott (MOF)
Cc: Hughes, Karen (TBS); Schuurman, Tim (MOF); Veinot, Cindy (TBS); David West
Subject: FAO Information Request FA1709-01

Please see attached correspondence, sent on behalf of the Honourable J. David Wake, Temporary Financial Accountability Officer of Ontario.

Thank you,

Sent on behalf of

The Honourable J. David Wake

Catherine Robinson

Executive Assistant

http://www.fao-on.org/

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | c.416.317.4935 | crobinson@fao-on.org | www.fao-on.org

Financial
Accountability
Office of Ontario

April 3, 2017

Helen Angus
Deputy Minister, Treasury Board Secretariat
Whitney Block Rm 5320, 99 Wellesley St W
Toronto ON M7A 1A1

Scott Thompson
Deputy Minister, Ministry of Finance
Frost Building South, 7th Floor, 7 Queen's Park Crescent
Toronto, ON M7A 1Y7

RE: FAO Information Request (FA1709-01) on Pension Expense and Contributions

Dear Deputies Angus and Thompson:

My mandate as Temporary Financial Accountability Officer is to provide the Legislative Assembly of Ontario with the economic and financial analysis it needs to perform its constitutional functions.

My staff are currently preparing analysis to support the FAO's bi-annual Economic and Fiscal Outlook report. This work is undertaken under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), which allows the Officer to "provide, on his or her own initiative, an independent analysis to the Assembly about the state of the Province's finances, including the budget, and trends in the provincial and national economies."

This analysis will include an assessment of the impact of the Auditor General's recommended accounting treatment for assets in jointly-sponsored pension plans.

I request that your ministries provide me with the information outlined in the attached documents, which I consider to be necessary to perform my duties as required by subsection 12(1) of the Act.

- Please complete the enclosed "Cover spreadsheet" in Attachment 1 and provide the information described in the "Information Request" spreadsheet in Attachment 3.

- If you believe that some or all of the requested information falls under the Cabinet records exception under subsection 12(2) of the Act and that Cabinet has not consented to provide that information to the FAO in the Cabinet records order-in-council (OC 1412/2016, Attachment 2), please describe the information in the Cover Spreadsheet (Attachment 1) and explain why you believe the exception prevents you from providing the information.

- If you believe that some or all of the requested information is subject to the disclosure restrictions under the Cabinet records order-in-council (OC 1412/2016, Attachment 2), please identify the information in question in the Cover spreadsheet (Attachment 1).

- If you believe that some or all of the requested information is subject to the disclosure restrictions in paragraphs 2, 3 and/or 4 of section 13 of the Act, please identify the information in question in the Cover spreadsheet (Attachment 1).

- If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

I request that you provide me with this information within two business days following the release of the 2017 Ontario Budget.

I have enclosed the *Guide to Responding to Information Requests from the FAO,* including the Cabinet records order-in-council (Attachment 2) to assist you with responding to this information request.

Please note that any cover letter accompanying your response to this request will be posted publicly on the FAO website, but attachments will not.

Should you or your staff have any questions about this request, I would ask that you contact Luan Ngo at lngo@fao-on.org or by phone at 416-948-9783.

I would like to thank you for your assistance in this matter. My primary objective is to provide timely and relevant analysis to the Legislative Assembly. My ability to do so depends on your providing me free and timely access to the information held by your ministries that is necessary for me to perform my duties. By providing me with this information, you are assisting me in better serving all Members of Provincial Parliament.

Sincerely,

The Honourable J. David Wake
Temporary Financial Accountability Officer

Enclosures: 3
Attachment 1: FA1709-01 Cover Spreadsheet
Attachment 2: Guide to Responding to Information Requests from the FAO
Attachment 3: FA1709-01 Information Request

cc.

Karen Hughes
Associate Deputy Minister, Treasury Board Secretariat
Frost Building South, 7th Floor
7 Queen's Park Crescent East
Toronto, ON M7A 1Y7

Tim Schuurman
Assistant Deputy Minister, Ministry of Finance
Frost Building South, 4th Floor
7 Queen's Park Crescent East
Toronto ON M7A 1Y7

Cindy Veinot
Assistant Deputy Minister & Provincial Controller,
Treasury Board Secretariat
Frost Building South, 2nd Floor
7 Queen's Park Crescent East
Toronto, ON M7A 1Y7

David West
Chief Economist,
Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900
Toronto Ontario M4W 3E2

Financial Accountability Office of Ontario

Informatior

Project Name
Information Request No.
Deadline

Instructions: Please compl
request. Please contact Lu

ı Request: Cover Spreadsheet

Analysis of the Fiscal Impact of Pension Accounting Treatment for Jointly Sponsored Pension Plans
FA1709
2 business days following release of 2017 Ontario Budget

ete the following worksheet (Cover Spreadsheet) listing all records that respond to this
an Ngo (FAO contact) (lngo@fao-on.org or 416-948-9783) if assistance is required.

Guide to Responding to Information Requests from the Financial Accountability Officer of Ontario

Purpose of this Document

This guide has been developed to aid ministries and public entities in preparing responses to information requests from the Financial Accountability Officer of Ontario (FAO). This guide is not a substitute for the *Financial Accountability Officer Act, 2013* (FAO Act) and the Cabinet records order-in-council (OC 1412/2016 –attached for reference). The FAO Act and the order-in-council should be reviewed before responding to requests from the FAO.

Questions and Answers

1. Under what authority is the FAO making this information request?

Under subsection 12(1) of the FAO Act, ministries and public entities have the duty to provide the FAO with information in their custody or under their control that the FAO believes to be necessary to perform his duties.

2. What information needs to be provided?

You must provide all financial, economic or other information that is in your ministry's or public entity's custody or control that the FAO believes to be necessary to perform his duties. Please review the information request carefully in determining which records are responsive. In responding to the information request please complete the cover spreadsheet provided, listing all the responsive records with a description of each record.

3. What is the deadline?

All information requests have a deadline included in the cover letter and on the attached information request itself.

4. What if our ministry or public entity cannot meet the deadline?

If your ministry or public entity cannot meet the deadline set out in the request, please notify the FAO contact identified in the information request and request an extension. The FAO will not unreasonably withhold extensions.

5. How should the information be transmitted to the FAO?

Non-confidential information may be transmitted to the FAO by e-mail. The FAO contact identified in the information request should be copied.

Confidential information should be transmitted securely. Please speak to the FAO contact to arrange for secure delivery.

6. In what format should I provide information to the FAO?

To the extent possible, information should be provided in machine-readable format such as Microsoft Word or Excel or files readable with this software. PDF is acceptable when machine readable formats are not available.

7. What if I don't understand what is being requested?

If you do not understand what information is being requested or require any clarification, please speak to the FAO contact identified in the information request. The FAO contact would be happy to provide clarification and explanation.

8. What if the information being requested does not exist within my ministry or public entity?

Please indicate in your response that no records exist that would respond to the request. If possible, please provide information on which ministry or public entity has custody or control of, or might have custody or control of, a particular record.

9. What if the information requested requires my ministry or public entity to incur costs?

Under subsection 12(1) of the FAO Act, all information must be provided free of charge.

10. When can/must information be withheld from the FAO?

There are only three limited circumstances in which a ministry or public entity cannot provide information to the FAO:

- the information is contained in a Cabinet record which Cabinet has not consented to provide to the FAO (subsection 12(2) of the FAO Act, section 12 of the *Freedom of Information and Protection of Privacy Act* and OC 1412/2016);

- it is personal information within the meaning of the *Freedom of Information and Protection of Privacy Act* (see subsection 12(3) of the FAO Act); or

- it is personal health information within the meaning of the *Personal Health Information Protection Act, 2004* (see subsection 12(3) of the FAO Act).

Subsection 12(4) of the FAO Act requires that ministries and public entities take reasonable steps to redact personal information and personal health information from their responses to FAO requests in order to maximize the information they can provide.

Cabinet has consented for ministries and public entities to provide the FAO with certain information contained in Cabinet records (OC 1412/2016). The order-in-council has the effect of narrowing the application of the Cabinet records exception in subsection 12(2) of the FAO Act. As a result, you must provide information contained in Cabinet records that is necessary for the performance of the FAO's duties provided that:

- The information is not available from other sources (please indicate the other source where possible);

- The decision to which the information relates has been made by Cabinet or one of its committees and publicly announced, even if Cabinet or one of its committees could engage in further deliberation about the decision;

- The information is not:

    - An agenda of Cabinet or one of its committees;

    - A minute of Cabinet or one of its committees, unless the minute is the only source of the information;

    - Policy or costing options or recommendations, unless the option or recommendation was selected by Cabinet or one of its committees;

    - The substance of deliberations of Cabinet or one of its committees concerning those options and recommendations, other than deliberations related to the option or recommendation selected that would be apparent from its disclosure;

    - Information concerning the individual opinions of Cabinet ministers;

    - A communications plan, stakeholder management plan, key messages or other communications materials;

    - Draft legislation or regulations, unless approved by Cabinet or one of its committees.

Should one of these three circumstances affect a record that is responsive to an FAO information request, please identify which of the three circumstances applies and explain why you believe it applies in the cover spreadsheet provided, listing all the responsive records with a description of each record. In the case of the personal information or personal health information exceptions, please explain why you believe that exception applies and why you have been unable to redact the information in accordance with subsection 12(4) of the FAO Act.

11. Can I withhold from the FAO commercially sensitive information?

No. Commercial sensitivity is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

12. Do I have to provide to the FAO information that has not been publicly released?

Yes. Not having been released publicly is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

13. Do I have to provide information subject to solicitor-client privilege, litigation privilege and/or settlement privilege to the FAO?

Yes. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

However, please note that the disclosure of information subject to solicitor-client privilege, litigation privilege and/or settlement privilege does not constitute a waiver of those privileges by virtue of subsection 12(6) of the FAO Act.

14. What happens if our ministry/public entity fails to comply with a request?

If the FAO is of the opinion that a ministry or public entity has failed to comply with an information request, the FAO will notify the deputy minister or head of the public entity in writing providing details of the non-compliance. The ministry or public entity will have a second opportunity to comply with the request.

Should the ministry or public entity fail to do so, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs under subsection 12(5) of the FAO Act.

15. What happens if our ministry/public entity is not able to provide requested information because some or all of this information falls under the Cabinet records, personal information or personal health information exceptions?

If a ministry or public entity has not provided the requested information because some or all this information falls under one of the exceptions to the ministry or public entity's duty to provide information under subsection 12(1) of the FAO Act, the FAO will evaluate the justification provided by the ministry or public entity.

If the FAO is of the opinion that the ministry or public entity has failed to provide adequate justification, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs that he is of the opinion that the ministry or public entity has failed to comply with the request for the purposes of subsection 12(5) of the FAO Act.

16. Will the FAO disclose the information that our ministry/public entity provides?

The FAO does not generally disclose information in raw form. Instead, the FAO provides the Legislative Assembly of Ontario with economic and financial analysis based on that information.

Furthermore, the FAO cannot disclose information unless the disclosure is essential for the performance of the FAO's mandate and four conditions under section 13 of the FAO Act are fulfilled:

- The information is not third party information (section 17 of the *Freedom of Information and Protection of Privacy Act*);
- The information does not involve relations with other governments (section 15 of the *Freedom of Information and Protection of Privacy Act*);
- The information would not affect the economic and other interests of Ontario (subsection 18(1) of the *Freedom of Information and Protection of Privacy Act*); and
- The information is not subject to solicitor-client privilege, litigation privilege or settlement privilege.

Moreover, the FAO cannot disclose information obtained solely from a Cabinet record (OC 1412/2016).

Should one of these five circumstances affect a record that is responsive to an information request, please clearly identify the record in the cover spreadsheet provided and identify which restriction applies, citing the specific provision in the *Freedom of Information and Protection of Privacy Act*.

If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

For greater certainty, ministries and public entities must provide the FAO with requested information even if it is subject to one or more of these categories. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

Additional Questions

If you have any additional questions or require clarification, please contact the FAO contact identified in the information request.

Executive Council of Ontario/Conseil exécutif de l'Ontario **[Bilingual]**

Ontario

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor of Ontario, by and with the advice and concurrence of the Executive Council of Ontario, orders that:

Sur la recommandation de la personne soussignée, la lieutenante-gouverneure de l'Ontario, sur l'avis et avec le consentement du Conseil exécutif de l'Ontario, décrète ce qui suit :

WHEREAS the Financial Accountability Officer, an Officer of the Legislative Assembly, was appointed to provide independent analysis to the Assembly about the state of the Province's finances, including the budget, and trends in the provincial and national economies;

AND WHEREAS the Financial Accountability Officer requires access to information in the custody and control of Ministries and public entities in order to fulfill his statutory mandate;

AND WHEREAS certain information in the custody and control of Ministries and public entities is protected by the mandatory Cabinet Records exemption of section 12 of the *Freedom of Information and Protection of Privacy Act*;

AND WHEREAS the Lieutenant Governor in Council considers it advisable to provide the Financial Accountability Officer access to this information;

NOW THEREFORE Pursuant to subsection 12(2) of the *Financial Accountability Officer Act* (the "Act") and subsection12(2) paragraph (b) of the *Freedom of Information and Protection of Privacy Act*:

1. Every Ministry of the Government of Ontario and every public entity is authorized to provide to the Financial Accountability Officer any financial, economic or other information protected by section 12(1) of the *Freedom of Information and Protection of Privacy Act* that relates to:
    - The Province's finances, including the budget, and trends in the provincial and national economies
    - The estimates and supplementary estimates submitted to the Legislature
    - The financial costs or financial benefits to the Province of any public bill before the Assembly, or
    - The financial costs or financial benefits to the Province of any proposal that relates to a matter over which the Legislature has jurisdiction, including any proposal made by the Government or by any member of the Assembly

subject to paragraphs 2 and 3 below.

2. Information outlined in paragraph 1 above shall be provided to the Financial Accountability Officer in accordance with subsection 12(1) of the Act provided that:
    - The information has been requested by the Financial Accountability Officer
    - The information is not available through other sources
    - The policy or financial decision to which the requested information relates has been made by the Executive Council and announced to the public or tabled with or disclosed to the Legislative Assembly, even if the Executive Council or one of its Committees will or could engage in future deliberations with respect to the decision
    - The requested information is provided in a format that does not reveal other information protected by subsection 12(1) of the *Freedom of Information and Protection of Privacy Act,* including
        - an agenda
        - a Minute, unless the Minute is the only source of the requested information
        - policy or costing options or recommendations prepared for or submitted to the Executive Council or its committees other than the policy or costing option selected for implementation
        - the substance of the deliberations of the Executive Council or its committees regarding options or recommendations prepared for or submitted to the Executive Council or its committees, other than deliberations related to the policy option selected for implementation that would be apparent through the disclosure of the requested information
        - information reflecting the individual opinions of members of the Executive Council
        - a communications plan, stakeholder management plan, key messages, or other communications materials
        - draft legislation or regulations other than the particular draft approved by the Executive Council
    - The information would not reveal personal information or personal health information protected from disclosure by subsection 12(3) of the *Financial Accountability Officer Act*
    - The Financial Accountability Officer agrees not to disclose the information without the consent of the Executive Council

3. The provision of the information to the Financial Accountability Officer does not waive or limit the authority of the Head of an institution to apply the mandatory exemption of section 12(1) of the *Freedom of Information and Protection of Privacy Act* should the information be requested by any parties other than the Financial Accountability Officer.

- - - - - - -

ÉTANT DONNÉ que le directeur de la responsabilité financière, qui est un fonctionnaire de l'Assemblée, a reçu pour mission de fournir à l'Assemblée une analyse indépendante de la situation financière de la province, notamment du budget, et des tendances de l'économie provinciale et nationale;

ÉTANT DONNÉ que le directeur de la responsabilité financière a besoin de consulter des renseignements dont les ministères et les organismes publics ont la garde ou le contrôle afin de s'acquitter de la mission que lui confère la loi;

ÉTANT DONNÉ que certains renseignements dont les ministères et organismes publics ont la garde et le contrôle sont protégés par l'exception obligatoire relative aux documents du Conseil exécutif prévue à l'article 12 de la *Loi sur l'accès à l'information et la protection de la vie privée*;

ÉTANT DONNÉ EN OUTRE que le lieutenant-gouverneur en conseil considère qu'il est judicieux de permettre au directeur de la responsabilité financière de consulter ces renseignements;

EN CONSÉQUENCE, en vertu du paragraphe 12(2) de la *Loi sur le directeur de la responsabilité financière* (la « Loi ») et de l'alinéa 12(2)b) de la *Loi sur l'accès à l'information et la protection de la vie privée* :

1. Chaque ministère du gouvernement de l'Ontario et chaque organisme public est autorisé à transmettre au directeur de la responsabilité financière tout renseignement de nature financière, économique ou autre protégé par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* qui porte sur :
    - la situation financière de la province, notamment le budget, et les tendances de l'économie provinciale et nationale,
    - le budget des dépenses et le budget supplémentaire des dépenses présentés à la Législature,
    - les coûts ou avantages financiers pour la province de tout projet de loi d'intérêt public déposé à l'Assemblée,
    - les coûts ou avantages financiers pour la province de toute proposition qui se rapporte à une question relevant de la Législature, y compris une proposition du gouvernement ou d'un député,

    sous réserve des paragraphes 2 et 3 ci-dessous.

2. Les renseignements visés au paragraphe 1 ci-dessus seront transmis au directeur de la responsabilité financière conformément au paragraphe 12(1) de la Loi, pourvu que :
    - ces renseignements aient été demandés par le directeur de la responsabilité financière;
    - ces renseignements ne puissent pas être obtenus d'autres sources;
    - la décision relative aux politiques ou aux finances sur laquelle portent les renseignements ait été prise par le Conseil exécutif et annoncée au public ou présentée ou divulguée à l'Assemblée législative, même si le Conseil exécutif ou un de ses comités tiendra ou peut tenir des délibérations sur cette décision;
    - les renseignements demandés soient transmis sous une forme ne révélant pas d'autres renseignements protégés par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* comme :

- un ordre du jour,
- un procès-verbal, sauf s'il s'agit de la seule source des renseignements demandés,
- des choix ou des recommandations de politiques ou de calcul des coûts présentés au Conseil exécutif ou à ses comités ou formulés à leur intention, autres que le choix retenu aux fins de mise en œuvre,
- l'objet des délibérations du Conseil exécutif ou de ses comités relatives aux choix ou recommandations présentés à eux ou formulés à leur intention, autres que les délibérations relatives au choix retenu aux fins de mise en œuvre, qui ressortiraient de la divulgation des renseignements demandés,
- des renseignements révélant les opinions personnelles des membres du Conseil exécutif,
- un plan de communication, un plan de gestion relatif aux intervenants, des messages clés ou d'autres documents de communication,
- des projets de loi ou de règlement autres que le projet de loi ou de règlement approuvé par le Conseil exécutif;

- ces renseignements ne révèlent pas de renseignements personnels, notamment sur la santé, protégés par le paragraphe 12(3) de la *Loi sur le directeur de la responsabilité financière*;
- le directeur de la responsabilité financière accepte de ne pas divulguer les renseignements sans le consentement du Conseil exécutif.

3. La transmission de ces renseignements au directeur de la responsabilité financière ne supprime ni ne limite le pouvoir du haut responsable d'une institution d'appliquer l'exception obligatoire prévue au paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* si la demande est présentée par toute partie autre que le directeur de la responsabilité financière.

Recommended: Premier and President of the Council
Recommandé par: Première ministre et Présidente du Conseil

Concurred: Chair of Cabinet
Appuyé par: Le président/la présidente du Conseil des ministres,

Approved and Ordered: OCT 05 2016
Approuvé et décrété le:

Administrator of the Government
L'administratrice du gouvernement

Information Request on Pension Plans Jointly Sponsored by the Province of

Instructions:

Please provide the data requested below for the two pension plans, jointly sponsored by th

The two pension plans are the **Ontario Teacher's Pension Plan (OTPP)** and the **Ontario**

Please contact Luan Ngo (FAO contact) (lngo@fao-on.org or 416-948-9783) if assistance

Concept	2008-09	2009-10	2010-11
Service Cost			
Amortization of Acturial Gains/Losses			
Interest (Income)/Expense			
Pension Expense (sum of above)			
Employer Contributions			

Ontario

e Province of Ontario - either separately or combined for both plans.

Public Sector Employees Union Pension Plan (OPSEUPP)

is required.

2011-12	2012-13	2013-14	2014-15	2015-16	2016-17

2017-18	2018-19	2018-19	2019-20	2020-21

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: FAO Information Request FA1709-01
Date: Monday, April 03, 2017 16:13:47
Attachment 1: image001.png
Attachment 2: FA1709 Information Request Cover Letter_vf.pdf
Attachment 3: Attachment 1 Cover Spreadsheet.xlsx
Attachment 4: Attachment 2 Guide to Responding to FAO Requests.pdf
Attachment 5: FA1709 - Att 3 Info Request.xlsx

From: Buckland Foster, Jamie (MOF)
Sent: April 3, 2017 4:10 PM
To: Myers, Leah (MOF); Killoch, Alex (MOF)
Subject: FW: FAO Information Request FA1709-01

FYI – the Financial Accountability Officer has requested information on the pension expenses, including the treatment of assets for JSPPs.

TBS is leading the request but I expect we may get looped in in some capacity.

Jamie

From: Pearce, Christopher (MOF)
Sent: April 3, 2017 3:53 PM
To: Buckland Foster, Jamie (MOF)
Subject: FW: FAO Information Request FA1709-01

FYI only for now. TBS will be the lead responding to this.

From: Catherine Robinson
Sent: Monday, April 03, 2017 3:27:44 PM (UTC-05:00) Eastern Time (US & Canada)

To: Angus, Helen (TBS); Thompson, Scott (MOF)
Cc: Hughes, Karen (TBS); Schuurman, Tim (MOF); Veinot, Cindy (TBS); David West
Subject: FAO Information Request FA1709-01

Please see attached correspondence, sent on behalf of the Honourable J. David Wake, Temporary Financial Accountability Officer of Ontario.

Thank you,

Sent on behalf of

The Honourable J. David Wake

Catherine Robinson

Executive Assistant

http://www.fao-on.org/

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2 | c.416.317.4935 | crobinson@fao-on.org | www.fao-on.org

Financial
Accountability
Office of Ontario

April 3, 2017

Helen Angus
Deputy Minister, Treasury Board Secretariat
Whitney Block Rm 5320, 99 Wellesley St W
Toronto ON M7A 1A1

Scott Thompson
Deputy Minister, Ministry of Finance
Frost Building South, 7th Floor, 7 Queen's Park Crescent
Toronto, ON M7A 1Y7

RE: FAO Information Request (FA1709-01) on Pension Expense and Contributions

Dear Deputies Angus and Thompson:

My mandate as Temporary Financial Accountability Officer is to provide the Legislative Assembly of Ontario with the economic and financial analysis it needs to perform its constitutional functions.

My staff are currently preparing analysis to support the FAO's bi-annual Economic and Fiscal Outlook report. This work is undertaken under paragraph 10(1)(a) of the *Financial Accountability Officer Act, 2013* (the Act), which allows the Officer to "provide, on his or her own initiative, an independent analysis to the Assembly about the state of the Province's finances, including the budget, and trends in the provincial and national economies."

This analysis will include an assessment of the impact of the Auditor General's recommended accounting treatment for assets in jointly-sponsored pension plans.

I request that your ministries provide me with the information outlined in the attached documents, which I consider to be necessary to perform my duties as required by subsection 12(1) of the Act.

- Please complete the enclosed "Cover spreadsheet" in Attachment 1 and provide the information described in the "Information Request" spreadsheet in Attachment 3.

- If you believe that some or all of the requested information falls under the Cabinet records exception under subsection 12(2) of the Act and that Cabinet has not consented to provide that information to the FAO in the Cabinet records order-in-council (OC 1412/2016, Attachment 2), please describe the information in the Cover Spreadsheet (Attachment 1) and explain why you believe the exception prevents you from providing the information.

- If you believe that some or all of the requested information is subject to the disclosure restrictions under the Cabinet records order-in-council (OC 1412/2016, Attachment 2), please identify the information in question in the Cover spreadsheet (Attachment 1).

- If you believe that some or all of the requested information is subject to the disclosure restrictions in paragraphs 2, 3 and/or 4 of section 13 of the Act, please identify the information in question in the Cover spreadsheet (Attachment 1).

- If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

I request that you provide me with this information within two business days following the release of the 2017 Ontario Budget.

I have enclosed the *Guide to Responding to Information Requests from the FAO,* including the Cabinet records order-in-council (Attachment 2) to assist you with responding to this information request.

Please note that any cover letter accompanying your response to this request will be posted publicly on the FAO website, but attachments will not.

Should you or your staff have any questions about this request, I would ask that you contact Luan Ngo at lngo@fao-on.org or by phone at 416-948-9783.

I would like to thank you for your assistance in this matter. My primary objective is to provide timely and relevant analysis to the Legislative Assembly. My ability to do so depends on your providing me free and timely access to the information held by your ministries that is necessary for me to perform my duties. By providing me with this information, you are assisting me in better serving all Members of Provincial Parliament.

Sincerely,

The Honourable J. David Wake
Temporary Financial Accountability Officer

Enclosures: 3
Attachment 1: FA1709-01 Cover Spreadsheet
Attachment 2: Guide to Responding to Information Requests from the FAO
Attachment 3: FA1709-01 Information Request

cc.

Karen Hughes
Associate Deputy Minister, Treasury Board Secretariat
Frost Building South, 7th Floor
7 Queen's Park Crescent East
Toronto, ON M7A 1Y7

Tim Schuurman
Assistant Deputy Minister, Ministry of Finance
Frost Building South, 4th Floor
7 Queen's Park Crescent East
Toronto ON M7A 1Y7

Cindy Veinot
Assistant Deputy Minister & Provincial Controller,
Treasury Board Secretariat
Frost Building South, 2nd Floor
7 Queen's Park Crescent East
Toronto, ON M7A 1Y7

David West
Chief Economist,
Financial Accountability Office of Ontario
2 Bloor Street W, Suite 900
Toronto Ontario M4W 3E2

Financial Accountability Office of Ontario

Informatior

Project Name
Information Request No.
Deadline

Instructions: Please compl
request. Please contact Lu

ı Request: Cover Spreadsheet

Analysis of the Fiscal Impact of Pension Accounting Treatment for Jointly Sponsored Pension Plans
FA1709
2 business days following release of 2017 Ontario Budget

ete the following worksheet (Cover Spreadsheet) listing all records that respond to this
an Ngo (FAO contact) (lngo@fao-on.org or 416-948-9783) if assistance is required.

Guide to Responding to Information Requests from the Financial Accountability Officer of Ontario

Purpose of this Document

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Questions and Answers

1. Under what authority is the FAO making this information request?

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3. What is the deadline?

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4. What if our ministry or public entity cannot meet the deadline?

If your ministry or public entity cannot meet the deadline set out in the request, please notify the FAO contact identified in the information request and request an extension. The FAO will not unreasonably withhold extensions.

5. How should the information be transmitted to the FAO?

Non-confidential information may be transmitted to the FAO by e-mail. The FAO contact identified in the information request should be copied.

Confidential information should be transmitted securely. Please speak to the FAO contact to arrange for secure delivery.

6. In what format should I provide information to the FAO?

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7. What if I don't understand what is being requested?

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Please indicate in your response that no records exist that would respond to the request. If possible, please provide information on which ministry or public entity has custody or control of, or might have custody or control of, a particular record.

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There are only three limited circumstances in which a ministry or public entity cannot provide information to the FAO:

- the information is contained in a Cabinet record which Cabinet has not consented to provide to the FAO (subsection 12(2) of the FAO Act, section 12 of the *Freedom of Information and Protection of Privacy Act* and OC 1412/2016);

- it is personal information within the meaning of the *Freedom of Information and Protection of Privacy Act* (see subsection 12(3) of the FAO Act); or

- it is personal health information within the meaning of the *Personal Health Information Protection Act, 2004* (see subsection 12(3) of the FAO Act).

Subsection 12(4) of the FAO Act requires that ministries and public entities take reasonable steps to redact personal information and personal health information from their responses to FAO requests in order to maximize the information they can provide.

Cabinet has consented for ministries and public entities to provide the FAO with certain information contained in Cabinet records (OC 1412/2016). The order-in-council has the effect of narrowing the application of the Cabinet records exception in subsection 12(2) of the FAO Act. As a result, you must provide information contained in Cabinet records that is necessary for the performance of the FAO's duties provided that:

- The information is not available from other sources (please indicate the other source where possible);

- The decision to which the information relates has been made by Cabinet or one of its committees and publicly announced, even if Cabinet or one of its committees could engage in further deliberation about the decision;

- The information is not:

    - An agenda of Cabinet or one of its committees;

    - A minute of Cabinet or one of its committees, unless the minute is the only source of the information;

    - Policy or costing options or recommendations, unless the option or recommendation was selected by Cabinet or one of its committees;

    - The substance of deliberations of Cabinet or one of its committees concerning those options and recommendations, other than deliberations related to the option or recommendation selected that would be apparent from its disclosure;

    - Information concerning the individual opinions of Cabinet ministers;

    - A communications plan, stakeholder management plan, key messages or other communications materials;

    - Draft legislation or regulations, unless approved by Cabinet or one of its committees.

Should one of these three circumstances affect a record that is responsive to an FAO information request, please identify which of the three circumstances applies and explain why you believe it applies in the cover spreadsheet provided, listing all the responsive records with a description of each record. In the case of the personal information or personal health information exceptions, please explain why you believe that exception applies and why you have been unable to redact the information in accordance with subsection 12(4) of the FAO Act.

11. Can I withhold from the FAO commercially sensitive information?

No. Commercial sensitivity is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

12. Do I have to provide to the FAO information that has not been publicly released?

Yes. Not having been released publicly is not a valid justification for withholding information from the FAO. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

13. Do I have to provide information subject to solicitor-client privilege, litigation privilege and/or settlement privilege to the FAO?

Yes. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

However, please note that the disclosure of information subject to solicitor-client privilege, litigation privilege and/or settlement privilege does not constitute a waiver of those privileges by virtue of subsection 12(6) of the FAO Act.

14. What happens if our ministry/public entity fails to comply with a request?

If the FAO is of the opinion that a ministry or public entity has failed to comply with an information request, the FAO will notify the deputy minister or head of the public entity in writing providing details of the non-compliance. The ministry or public entity will have a second opportunity to comply with the request.

Should the ministry or public entity fail to do so, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs under subsection 12(5) of the FAO Act.

15. What happens if our ministry/public entity is not able to provide requested information because some or all of this information falls under the Cabinet records, personal information or personal health information exceptions?

If a ministry or public entity has not provided the requested information because some or all this information falls under one of the exceptions to the ministry or public entity's duty to provide information under subsection 12(1) of the FAO Act, the FAO will evaluate the justification provided by the ministry or public entity.

If the FAO is of the opinion that the ministry or public entity has failed to provide adequate justification, the FAO may notify the minister responsible and the head of the public entity (if applicable). If the matter is not resolved in a timely manner, the FAO may then notify the Speaker of the Legislative Assembly and the Chair of the Standing Committee on Finance and Economic Affairs that he is of the opinion that the ministry or public entity has failed to comply with the request for the purposes of subsection 12(5) of the FAO Act.

16. Will the FAO disclose the information that our ministry/public entity provides?

The FAO does not generally disclose information in raw form. Instead, the FAO provides the Legislative Assembly of Ontario with economic and financial analysis based on that information.

Furthermore, the FAO cannot disclose information unless the disclosure is essential for the performance of the FAO's mandate and four conditions under section 13 of the FAO Act are fulfilled:

- The information is not third party information (section 17 of the *Freedom of Information and Protection of Privacy Act*);
- The information does not involve relations with other governments (section 15 of the *Freedom of Information and Protection of Privacy Act*);
- The information would not affect the economic and other interests of Ontario (subsection 18(1) of the *Freedom of Information and Protection of Privacy Act*); and
- The information is not subject to solicitor-client privilege, litigation privilege or settlement privilege.

Moreover, the FAO cannot disclose information obtained solely from a Cabinet record (OC 1412/2016).

Should one of these five circumstances affect a record that is responsive to an information request, please clearly identify the record in the cover spreadsheet provided and identify which restriction applies, citing the specific provision in the *Freedom of Information and Protection of Privacy Act*.

If the restriction is intended to protect the interests of other public institutions, governments, third parties and/or legal privilege holders, please specifically identify any institutions, governments, third parties and/or legal privilege holders whose interests would be affected by the disclosure of the information.

For greater certainty, ministries and public entities must provide the FAO with requested information even if it is subject to one or more of these categories. The only valid justifications for refusing to provide information to the FAO are the Cabinet records, personal information and personal health information exceptions set out in subsections 12(2) and (3) of the FAO Act (see Question 10 for more details).

Additional Questions

If you have any additional questions or require clarification, please contact the FAO contact identified in the information request.

Executive Council of Ontario/Conseil exécutif de l'Ontario **[Bilingual]**

Ontario

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor of Ontario, by and with the advice and concurrence of the Executive Council of Ontario, orders that:

Sur la recommandation de la personne soussignée, la lieutenante-gouverneure de l'Ontario, sur l'avis et avec le consentement du Conseil exécutif de l'Ontario, décrète ce qui suit :

WHEREAS the Financial Accountability Officer, an Officer of the Legislative Assembly, was appointed to provide independent analysis to the Assembly about the state of the Province's finances, including the budget, and trends in the provincial and national economies;

AND WHEREAS the Financial Accountability Officer requires access to information in the custody and control of Ministries and public entities in order to fulfill his statutory mandate;

AND WHEREAS certain information in the custody and control of Ministries and public entities is protected by the mandatory Cabinet Records exemption of section 12 of the *Freedom of Information and Protection of Privacy Act*;

AND WHEREAS the Lieutenant Governor in Council considers it advisable to provide the Financial Accountability Officer access to this information;

NOW THEREFORE Pursuant to subsection 12(2) of the *Financial Accountability Officer Act* (the "Act") and subsection12(2) paragraph (b) of the *Freedom of Information and Protection of Privacy Act*:

1. Every Ministry of the Government of Ontario and every public entity is authorized to provide to the Financial Accountability Officer any financial, economic or other information protected by section 12(1) of the *Freedom of Information and Protection of Privacy Act* that relates to:
    - The Province's finances, including the budget, and trends in the provincial and national economies
    - The estimates and supplementary estimates submitted to the Legislature
    - The financial costs or financial benefits to the Province of any public bill before the Assembly, or
    - The financial costs or financial benefits to the Province of any proposal that relates to a matter over which the Legislature has jurisdiction, including any proposal made by the Government or by any member of the Assembly

subject to paragraphs 2 and 3 below.

2. Information outlined in paragraph 1 above shall be provided to the Financial Accountability Officer in accordance with subsection 12(1) of the Act provided that:
    - The information has been requested by the Financial Accountability Officer
    - The information is not available through other sources
    - The policy or financial decision to which the requested information relates has been made by the Executive Council and announced to the public or tabled with or disclosed to the Legislative Assembly, even if the Executive Council or one of its Committees will or could engage in future deliberations with respect to the decision
    - The requested information is provided in a format that does not reveal other information protected by subsection 12(1) of the *Freedom of Information and Protection of Privacy Act,* including
        - an agenda
        - a Minute, unless the Minute is the only source of the requested information
        - policy or costing options or recommendations prepared for or submitted to the Executive Council or its committees other than the policy or costing option selected for implementation
        - the substance of the deliberations of the Executive Council or its committees regarding options or recommendations prepared for or submitted to the Executive Council or its committees, other than deliberations related to the policy option selected for implementation that would be apparent through the disclosure of the requested information
        - information reflecting the individual opinions of members of the Executive Council
        - a communications plan, stakeholder management plan, key messages, or other communications materials
        - draft legislation or regulations other than the particular draft approved by the Executive Council
    - The information would not reveal personal information or personal health information protected from disclosure by subsection 12(3) of the *Financial Accountability Officer Act*
    - The Financial Accountability Officer agrees not to disclose the information without the consent of the Executive Council

3. The provision of the information to the Financial Accountability Officer does not waive or limit the authority of the Head of an institution to apply the mandatory exemption of section 12(1) of the *Freedom of Information and Protection of Privacy Act* should the information be requested by any parties other than the Financial Accountability Officer.

- - - - - - -

ÉTANT DONNÉ que le directeur de la responsabilité financière, qui est un fonctionnaire de l'Assemblée, a reçu pour mission de fournir à l'Assemblée une analyse indépendante de la situation financière de la province, notamment du budget, et des tendances de l'économie provinciale et nationale;

ÉTANT DONNÉ que le directeur de la responsabilité financière a besoin de consulter des renseignements dont les ministères et les organismes publics ont la garde ou le contrôle afin de s'acquitter de la mission que lui confère la loi;

ÉTANT DONNÉ que certains renseignements dont les ministères et organismes publics ont la garde et le contrôle sont protégés par l'exception obligatoire relative aux documents du Conseil exécutif prévue à l'article 12 de la *Loi sur l'accès à l'information et la protection de la vie privée*;

ÉTANT DONNÉ EN OUTRE que le lieutenant-gouverneur en conseil considère qu'il est judicieux de permettre au directeur de la responsabilité financière de consulter ces renseignements;

EN CONSÉQUENCE, en vertu du paragraphe 12(2) de la *Loi sur le directeur de la responsabilité financière* (la « Loi ») et de l'alinéa 12(2)b) de la *Loi sur l'accès à l'information et la protection de la vie privée* :

1. Chaque ministère du gouvernement de l'Ontario et chaque organisme public est autorisé à transmettre au directeur de la responsabilité financière tout renseignement de nature financière, économique ou autre protégé par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* qui porte sur :
    - la situation financière de la province, notamment le budget, et les tendances de l'économie provinciale et nationale,
    - le budget des dépenses et le budget supplémentaire des dépenses présentés à la Législature,
    - les coûts ou avantages financiers pour la province de tout projet de loi d'intérêt public déposé à l'Assemblée,
    - les coûts ou avantages financiers pour la province de toute proposition qui se rapporte à une question relevant de la Législature, y compris une proposition du gouvernement ou d'un député,

    sous réserve des paragraphes 2 et 3 ci-dessous.

2. Les renseignements visés au paragraphe 1 ci-dessus seront transmis au directeur de la responsabilité financière conformément au paragraphe 12(1) de la Loi, pourvu que :
    - ces renseignements aient été demandés par le directeur de la responsabilité financière;
    - ces renseignements ne puissent pas être obtenus d'autres sources;
    - la décision relative aux politiques ou aux finances sur laquelle portent les renseignements ait été prise par le Conseil exécutif et annoncée au public ou présentée ou divulguée à l'Assemblée législative, même si le Conseil exécutif ou un de ses comités tiendra ou peut tenir des délibérations sur cette décision;
    - les renseignements demandés soient transmis sous une forme ne révélant pas d'autres renseignements protégés par le paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* comme :

- un ordre du jour,
- un procès-verbal, sauf s'il s'agit de la seule source des renseignements demandés,
- des choix ou des recommandations de politiques ou de calcul des coûts présentés au Conseil exécutif ou à ses comités ou formulés à leur intention, autres que le choix retenu aux fins de mise en œuvre,
- l'objet des délibérations du Conseil exécutif ou de ses comités relatives aux choix ou recommandations présentés à eux ou formulés à leur intention, autres que les délibérations relatives au choix retenu aux fins de mise en œuvre, qui ressortiraient de la divulgation des renseignements demandés,
- des renseignements révélant les opinions personnelles des membres du Conseil exécutif,
- un plan de communication, un plan de gestion relatif aux intervenants, des messages clés ou d'autres documents de communication,
- des projets de loi ou de règlement autres que le projet de loi ou de règlement approuvé par le Conseil exécutif;

- ces renseignements ne révèlent pas de renseignements personnels, notamment sur la santé, protégés par le paragraphe 12(3) de la *Loi sur le directeur de la responsabilité financière*;
- le directeur de la responsabilité financière accepte de ne pas divulguer les renseignements sans le consentement du Conseil exécutif.

3. La transmission de ces renseignements au directeur de la responsabilité financière ne supprime ni ne limite le pouvoir du haut responsable d'une institution d'appliquer l'exception obligatoire prévue au paragraphe 12(1) de la *Loi sur l'accès à l'information et la protection de la vie privée* si la demande est présentée par toute partie autre que le directeur de la responsabilité financière.

Recommended: Premier and President of the Council
Recommandé par: Première ministre et Présidente du Conseil

Concurred: Chair of Cabinet
Appuyé par: Le président/la présidente du Conseil des ministres,

Approved and Ordered: OCT 05 2016
Approuvé et décrété le:

Administrator of the Government
L'administratrice du gouvernement

Information Request on Pension Plans Jointly Sponsored by the Province of

Instructions:

Please provide the data requested below for the two pension plans, jointly sponsored by th

The two pension plans are the **Ontario Teacher's Pension Plan (OTPP)** and the **Ontario**

Please contact Luan Ngo (FAO contact) (lngo@fao-on.org or 416-948-9783) if assistance

Concept	2008-09	2009-10	2010-11
Service Cost			
Amortization of Acturial Gains/Losses			
Interest (Income)/Expense			
Pension Expense (sum of above)			
Employer Contributions			

Ontario

e Province of Ontario - either separately or combined for both plans.

Public Sector Employees Union Pension Plan (OPSEUPP)

is required.

2011-12	2012-13	2013-14	2014-15	2015-16	2016-17

2017-18	2018-19	2018-19	2019-20	2020-21

From: Schuurman, Tim (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: FES Fiscal Strategy #2
Date: Thursday, September 29, 2016 09:42:58
Attachment 1: image001.png
Attachment 2: Pension and Fiscal Planning_v1.pptx
Attachment 3: FES_Updated_Fiscal_Strategy_v12.pptx
Attachment 4: image002.png

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Schuurman, Tim (MOF)
Sent: September-28-16 7:21 PM
To: Thompson, Scott (MOF); Orencsak, Greg (TBS); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Subrahmanyan, Sriram (MOF); Arruda, Artur (TBS); Veinot, Cindy (TBS)
Cc: McLean, David (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Birks, Ryan (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF); Jaikaran, Ronald (MOF); DeSouza, Jenarra (MOF); Law, Rex (TBS); Zhang, Christina (OFA); Tarin, Ghufran (MOF); Pearce, Christopher (MOF)
Subject: RE: FES Fiscal Strategy #2

Please find attached two decks for use at the FES briefing with Minister Sousa tomorrow:

-- a revised version of the FES fiscal strategy deck that reflects the latest numbers and

a slightly altered presentation of some slides coming out of FPC earlier today -- for the Minister's briefing tomorrow.

-- a deck that summarizes the impact of the 15-16 accounting changes on track to be reflected through Public Accounts and where those impacts show up in the Budget/FES public reporting, as well as an estimate of the out-year impacts.

Thanks to everyone for their input and collaboration on these decks.

Tim

From: Schuurman, Tim (MOF)
Sent: Tuesday, September 27, 2016 3:38 PM
To: Thompson, Scott (MOF); Orencsak, Greg (TBS); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Subrahmanyan, Sriram (MOF); Arruda, Artur (TBS)
Cc: McLean, David (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Birks, Ryan (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF); Jaikaran, Ronald (MOF); DeSouza, Jenarra (MOF); Law, Rex (TBS); Zhang, Christina (OFA); Tarin, Ghufran (MOF); Pearce, Christopher (MOF)
Subject: RE: FES Fiscal Strategy #2

Please find attached a revised version of the FES deck to reflect feedback from our Friday joint briefing and following on the meeting this morning with TBS/EDU/PO/MOF on the child care piece.

I understand this is on the agenda for FPC tomorrow as a follow-up to last week's discussion.

Note that this deck is silent on 15-16 – this approach focuses on 16-17 to 18-19 and assumes no change to the way we would report the medium-term fiscal plan.

Tim

From: Schuurman, Tim (MOF)
Sent: September-23-16 12:39 PM
To: Thompson, Scott (MOF); Orencsak, Greg (TBS); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Subrahmanyan, Sriram (MOF); Arruda, Artur (TBS)
Cc: McLean, David (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Birks, Ryan (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF); Jaikaran, Ronald (MOF); DeSouza, Jenarra (MOF); Law, Rex (TBS); Zhang, Christina (OFA); Tarin, Ghufran (MOF)
Subject: Fw: FES Fiscal Strategy #2

Please find attached a revised version of the FES deck to reflect feedback from this morning.

Notably:

- included a table in the appendix to show the impact in the out-years of in-year approvals (not currently included in the outlook)

- included a sub-total net fiscal impact on the table on slide 11

Tim

From: Schuurman, Tim (MOF)
Sent: September 22, 2016 7:19 PM

To: Thompson, Scott (MOF); Orencsak, Greg (TBS); Hughes, Karen (TBS); Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Subrahmanyan, Sriram (MOF); Arruda, Artur (TBS)
Cc: McLean, David (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); DeSouza, Jenarra (MOF); Law, Rex (TBS); McGrath, Tara (MOF); Lindquist, Emma (MOF); Zhang, Christina (OFA)
Subject: FES Fiscal Strategy #2

Hello

Coming out of this week's FPC discussion on the FES Strategy #1, we've updated the deck in a way we hope helps turn our minds to the issues raised at the meeting and drives decision-making forward – please see attached. Note that the levers and tools in the latter part of the deck, as well as the additional initiatives and their costing, are illustrative to drive decision-making, rather than recommendations or a reflection of any direction at this point.

There is a Joint DM/MO conversation planned for 4-5pm tomorrow (Friday) to discuss this and hopefully help refine it, as it is also tracking back to FPC next week.

Tim Schuurman

Assistant Deputy Minister

Office of the Budget, Ministry of Finance

7 Queen's Park Cres.

Toronto ON M7A 1Z1
Tel: 416-327-0173

From: Schuurman, Tim (MOF)
Sent: September-19-16 11:50 PM
To: Thompson, Scott (MOF); Orencsak, Greg (TBS); Hughes, Karen (TBS);

Duran-Schneider, Maria (TBS); Lewis, Brian (MOF); Mayman, Gadi (OFA); Subrahmanyan, Sriram (MOF); Arruda, Artur (TBS)
Cc: McLean, David (MOF); MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Tarin, Ghufran (MOF); Birks, Ryan (MOF); Jaikaran, Ronald (MOF); DeSouza, Jenarra (MOF); Law, Rex (TBS); McGrath, Tara (MOF); Lindquist, Emma (MOF); Zhang, Christina (OFA)
Subject: FES Fiscal Stratey #1

Hello

Sincere apologies for the late arrival of this email and attachment.

Consistent with the discussion at the joint DM/MO fiscal planning session on Friday, attached is a draft deck on an approach to a FES Fiscal Strategy. This takes the information included in the two-page framing document provided last week and builds it into a deck, taking into account feedback from the Friday session.

The purpose would be to go over this deck at the joint briefing planned for Tuesday afternoon, and take to FPC on Wednesday morning.

Thanks in advance

Tim

Office of the Budget
MINISTRY of FINANCE

Office of the Provincial Controller Division

Pension and Fiscal Planning

September 28, 2016

Confidential – For Internal Discussion Purposes

Reconciliation to 2016 Budget

Pension expense appears in a number of places in the Budget:

TABLE 3.18 Summary of Medium-Term Expense Outlook
($ Billions)

	Actual	Interim	Plan	Outlook		Average Annual Growth
	2014–15	2015–16	2016–17	2017–18	2018–19	2014–15 to 2018–19
Programs						
Health Sector	50.0	50.8	51.8	52.8	53.7	1.8%
Education Sector[1]	24.6	24.8	25.6	25.8	25.9	1.2%
Postsecondary and Training Sector	7.7	7.8	7.9	7.9	8.0	1.1%
Children's and Social Services Sector	14.7	15.6	15.8	16.1	16.3	2.7%
Justice Sector	4.4	4.5	4.5	4.5	4.6	1.2%
Other Programs	16.9	17.5	16.5	17.2	19.1	3.2%
Total Programs	**118.2**	**120.9**	**122.1**	**124.2**	**127.6**	**1.9%**
Interest on Debt	10.6	11.2	11.8	12.5	13.1	5.4%
Total Expense	**128.9**	**132.1**	**133.9**	**136.6**	**140.7**	**2.2%**

[1] Excludes Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.
Note: Numbers may not add due to rounding.

HOOPP pension plans, under Health Sector

CAATPP pension plans, under Post Secondary and Training Sector

OPSEU, PSPP and Teachers' Pension Plans, under Other Programs Sector

Reconciliation to 2016 Budget cont.

TABLE 3.23 Details of Other Expense
($ Millions)

Ministry Expense	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
Aboriginal Affairs				
One-Time Investments including Settlements	12	3	4.5	–
Green Investment Fund Initiatives	–	–	5.0	–
Agriculture, Food and Rural Affairs				
Time-Limited Investments in Infrastructure	132	36	21.2	–
Time-Limited Assistance	17	7	–	–
Community Safety and Correctional Services				
Time-Limited Support for 2015 Pan/Parapan American Games Security	5	44	123.5	–
Economic Development, Employment and Infrastructure / Research and Innovation				
Green Investment Fund Initiatives	–	–	99.0	–
Federal-Provincial Infrastructure Programs	–	–	–	818.7
Education				
Teachers' Pension Plan[1]	873	564	112.0	(452.0)
Energy				
Green Investment Fund Initiatives	–	–	108.0	–
Ontario Clean Energy Benefit	1,006	1,078	860.0	–
Strategic Asset Management and Transformation Related to Hydro One	–	–	52.0	70.9
Environment and Climate Change				
Green Investment Fund Initiatives	–	–	1.0	–
Finance				
Ontario Municipal Partnership Fund	569	542	512.5	505.0
Power Supply Contract Costs	1,296	920	783.6	643.1
Municipal Affairs and Housing				
Green Investment Fund Initiatives	–	–	92.0	–
Time-Limited Investments in Municipal, Social and Affordable Housing	155	153	163.1	160.3
Time-Limited Investments	208	7	0.3	–
Natural Resources and Forestry				
Emergency Forest Firefighting	92	78	96.1	69.8
Tourism, Culture and Sport				
Time-Limited Investments to Support 2015 Pan/ Parapan American Games	332	405	871.2	88.6
Transportation				
Green Investment Fund Initiatives	–	–	20.0	–
Treasury Board Secretariat				
Capital Contingency Fund	–	–	–	100.0
Operating Contingency Fund	–	–	14.6	1,100.0
Employee and Pensioner Benefits	1,275	1,186	1,083.2	1,152.5
Total Other Expense	**5,972**	**5,022**	**5,022.8**	**4,056.8**

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan grow from $1,466 million in 2013–14 to $1,664 million in 2016–17.

Note: Numbers may not add due to rounding.

Teachers' Pension Plan, under Ministry of Education

OPSEU and PSPP pension plans, under TBS Employee and Pensioner Benefits

Cash contributions to Teachers' Pension Plan

Summary of pensions in the 2016 Budget

($ Millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Plan and 2017-18 outlook
	Plan	outlook	outlook	outlook	outlook	Ref# to Budget 2016
Forecast for 2016 Budget *(updated: January 30th, 2016)*						
Teachers' Pension Plan	**-452**	**-820**	**-1,110**	**-1,110**	**-1,110**	pg. 284 -table 3.23
Public Service Pension Plan	524	447	403	403	403	pg. 284 -table 3.23
Public Service Supplementary Plan (PSSP)	23	23	23	23	23	pg. 284 -table 3.23
OPSEU Pension Plan	135	98	89	89	89	pg. 284 -table 3.23
Consolidation Adjustment - Enterprises Pension Expense	-30	-30	-30	-30	-30	pg. 284 -table 3.23
OPS - Other Retirement Benefits	350	361	373	385	414	pg. 284 -table 3.23
Sub-Total OPS Pension & Retirement Benefits Plans	**1,002**	**899**	**858**	**870**	**899**	
Healthcare of Ontario Pension Plan	**631**	**548**	**537**	**537**	**537**	pg. 283 -table 3.22
Colleges of Applied Arts and Technology Pension Plan	**187**	**172**	**166**	**166**	**166**	pg. 283 -table 3.22
Total Pension and Other Employee Future Benefits	**1,368**	**799**	**451**	**463**	**492**	pg. 283 and 284

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Potential impact on Plan, FES and Budget

($ Millions) **2015-16**	**Budget 2015 Plan**	**Actual Expected per PSAB**	**Legislated Accounting Adjustment**	**Actual per Legislated Accounting**
EDU-Teachers' Pension plan Expense	71	110	1,480	1,590
TBS- Employee and Pension Benefit (OPSEUPP)	1,289	987	34	1,021

	Legislated Accounting
Impact on FES/Budget	Fiscal plan will reverse out 15-16 treatment; possible to discuss treatment for 16-17 Public Accounts well in advance of 17-18 budget

Impact of Legislated Accounting on 2015-16 Public Accounts

($ Millions)	Expected Balance per PSAB	Legislated Accounting Adjustment	Balance per Legislated Accounting
Consolidated Statement of Operations			
Education - Expense	25,108	1,480	26,588
General Government and Other - Expense	4,400	34	4,434
Total Expenses	131,892	1,514	133,406
Annual Deficit	(3,515)	(1,514)	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Liabilities	378,042	10,668	388,710
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

Potential Impact of Continued Legislated Accounting in Future Years

Impact on Fiscal Plan if Pension Asset are written off
For Internal Discussion Only

($ millions)	2015-16 Actual	2016-17 Plan	2017-18 outlook	2018-19 outlook	2019-20 outlook
Forecasted as part of 2016 Budget					
Teachers' Pension Plan Expense (Surplus)	110	(452)	(820)	(1,110)	(1,110)
OPSEU Pension Plan Expense	177	135	98	89	89
Healthcare of Ontario Pension Plan (HOOPP)	747	631	548	537	537
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	187	172	166	166
Revised forecast if pension assets are written off					
Teachers' Pension Plan Expense	1,590	1,672	1,738	1,800	1,866
OPSEU Pension Plan Expense	211	229	234	241	248
Healthcare of Ontario Pension Plan (HOOPP)	747	631	1,058	1,120	1,186
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	190	224	242	262	284
Pressure on Fiscal Plan					
Teachers' Pension Plan Expense	1,480	2,124	2,558	2,910	2,976
OPSEU Pension Plan Expense	34	94	136	152	159
Healthcare of Ontario Pension Plan (HOOPP)	-	-	510	583	649
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	-	37	70	96	118
Total pressure on the Fiscal Plan	**1,514**	**2,255**	**3,274**	**3,742**	**3,902**

Note:
Healthcare of Ontario Pension Plan is forecasted to hit the asset position by 2017-18
Colleges of Applied Arts and Technology Pension Plan is forecasted to hit the asset position by 2016-17

2016 Fall Economic Statement: Fiscal Strategy Part II

Draft – September 28, 2016; 6:15 PM

Purpose

To **seek direction on the fiscal outlook and narrative** to include in the 2016 Fall Economic Statement (FES).

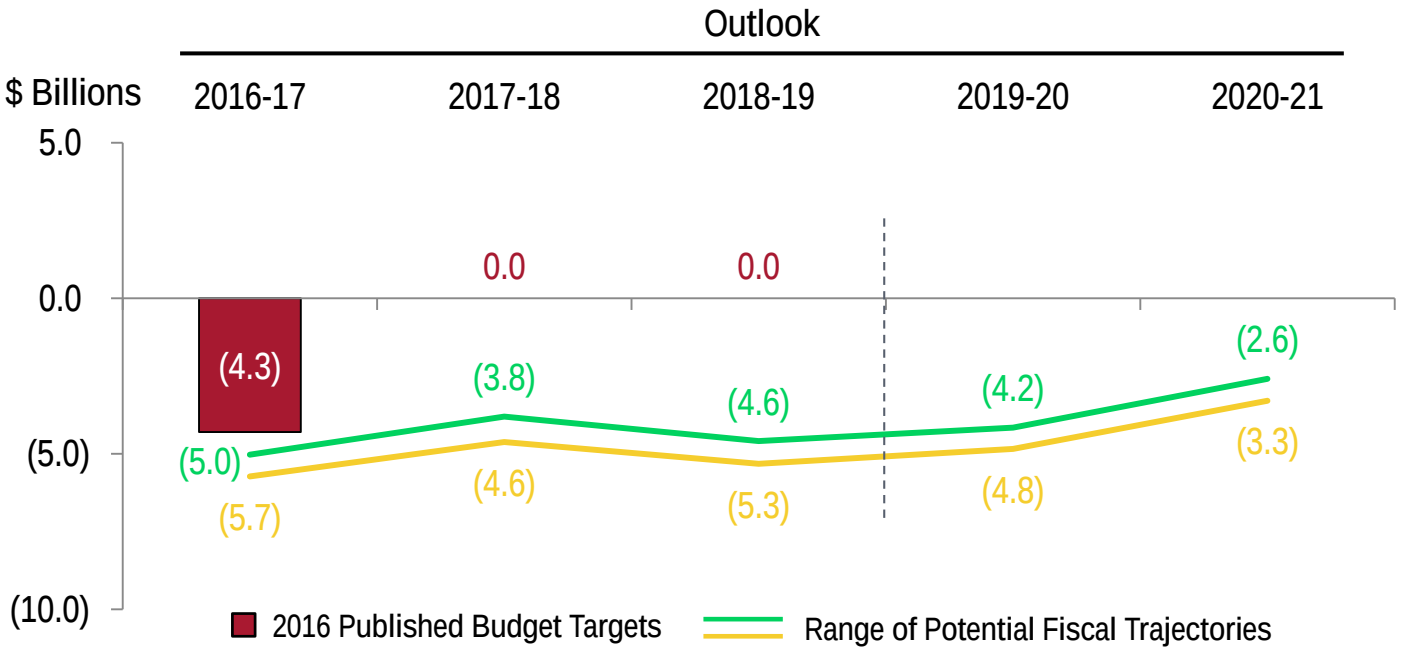
To support that decision, this presentation includes:

1. A reminder of the current fiscal outlook and risks relative to the 2016 Budget plan
2. Principles for a starting point from which to determine the FES fiscal update
3. Potential approaches and key decisions for consideration

Next steps and timelines to finalize the fiscal outlook are also outlined – to support current plan to lock numbers for FES on October 4.

Current Assessment of Fiscal Outlook and Risks

- The current assessment of available revenue and expense information, risks and pressures indicates a potential range of fiscal trajectories, which **generate a gap relative to the 2016 Budget fiscal targets** in each of 2016-17, 2017-18 and 2018-19.

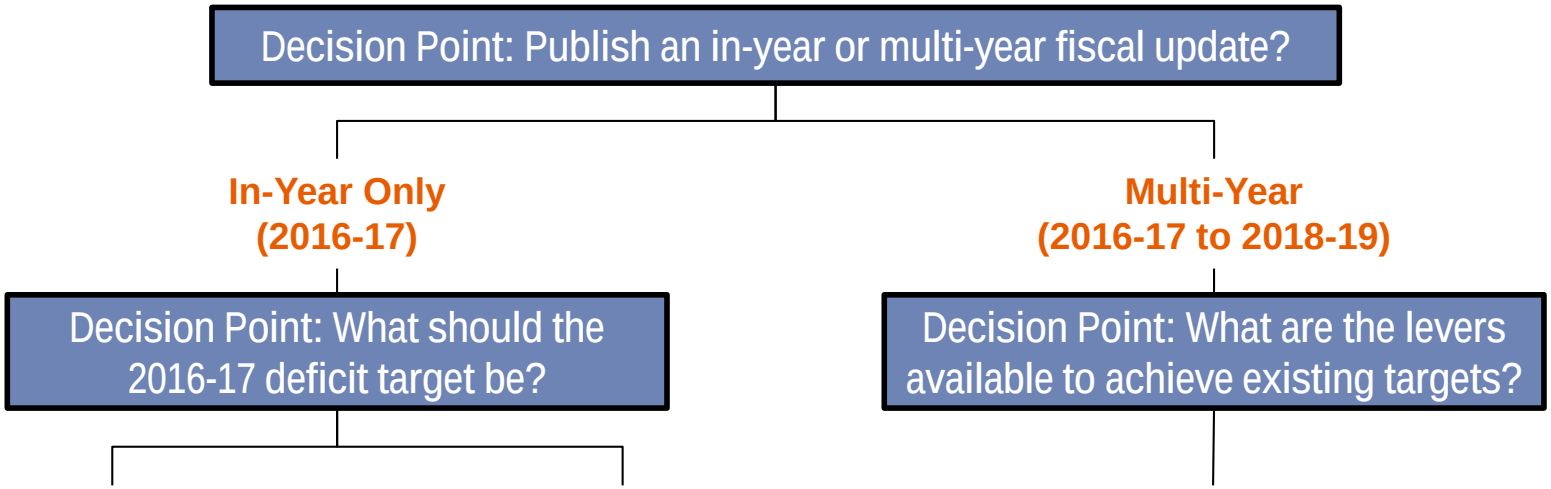


Net Debt-to-GDP	2016-17	2017-18	2018-19	2019-20	2020-21
Potential Range	39.6%	39.5%	39.8%	40.0%	39.7%
	39.7%	39.7%	40.0%	40.3%	40.1%

- **Key decisions will need to be made** to determine the **fiscal outlook for the Fall Economic Statement.**
- The next phase of **fiscal architecture** planning will address the full extent of the risks the government is facing and serve as the foundation for the **2017 Document**.

Key Decision Point: Fiscal Horizon and Content

The government has a number of key decisions to consider for determining the fiscal outlook for the Fall Economic Statement:



- A lower deficit target could smooth out the trajectory to balance.
- However, a lower target leaves limited flexibility in place should in-year savings not be found and the remaining risks and pressures materialize.

- Alternatively, could take a more cautious approach to revenue and expense in order to reflect being on track or a more modest improvement in the deficit target.
- Would provide more flexibility for pressures/ changes that could result from new information.

- Find opportunities for additional revenue?
- Take on additional interest on debt savings?
- Offset a portion of out-year expense approvals from the contingency fund (e.g. Electricity Price Mitigation)?
- Make marginal adjustments to the reserve?

Principles for Determining a FES Starting Point

Since the 2016 Budget, **new information has been received and new spending commitments and approvals have been made** that need to be considered for developing a fiscal update for the FES.

A reasonable starting point for FES fiscal planning is to **take on updated revenue information and reflect government decisions to date** – leaving risks and pressures to be sorted through the PRRT and Document processes.

The following **principles inform a FES starting point** fiscal outlook.

Items to Include	Items Deferred to Document/PRRT
✓ The impact on revenue of stronger economic growth, the latest tax assessment information and new federal agreements. ✓ All TB/MBC expense approvals for 2016-17 that have been minuted, including contingency fund offsets. ✓ The multi-year impact of government decisions with associated legislative changes (Electricity Price Mitigation). ✓ The multi-year expense impact of new federal-provincial agreements. ✓ An updated interest on debt outlook.	× Updates to overall asset optimization strategy. × The out-year impact of in-year TB/MBC expense approvals, as government direction is for funding to be managed or considered through the PRRT and 2017 Document processes (e.g., First Nations Health Action Plan, Autism and School Board Renewal Funding). × First quarter expense risks reported by ministries. × The impact of new policy initiatives that do not have policy or financial approvals and are under consideration, such as Project Momentum – Auto Sector Investments, Child Care Expansion and additional health funding (e.g., Revised Drug Strategy). See Appendix for additional details on expense risks.

Starting Point Fiscal Outlook

The starting point fiscal outlook produces an improvement in the deficit in 2016-17 and a deterioration of the deficits in 2017-18 and 2018-19, relative to the 2016 Budget targets.

2016 Budget Fiscal Plan $ Billions	16-17	17-18	18-19	Change 16-17	Change 17-18	Change 18-19	Starting Point 16-17	Starting Point 17-18	Starting Point 18-19
Revenue	130.6	137.7	141.9	*1.5*	*0.9*	*0.2*	132.1	138.6	142.1
Expense									
Programs	120.9	122.4	124.1	–	–	–	120.9	122.4	124.1
In-Year Approvals	–	–	–	*0.3*	–	–	0.3	–	–
Hospital Pressures Funding	–	–	–	*0.1*	–	–	0.1	–	–
Green Investment Fund	–	–	–	*0.3*	–	–	0.3	–	–
Electricity Price Mitigation	–	–	–	*0.3*	*0.9*	*0.9*	0.3	0.9	0.9
Inv. in Affordable Housing	–	–	–	*0.1*	–	–	0.1	–	–
PSE Strategic Inv. Fund	–	–	–	*0.3*	*0.5*	*0.0*	0.3	0.5	0.0
Clean Water/Wastewater Fund	–	–	–	*0.1*	*0.3*	*0.1*	0.1	0.3	0.1
Contingency Fund	1.2	1.7	3.5	*(0.3)*	–	–	0.9	1.7	3.5
Total Programs	122.1	124.2	127.6	*1.3*	*1.8*	*1.1*	123.4	125.9	128.7
Interest on Debt	11.8	12.5	13.1	*(0.2)*	*(0.4)*	*(0.3)*	11.6	12.1	12.8
Total Expense	133.9	136.6	140.7	*1.1*	*1.4*	*0.8*	135.0	138.0	141.5
Reserve	1.0	1.1	1.2	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	(4.3)	0.0	0.0	*0.4*	*(0.5)*	*(0.6)*	(4.0)	(0.5)	(0.6)
Net Debt-to-GDP (%)*	39.5%	38.8%	38.4%				39.5%	38.9%	38.6%

* Ratios updated for underlying actual results for 2015-16 and revised 2015 Nominal GDP.

Current revenue outlook

Expense changes:

- ✓ In-year approvals (including contingency fund offsets)
- ✓ Hospital pressures funding and Electricity Price Mitigation offset by higher revenue
- ✓ Green Investment Fund – a down payment on cap and trade proceeds
- ✓ Multi-year impact of spending approvals associated with federal agreements
- ✓ Latest IOD forecast

Gap to address for FES

Potential Approach to FES Outlook

2016-17

The government **could report a lower 2016-17 deficit target** – as low as $4.0 billion – compared with the 2016 Budget target of $4.3 billion.

Alternatively, the government could take a more **cautious approach** to revenue and expense in order to reflect only a slight improvement in the deficit target.

The government could minimize IOD savings reported to maintain the 2016-17 deficit target.

Potential Approach to 2016-17 $ Billions	2016-17
Starting Point Surplus/(Deficit)	(4.0)
Reverse Federal Home Care Assumption	(0.2)
Cautious Approach Surplus/(Deficit)	(4.1)
Preserve Some Interest on Debt Savings	(0.1)
Revised Surplus/(Deficit)	(4.3)

2017-18 and 2018-19

The **starting point produces a fiscal gap** of $0.5 billion in 2017-18 and $0.6 billion in 2018-19. Tools will be required to report the government is maintaining its commitment to balance in 2017-18 and 2018-19.

Potential **Tools** include:

1. **Take on more Interest on Debt savings in 2017-18 and 2018-19**: could result in an inconsistent treatment of interest on debt expense over the 2016-17 to 2018-19 period.
2. **Offset some of Electricity Price Mitigation by drawing down the contingency fund in 2017-18**: Contingency Fund could be drawn down by ~$0.3 billion, leaving a total of $1.4 billion in 2017-18 for compensation and all other expense risks.
3. **Increase projected revenue in 2018-19:** Additional revenue could be linked to expectations around new federal revenue. However, as with the 2016 Budget assumption, in the absence of new federal revenue in this form, other tools may need to be considered to meet this target.

2016 Budget to Potential FES Outlook

For 2017-18 and 2018-19, the government could decide to update the fiscal plan at a high level (total revenue and expense), or could provide a more detailed break-down of changes (i.e., components of revenue and expense by sector).

2016 Budget Fiscal Plan $ Billions	16-17	17-18	18-19	Change 16-17	Change 17-18	Change 18-19	Potential FES Outlook 16-17*	Potential FES Outlook 17-18	Potential FES Outlook 18-19
Revenue	130.6	137.7	141.9	*1.3*	*0.9*	*0.5*	131.9	138.6	142.5
Expense									
Programs	120.9	122.4	124.1	–	–	–	120.9	122.4	124.1
In-Year Approvals	–	–	–	*0.3*	–	–	0.3	–	–
Hospital Pressures Funding	–	–	–	*0.1*	–	–	0.1	–	–
Green Investment Fund	–	–	–	*0.3*	–	–	0.3	–	–
Electricity Price Mitigation	–	–	–	*0.3*	*0.9*	*0.9*	0.3	0.9	0.9
Investment in Affordable Housing	–	–	–	*0.1*	–	–	0.1	–	–
PSE Strategic Investment Fund	–	–	–	*0.3*	*0.5*	*0.0*	0.3	0.5	0.0
Clean Water/Wastewater Fund	–	–	–	*0.1*	*0.3*	*0.1*	0.1	0.3	0.1
Contingency Fund	1.2	1.7	3.5	*(0.3)*	*(0.3)*	–	0.9	1.4	3.5
Total Programs	122.1	124.2	127.6	*1.3*	*1.5*	*1.1*	123.4	125.7	128.7
Interest on Debt	11.8	12.5	13.1	*(0.2)*	*(0.6)*	*(0.5)*	11.6	11.8	12.6
Total Expense	133.9	136.6	140.7	*1.1*	*0.9*	*0.5*	135.0	137.5	141.2
Reserve	1.0	1.1	1.2	–	–	–	1.0	1.1	1.2
Surplus/(Deficit)	(4.3)	0.0	0.0	*0.2*	*0.0*	*0.0*	(4.1)	0.0	0.0
Net Debt-to-GDP (%)**	39.5%	38.8%	38.4%				39.5%	38.9%	38.4%

* Assumes the cautious approach for 2016-17.

**Ratios updated for underlying actual results for 2015-16 and revised 2015 Nominal GDP.

Use of tools/levers as part of the FES fiscal strategy could **impact the flexibility the government has to address the broader fiscal gap** as part of PRRT and Document Planning.

Impact and Considerations of Additional Initiatives

In addition to the items included in the starting point, the government could consider reporting (either in narrative or through additional expense) on areas where it has made a public commitment to invest.

Potential FES Outlook with Additional Investments ($ Billions)	2016-17	2017-18	2018-19
Potential FES Outlook Surplus/(Deficit)	(4.1)	0.0	0.0
Additional Program Expense Investments			
Child Care Expansion	0.0	0.0 to tbd	0.0 to tbd
Additional Health Funding (e.g. Revised Drug Strategy)	0.0 to 0.1	-	-
Total Additional Program Expense Investments	0.0 to 0.1	0.0 to tbd	0.0 to tbd
Potential Levers to Manage Additional Investments			
Increase Projected Revenue	-	0.0 to tbd	0.0 to tbd
Contingency Fund Draws	-	-	0.0 to tbd
Total Levers	-	0.0 to tbd	0.0 to tbd
Net Fiscal Impact	0.0 to 0.1	-	-
Potential FES Outlook Surplus/(Deficit) with Additional Initiatives	(4.1) to (4.3)	0.0	0.0

Child Care Considerations:

- FES could provide a narrative on the government's commitment to child care spaces announced in the Speech from the Throne and could show an acceleration of current planned capital investments of $40 million from 2017-18 to 2016-17 as an indication of early action.
- In addition, the FES could provide a narrative update on progress related to:
  - Consultations underway to develop options to provide financial support to the sector;
  - Negotiations with the federal government on childcare and early learning; and
  - Plans to expand child care off-reserve, as per the Action Plan on Truth and Reconciliation.

Reporting any additional investment will require revenue and/or expense levers to close a potential fiscal gap relative to the 2016 Budget targets.

Remaining Risks / Information to Come

- It is important to note that the proposed FES fiscal reporting options only address immediate reporting requirements and **do not take into account all known revenue and expense risks the government is facing or account for potential information updates to come**.
- Instead, these risks, together with potential revenue and expense tools, will need to be addressed as part of the upcoming PRRT and 2017 Document processes.
- Use of tools/levers as part of the FES fiscal strategy could **impact the flexibility the government has to address the broader fiscal gap** as part of PRRT/Document planning.
- Key updates and risks not addressed in the FES fiscal strategy include:
  - **Asset optimization** updates
  - **Variability in the revenue outlook** that will remain until the receipt of key information in December and January
  - **Program expense pressures and potential unfunded initiatives** of up to $2.1 billion in 2016-17, $4.4 billion in 2017-18 and $4.7 billion in 2018-19, related to items such as social assistance forecast pressures and potential rate increases; capital investments; compensation; and funding for service enhancements in the health sector.

Given the government will be reviewing various tools to help close the gap between FES and the 2017 Document, the FES fiscal narrative may need to foreshadow potential actions. For example, this could include statements such as:

"The government is committed to protecting the gains made through prudent fiscal management and the strengthening of Ontario's economy, and will consider other potential tools to ensure Ontario can achieve fiscal sustainability while protecting the programs and services Ontarians rely on in their everyday lives."

Potential FES Fiscal Narrative

- The government continues to implement its plan to **create jobs and grow the economy and remains committed to balance the budget** in 2017-18 and beyond. The government will continue to build Ontario up in a way that helps Ontarians in their everyday lives.
- The Ontario economy is benefiting from steady economic growth in the United States, low oil prices and a more competitive Canadian dollar.
- Revenues benefit from higher 2015 personal income tax results to date than projected in the 2016 Budget and a strong 2015 housing market, which more than offset projected lower federal transfers for Equalization and infrastructure.
- As a result, the government is projecting a deficit of [$x.x billion] in 2016-17, an improvement of [$x.x billion] compared with the target laid out in the 2016 Budget, and continues to project balance in 2017-18 and 2018-19.
- The **government is sharing the benefits of the Province's economic growth** and responsible approach to fiscal management **by moving to make everyday life easier** for Ontarians through new investments such as electricity rate relief to Ontario consumers.
- A collaborative approach to federalism continues to yield results. The government has made **progress with the federal government** and has secured a number of agreements to fund new infrastructure programs. In addition, Ontario continues to work with the federal government to ensure new federal programs build on the Province's ongoing investments in infrastructure, health, and labour market training.
- The government **remains committed to a fiscally responsible approach** to balancing the budget in 2017-18 and beginning to reduce the Province's net debt-to-GDP ratio.

Summary of Key Decisions

Fiscal Horizon and Detail

- Whether to provide an in-year update (2016-17 only) or a full multi-year update.
- Whether to provide a summary fiscal update or details by sector.

Fiscal Reporting Choices

- Whether to maintain 2016-17 deficit target or begin to show slight improvement.
  - If maintain target, what assumptions underpin this target?
- For out-years, how to report the funding of key initiatives such as the electricity mitigation rebate while still showing on track to balance.
- Determine whether to include funding for additional initiatives (e.g. Child Care Expansion and additional health funding such as Revised Drug Strategy) or whether to focus on a narrative approach.

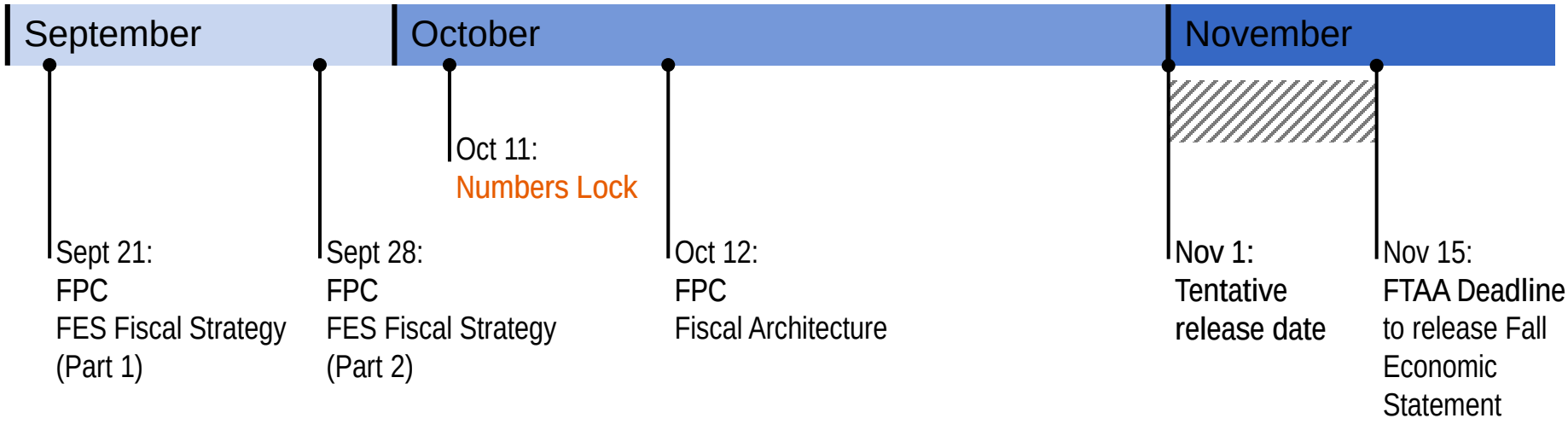
Fiscal Narrative

- Whether to use the FES fiscal narrative to foreshadow tools or other fiscal architecture choices the government may want to take on as part of the 2017 Document.

Next Steps & Timeline

Next Steps

- September 28 FPC: Confirm FES fiscal outlook.
- October 11: To ensure adequate time to complete, review and print the document, **"numbers lock"** needs to occur three weeks before the release date.
- October 12 FPC: Once FES fiscal outlook is finalized, begin initial fiscal architecture discussions for the 2017 Document.



Appendix

Context

- The *Fiscal Transparency and Accountability Act, 2004* (FTAA) stipulates that the Minister of Finance release a **mid-year review** of the Province's fiscal plan by **November 15**.
- Since 2003, the Fall Economic Statement has included a **multi-year update** in all but two years (see appendix for details).
  - In 2008, due to the potential impact of global economic uncertainty, the government used the FES to communicate an immediate update to the in-year fiscal plan only.
  - In 2013, the government published a status quo update to the in-year deficit, but published the 2013 Budget path to balance.
  - In five of the eleven years with multi-year updates, the Fall Economic Statement reported no change to the medium-term fiscal targets.
- In the past, the government has also used the **fiscal narrative to signal risks to the plan and foreshadow potential tools or changes** to the government's fiscal architecture.

Updates to revenue and expense in the 2016 FES fiscal outlook need to be informed by:

- Previous fiscal and economic updates (i.e. 2015-16 Public Accounts, First Quarter Finances and quarterly Economic Accounts)
- Government announcements related to new programs/policy/investments and/or revenue commitments (i.e., public announcements on new investments/initiatives, Speech from the Throne commitments, etc.)
- New federal-provincial agreements (i.e. infrastructure agreements)
- Spending decisions associated with TB/MBC approvals

Analysis of Previous Fall Economic Statements

Published Deficit Comparisons – Budget to FES			
Fiscal year of FES	In-Year	Medium-Term	Notes/Supporting Language
2003-04	Deterioration	Deterioration	
2004-05	Improvement	Status Quo	▪ "The government's deficit targets for the medium term are unchanged, culminating in a balanced budget in 2007-08"
2005-06	Improvement	Status Quo	▪ "Consistent with the medium-term fiscal plan outlined in the 2005 Budget…"
2006-07	Improvement	Deterioration	▪ Plan-year consistent with Q1 finances, deteriorated out-year deficits due to softer economic growth (revenue).
2007-08	Improvement	Deterioration	▪ Instead of small surpluses (as published during the Budget), shifted down to "balance" in out-years in light of the "slower economic growth outlook"
2008-09	Deterioration	N/A	▪ Presented in-year details only. "Given global economic uncertainty, the government's immediate priority is to provide a fiscal update for 2008-09. The government continues to monitor Ontario's economic and fiscal situation closely, and will provide details about Ontario's medium-term fiscal plan and outlook in the 2009 Budget."
2009-10	Deterioration	Deterioration	▪ Significant deterioration due to global economic conditions
2010-11	Improvement	Status Quo	▪ "The Province is on track to meet the [medium-term] fiscal targets established in the 2010 Budget."
2011-12	Improvement	Status Quo	▪ Improvement to the in-year deficit, but status quo for out-years. "Despite forecasts of slower economic growth, the Province is on track to meet the fiscal targets laid out in the 2011 Budget."
2012-13	Improvement	Improvement	
2013-14	Status Quo	N/A	▪ Presented in-year update only. Included 2013 Budget path to balance chart, and did not update medium-term outlook. "Ontario continues to face global economic uncertainty, which is holding back economic growth and therefore the outlook for Provincial revenues. In response, the government will drive further savings through an expenditure review… and consider other tools, as necessary, to ensure the deficit is eliminated by 2017-18."
2014-15	Status Quo	Status Quo	▪ "The government projects deficits of…unchanged from the forecast outlined in the 2014 Budget."
2015-16	Improvement	Improvement	▪ "The government is currently projecting deficits of…This reflects an improvement of…compared with the deficit targets laid out in the 2015 Budget"

Starting Point – Revenue Assumptions

- The **revenue outlook has improved** since the 2016 Budget mainly due to:
  - Higher 2015 personal income tax assessments.
  - A moderate improvement in the economic growth outlook.
- These improvements are partially offset by:
  - A lower Equalization payment outlook starting in 2017-18.
  - Updated information and assumptions on federal infrastructure funding.
- There is an unusually broad range of risk (+/- $3.4B) around the revenue forecast that will persist until late in the fiscal year.
  - Risks are evenly balanced around the current outlook.

Current Revenue Changes Since the 2016 Budget $ Billions	2016-17	2017-18	2018-19
June Economic Outlook & Revenue Information	0.6	0.6	0.6
August Update to PIT/OHP Assessments	0.9	1.0	1.1
Equalization Update	-	(0.6)	(0.9)
Canada Health and Social Transfers	0.0	0.1	0.1
Federal Funding – In-Year Approvals	0.5	0.8	0.1
Reverse Federal Infrastructure Funding Assumption	(0.5)	(1.0)	(1.0)
Total Revenue Changes Since 2016 Budget	1.5	0.9	0.2

Starting Point – Details of Program Expense Changes in 2016-17

($ Millions)	2016-17
MCYS/MOHLTC: First Nations Health Action Plan	40.4
MCYS: Autism Reform	91.3
EDU: School Renewal Funding	37.6
MNRF: Emergency Forest Firefighting	65.0
MAA/MNRF: Chapleau Cree Stage 2B	0.4
MAA: Priority Initiatives for Indigenous Communities	1.8
MCSS: Child Support Payments Exemption	2.7
OMAFRA: Ontario Corn Fed Beef Market Development Strategy	3.1
MEDEI: Business Growth Initiative - Tranche 1	(10.0)
MMAH: National Disaster Mitigation Program (federal flow-through)	0.9
CO: Anti-Racism Directorate – Request for Additional Resource	2.9
CO: International Disaster Relief Program - Ecuador	0.5
CO: Disaster Relief Funding – Fort McMurray Wildfire	0.5
MAA: Transfer of Brant – Burtch Correctional Centre	4.3
MCSS: Provincial Anti Human Trafficking Coordination Office	1.4
MOF: ORPP AC Wind-Up	20.0
MCSCS: Response to Nishnawbe-Aski Police Service Labour Issue	5.6
MOHLTC: Hospital Pressures Funding	140.3
Various: Green Investment Fund	325.0
ENE: Electricity Price Mitigation	300.0
MMAH: Investment in Affordable Housing	139.8
MAESD: Post-Secondary Education Strategic Investment Fund	293.1
MEDEI: Clean Water/Wastewater Fund	85.5
Contingency Fund	(267.6)
Total In-Year Approvals	1,284.5

Total In-Year Approvals of $268 million – no out-year impacts taken on

Total expense approvals associated with federal infrastructure agreements of $518 million

Multi-Year Impact of In-Year Approvals

($ Millions)	2016-17	2017-18	2018-19
MCYS/MOHLTC: First Nations Health Action Plan	40	76	106
MCYS: Autism Reform	91	65	5
EDU: School Renewal Funding	38	44	42
MNRF: Emergency Forest Firefighting	65	-	-
MAA/MNRF: Chapleau Cree Stage 2B	0	0	0
MAA: Priority Initiatives for Indigenous Communities	2	1	1
MCSS: Child Support Payments Exemption	3	15	15
OMAFRA: Ontario Corn Fed Beef Market Development Strategy	3	-	-
MEDEI: Business Growth Initiative - Tranche 1	(10)	-	-
MMAH: National Disaster Mitigation Program (federal flow-through)	1	-	-
CO: Anti-Racism Directorate – Request for Additional Resource	3	-	-
CO: International Disaster Relief Program – Ecuador	1	-	-
CO: Disaster Relief Funding – Fort McMurray Wildfire	1	-	-
MAA: Transfer of Brant – Burtch Correctional Centre	4	-	-
MCSS: Provincial Anti Human Trafficking Coordination Office	1	-	-
MOF: ORPP AC Wind-Up	20	-	-
MCSCS: Response to Nishnawbe-Aski Police Service Labour Issue	6	2	-
MEDEI/MRI: Natural Gas Access Loan Program	-	11	17
MCYS: Child Welfare Reform	-	3	35
EDU: School Boards Principals and Vice-Principals	-	8	14
MOHLTC: Hospitals	140	-	-
Various: Green Investment Fund	325	-	-
ENE: Electricity Price Mitigation	300	940	940
MMAH: Investment in Affordable Housing	140	-	35
MAESD: Post-Secondary Education Strategic Investment Fund	293	488	1
MEDEI: Clean Water/Wastewater Fund	85	342	142
Total In-Year Approvals and Multi-Year Impact	1,552	1,994	1,352

Remaining Risks to be Addressed

$ Billions	2016-17	2017-18	2018-19
2016 Budget Surplus/(Deficit) Targets	(4.3)	0.0	0.0
MMP Bottom of Range Outlook: Changes			
Revenue	1.5	0.9	0.2
Program Expense	3.1	5.9	5.8
Green Investment Fund	–	–	–
Interest on Debt	(0.2)	(0.4)	(0.3)
Total Potential Outlook Changes	(1.4)	(4.6)	(5.3)
Resulting Surplus/(Deficit)	(5.7)	(4.6)	(5.3)
Potential FES Outlook (no additional investments): Changes			
Revenue	(0.2)	–	0.4
Program Expense	(2.1)	(4.4)	(4.7)
Green Investment Fund	0.3	–	–
Interest on Debt	–	(0.3)	(0.3)
Total Potential Outlook Changes	1.6	4.6	5.3
Resulting Surplus/(Deficit)	(4.1)	0.0	0.0

Program expense pressures and potential unfunded initiatives not addressed in the FES fiscal strategy

Details of Remaining Program Expense Risks

Remaining Program Expense Risks $ Millions	2016-17	2017-18	2018-19
Program Expense			
Child Care Expansion	–	232	421
Project Momentum (Auto Sector Investments)	192	210	213
Income Testing – Revision to Drug Strategy	106	170	188
First Nations Health Action Plan	40	76	106
Other Healthcare Initiatives*	–	398	628
Social Assistance Forecast Pressures	226	438	589
Social Assistance Rate Increase	–	70	200
Transition Adults with Special Needs	29	80	120
Action Plan for Reconciliation	25	109	125
Business Growth Initiative – Next Phase	39	84	84
Business Supports Risk	53	125	166
Other Program Expense Risks	1,383	2,379	1,895
Total Remaining Program Expense Risks	2,094	4,372	4,734

All figures are estimates presented to MM+P on September 15, 2016 and are subject to change.

*Includes Community Care, Drug Programs (Utilization), OHIP (Other), Long-Term Care Homes, Assistive Devices Program, and Other Program Pressures.

Office of the Budget
MINISTRY of FINANCE

From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: FOR POLICY REVIEW: Pre-conditioning Speech QA
Date: Monday, November 07, 2016 12:50:32
Attachment 1: QA_Canadian Club_v1.docx

As discussed this morning, the attached are the Minister's QAs for his pre-FES speech. There are some qs on the pension expense side. If there is anything that must be changed, please do let me know.

Thanks,

Garima

From: Sylvain, Matthew (MOF)
Sent: November 4, 2016 6:05 PM
To: Salman, Sadruddin (MOF); Talwar, Garima (MOF); Birks, Ryan (MOF)
Cc: Wilkinson, Stuart (MOF)
Subject: FOR POLICY REVIEW: Pre-conditioning Speech QA

Hi Salman, Garima, Ryan and Stuart:

Please find attached for policy review the QA file for the Minister's pre-conditioning speech Nov. 8.

The content was developed based on direction from MO comms.

Note, the content you should focus on is in yellow highlight; the other content was contained in the Economic Summit QA package and is already policy approved.

Please provide me your edits soonest on Monday.

Thanks,

Matthew Sylvain

Senior Communications Advisor

Strategic Communications

Communications Services Branch

Ontario Ministry of Finance

416-212-2155

Canadian Club
Q&As
November 8, 2016

KEY MESSAGES:

- **We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.**

- **Ontario is well positioned for fiscal sustainability. With a forecast of real GDP of 2.6 per cent in 2016 and 2.5 per cent in 2017, private-sector economists expect the province to continue to be one of Canada's growth leaders.**

- **In his fall fiscal outlook, the Financial Accountability Officer agreed the Province has:**

    - **A strongly growing economy**
    - **Rising tax revenues**
    - **"A broad range of policy options that could improve [its] fiscal position."**

- **The FAO not only projects solid job growth for Ontario but also notes that the measures we are taking to make everyday life easier for Ontarians, like expanding child care spaces and rebating a portion of household electricity bills, will provide additional supports for Ontario families.**

- **Even with the impact of the pension adjustment for the Public Accounts of Ontario for 2015-16, we beat our annual deficit target again, for the seventh year in a row.**

- **Moody's recently reported that "Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."**

- **We will introduce legislation establishing the new Financial Services Regulatory Authority (FSRA) following an expert panel's recommendations to help modernize and strengthen financial service and pension regulations and consumer protections.**

- **Many Ontario businesses are seizing the enormous opportunities in the innovation economy, and we need to see more businesses do this.**

- **The key metrics — GDP, job creation, innovation, foreign investment and the budget — show that Ontario is strong relative to our peers.**

- **We are making college and university more affordable — and we need to work more closely with business to ensure that we teach the right skills— because the biggest barrier to growth in the knowledge economy is not regulatory or capital, it is talent.**

- **We are working with businesses to help them become more innovative while giving workers the training and protections they need.**

FRENCH KEY MESSAGES:

-

FINANCIAL SERVICES REGULATORY AUTHORITY

Q: What is going to happen to the Financial Services Commission of Ontario (FSCO) and its staff now that you are moving forward with establishing the Financial Services Regulatory Authority?

A: We will introduce legislation establishing the new Financial Services Regulatory Authority (FSRA) following an expert panel's recommendations to help modernize and strengthen financial service and pension regulations and consumer protections.

If passed, the legislation would among other things enable FSRA to establish a board of directors and leadership team that would determine how it will deliver on the new mandate and organize its staff.

The government will work with the bargaining agents to ensure that FSCO employees are treated in accordance with the applicable collective agreements during the transition to FRSA.

Q: How many people work at FSCO?

A: FSCO currently has about 500 full time equivalent positions.

Commented [SM(1]: Already CSB approved

Q: Why did the panel recommend that FSRA not hire public servants or have a union?

A: The panel looked at the Ontario Securities Commission as an example of an effective, modern regulator, which is not a unionized employer.

How the panel's recommendations will be implemented requires further analysis.

If passed, the legislation would among other things enable FSRA to establish a board of directors and leadership team that would determine how it will deliver on the new mandate and organize its staff.

The government will work with the bargaining agents to ensure that FSCO employees are treated in accordance with the applicable collective agreements during the transition to FRSA.

Commented [SM(2]: Already CSB approved

Q: What is wrong with FSCO that it needs replacing?

A: We will introduce legislation establishing the new Financial Services Regulatory Authority (FSRA) following an expert panel's recommendations to help modernize and strengthen financial service and pension regulations and consumer protections.

The panel highlighted how FSCO suffers from structural limitations that create challenges in regulating financial services and the pension sector in an era of rapid industry innovation caused by competition and consumer changes (e.g.: sharing economy).

Q: How much will it cost to create FSRA?

A: We will introduce legislation establishing the new Financial Services Regulatory Authority (FSRA) following an expert panel's recommendations to help modernize and strengthen financial service and pension regulations and consumer protections.

If the legislation passes, Ontario would support the multi-year creation of FSRA in many ways, including possibly managing its start-up costs internally to government.

If the implementation goes according to plan, FSRA would be set up as a corporation that is operationally independent from the government and that recovers its own operating costs through appropriate levies and fees paid by the regulated sectors.

This model is similar to other regulators such as the Ontario Securities Commission.

Q: Who will pay for FSRA's salaries—the taxpayer or industry?

A: The government agrees with the expert advisory panel's vision for a modern, efficient and strong financial services and pensions regulator to serve Ontarians.

The panel recommended the new regulator recover its operating costs through appropriate levies and fees paid by the regulated sectors, the same method used by the Financial Services Commission of Ontario and other regulators such as the Ontario Securities Commission.

Commented [SM(3]: Already CSB approved

FINANCIAL ACCOUNTABILITY OFFICER FALL OUTLOOK

Q: The Financial Accountability Officer says the Province can't balance any time soon. How do you response to that assertion?

A: We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

Ontario is well positioned for fiscal sustainability. With a forecast of real GDP of 2.6 per cent in 2016 and 2.4 per cent in 2017, private-sector economists expect the province to continue to be one of Canada's fastest growing provinces.

In his fall fiscal outlook, the FAO agreed the Province has:

- A strongly growing economy
- Rising tax revenues
- "A broad range of policy options that could improve [its] fiscal position."

The FAO not only projects solid job growth for Ontario but also notes that the measures we are taking to make everyday life easier for Ontarians, like expanding child care spaces and rebating a portion of household electricity bills will provide additional supports for Ontario families.

Even with the impact of the pension adjustment for the Public Accounts of Ontario for 2015-16, we beat our annual deficit target again, for the seventh year in a row.

The efforts we've taken to stimulate growth and control our spending are working.

Moody's recently reported that "Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."

Q: Does Ontario need to raise taxes or cut programs and services to balance the budget, like the FAO asserted?

A: We are committed to balancing the budget in 2017-18 and remain balanced in 2018-19.

Ontario is well positioned for fiscal sustainability. With a forecast of real GDP of 2.6 per cent in 2016 and 2.4 per cent in 2017, private-sector economists expect the province to continue to be one of Canada's fastest growing provinces.

In his fall fiscal outlook, the FAO agreed the Province has:

- A strongly growing economy
- Rising tax revenues
- "A broad range of policy options that could improve [its] fiscal position."

The FAO not only projects solid job growth for Ontario but also notes that the measures we are taking to make everyday life easier for Ontarians, like expanding child care spaces and rebating a portion of household electricity bills, will provide additional supports for Ontario families.

We're going to take every step necessary to continue support services and programs; in fact in Budget 2016 we increased funding for health care and education.

We're going to continue to control our spending, transforming where necessary to find savings and maximizing the value of provincial assets.

Moody's recently reported that "Ontario's debt burden and debt service costs will remain manageable thanks to low interest rates, as well as the province's improving fiscal position and conservative debt management policy."

The government will continue to monitor economic and fiscal developments and will provide an update on the Province's economic outlook and fiscal plan in the upcoming Ontario Economic Outlook and Fiscal Review.

Q: Does the Pension Adjustment mean Ontario has a problem accounting for public sector pensions?

A: Not at all.

To be on the safe side, and to help inform the future accounting treatment of pension plans, the Province is establishing an advisory panel to review the matter.

Its recommendations will inform the 2017 Budget.

ECONOMY-RELATED

Q. What are you doing to accelerate Ontario's soft economic growth?

A. Ontario is experiencing steady growth despite the challenging global climate, thanks to our work putting in place the conditions that allow businesses to thrive. Exports are trending higher, businesses are hiring more workers, productivity has improved and household incomes are rising.

Ontario became one of the fastest-growing provinces in 2014 and 2015, and private-sector economists expect that this will continue until at least 2017.

Q. Bombardier is cutting 7,500 jobs. What is Ontario doing to prevent more manufacturers and big companies from shutting their doors?

A. We have taken a number of steps to help large businesses grow and create jobs, including attracting new investments for jobs in technology, engineering, software development and research.

And we are working to accelerate Ontario's transition to a 21st-century, innovation-driven economy that thrives on the initiative, creativity, education and skills of its people. This includes making significant investments in innovation and R&D, including the commercialization and adoption of new disruptive technologies.

Q. What is your government doing to reduce taxes in Ontario?

A. We are taking a balanced approach to ensure that the support we provide to Ontario businesses contributes to economic growth and job creation, and promotes investment in key industries. Our investments are spurring economic growth while maintaining, and even improving, the delivery of key programs and services Ontarians rely on.

We are committed to lowering the costs of doing business by maintaining a competitive tax environment. Our recent business tax reforms encourage investment and job creation, and position Ontario as one of the most attractive places in the industrialized world for new business investment.

These reforms consist of:

- Sales tax harmonization and corporate tax cuts totaling about $9.6 billion per year
- The HST will remove $4.8 billion a year in embedded sales taxes paid by businesses,

- Cuts to Corporate Income Tax (CIT) rates for businesses are providing $2.5 billion of tax relief per year
- The elimination of the Capital Tax, providing $2.3 billion of tax relief per year.

Q. What are you doing to curb the high price of houses in the GTA? Will Ontario impose a 15 per cent foreign buyer tax on houses in Toronto like the one in Vancouver?

A. Ontario's housing market remains an important source of economic growth and employment in the province.

The government understands the importance of concerns related to housing affordability and ensuring a stable housing market. We remain open to options that would improve housing affordability and make everyday life easier for the people of our province.

We will continue monitoring the housing market in both Ontario and B.C. over the course of the next few months to see the impacts of the recent decision by the government of B.C.

Q. What does the Comprehensive Economic and Trade Agreement (CETA) that Canada and the EU have just signed mean for Ontario?

A. CETA will improve access to the European market for Canadian goods and services, which will boost Ontario's exports.

Ontario goods and service continue to be in demand internationally in sectors such as agri-food, resources, high-value manufactured products and environmental, business, financial and infrastructure services.

And we are working with the federal government to negotiate and implement important new trade agreements, while addressing the sensitivities of key Ontario sectors, such as agriculture and auto. These new agreements will ensure that Ontario has access to global markets in an increasingly competitive environment.

Q. How is the new CPP deal any better for Ontario businesses than the previous ORPP plan?

A. Enhancing the CPP was always our preferred approach to strengthening the retirement income system. The CPP agreement will be better for businesses in a number of ways:

- It will be universal, covering most Canadian workers and supporting a modern and mobile labour force
- Existing CPP administrative mechanisms will be used to implement it, minimizing the additional administrative burden for employers

- It will provide employers with a cost-effective way to enhance their employees' retirement savings and security
- Contributions will be phased in, giving employers more time to adjust.

Q. Why does Ontario have so little to show for its $400-million investment in the Business Growth Initiative (BGI)?

A. Having a more innovative and dynamic business environment is essential to growing Ontario's economy. The BGI focuses on areas that will best help businesses grow — competing in international markets, innovation and removing regulatory barriers.

Our recent accomplishments through the BGI include launching the Red Tape Challenge and investing $35 million through the Ontario Research Fund to help foster innovation and R&D.

Q. What is your government doing to support innovation?

A. We are working to accelerate Ontario's transition to a 21st century, innovation-driven economy that thrives on the initiative, creativity, education and skills of its people. This will include:

- Launching the Ontario Investment Office this fall, providing a single window for investors, an approach that helped attract a major investment from GE that will create 220 jobs in Welland
- Continuing to work with sharing-economy platforms such as Uber and Airbnb so they can operate with the same benefits and obligations as other businesses in Ontario
- Continuing the Red Tape Challenge, asking the public, businesses and stakeholders to submit their ideas on how to reduce regulatory burdens on business
- Strengthening economic ties, creating new partnerships and encouraging investments in Ontario through business missions to Japan and South Korea this fall.

Q. Are your government's partnerships with businesses really doing anything to make Ontario's economy more innovative?

A. Our partnerships through the Jobs and Prosperity Fund (JPF) are making a tangible difference in strengthening Ontario as an innovation hub. Recent examples of how we are helping companies invest in new technologies to boost their competitiveness include:

- GE's industrial engines plant: In August, GE broke ground on its Brilliant Factory in Welland, which will be one of the most advanced GE facilities in the world. We helped secure the project by providing single-window project

coordination services, as well as a conditional grant of $26.55 million through the JPF, which will support an overall investment of almost $240 million.

- IBM Innovation Incubator (I^3) Project: This will help small and mid-sized enterprises (SMEs) become more innovative by giving them access to the enormous resources of a technology leader. Up to 500 SMEs will be able to leverage IBM's advanced technical resources to develop innovative products and services. The project is supported by a JPF grant of up to $22.75 million, which is expected to leverage over $410 million in private-sector investment.

- JLABS: Johnson & Johnson chose Toronto for its first JLABS incubator outside the U.S. The incubator will give up to 50 promising young life sciences and health sector businesses access to leading-edge labs and equipment, as well as scientific, industry and capital funding experts. We are supporting the project through a JPF grant of $19.4 million.

Q. Do companies invest in Ontario <u>only</u> because they receive direct government funding?

A. The vast majority of investment projects go ahead without any government financial support. Companies are attracted by Ontario's highly skilled workforce and dynamic business climate.

Recent investments made without Ontario government support include:

- Thomson Reuters will open a Toronto Technology Centre that is expected to create 400 high-quality tech jobs in Canada over the next two years, with plans to grow to about 1,500 jobs over time.

- Google opened its new Canadian headquarters in Kitchener with more than 350 engineers.

- Slack, a San Francisco-based tech company, announced it will open a new sales and customer support office in Toronto that will create 145 jobs.

Q. What are you doing to encourage growth given that the Bank of Canada plans to maintain its central inflation target at 2 per cent for the next five years?

A. This decision will support economic growth in Ontario by keeping inflation and interest rates low and relatively steady.

Our economic plan builds on this by focusing on initiatives with long-term impacts:

- Helping more people get and create jobs

- Making the largest infrastructure investment in Ontario's history
- Investing in a low-carbon economy
- Helping working Ontarians achieve a more secure retirement.

Q. What impact will the U.S. election have on Ontario's economy?

A. We are following the U.S. election very closely from the perspective of trade. We hope that whoever is elected recognizes the value of working closely with their Ontario neighbour to develop and grow our trading relationships.

Ontario goods and service continue to be in demand internationally in sectors such as agri-food, resources, high-value manufactured products, and environmental, business, financial and infrastructure services.

I see tremendous opportunities for our governments to continue to work together and develop these economic opportunities to capitalize on the strengths of Ontario businesses and ensure continued access to an increasingly competitive marketplace.

ONTARIO'S WORKFORCE

Q. What are you doing to give Ontario a competitive advantage over other places that also have a highly skilled workforce?

A. Our Highly Skilled Workforce Strategy will prepare Ontario's workforce for today's and tomorrow's jobs by:

- Providing better labour market information to help learners, job seekers and employers make informed decisions, and support better policy
- Increasing experiential learning across our education and training system, including for adult learners
- Better informing students of all the career pathways available, including less traditional options like apprenticeship and entrepreneurship
- Investing more in developing human capital, including more employer participation in training
- Developing people's skills, including technical skills for growth industries and 21st century competencies such as teamwork, critical thinking and entrepreneurship.

JAPAN AND KOREA MISSION

Q. What do you hope to accomplish in your mission later this month to Japan and Korea?

A. Ontario's competitive business environment, talented workforce and leadership in developing innovative technologies make us a natural partner for businesses in

Japan and Korea. And to remain competitive in today's global market, Ontario must increase trade in existing markets and look for new ones.

I am leading a business mission to Japan and Korea to sign new business agreements, strengthen trade and economic partnerships, create new partnerships and encourage investment in Ontario. I will be the first Ontario Premier to visit Korea in 30 years, and the first to visit Japan in a decade.

Japan is a valuable trade partner for Ontario — it is the world's third-largest economy and our fifth-largest trading partner.

Korea has the fourth-largest economy in Asi and is an important trade partner. And the Canada–Korea Free Trade Agreement supports our mutual goal of increasing trade and providing new opportunities for exporters in both regions.

Q. Why are you going on so many international missions? Do they really achieve any tangible results?

A. Trade is essential for Ontario's growth and competitiveness. Jurisdictions around the world are aggressively promoting their economies on the world business stage, and Ontario needs to do the same to remain competitive. The missions I lead support opportunities for businesses to connect with foreign buyers, expand the reach of Ontario's exports and promote Ontario-made innovative goods and services.

My mission to Japan and Korea will be my tenth since I became Premier. These missions are leading to positive results. For example, my two missions to China have generated an estimated $3.8 billion in agreements, as well as the potential to create more than 3,500 jobs.

<u>WINE IN GROCERY STORES</u>

Q. Cancer Care Ontario has warned that making it easier to buy alcohol could increase consumption, which could increase cancer rates. Why are you making alcohol more available?

A. Ontario has one of the strongest alcohol control systems in Canada — and we will maintain this system. We remain committed to promoting moderate and responsible alcohol consumption.
We are expanding access responsibly by allowing a limited number of grocers to offer beer, cider and wine. Grocers must purchase from the LCBO and sell at the same price as at the LCBO and manufacturers' stores, while adhering to the policies and regulations regarding alcohol sales.

Ontario is also developing a comprehensive Alcohol Policy to support the safe and responsible sale and consumption of alcohol.

HYDRO RATES

Q. Critics say that the Ontario-Quebec hydro agreement won't save Ontario money. Will this agreement make any difference to hydro bills?

A. Last month, we reached an agreement in principle with Québec for trading energy, capacity and storage, creates opportunities for both provinces to more effectively use each other's energy resources .

Being able to store energy in Québec's reservoirs will allow Ontario to access lower-cost energy supply during hours of peak electricity demand while reducing the surplus baseload power generation.

We expect this agreement will reduce Ontario's electricity system costs by about $70 million over its course, and reduce GHG emissions from the electricity sector by about 1 million tonnes per year.

Q. Many people across Ontario are having trouble paying their hydro bills, and some companies are leaving the province due to fast-increasing hydro rates. What are you doing to lower hydro rates?

A. We are taking steps to ensure a clean, modern and reliable energy system for all Ontarians. We know that these changes have come at a cost to Ontario's residential and business consumers. That is why we are taking a series of steps to provide relief on hydro rates:

- An eight per cent rebate for consumers eligible for the Regulated Price Plan, starting January 1, 2017. It will benefit about 5 million families, farms and small businesses.. Savings for a typical residential consumer will be about $130 annually
- Additional relief for about 330,000 eligible rural customers. Together with the 8% rebate, eligible customers will receive an average savings of $540 per year
- A proposal to expand the Industrial Conservation Initiative (ICI) program by loweringthe threshold for electricity use to open it up to more than 1,000 newly eligible customers. We would also remove sector restrictions to allow smaller institutional and commercial businesses to participate.
- A proposal to recycle proceeds from cap and trade to offset the program's impact on industrial and commercial electricity consumers and keep rates affordable.

TRANSIT

Q. The PRESTO card rollout in Toronto is running into a lot of problems, such as malfunctioning card readers. What are you doing to ensure that Metrolinx fixes these problems?

A. Rolling out PRESTO across Canada's largest transit system is a big and complex project. It is being done in phases, because it would not be possible to roll it out across the TTC all at once. Metrolinx is on target to have PRESTO on all buses, streetcars, stations and Wheel-Trans vehicles by the end of 2016.

I know it can be confusing for transit riders when some vehicles and station entrances now accept PRESTO cards while others haven't been converted yet. Metrolinx is advising customers to carry a variety of payment options during the rollout so they will be able to pay their fares as they move from vehicle to vehicle.

Metrolinx is working closely with the TTC to ensure that all PRESTO card readers are working properly. Metrolinx is using central monitoring tools that monitor the devices on every TTC vehicle so they know if a card reader is offline. When this occurs, Metrolinx sends an alert to the TTC's operations group so their first-line maintenance staff can investigate and triage accordingly.

PRESTO is now available on 11 transit agencies in the GTHA and Ottawa. There are now almost 5 million taps per week across the entire system. And it is very reliable. When the rollout is complete across the TTC, I am confident that PRESTO will be a reliable way for TTC customers to pay their fares as well.

Q. If Hamilton decides not to build an LRT, will you allocate the money the province has committed to this project to other communities?

A. We respect the importance of municipal decision making to support our transit investments. Our government is committed to moving forward with a rapid transit plan that makes sense for the people of Hamilton and the entire GTHA.

If Hamilton decides not to build an LRT, funds that would have been provided to the project will be returned to the Moving Ontario Forward Fund.

<u>LONG-TERM CARE</u>

Q. What are you doing to reassure residents of long-term care (LTC) homes that they are safe after the deaths of several people in their care?

A. This is an extremely distressing situation. My thoughts and prayers are with the families and community affected by this tragedy.

The police have made clear that there's no threat to the safety of residents of LTC homes. And our government is committed to their safety, which is overseen

through the regulatory framework and inspection system.

All registered health care professionals who work in LTC homes are subject to the regulatory requirements of their professional colleges. And all regulated health professionals who work in Ontario must hold a valid certificate of registration from a health regulatory college in order to practice the profession and present themselves as members of that profession in Ontario.

Since 2011, a criminal reference check has been required before a licensee hires a staff member or accepts a volunteer over the age of 18 into an LTC home. This includes a vulnerable-sector screen — in which police screen those hired to provide care for vulnerable people such as the elderly.

Individuals who were required to submit a criminal reference check to the licensee must also provide a signed declaration disclosing any charges or orders that have been made after the date the check was done. And declarations must be provided promptly after a charge has been disposed of.

EDUCATION

Q. Does the decline in students' math scores threaten to erode Ontario's competitive advantage in having a highly educated workforce?

A. We know there is more work to do to improve math scores. That is why we are investing $60 million in our Renewed Math Strategy, which focuses on improving student achievement in math while supporting student well-being by providing:

- 60 minutes of 'protected' math every day for elementary students
- Improved access to online math resources such as Homework Help or SOS Devoirs
- Math lead teachers in every elementary school
- Professional learning for educators and school leaders
- Better supports to students outside of the school day, such as tutoring and summer "reach ahead" opportunities
- Increased focus on students with learning disabilities and students taking compulsory courses in Applied Mathematics in secondary schools
- Intensive support to a select group of schools with the greatest needs in mathematics.

Our approach to improving math scores builds on the same measured yet ambitious approach that we took to improving literacy rates. As a result, literacy rates are up.

We are confident that with the right plan in place for math, and with all educators motivated around this new strategy, we will see student achievement in math grow in the coming years.

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Fact check - PAEAP report Q&A - Tuesday EOD
Date: Tuesday, February 07, 2017 09:23:07

From: Patel, Lesley (MOF)
Sent: February 7, 2017 7:52 AM
To: Birks, Ryan (MOF); Wynberg, Lynsey (OFA); Killoch, Alex (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: Re: Fact check - PAEAP report Q&A - Tuesday EOD
Importance: High

Hi all - there's a story out. See below.

Could those areas that have still not provided edits to QA please provide as soon as possible given these new circumstances.

Thanks,

Lesley

Auditor's battle of the books may prove costly

- **Star Touch**
- **Tue Feb 7 2017**

· **Section:** NEWS

· **Byline:** Martin Regg Cohn

· **Source:** Star Touch

There are political overtones and economic consequences. Billions of dollars are at stake. Reputations, too.

Billions of dollars are at stake in a simmering dispute pitting**Ontario**'s auditor general against the provincial government. With the spring budget looming, neither side is backing down.

Now, an outside panel of top accounting and pension experts has determined that auditor general Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets, according to multiple sources.

But the auditor tells me she won't climb down, setting the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone.

The independent pension asset expert panel met her Friday to reveal their findings - explaining why they concluded the pension surplus is a legitimate asset on the government's books. Their report will be made public later this month, giving Lysyk more breathing room to reconsider her position before the budget deadline.

The government - and all Ontarians - may pay a price for this seemingly arcane accounting dispute if the auditor'scontroversial stance constrains its fiscal margin of manoeuvre, notably Liberal plans to reallocate funds for**hydro** relief or other spending. Fearing another creditdowngrade from outside rating agencies, or an electoraldowngrade from the official opposition, Premier Kathleen**Wynne** has turned a balanced budget into an article of faith.

But **Wynne** never accounted for an accounting dispute, which made her deficit elimination goal more complicated.

Lysyk announced last year that she was overturning the rules that allowed governments to book billions of dollars in surpluses for jointly-run pensions deemed provincial assets. First implemented under a PC government, and carried over by the Liberals, the traditional auditor's approach enhanced**Ontario**'s fiscal picture.

Now Lysyk has changed her mind. Yet she seems to be having it both ways.

On the one hand, the auditor says (naturally) that any deficits in joint pension funds must be counted as government liabilities. That's standard practice.

But with a pension surplus, Lysyk now says not a penny can be counted as an asset.

Neither a liability nor a surplus, these billions of dollars are being treated as trans-assets, transmogrified by the auditor into phantom money - a virtual disappearing act.

It's tempting to cast this as a political dispute between Liberal partisans and a politicized auditor. But that would be a misreading of the battle lines.

The most vociferous opposition to Lysyk's position comes from the civil servants who count up the money in the provincial treasury. The auditor, in turn, is as mistrustful of the public servants as she is of their political masters.

Lysyk challenged the controller in the government's treasury board - senior civil servant Cindy Veinot - to provide her with additional evidence that the pension money should continue to be treated as an accounting surplus. But when outside accounting consultant Deloitte LLP corroborated that position, the auditor balked. According to multiple sources, Lysyk dismissed the Deloitte submission as being biased - claiming a conflict of interest because Veinot had previously been a partner at Deloitte, and because the firm was paid a fee.

Lysyk acknowledged such fees are standard practice.

But she would not comment on whether Deloitte was biased because a former partner was now a public servant.

Deadlocked, the government announced an independent panel on Public Service Accounting Standards, headed by a former chair of the Canadian Actuarial Standards Oversight Council. The expert panel reached its own conclusions:

Like a deficit, a surplus belongs to employers provided theycomply with basic rules. Jointly-held pensions aren't that much more complicated - as with a joint bank account or jointly held GIC, both parties hold a proportionate share of the asset.

Lysyk wouldn't discuss Friday's meeting with the independent panel of experts, or its findings to date. Asked about the panel's credentials, she countered, "we did our homework, and we did a lot of work."

The auditor told me her mind is made up, and nothing she has heard so far has changed her view. Which leaves her on a limb, and the government in the lurch.

If both sides harden their positions, the auditor may refuse to fully endorse the treasury's public accounts, and the government may opt to go its own way - providing detailed explanations to credit rating agencies to disprove the auditor's stance.

There are political overtones to this dispute, and economic consequences. The opposition will side with the godly auditor against a big bad Liberal government. But the financial and accounting community will make up its own mind when they look at the

books, and the detailed explanations.

Billions of dollars are at stake, to be sure. Reputations, too.

Martin Regg Cohn's column appears Tuesday, Thursday and Saturday.

· **Length:** 794 words

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Birks, Ryan (MOF)

Sent: Monday, February 6, 2017 1:31 PM

To: Patel, Lesley (MOF); Wynberg, Lynsey (OFA)

Cc: Tarin, Ghufran (MOF); Buckland Foster, Jamie (MOF)

Subject: RE: Fact check - PAEAP report Q&A - Tuesday EOD

Hi Lesley,

OB will be reviewing the relevant Qs & As.

Lynsey, will you area be reviewing Q4?

Thanks,

Mina *for Ryan*

From: Tarin, Ghufran (MOF)
Sent: February-06-17 1:29 PM
To: Patel, Lesley (MOF); Birks, Ryan (MOF); Wynberg, Lynsey (OFA); Buckland Foster, Jamie (MOF)

Subject: RE: Fact check - PAEAP report Q&A - Tuesday EOD

Hi Lesley,

There is nothing for us (OEP) in here.

Thanks,

Ghufran

From: Patel, Lesley (MOF)
Sent: February-06-17 1:08 PM
To: Birks, Ryan (MOF); Wynberg, Lynsey (OFA); Buckland Foster, Jamie (MOF); Tarin, Ghufran (MOF)
Subject: Fact check - PAEAP report Q&A - Tuesday EOD
Importance: High

Hi all,

Please find attached a draft Q&A from TBS on the release of the Pension Asset Expert Advisory Panel's Report for review. I've looped in a few policy areas to make sure we are covered off but could you please let me know if your area will be reviewing.

Please also track your changes in the attached document to return to me by EOD Tuesday.

This TBS announcement is still up in the air but as of this moment, we are still tracking for February 13. I will share with you as I get information about what the details will look like.

If you have any questions, please let me know.

Thanks,

Lesley Patel
Senior Communications Advisor
Strategic Communications
Communications Services Branch
Ontario Ministry of Finance
lesley.patel@ontario.ca

416-212-1439

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: FW: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx
Date: Thursday, September 15, 2016 08:42:08
Attachment 1: image001.png

Pension policy?

From: Orencsak, Greg (TBS)
Sent: Thursday, September 15, 2016 8:09 AM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF); Petsche, Nadine (TBS)
Cc: Thompson, Scott (MOF); Hughes, Karen (TBS); MacIntyre, Kyle (TBS)
Subject: Fwd: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

See below, for your advice and consideration. I think this may be as much of a pension policy as an accounting issue.

Greg

Begin forwarded message:

> **From:** "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>
> **Date:** September 15, 2016 at 8:05:57 AM EDT
> **To:** "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Davidson, Steven (CAB)" <Steven.Davidson@ontario.ca>, "Betzner, Lynn (CAB)" <Lynn.Betzner@ontario.ca>
> **Cc:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>
> **Subject: RE: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx**
>
> Among the options to look at, can you see if there is a rationale could justify freezing any additional incremental pension assets under the regulation pending a full review? It is one thing to prevent the reporting of new assets compared to reversing what has been accumulated. Also, what if we were to match the reported surplus TPP is filing with FSCO. It could maintain at least a $13B surplus.
>
> **From:** Orencsak, Greg (TBS)
> **Sent:** September-14-16 7:47 PM
> **To:** Orsini, Steve (CAB); Thompson, Scott (MOF); Davidson, Steven (CAB);

Betzner, Lynn (CAB)
Cc: MacIntyre, Kyle (TBS); Bromm, William (CAB)
Subject: FW: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Steve, here is a table that shows the estimate of the annual impact of not having pension assets on our books from any of the JSPPs. This is based on the pension expense numbers from the 2016 Budget. We are having this checked with our actuaries as well to confirm.

Accepting the AG's interpretation could add over $3.2B to the deficit in 17-18, and $3.9B in 19-20.

On another note, Scott and I are meeting with the AG again tomorrow to put all the issues, other than pensions, to bed with regard to the Public Accounts audit. If that's done, we will just be fighting a battle on one front. A big one.

Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

Title: TBS logo

The contents of this email may be confidential and/or commercially sensitive. If received in error or you are not the intended recipient, please notify sender and delete any copies immediately.

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: Wednesday, September 14, 2016 at 5:52 PM
To: "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>
Cc: "Chen, Raymond (TBS)" <Raymond.Chen@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Coulter, Travis (TBS)" <Travis.Coulter@ontario.ca>
Subject: Fw: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>

Sent: Wednesday, September 14, 2016 17:40

To: Veinot, Cindy (TBS)

Cc: Patel, Bharat (TBS)

Subject: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Revised for minor wording edits. I will print the copies.

Pauline

TBS

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: FW: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx
Date: Thursday, September 15, 2016 08:56:04

---

fyi

From: Killoch, Alex (MOF)
Sent: Thursday, September 15, 2016 8:55 AM
To: Orencsak, Greg (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Thompson, Scott (MOF); Hughes, Karen (TBS); MacIntyre, Kyle (TBS); Talwar, Garima (MOF) (Garima.Talwar@ontario.ca)
Subject: RE: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Good morning

I will leave the question of whether we could use the funding valuation to establish an accounting asset to OPCD to consider.

I will note that there is not a $13.2 billion surplus in the plan. That was a preliminary number only.

$13.2 billion preliminary funding valuation was as of January 1, 2016. The partners decided to use $8.6 billion of this amount to restore inflation protection.

The $8.6 billion cost of moving to 90% conditional inflation protection is made up primarily of two parts:

1. Approximately $4.3 billion increase in future payments to members, to provide inflation protection at 90% instead of 70%

2. Approximately $4.3 billion reduction in future “share the pain” payments by the Province to the Plan

That would leave $4.6 billion in the plan for contingencies. That would be split 50/50 with the OTF, so the value that could be attributed to government is $2.3 billion.

Hope that helps

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

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Sent: Thursday, September 15, 2016 8:09 AM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF); Petsche, Nadine (TBS)
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Cc: MacIntyre, Kyle (TBS); Bromm, William (CAB)
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Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

Title: TBS logo

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Cc: "Chen, Raymond (TBS)" <Raymond.Chen@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Coulter, Travis (TBS)" <Travis.Coulter@ontario.ca>
Subject: Fw: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

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Sent: Wednesday, September 14, 2016 17:40

To: Veinot, Cindy (TBS)

Cc: Patel, Bharat (TBS)

Subject: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Revised for minor wording edits. I will print the copies.

Pauline

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Funding Discount Rate comparisons
Date: Monday, November 07, 2016 12:30:20

Have you received this message from Nadine? This is a draft to Pauline….

From: Fong, Pauline (TBS)
Sent: November 7, 2016 11:26 AM
To: Pomykacz, Rob (MOF)
Subject: FW: Funding Discount Rate comparisons

From: Petsche, Nadine (TBS)
Sent: November-05-16 8:33 AM
To: Fong, Pauline (TBS)
Subject: Funding Discount Rate comparisons

(Pauline – Looking for your advice w.r.t. who would actually do a rate comparison of funding rates. I assume it would be Alex's team, but don't want to suggest that they do the work if that assumption would be incorrect. Please advise. Thx. N)

Alex,

As discussed yesterday, there is a new request to compare the OTPP funding discount rates with rates used by other plans. While we had done analysis on the rate used by OTPP for f/s purposes, and the Province's discount rate used for f/s purposes, I am not aware that the funding rate comparison has been done.

In terms of timing, it would be ideal to have the analysis available for the Panel's information purposes. Do you think it would be possible to have it done for mid-November?

Thanks in advance.

Nadine

From: Tsang, Ingrid (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Funding Valuation Discount Rates
Date: Monday, November 14, 2016 11:43:52
Attachment 1: image001.jpg

Rob, FYI. we would not have kind of information. Not sure if they are public but someone has to go through extensive research to find them even if they are.

Ingrid

From: Keates, James (TBS)
Sent: November 14, 2016 10:40 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)
Subject: Funding Valuation Discount Rates

Alex, could you help us with completing the below table. We would like to compare the most recent discount rates used by certain pension plans across the country, comparing the discount rate for financial statement purposes with the discount rate used for funding valuation purposes. Would you be able to provide the most recent discount rates used for funding valuation purposes for the following pension plans?

Thanks,

Jim

Pension Plan

Discount rate for Funding Purposes

Discount rate for financial statement purposes

Ontario

Ontario Teachers’ Pension Plan

4.85%

3.25%

Alberta

Teachers’ Post-1992 Pension Plan

7.00%

Saskatchewan

Saskatchewan Healthcare Employees' Pension Plan

6.50%

British Columbia

Teachers’ Pension Plan

6.50%

Quebec

Commission administrative des regimes de retraite et d'assurances

6.40%

Nfld

Memorial University of Newfoundland Pension Plan

5.80%

Nova Scotia

Nova Scotia Teachers' Pension Plan

6.25%

Manitoba

Teachers Pension Plan

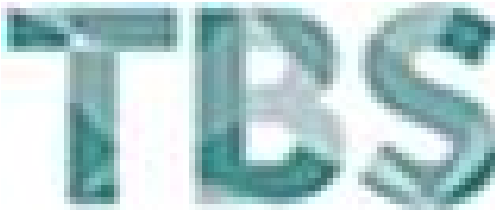
6.00%

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721


TBS

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: ITC
Date: Monday, March 19, 2018 09:08:04
Attachment 1: image001.png

What risks do we consider?

I did not read Allan's material, so not sure where this is going

From: Noor, Khalida (TBS)
Sent: March 19, 2018 9:07 AM
To: Killoch, Alex (MOF)
Subject: ITC

Hi Alex,

Hope you had a good weekend. Cindy has reviewed the document and she had some follow-up questions. Can you please help me address below?

What risks do we / should we consider in determining the following discount rates?

- Expected return on plan assets for funded plans; and
- Government's cost of borrowing for unfunded plans

Thanks

Khal

Khalida Noor, CPA, CA

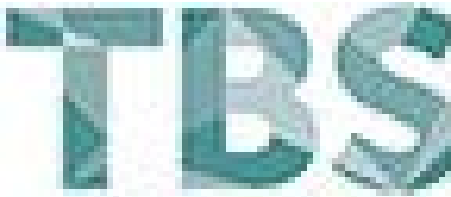
Director, Controllership Policy & Accounting Consultation

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 325-2631

Khalida.noor@ontario.ca


TBS

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS
Date: Wednesday, November 23, 2016 12:56:50
Attachment 1: Role of Sponsors in Allocation of Actuarial Gains_Losses in OPSEU PP.docx

---

He sent the attached revised version. I've gone through it and it is essentially a summary of the relevant provisions of the Sponsorship Agreement. I'll forward it to EDU as I'm sure they're trying to finalize the deck for tomorrow.

Rob

From: MacPherson, Michael (TBS)
Sent: November 23, 2016 11:52 AM
To: Pomykacz, Rob (MOF)
Cc: Smithies, Roger (TBS)
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Sorry Rob. There is a difference in the 2 BNs. An extra sentence at the very end regarding never has there been surplus declared.

Please see the attached version here.

From: MacPherson, Michael (TBS)
Sent: November-23-16 11:27 AM
To: Pomykacz, Rob (MOF)
Cc: Smithies, Roger (TBS)
Subject: RE: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Rob,

If you have any questions on the attached BN please call and we can discuss. Roger is

out until 3pm at an HR Forum.

Thanks

Mike

From: Pomykacz, Rob (MOF)
Sent: November-22-16 3:34 PM
To: MacPherson, Michael (TBS)
Cc: Smithies, Roger (TBS)
Subject: RE: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

That's great! Thanks very much, Mike.

From: MacPherson, Michael (TBS)
Sent: November 22, 2016 3:33 PM
To: Pomykacz, Rob (MOF)
Cc: Smithies, Roger (TBS)
Subject: RE: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Rob,

Here's the 1994 OPT Sponsorship Agreement and the 2012 Letter of Agreement between the Sponsors. I will update a briefing note and forward by noon tomorrow. I found the basis of a good note in our files, but it needs to be updated.

Thanks

Mike

From: MacPherson, Michael (TBS)
Sent: November-22-16 3:08 PM
To: Pomykacz, Rob (MOF)
Cc: Smithies, Roger (TBS)
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Rob,

See below note (and attachments) I just flipped to Roger. All material was sent to Nadine Petsche and Pauline Fong. Cindy Veinot was not copied.

Thanks

Mike

From: MacPherson, Michael (TBS)
Sent: November-22-16 2:53 PM
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Hi Roger,

The relevant info shared with Pauline Fong and Nadine Petsche of Accounting Policy and Financial Reporting Branch, TBS is attached. There were 2 emails (Sept. 8 and Oct. 26) that were sent. The October 26 email included 2 documents – Historical Overview of OPSEU Pension Plan and the other is the spreadsheet identifying the results of the experience analysis and how those actuarial gains or losses were applied.

Subsequent to the October 26th email, you will recall we had a discussion with Nadine. At that time Nadine advised that a future discussion would be arranged that would include Pauline. That discussion never occurred.

Thanks

Mike

Michael MacPherson

Pension Consultant, Pensions Policy Unit

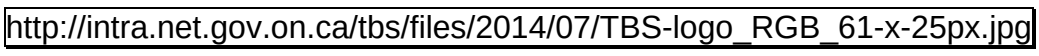
Total Compensation Strategies Branch

Centre for Public Sector Labour Relations and Compensation

Treasury Board Secretariat

77 Wellesley St. W, Ferguson Block, 13th Floor, M7A 1N3

P. 416.325.7246 F. 416.327.8402



TBS

Information Note

Employee Relations Division
Total Compensation Strategy Branch

Joint Sponsors' Role and Responsibilities - OPSEU Pension Plan Allocation of Actuarial Gains or Losses

Issue:
Ministry of Finance requested information regarding the role and responsibilities of the sponsors with respect to the allocation of actuarial gains or losses in the OPSEU Pension Plan.

Current Status:
Actuarial gains and losses are recognized in years that an actuarial valuation is filed with Financial Services Commission of Ontario (FSCO).

Background:
A pension plan has actuarial gains or losses each year because the actual events during the year ("experience") do not exactly match the long-term assumptions previously made. Gains or losses on plan assets occur because the actual investment returns were higher or lower than anticipated. Gains or losses on actuarial liabilities can occur because long-term assumptions (e.g., mortality, salary increases, termination, retirement, economic) were not met.

Under the April 18, 1994 Sponsorship Agreement, between Ontario and OPSEU, emerging actuarial gains or losses are to be shared equally between the employer and the members. The employer share of actuarial gains is to be used to reduce the Transferred Initial Unfunded Liability (TIUL) (the unfunded liability established at the initial valuation date of January 1,1993).

Under the Sponsorship Agreement, actuarial gains attributed to the Employer must be used to reduce the TIUL. The TIUL was eliminated in April 2002. The Sponsorship Agreement also states that after the TIUL is fully liquidated, employer allocated gains "shall be used for the benefit of Ontario, to be applied against any special payments required to be made by Ontario and thereafter to reduce Ontario's normal costs." In addition, the Sponsorship Agreement states: "Actuarial gains for the benefit of Ontario under Section 56(c)(i) may be used to establish a rate stabilization fund for the benefit of Ontario."

The Jointly Sponsored Pension Plan Letter of Agreement between Ontario and OPSEU dated October 22, 2012 outlines General Principles and Parameters to the application of

gains or losses based on the Plan's most recently filed valuation on a going concern, non-smoothed basis during the Freeze Period of December 31, 2012 and December 31, 2017.

Under the Sponsorship Agreement and the Plan text, the Employer has the option to apply their share of the gains to reduce Employer costs (special payments, reduce contributions, contribution holiday, etc.), or allocate the gains to the Employer Rate Stabilization Reserve (RSR).

To date, the actuarial gains have been allocated towards the establishment of the RSR, contribution reductions or benefit improvements, at the discretion of the Plan Sponsors. The Employer and Member reserves have been used to cover the cost of negotiated temporary benefit changes (Factor 80 and Surplus Factor 80), to fund future potential losses, and cover any required amortization payments for prior year losses.

Under the Sponsorship Agreement, at no time shall the Sponsors provide for or permit any payment of surplus out of the Fund to Ontario, or any employer participating in the Plan. For greater certainty, the use of actuarial gains to offset Employer Contributions and any going concern unfunded liability or solvency deficiency does not constitute the payment of surplus out of the Fund.

In its history, the OPSEU Pension Plan has not reported excess surplus as per section 147.2(2) of the Income Tax Act.

Prepared by:
Name: Michael MacPherson
Branch: Total Compensation Strategies Branch
Division: Centre for Public Sector Labour Relations and Compensation Division, TBS
Date: November 23, 2016

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS
Date: Wednesday, November 23, 2016 12:38:55
Attachment 1: Role of Sponsors in Allocation of Actuarial Gains_Losses in OPSEU PP.docx
Attachment 2: Role of Sponsors in Allocation of Actuarial Gains_Losses in OPSEU PP.docx

---

Hi Alex,

This note is quite clear. Am I ok to send it to EDU?

Rob

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P. 416.325.7246 F. 416.327.8402

http://intra.net.gov.on.ca/tbs/files/2014/07/TBS-logo_RGB_61-x-25px.jpg

TBS

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Under the April 18, 1994 Sponsorship Agreement, between Ontario and OPSEU, emerging actuarial gains or losses are to be shared equally between the employer and the members. The employer share of actuarial gains is to be used to reduce the Transferred Initial Unfunded Liability (TIUL) (the unfunded liability established at the initial valuation date of January 1,1993).

Under the Sponsorship Agreement, actuarial gains attributed to the Employer must be used to reduce the TIUL. The TIUL was eliminated in April 2002. The Sponsorship Agreement also states that after the TIUL is fully liquidated, employer allocated gains "shall be used for the benefit of Ontario, to be applied against any special payments required to be made by Ontario and thereafter to reduce Ontario's normal costs." In addition, the Sponsorship Agreement states: "Actuarial gains for the benefit of Ontario under Section 56(c)(i) may be used to establish a rate stabilization fund for the benefit of Ontario."

The Jointly Sponsored Pension Plan Letter of Agreement between Ontario and OPSEU dated October 22, 2012 outlines General Principles and Parameters to the application of

gains or losses based on the Plan's most recently filed valuation on a going concern, non-smoothed basis during the Freeze Period of December 31, 2012 and December 31, 2017.

Under the Sponsorship Agreement and the Plan text, the Employer has the option to apply their share of the gains to reduce Employer costs (special payments, reduce contributions, contribution holiday, etc.), or allocate the gains to the Employer Rate Stabilization Reserve (RSR).

To date, the actuarial gains have been allocated towards to the establishment of the RSR, contribution reductions or benefit improvements, at the discretion of the Plan Sponsors. The Employer and Member reserves have been used to cover the cost of negotiated temporary benefit changes (Factor 80 and Surplus Factor 80), to fund future potential losses, and cover any required amortization payments for prior year losses.

Under the Sponsorship Agreement, at no time shall the Sponsors provide for or permit any payment of surplus out of the Fund to Ontario, or any employer participating in the Plan. For greater certainty, the use of actuarial gains to offset Employer Contributions and any going concern unfunded liability or solvency deficiency does not constitute the payment of surplus out of the Fund.

Prepared by:
Name: Michael MacPherson
Branch: Total Compensation Strategies Branch
Division: Centre for Public Sector Labour Relations and Compensation Division, TBS
Date: November 23, 2016

TBS

Information Note

Employee Relations Division
Total Compensation Strategy Branch

Joint Sponsors' Role and Responsibilities - OPSEU Pension Plan Allocation of Actuarial Gains or Losses

Issue:
Ministry of Finance requested information regarding the role and responsibilities of the sponsors with respect to the allocation of actuarial gains or losses in the OPSEU Pension Plan.

Current Status:
Actuarial gains and losses are recognized in years that an actuarial valuation is filed with Financial Services Commission of Ontario (FSCO).

Background:
A pension plan has actuarial gains or losses each year because the actual events during the year ("experience") do not exactly match the long-term assumptions previously made. Gains or losses on plan assets occur because the actual investment returns were higher or lower than anticipated. Gains or losses on actuarial liabilities can occur because long-term assumptions (e.g., mortality, salary increases, termination, retirement, economic) were not met.

Under the April 18, 1994 Sponsorship Agreement, between Ontario and OPSEU, emerging actuarial gains or losses are to be shared equally between the employer and the members. The employer share of actuarial gains is to be used to reduce the Transferred Initial Unfunded Liability (TIUL) (the unfunded liability established at the initial valuation date of January 1,1993).

Under the Sponsorship Agreement, actuarial gains attributed to the Employer must be used to reduce the TIUL. The TIUL was eliminated in April 2002. The Sponsorship Agreement also states that after the TIUL is fully liquidated, employer allocated gains "shall be used for the benefit of Ontario, to be applied against any special payments required to be made by Ontario and thereafter to reduce Ontario's normal costs." In addition, the Sponsorship Agreement states: "Actuarial gains for the benefit of Ontario under Section 56(c)(i) may be used to establish a rate stabilization fund for the benefit of Ontario."

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gains or losses based on the Plan's most recently filed valuation on a going concern, non-smoothed basis during the Freeze Period of December 31, 2012 and December 31, 2017.

Under the Sponsorship Agreement and the Plan text, the Employer has the option to apply their share of the gains to reduce Employer costs (special payments, reduce contributions, contribution holiday, etc.), or allocate the gains to the Employer Rate Stabilization Reserve (RSR).

To date, the actuarial gains have been allocated towards the establishment of the RSR, contribution reductions or benefit improvements, at the discretion of the Plan Sponsors. The Employer and Member reserves have been used to cover the cost of negotiated temporary benefit changes (Factor 80 and Surplus Factor 80), to fund future potential losses, and cover any required amortization payments for prior year losses.

Under the Sponsorship Agreement, at no time shall the Sponsors provide for or permit any payment of surplus out of the Fund to Ontario, or any employer participating in the Plan. For greater certainty, the use of actuarial gains to offset Employer Contributions and any going concern unfunded liability or solvency deficiency does not constitute the payment of surplus out of the Fund.

In its history, the OPSEU Pension Plan has not reported excess surplus as per section 147.2(2) of the Income Tax Act.

Prepared by:
Name: Michael MacPherson
Branch: Total Compensation Strategies Branch
Division: Centre for Public Sector Labour Relations and Compensation Division, TBS
Date: November 23, 2016

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS
Date: Tuesday, November 22, 2016 16:36:34
Attachment 1: image001.jpg
Attachment 2: OPT-Sponsorship Agreement.pdf
Attachment 3: JSPP-Agreement-2012-Duncun+Thomas.pdf

Here's the sponsorship agreement. We will receive a note from TBS tomorrow morning.

From: MacPherson, Michael (TBS)
Sent: November 22, 2016 3:33 PM
To: Pomykacz, Rob (MOF)
Cc: Smithies, Roger (TBS)
Subject: RE: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Rob,

Here's the 1994 OPT Sponsorship Agreement and the 2012 Letter of Agreement between the Sponsors. I will update a briefing note and forward by noon tomorrow. I found the basis of a good note in our files, but it needs to be updated.

Thanks

Mike

From: MacPherson, Michael (TBS)
Sent: November-22-16 3:08 PM
To: Pomykacz, Rob (MOF)
Cc: Smithies, Roger (TBS)
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Rob,

See below note (and attachments) I just flipped to Roger. All material was sent to Nadine Petsche and Pauline Fong. Cindy Veinot was not copied.

Thanks

Mike

From: MacPherson, Michael (TBS)
Sent: November-22-16 2:53 PM
To: Smithies, Roger (TBS)
Subject: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Roger,

The relevant info shared with Pauline Fong and Nadine Petsche of Accounting Policy and Financial Reporting Branch, TBS is attached. There were 2 emails (Sept. 8 and Oct. 26) that were sent. The October 26 email included 2 documents – Historical Overview of OPSEU Pension Plan and the other is the spreadsheet identifying the results of the experience analysis and how those actuarial gains or losses were applied.

Subsequent to the October 26th email, you will recall we had a discussion with Nadine. At that time Nadine advised that a future discussion would be arranged that would include Pauline. That discussion never occurred.

Thanks

Mike

Michael MacPherson

Pension Consultant, Pensions Policy Unit

Total Compensation Strategies Branch

Centre for Public Sector Labour Relations and Compensation

Treasury Board Secretariat

77 Wellesley St. W, Ferguson Block, 13th Floor, M7A 1N3

P. 416.325.7246 F. 416.327.8402

TBS

THIS SPONSORSHIP AGREEMENT made as of this 18th day of April, 1994.

B E T W E E N:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF ONTARIO AS REPRESENTED BY THE CHAIR OF THE MANAGEMENT BOARD OF CABINET ("Ontario")

- and -

THE ONTARIO PUBLIC SERVICE EMPLOYEES' UNION ("OPSEU")

A. PREAMBLE

Whereas s. 6 of the Public Service Pension Act, R.S.O. 1990, c.P.48 ("PSPA") permits the Lieutenant Governor in Council to amend the Public Service Pension Plan ("PSPP") to, among other things, establish a separate pension plan for any class or classes of persons who are members of the PSPP and to direct the transfer from the Public Service Pension Fund to any fund related to such separately established pension plan any amount specified to represent the value, as determined by an actuarial valuation, of the pension benefits of persons who will be members of such separately established pension plan; and

Whereas Ontario and OPSEU propose to enter into an agreement pursuant to which a separate pension plan will be established for those members of OPSEU who are now members of the PSPP, which plan will be funded in part by a transfer of assets from the Public Service Pension Fund; and

Whereas Ontario and OPSEU propose that the separate pension plan established for the members of OPSEU who are now members of the PSPP will be jointly managed by Ontario and OPSEU;

Therefore Ontario and OPSEU hereby agree to establish a pension plan on the terms set out below:

B. INTRODUCTION

1. The terms used in this agreement shall have the meanings given to them in the draft Agreement and Declaration of Trust attached hereto as Appendix "A", and the document attached as Appendix "C", and:

(a) the pension plan established by this agreement will be referred to as the "OPSEU Plan" or the "Plan";

(b) the OPSEU Pension Fund established by this agreement will be referred to as the "OPSEU Fund" or the "Fund";

(c) the Pension Benefits Act, R.S.O. 1990, c.P.8, as amended, and all Regulations made thereunder will be referred to as the "PBA";

(d) the Public Service Pension Act, R.S.O. 1990, c.P.48 will be referred to as the "PSPA", the Public Service Pension Plan established pursuant to the PSPA will be referred to as the "PSPP", and the Public Service Pension Fund established pursuant to the PSPA will be referred to as the "PSPF", provided that, effective as of January 1, 1993, the "PSPP" and "PSPF" will be amended to reflect the amendments made by the Implementing Legislation referred to herein;

(e) "Factor 80" means the early retirement program described at s. 41 of the PSPP and in the social contract sectoral agreement, and extended to March 31, 2000;

(f) "Sponsors" means Ontario and OPSEU; and

(g) in determining any "solvency gain" or "solvency deficiency" of the Plan, solvency assets shall include the present value of future special payments required to liquidate the Transferred Initial Unfunded Liability.

2. Ontario and OPSEU agree to establish the Plan and the Fund, in accordance with the terms described herein. The Plan shall be a single employer pension plan.

3. The Plan will be a successor pension plan to the PSPP created pursuant to the PSPA.

4. The Plan and Fund will be administered and managed by a Board of Trustees, pursuant to an Agreement and Declaration of Trust made between the Sponsors substantially in the form attached hereto as Appendix "A", and which is hereinafter referred to as the "Trust Agreement". The Sponsors shall finalize the terms of the Trust Agreement, which shall be consistent with the terms of this agreement, and shall execute and cause the Trustees to execute the Trust Agreement on October 30, 1994.

5. Ontario will enact legislation (the "Implementing Legislation") with respect to certain aspects of the Plan's successorship to the PSPP, and certain aspects of the Plan and Fund. The essential elements of the Implementing Legislation applicable to the Plan are described in Section K of this agreement.

6. Each of OPSEU and Ontario acknowledge and agree that they have a collective bargaining relationship with each other that applies to all issues pertaining to the Plan except as otherwise provided by this agreement.

7. The Plan and Fund shall be governed by this agreement, the Trust Agreement, the Plan, the Implementing Legislation, the PBA, the Income Tax Act (Canada) ("ITA") and any collective agreement between the parties, as well as any rules and regulations made pursuant to any of these documents. If any provision of

these documents is found to be illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining portions of the documents.

8. OPSEU and Ontario agree that the Board of Trustees of the OPSEU Fund shall not be a Crown agency.

9. OPSEU and Ontario agree that the Plan and the Fund shall be subject to all of the provisions of the PBA, except for those identified in Section K, below.

10. OPSEU and Ontario agree:

(a) that the Plan and the Fund shall not be exempted from any statutory provision, except those provisions as described in section K; and

(b) that the Plan and the Fund shall not be made subject to any statutory provision that does not apply generally to pension plans in Ontario except those provisions as described in section K,

except with the consent of OPSEU.

11. Ontario may designate one or more persons to act in Ontario's place under this agreement. OPSEU may designate one or more persons to act in its place under this agreement.

12. The Plan shall be effective as of the 1st day of January, 1993 (the "Effective Date").

13. The Plan and the Fund shall be established on or before the 1st day of January, 1995 (the "Joint Sponsorship Date").

14. If the Trustees advise the Sponsors that a change must be made to the Plan or Fund to comply with any law, then the Sponsors agree that they will meet as soon as possible to discuss such change and will work together in good faith to achieve a resolution with respect to any such required change.

15. Either Sponsor may ask the actuary hired by the Trustees to provide or prepare any information that the Sponsor thinks it needs in discussing changes to the Plan. The cost of the actuary in preparing that information will be paid out of the Fund. The information will be provided to both Sponsors.

16. Either Sponsor may audit the Plan and the Fund at any time at the expense of that Sponsor. The Trustees will cooperate in the audit.

17. Ontario shall make its best efforts to cause the Ontario Pension Board ("OPB") to provide to OPSEU, on or before April 22, 1994, and on an ongoing basis until the transition is complete, disclosure of, and all documentation in relation to:

(a) any claims or potential claims by or against the OPB or any real estate or resource corporation in which it holds an interest, except for individual claims for Benefits;

(b) the provision of payroll and related information with respect to OPSEU Plan members provided by Ontario to the OPB;

(c) the timetable for the development and implementation of PRISM and all other particulars with respect to PRISM;

(d) contractual relationships with respect to the administration of the PSPP, the custody of the PSPF's assets, the investment of the PSPF's assets, the provision of advice to the OPB or its wholly owned corporations, the retainer of professionals, professional firms or professional corporations;

(e) all policies and practices used by the OPB in the administration and interpretation of the PSPP;

(f) an inventory of the operational assets of the OPB, including a physical description of them, their acquisition costs and acquisition dates; and

(g) an inventory of all investments held directly or indirectly by the OPB, including a description of them, their acquisition costs, their current market values, and any material facts within the knowledge of the OPB that may affect their market or actuarial values.

18. Notwithstanding paragraph 17, Ontario shall cause the OPB to disclose, and provide all documentation in respect of the matters listed in paragraph 17 as of a date that is two weeks after the Implementing Legislation is enacted.

19. This agreement is subject to ratification by OPSEU on or before May 13, 1994.

C. COLLECTIVE BARGAINING

20. The Sponsors may collectively bargain with respect to the Plan and may amend this agreement, the Trust Agreement, the Plan or any Plan documents adopted by the Sponsors, without the agreement of any other employer, trade union or person, provided, however, that no agreement or amendment shall:

(a) be inconsistent with the purposes of the Trust Fund;

(b) divert the Trust Fund, or any part thereof, to a purpose other than the provision of benefits for the Plan members;

(c) authorize the return of contributions or any other assets of the Fund to Ontario or to other Participating Employers unless required by law or as permitted by the PBA in the case of an overpayment pursuant to Section 78(4) thereof, as amended from time to time;

(d) eliminate the annual audit or restrict the availability of information to the Sponsors;

(e) provide for the administration of the Plan and the Fund other than by an equal number of Trustees appointed by Ontario and Trustees appointed by OPSEU with each Trustee having equal voting privileges;

(f) provide for or permit any payment of surplus out of the Fund to Ontario, or any employer participating in the Plan. For greater certainty, the use of actuarial gains to offset Employer Contributions and any going concern unfunded liability or solvency deficiency does not constitute the payment of surplus out of the Fund; or

(g) remove the right of the Sponsors to appoint Trustees.

21. Collective bargaining agents other than OPSEU that represent members of the Plan may collectively bargain, with those members' employers, with respect to the following types of benefit improvements for those members, provided that the full cost of any such improvements is paid for by the members and the employer covered by the improvement:

(a) early retirement benefits;

(b) pensions payable to surviving spouses; and

(c) disability benefits.

The Sponsors agree to amend the Plan as necessary to provide for such benefit improvements and contribution increases provided that the Trustees are satisfied, on the basis of their Actuary's advice, that the benefit improvement is properly funded.

D. THE TRUST AGREEMENT

22. The powers, duties and responsibilities of the Trustees shall be set out in the Trust Agreement.

23. The Trustees will be responsible for the administration of the Plan and the custody, investment and management of the Fund and all of the matters set out in this agreement or the Trust Agreement.

24. The powers, duties and responsibilities of the Trustees will include the following:

(a) to administer the Plan for the benefit of the Plan's members, their beneficiaries and dependents , as the case may be, subject to the terms of this agreement, the Trust Agreement and the Plan text, and all applicable federal and provincial legislation;

(b) to adopt such procedures, policies, rules or regulations, necessary for the carrying out of their trusts, consistent with the provisions of this agreement, the Trust Agreement, the Plan text and the requirements of applicable provincial and federal legislation;

(c) to enter into agreements with a Bank, Trust Company, Credit Union, Insurance Company or Investment Manager, selected by the Trustees, for the purpose of providing investment management or advice, or for the purpose of acting as a depository for safekeeping of assets of the Trust Fund, or for any other purpose as the Trustees shall deem necessary or desirable and to authorize any such Bank, Trust Company, Credit Union, Insurance Company, or Investment Manager to commingle any monies deposited with them in any mutual or pooled pension fund administered or managed by any of them;

(d) to pay or provide for the payment of Benefits to those persons eligible to receive them;

(e) to pay from the Fund all reasonable expenses for collecting contributions and administering and investing the Fund and administering the Plan including, but not limited to, all compensation and all reasonable and necessary costs and fees which may be incurred in connection with the employment of such legal, actuarial, accounting, expert and clerical assistance as the Trustees, in their discretion, may find necessary or expedient in the performance of their duties. The Trustees shall be completely and fully protected in acting

and relying reasonably and in good faith upon the opinions or advice of the aforementioned persons;

(f) to enter into any and all contracts and agreements for carrying out the terms of this agreement, the Trust Agreement and the Plan and for the administration of the Plan and the administration and investment of the Fund and to do all acts as they, in their discretion, may deem necessary and advisable;

(g) to compromise, settle, arbitrate and release claims or demands in favour of, or against the Plan and Fund, or the Trustees, on such terms and conditions as the Trustees may deem advisable;

(h) to establish procedures to be followed in filing applications for Benefits and for the furnishing and certification of evidence necessary to establish a right to such Benefits;

(i) to pay out of the Fund, all real and personal property taxes, income taxes and other taxes of any and all kinds, levied or assessed under existing or future laws, upon or in respect of the Fund or any money, property or securities forming a part thereof;

(j) to receive payments from any source whatsoever, to the extent permitted by law and this agreement;

(k) to invest and reinvest such portion of the Fund as is not required for current expenditures, in any type of investments that are permitted by applicable federal and provincial laws and regulations, except that any restrictions on investments set out in the Trustees Act shall not apply, and by the Statement of Investment Policies and Goals established by the Trustees, and to take any and all actions with respect to the holding, buying, selling or exchanging such investments as they, in their sole discretion, may deem appropriate or necessary;

(l) to hold in uninvested cash, without any liability for interest thereon, such sums as they reasonably deem necessary or advisable for the reasonably current cash requirements of the Fund;

(m) to exercise all rights or privileges granted by the provisions of any contract entered into by the Trustees with any Insurance Company, Bank, Trust Company, Credit Union or Investment Manager, or Custodian, and to make any alteration, modification, amendment or cancellation of such contract, or to take any other action respecting such contracts which they, in their discretion, may deem necessary or advisable;

(n) to do all acts, whether or not previously authorized herein, which the Trustees may deem necessary or proper for the protection of the property held hereunder;

(o) to enter into reciprocal arrangements with other like or similar funds or plans, in such manner and subject to such terms and conditions as the Trustees may deem desirable;

(p) to delegate any of their administrative powers or duties or such other powers and duties as may be permitted by s. 22(5) of the PBA to any of their agents or employees, in such manner and subject to such terms and conditions as the Trustees may deem necessary or appropriate; provided that such agents or employees report to the Trustees as may be required by them;

(q) to lease or purchase such lands, premises, materials, supplies and equipment as the Trustees deem necessary or appropriate in the performance of their duties;

(r) to enter into cost-sharing agreements with OPSEU, any other union, or any other pension or welfare funds to permit the Trustees to share expenses pertaining to the administration of the Fund, provided that any amounts paid by the Fund to OPSEU, any other union, or any

other trust fund, in respect of the above expenses, shall be approved by the auditor of the Fund as being necessary and reasonable; and provided further, that such cost-sharing agreement provide that the Trustees may terminate such agreement at any time, subject to such notice as may be required;

(s) to incorporate corporations, the shares of which shall be held by or on behalf of the Trustees for purposes of administering the Fund, making investments of the Fund or holding any investment;

(t) to authorize the preparation of and to file an actuarial valuation in accordance with the PBA and any other governing legislation;

(u) to approve the actuarial methods and assumptions to be used in the administration of the Plan and used in the actuarial valuations of the Plan, prepared by the Actuary;

(v) to consult with the Sponsors during the preparation of an actuarial valuation and to make their best efforts to respond to any questions, comments or recommendations of the Sponsors, provided that, the Trustees shall be solely and exclusively responsible for the content of any actuarial valuation filed in accordance with the PBA and any other governing legislation;

(w) to give a copy of every actuarial valuation prepared for the Trustees to each Sponsor and to give each Sponsor any information requested by it as quickly as possible;

(x) to have the Plan and the Fund audited every year;

(y) to prepare a report at the end of every fiscal year describing how the Plan and the Fund have been doing in that year;

(z) to hold a meeting with both Sponsors at least once each year to explain the annual report to them and to answer any questions they may have about the Plan and the Fund;

(aa) to advise the Sponsors in respect of any changes to the Plan that need to be made to comply with any applicable law; and

(bb) to advise the Sponsors in respect of changes that the Trustees consider would improve the administration of the Plan.

25. The Board of Trustees shall be comprised of 10 Trustees, 5 of whom shall be appointed by OPSEU, and 5 of whom shall be appointed by Ontario.

26. Each Trustee shall serve at the discretion of the Sponsor that appoints the Trustee.

27. There shall not be any alternate Trustees permitted to act in the place of any of the Trustees.

28. The Trustees shall, from among their number, appoint a Chair and Vice-Chair. The Chair, or in the Chair's absence, the Vice-Chair, shall chair the meetings of the Board. The Chair shall also chair the Administration Committee, and the Vice-Chair shall chair the Investment Committee. The Chair and Vice-Chair shall vote at all meetings of the Board of Trustees or its Committees.

29. The term of the Chair and the Vice-Chair shall be two years.

30. At all times, a Trustee nominated by the Trustees appointed by OPSEU shall be either the Chair or the Vice-Chair, and the other position shall be filled by a Trustee nominated by the Trustees appointed by Ontario. If a Trustee who is Chair or Vice-Chair ceases at any time or for any reason, to be a Trustee, then his or her position shall be filled for the balance of the term, by a Trustee appointed by the same Sponsor. The term of any replacement Chair or Vice-Chair shall be deemed to have commenced at the commencement or deemed commencement of the predecessor Trustee's term.

31. At the end of their first terms, the Chair and Vice-Chair, or their replacements if any, will exchange positions. At the end of their second terms, the Chair and Vice-Chair will cease to hold those positions, and the Trustees shall select a new Chair and Vice-Chair in accordance with paragraphs 28 and 30.

32. Any resolutions of the Trustees, shall require a vote of the majority of the Trustees present, provided that at least one Employer Trustee and one Union Trustee have supported the resolution. The Chair shall not be entitled to a second vote in the event of a deadlock.

33. A deadlock shall be deemed to exist where a proposal, motion or resolution made by the Trustees is neither adopted nor rejected by a majority vote , or where a resolution or motion is unable to be made at a meeting due to lack of a quorum of two consecutively called meetings.

34. In the event of a deadlock, a further meeting of the Trustees shall be held no later than ten days after the deadlock has arisen for the purpose of resolving the matter in dispute. If the matter is not resolved at such meeting, any five Trustees may require the naming of an eleventh Trustee, who shall cast the deciding vote at the next scheduled or special meeting. The eleventh Trustee shall be one of three persons as shall be determined by the Sponsors from time to time who shall rotate in order between them as determined by the Sponsors, except that if any one of them is unavailable within 30 days of the dispute arising to resolve the matter in dispute, the eleventh Trustee shall pass to the next person, or if such person is not available within 30 days, to the next available person or to such other person as may be agreed by the Sponsors. If the Sponsors cannot agree on an eleventh Trustee, he or she shall be appointed by the Chief Justice of Ontario.

35. The eleventh Trustee shall attend a meeting at which time he or she shall review all relevant documentation and entertain submissions from the remaining Trustees or any group of Trustees with respect to the matter in issue. The eleventh Trustee shall cast a tie-breaking vote and shall make his or her determination within seven days of the meeting at which submissions are made. The decision of the eleventh Trustee shall be final and binding on all other

Trustees, the Sponsors, Participating Employers, Employees and their beneficiaries. The provisions of paragraph 32 shall not apply in respect of any vote utilizing the eleventh Trustee. Upon rendering his or her decision, the eleventh Trustee shall be functus and shall cease to be a Trustee.

36. The reasonable expenses and fees of the eleventh Trustee shall be paid out of the Fund.

E. THE PLAN

37. The Sponsors will adopt a Plan, to be effective January 1, 1993.

38. The Plan shall be the same in all material respects as the PSPP, as it was on April 18, 1994, except that the OPSEU Plan will be modified to be consistent with the terms of this agreement. These modifications shall include the following:

(a) Ontario may proceed to amend the PSPP in accordance with the list of "housekeeping amendments" attached as Appendix "B" to this agreement;

(b) subsections 7(3), (4), (5), and (7) of the PSPP shall be deleted;

(c) the provisions of this agreement with respect to the Plan's membership, and the transfers of bargaining units or acquisitions of bargaining rights, if any, shall apply;

(d) the provisions of this agreement with respect to contributions, actuarial gains, actuarial losses, solvency deficiencies and the initial unfunded liability, shall apply;

(e) Factor 80 benefits shall be provided under the Plan to March 31, 2000 for all Plan Members;

(f) the Plan shall provide that no amount of surplus shall be paid out of the Fund to Ontario or any Participating Employer.

39. OPSEU Plan Members shall be:

(a) effective as of the later of January 1, 1993 and the date of the commencement of their employment with a Participating Employer, persons who are:

(i) civil servants within the meaning of the Public Service Act and are employed in a designated bargaining unit, for the purposes of section 22 of the Crown Employees Collective Bargaining Act,

(ii) employed by agencies, boards, commissions, foundations or organizations established by an Act of the Legislature that were designated by the order of the Lieutenant Governor in Council as one whose employees in that class were required to be members of the PSPP on December 31, 1992 or in a class that would have been required to be members of the PSPP at any time up to and including December 31, 1994, and are employed in a bargaining unit that was represented by OPSEU on January 1, 1993 or that was represented by OPSEU at any time thereafter;

(iii) employed by Go Transit ("GO"), and in a bargaining unit represented by the Amalgamated Transit Union ("ATU") Local 1587 on that date, provided that the ATU consents to the participation of these employees in the OPSEU Plan by notice in writing to the Sponsors on or before May 13, 1994;

(iv) employed by the Liquor Control Board of Ontario ("LCBO") or the Liquor License Board of Ontario ("LLBO"), and in a bargaining unit represented by the Ontario Liquor Board Employees' Union ("OLBEU") on that date, provided that the OLBEU consents to the participation of these employees in the OPSEU Plan by notice in writing to the Sponsors on or before May 13, 1994;

(v) employed by the Metropolitan Toronto Housing Authority ("MTHA"), and in a bargaining unit represented by the Canadian Union of Public Employees ("CUPE") Local 767 on that date, provided that CUPE consents to the participation of these employees in the OPSEU Plan by notice in writing to the Sponsors on or before May 13, 1994; and

(vi) employed by the Ontario Housing Corporation ("OHC"), and in a bargaining unit represented by CUPE Local 3096 on that date, provided that CUPE consents to the participation of these employees in the OPSEU Plan by notice in writing to the Sponsors on or before May 13, 1994.

(b) persons to whom subsection (1) does not apply, and who had elected to be members of the PSPP prior to January 1, 1993, or who filed an election with the OPB or were eligible to file an election with the OPB pursuant to s. 2(2)(b) of the PSPP after December 31, 1992, and are employed by Ontario under the Public Service Act in a bargaining unit represented by OPSEU, or by any agency, board, commission, foundation or organization established by an Act of the Legislature in a bargaining unit represented by OPSEU, the OLBEU, ATU, Local 1587, CUPE Local 767 or CUPE Local 3096.

40. The Sponsors agree to discuss in good faith the future membership of the Plan and the acquisition of bargaining rights to discuss whether employees of employers who are not Ontario Crown agencies, boards and commissions should become members of the Plan and, if so, the terms of such membership.

41. The Plan may be amended only by agreement in writing between OPSEU and Ontario.

F. INTERIM ADMINISTRATION OF THE PLAN

42. The OPB shall administer the Plan and manage the Fund as administrator, as that term is used in the PBA, subject to this agreement and subject to the Implementing Legislation, until January 1, 1995, or such other date as may be determined by the Sponsors.

43. (1) Subject to any agreement reached pursuant to subsection (2), the OPB shall be the agent of the Sponsors for the purposes of effecting the transition from the PSPP and the PSPF to the Plan and the Fund and, in particular:

(a) the OPB shall cooperate with the Trustees to effect the transfer of the Plan and the Fund as contemplated by this agreement;

(b) the OPB shall provide the Sponsors and the Trustees, or such persons as they may designate, with copies of all documents, information, data and software that are in the possession or within the power or under the control of the OPB that the Sponsors and Trustees may reasonably require for the purpose of establishing or administering the OPSEU Plan and establishing and managing the Fund;

(c) the OPB shall permit such observers as may be specified by either Sponsor to attend at any meeting of the OPB, or any of its Committees, or any of its wholly owned corporations that relates to the administration or investment of the Plan or the Fund;

(d) the OPB shall provide access to such inspectors or auditors as may be specified by either Sponsor to all of its books, records, documents, agreements, data bases and computer hardware and software, and all of the books, records, documents, agreements, data bases and computer hardware and software of any corporation wholly owned by the OPB;

(e) from the effective date of this agreement to the Joint Sponsorship Date, or such other date as the Trustees assume all administrative and investment functions with respect to the Plan, the OPB shall:

(i) incur only those expenses or make those capital purchases with respect to the Plan as are necessary to administer the Plan and manage the Fund until the transition is complete;

(ii) not contract for any goods or services of any kind whatsoever in respect of the Plan having the cost in excess of $15,000.00 without the consent of the Sponsors; and

(f) On January 1, 1995, or such later date as may be specified by the Trustees, all administrative and investment functions with respect to the Plan shall be assumed directly by the Trustees, or by such agents as they may designate.

(2) Each of OPSEU and Ontario shall use their best efforts to negotiate with each other and with the OPB concerning the transfer to the OPSEU Plan of software and data and such other matters as the Sponsors may agree; provided, however, that if a unanimous agreement is not reached, any of OPSEU, Ontario and the OPB may refer the issue to an expedited final and binding arbitration, in which the Mississauga Pensions Group of Price Waterhouse Limited ("Price Waterhouse") (or such member of that group as Price Waterhouse may designate) shall act as arbitrator. The Arbitrations Act, 1991, shall not apply to any such arbitration. The Sponsors will agree on an expedited arbitration procedure which will be made binding upon the OPB. The Sponsors agree that Price Waterhouse shall not be prevented from acting by reason of any conflicts of interests and this provision shall be made binding upon the OPB.

44. For the purposes of effecting this transition, the Sponsors shall act through transition teams. OPSEU's transition team shall consist of Heather Gavin, Shirley McVittie, Len Hupet, Leah Casselman, Grant MacGillivray and Paul Lane. Ontario will name its transition team by April 19, 1994. Both Sponsors reserve the right to alter the composition of their transition teams from time to time.

45. Each Sponsor shall have the right to retain such advisors as are reasonably necessary to effect this transition in a prudent manner. The costs of each Sponsor's advisors, and all disbursements, shall be paid from the Fund. Employees

of Ontario on Ontario's transition team shall be paid by Ontario. The members of OPSEU's transition team shall be granted time off with pay pursuant to Article 28 of the Collective Agreement between OPSEU and Ontario from April 11, 1994 to January 1, 1995. In addition, Ethel LaValley, Gus Collins and Noreen Angus will be provided time off with pay pursuant to Article 28 of the Collective Agreement from April 11, 1994 to May 20, 1994, inclusive.

46. Ontario's transition team will report to the Secretary of the Management Board of Cabinet. OPSEU's transition team shall report to the President of OPSEU.

G. PAYROLL DATA

47. (a) For the purposes of this section, the term "payroll data" shall mean all information in any manner relevant to Plan Members' employment and entitlement to salary and benefits, and shall include, but shall not be limited to, employees' full names, addresses, birthdates, Social Insurance Numbers, start dates, spouses, beneficiaries, wages, benefits, seniority and termination dates.

(b) Ontario shall, on or prior to the Joint Sponsorship Date, provide to the Trustees all payroll data respecting Plan Members. The payroll Data shall be accurate. It shall be accessible to the Trustees for the purpose of establishing and administering the Plan and managing the Fund.

(c) Commencing on or before the Joint Sponsorship Date, Ontario and each Participating Employer will provide and continue to provide, to the Trustees, all changes to their payroll data respecting Plan Members, including, but not limited to, all new hirings, salary and benefit alterations, name changes, changes in marital status, beneficiary changes, terminations and address changes. Such payroll data changes shall be provided forthwith as they occur.

(d) All payroll data required to be provided to the Trustees will be provided on a without cost basis.

H. TRANSFER OF ASSETS OF PSPF AND SPECIAL FUNDING

48. As of the Effective Date:

(a) all the obligations for benefits with respect to the OPSEU Members will be transferred from the PSPP to the Plan; and

(b) in consideration of the transfer of obligations, the portion of the assets of the PSPP equal to the Transferable Assets will be assumed by the Plan.

49. Ontario will undertake to pay the pro-rata share of special payments established for the purposes of the PSPP to the Plan to liquidate the Transferred Initial Unfunded Liability assumed by the Plan.

50. The Transferable Assets will be placed in a separate account under the PSPF as of the Effective Date. The separate account will be adjusted between the Effective Date and the Joint Sponsorship Date for all the customary transactions on an accrual basis including Plan Members' contributions and Ontario's matching employer and special contributions (subject to the contribution reductions described in paragraphs 52 and 53), any benefit payments with respect to Plan Members, administration expenses related to the operation of PSPP and the Public Service Pension Fund with respect to Plan Members, expenses for the set up of the Plan and the Fund, interest, dividends, capital gains or losses (realized and unrealized), principal repayments with respect to the Transferable Assets and any other receipts or payments attributable to the Transferable Assets or Plan Members' obligations. As of the Joint Sponsorship Date, an amount of assets equal to the balance of the separate account will be transferred from the PSPF to the Fund. The transfer of assets will be in kind and not in cash, to the extent possible.

51. Upon the transfer of assets from the PSPF to the Fund described in paragraph 50, the PSPP will be discharged of all obligations with respect to any benefits related to OPSEU Members and assumed by the Plan.

52. Ontario shall reduce the special contributions and then the matching employer contributions otherwise required from Ontario under the Plan for the period April 1, 1994 through March 31, 1997 in the amounts that are the greater of (a) and (b) where :

(a) is the appropriate amount from the following table:

(i) April 1, 1994 to March 31, 1995: $130 million;

(ii) April 1, 1995 to March 31, 1996: $131 million; and

(iii) April 1, 1996 to March 31, 1997: $131 million; and

(b) for each year commencing on or after April 1, 1994 and ending March 31, 1997 equals the sum of (i) and (ii), prior to the contribution reductions provided herein, where:

(i) is the amount of special contributions otherwise payable by Ontario for the Transferred Initial Unfunded Liability for the year; and

(ii) is the amount calculated for the year under subparagraph (iii);

(iii) is the appropriate amount from the table below multiplied by the proportion described in subparagraph (iv):

- April 1, 1994 to March 31, 1995: ($312 minus $123) million;
- April 1, 1995 to March 31, 1996: ($315 minus $130) million; and
- April 1, 1996 to March 31, 1997: ($315 minus $137) million;

(iv) is the proportion obtained from the formula (A/B + .008) where:

- A equals OPSEU Members' contributions to the PSPP; and

- B equals all members' contributions to the PSPP,

for the year commencing after December 31, 1992 as calculated by the Board Actuary on the basis of the data upon which the Actuarial Report was prepared.

53. Ontario and the Members of the Plan will further reduce their contributions to the Plan as follows:

(a) a reduction shall be made in each Member's contribution equal to 1% of salary for the period April 1, 1994 to March 31, 1997;

(b) a reduction shall be made in the matching employer contribution required from Ontario equal to 1% of members' aggregate salaries for the period April 1, 1994 to March 31, 1995; and

(c) a reduction shall be made in an amount equal to the aggregate special payments required to amortize any unfunded liability with respect to Factor 80 by March 31, 1997.

54. Any net actuarial gains remaining as at December 31, 1995, as determined by an actuarial valuation as of that date, after recognizing the reductions described in paragraphs 52, and 53, such net actuarial gains to be accumulated with interest at the valuation rate of interest to March 31, 1997 will be applied to reduce the remaining amount of the Transferred Initial Unfunded Liability as of March 31, 1997. Ontario's special contribution requirements will be restated over the period April 1, 1997 through December 1, 2029, in order to liquidate the resulting balance of the Transferred Initial Unfunded Liability over that period.

55. Any net actuarial losses remaining as at December 31, 1995, as determined by an actuarial valuation as of that date, after recognizing the reductions described in paragraphs 52, and 53, such net actuarial losses to be accumulated with interest at the valuation rate of interest to March 31, 1997 will be liquidated through

future additional contributions from Ontario and the members as collectively bargained.

56. Any net actuarial gains remaining as at December 31, 1995, as determined by an actuarial valuation as of that date, after recognizing the effect of paragraphs 52, 53, and 54, and any actuarial gains disclosed under an actuarial valuation prepared as of December 31, 1996, all such actuarial gains to be accumulated with interest at the valuation rate of interest to March 31, 1997, and any actuarial gains disclosed under an actuarial valuation prepared as of a date after March 31, 1997, will be utilized in the following order:

(a) until the Transferred Initial Unfunded Liability is fully liquidated:

(i) 50% of the gain shall be used to reduce the remaining Transferred Initial Unfunded Liability and the period of amortization over which the Transferred Initial Unfunded Liability is to be fully liquidated shall be adjusted to reflect the reduction; and

(ii) 50% of the gain shall be used for the benefit of Plan Members;

(b) after the Transferred Initial Unfunded Liability is fully liquidated, 100% of the remaining gains shall be used for the benefit of the Plan Members subject to the PBA until the aggregate gains so utilized equal the amount utilized under paragraph 54;

(c) thereafter, the remaining gains shall be used equally for the benefit of Ontario and OPSEU subject to the following:

(i) 50% of the gain or such other amount as may be collectively bargained shall be used for the benefit of Ontario, to be applied against any special payments required to be made by Ontario and thereafter to reduce Ontario's normal costs; and

(ii) 50% of the gain or such other amount as may be collectively bargained shall be used for the benefit of Plan Members.

57. Subject to the Income Tax Act (Canada), actuarial gains may be used to establish rate stabilization funds. Actuarial gains for the benefit of Plan Members under paragraph 56 may be used to establish a rate stabilization fund for the benefit of the Members. Actuarial gains for the benefit of Ontario under Section 56(c)(i) may be used to establish a rate stabilization fund for the benefit of Ontario.

58. In the event of any actuarial loss or solvency deficiency, contributions by the Members and Ontario shall be increased in equal amounts to liquidate the actuarial loss or solvency deficiency in accordance with the PBA. The contribution increase will be automatic, and effective as of the first day of January of the year after the actuarial valuation was filed, or such earlier date as may be required by the PBA; provided that no contribution increase will be provided for any actuarial loss or solvency deficiency prior to April 1, 1997, and provided further that the Members, and Ontario, may provide for their payments in respect of such actuarial loss or solvency deficiency from their rate stabilization funds, at their option.

I. COSTS OF THE SUCCESSORSHIP

59. The reasonable costs incurred by the Sponsors, between March 28, 1994 and the date on which the Trustees assume all administrative and investment functions with respect to the OPSEU Plan and the OPSEU Fund, other than costs in respect of their own officers and employees, shall be paid from the Fund.

60. The reasonable costs incurred by the Trustees, between the date of their appointments and the date on which the Trustees assume all administrative and investment functions with respect to the Plan and the Fund, shall be paid from the Fund.

J. TIMETABLES

61. The Sponsors shall make their best efforts to complete the following things on or before the following dates:

Action:	Date:
Finalize sponsorship agreement	April 18, 1994
Execute sponsorship agreement	April 18, 1994
Name transition team	April 19, 1994
Finalize trust agreement	April 22, 1994
Disclosure by OPB	April 22, 1994
Draft plan text to OPSEU	April 29, 1994
Draft plan text finalized and adopted	May 18, 1994
Ratification	May 13, 1994
Sponsors appoint trustees	October 29, 1994
Execute trust agreement	October 30, 1994
Trustees adopt statement of investment goals and policies	October 30, 1994
Plan text filed with PCO and with Revenue Canada	Within 2 weeks of enactment of legislation
Plan manager appointed	Within 2 weeks of enactment of legislation
Plan manager hires team	August 30, 1994
Appointment of actuary, auditor,	October 30, 1994

lawyer, custodian, investment managers	
Office space, furnishings, supplies in place	January 1, 1995
Trustees' employees in place	January 1, 1995
Assets transferred to OPSEU Fund	January 1, 1995;

K. IMPLEMENTING LEGISLATION

62. To give effect to the terms of this agreement, Ontario will make its best efforts to implement by legislation, regulation or order in council as follows:

(a) Transitional Matters:

(a) to continue the PSPP as the pension plan for the members of the PSPP who do not become members of the OPSEU Plan;

(b) to provide for the registration of amendments to the PSPP by the Superintendent of Pensions;

(c) to provide for the transfer of assets and liabilities from the PSPP and from the Public Service Pension Fund to the OPSEU Plan and Fund in accordance with this agreement;

(d) to provide that the amendments to the PSPP contemplated by this agreement do not constitute an adverse amendment under s. 26 of the PBA requiring notice to members;

(e) to provide for the registration of the OPSEU Plan by the Superintendent of Pensions;

(f) to provide for the payment by Ontario of special payments and matching contributions into the OPSEU Fund for the period April 1, 1994 to March 31, 1997 in accordance with this agreement;

(g) to provide that no new obligation to make special payments into the Fund shall be created for the period up to and including March 31, 1997;

(h) to provide for the payments out of the Fund in accordance with Section I;

(i) to require the OPB to transfer the Transferable Assets in the separate account from the PSPF to the Fund as of the Joint Sponsorship Date, with such assets to be determined by the Sponsors, provided that the Fund shall receive, to the extent possible, a pro rata share of investments in each class and category of investments held by the PSPF;

(b) Exemptions of the OPSEU Plan from the PBA and Other Statutory Matters:

(j) to provide that the liquidation of the initial unfunded liability described in ss. 8 to 10 of the PSPA is solely the responsibility of Ontario;

(k) to provide that the portion of the initial unfunded liability described in ss. 8 to 10 of the PSPA that is assumed by the OPSEU Plan will continue to be liquidated through a series of special payments over 40 years as described in s. 10 of the PSPA; for greater clarity, the initial unfunded liability shall be liquidated in accordance with this agreement and not in accordance with s. 11 of the PSPA;

(l) to provide that notwithstanding the PBA and the regulations thereunder, the receipt and holding by the Board of Trustees of debentures issued under s. 7 of the PSPA shall not be considered to be imprudent or unreasonable or contrary to the PBA and regulations thereunder, and the nature, amount and terms of the debentures may

be taken into account by the Board of Trustees and any committee of the Board of Trustees in determining future investments of the assets of the OPSEU Plan, and to exempt the OPSEU plan from the provisions of ss. 22(1) and s. 62 of the PBA to this extent only;

(m) to exempt the OPSEU Plan from the provisions of s. 5 of the Regulations of the PBA with respect to the funding of the initial going concern unfunded liability only;

(n) to exempt the OPSEU Plan and the PSPP from the provisions of s. 19(7) of the Regulations of the PBA with respect to subsequent transfers between the two plans of bargaining units;

(o) to provide that the costs of the Factor 80 program (as set out in s. 41 of the PSPP) will be paid out of the Public Service Pension Fund and out of the Fund;

(p) to provide for the application of actuarial gains in the OPSEU plan as described in Section H of this Agreement;

(q) to require those Ontario Crown agencies, boards and commissions who employ members of OPSEU to be participating employers of the OPSEU Plan as defined in the Trust Agreement;

(r) to provide for the status of the OPSEU Plan as described in paragraphs 2 and 8, above;

(s) to provide for the transfer of bargaining units and groups of members between the OPSEU Plan and the PSPP in accordance with this agreement;

(t) to require that in the preparation of any actuarial valuation report the actuary will prepare the report in accordance with the requirements of the Implementing Legislation, using assumptions appropriate for the Plan and methods consistent with sound principles established by

precedent and common usage within the actuarial profession and otherwise in accordance with the PBA;

(u) to provide that employees of the OPSEU Fund may be members of the OPSEU Plan; and

(v) to bind the Ontario Pension Board (the "OPB") and the PSPP to comply with the terms of this agreement.

63. To the extent possible, Ontario intends to implement the Implementing Legislation through one bill.

64. The legislation referred to in Section K may be reviewed in draft form by OPSEU's lawyer, actuary, Heather Gavin and Len Hupet, at the offices of Ontario's legal counsel, provided that OPSEU will not be permitted to retain a copy of the draft legislation.

L. ENFORCEMENT

65. Any dispute with respect to the interpretation or application of this agreement or the terms of any other agreement or document that the Sponsors must execute pursuant to this agreement, may be referred by either Sponsor to final and binding arbitration. Either of the parties may notify the other in writing of its desire to submit a difference or dispute to arbitration and the notice shall contain the name of the first party's appointment to an Arbitration Board. The recipient of the notice shall within five (5) days inform the other party of the name of its appointee to the Arbitration Board. The two (2) appointees so selected shall, within five (5) days of the appointment of the second of them, appoint a third person who shall be the Chairperson. If the recipient of a notice fails to appoint an arbitrator, or if the two appointees fail to agree upon a Chairperson within the time limit, either party may request that the appointment shall be made by the Chief Justice for Ontario. For greater certainty, no decision of the arbitrator can impose any additional financial burden or obligation on any of the sponsors, the OPB or the PSPF that is not agreed to as part of this agreement or otherwise agreed to between the parties.

M. MISCELLANEOUS

66. Upon proclamation of the Implementing Legislation, OPSEU will withdraw, with prejudice (but without any admission that such proceedings were not meritorious) and without costs, all legal proceedings commenced on or before April 18, 1994, concerning the establishment and administration of the PSPP.

67. The OPSEU Plan and Fund will not assume any costs associated with any rate stabilization fund that may be established for the PSPP.

68. Each of the parties hereto agrees to promptly do, make, execute, deliver or cause to be done, made, executed or delivered all such further acts, documents and things as may reasonably be required for the purpose of giving effect to this agreement, whether before or after the Joint Sponsorship Date.

IN WITNESS WHEREOF the parties hereto have hereunto executed this Sponsorship Agreement at Toronto, Ontario, on the 18th day of April, 1994.

FOR OPSEU

FOR ONTARIO:

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APPENDIX "B"

OUTSTANDING TECHNICAL/HOUSEKEEPING AMENDMENTS TO PSPP

March 31, 1994

- **Amend Section 8:**
  - To clarify where a leave of absence is for:
    - more than one month: the member may contribute and receive credit for service;
    - one month or less: contributions are required, and credit is automatic.

  - To limit the length of credited service for leaves of absence for a member to 5 years, and to an additional 3 years for pregnancy/adoption of child. The limitation is required by the *Income Tax Act*, and has been in effect since January 1, 1992.

- **Revoke Section 9 of the Plan:**
  - The Income Tax Act does not permit a plan to bridge a member to retirement after the member is terminated from employment.

- **Amend Section 11:**
  - reflect the conditions that Revenue Canada require in the case of buybacks with a prior employer

- **Amend section 13:**
  - to permit the designation of a refund recipient. This would tie in with a requirement under the Same-sex spouse supplementary plan that a member designate the same-sex spouse as the refund recipient under the Plan. The purpose is to ensure that the total outlays for same-sex situations do not exceed those for similarly situated other-sex situations. [Similar amendments will be required in other parts of the plan]

- **Amend section 14:**
  - reflect the limitations on the payment of disability pensions stipulated under the *Income Tax Act*. Related amendments will be required in other parts of the plan.

- **Amend section 19:**
  - clarify that when a former member who is pre-deceased by his/her spouse dies, and the member has eligible children, that the spousal pension is payable to the children

- **Amend section 26:**
  - clarify that where a pensioner is re-employed and commences to contribute to the plan, that the payment of the pension ceases

- **Amend section 27:**
  - add the term "surrender" to the list of prohibited transactions. This requirement was brought to the attention of the Ontario Pension Board by Revenue Canada.

APPENDIX "C"

1. Definitions:

(a) "Actuarial Report" means the report on the actuarial valuation of the Ontario Public Service Pension Plan as at December 31, 1992 prepared by William M. Mercer Limited and dated February, 1994;

(b) "Board Actuary" means William M. Mercer Limited;

(c) "Debentures" means the special provincial debentures held under the Public Service Pension Plan as at December 31, 1992 and described in Appendix 5 of the Actuarial Report including accrued interest on the debentures;

(d) "Government Actuary" means the Chief Actuary, Ontario Management Board Secretariat;

(e) "Marketable Assets" means all securities, instruments and assets, other than the Debentures, held under the Public Service Pension Plan as at December 31, 1992, including receivables and fixed assets;

(f) "Net Actuarial Liability" means the sum of the value of future benefits in respect of former members and active members less the value of future contributions of employees and the employer as at December 31, 1992, as described in the valuation balance sheet included on page 29 of the Actuarial Report;

(g) "OPSEU Actuary" means an actuary or a firm of actuaries appointed by OPSEU for the purposes of this Appendix C;

(h) "OPSEU Net Actuarial Liability" means the portion of the Net Actuarial Liability that pertains to OPSEU members based on the data with respect to the OPSEU Members and the members of the PSPP as included in the Actuarial Report, as calculated by the Board Actuary

and verified for overall reasonableness by the Government Actuary and the OPSEU Actuary; and

(i) for the purposes of this Appendix "C" and Section H only, "OPSEU Members" means persons described in paragraphs 39 (a) and (b) who were members of the PSPP on December 31, 1992.

2. Transferable Assets:

The percentage of each of the two classes of assets, namely the Debentures and the Marketable Assets, that will constitute Transferable Assets as of the Effective Date will be the product of (a) and (b) below, where:

(a) is the percentage obtained by dividing the OPSEU Net Actuarial Liability by the Net Actuarial Liability; and

(b) is 1 + (1.4 / 27.6)

3. Transferred Initial Unfunded Liability:

(a) The Transferred Initial Unfunded Liability of the Plan as of December 31, 1992 equals (i) plus (ii) minus (iii) below, where:

(i) is OPSEU Net Actuarial Liability;

(ii) the percentage in s. 2(a) above multiplied by the provision for actuarial expenses set forth in the balance sheet on page 29 of the Actuarial Report; and

(iii) is the actuarial value of the Transferable Assets using the methods described in the Actuarial Report as calculated by the Board Actuary and verified for overall reasonableness by the Government Actuary and the OPSEU Actuary.

(b) The special payments that Ontario undertakes to pay to the Plan will be the pro-rata share of the special payments established under the PSPP

remaining as of December 31, 1992 as described in the Actuarial Report. The pro-rata share equals (i) divided by (ii), below, where:

(i) is the Transferred Initial Unfunded Liability of the Plan described in sub-paragraph 3(a) of this Schedule; and

(ii) is the value of remaining payments against initial unfunded liability less the experience gain, both as stated in the valuation balance sheet included on page 29 of the Actuarial Report.

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF ONTARIO AS REPRESENTED BY THE MINISTRY OF GOVERNMENTAL SERVICES
("Ontario")

-and-

THE ONTARIO PUBLIC SERVICE EMPLOYEES UNION
("OPSEU")

Letter of Agreement

Preamble

Whereas Ontario and OPSEU are together the sponsors of the OPSEU Pension Plan , also referred to as the OPSEU Pension Plan Trust Fund("OPT") ("the Sponsors");

And whereas the 2012 Ontario Budget announced a number of measures to affect Ontario's public sector Jointly Sponsored Pension Plans ("JSPPs);

And whereas the OPT is among those JSPPs; And whereas the Government indicated its intention to introduce legislation to achieve the goals of ensuring that measures used to ensure a plan's funding do not result in an increase to employer's costs beyond what had already been agreed to; and to introduce a legislative framework that would pool broader public sector pension plans' assets and to appoint an advisor to lead public consultations and develop the framework for such pooling;

And whereas the OPT would be among the JSPPs affected by such legislation if introduced;

And whereas the Government entered into discussions with representatives of the Sponsors of the OPT with a view to reaching an agreement which would preclude the need for legislation in respect of the OPT;

And whereas the Government agreed that if such an agreement could be reached, then: the assets of the OPT would not be subject to any pooling regime; the agreement would be subject to Government review to ensure the stated objectives were met, but plan autonomy and governance would otherwise not be affected; the plan would not be required to file an annual valuation during the freeze even if it otherwise would be required to under a new "funding concerns test" which applies to defined benefit pension plans which are not required to fund on a solvency basis; and the Government would not introduce legislation as described above with respect to the OPT ("the Basic Government Commitments");

And whereas in the course of negotiations, the Government agreed to such further matters should the Sponsors be able to reach agreement (together with the Basic Government Commitments, "the Government Commitments");

And whereas the Sponsors of the OPT were able to reach an agreement as confirmed in a Term Sheet dated October 22, 2012 and which Term Sheet, signed by duly authorized representatives of the Sponsors, was provided to the Minister of Finance for his review;

And whereas in a letter dated October 22, 2012 ("the Minister's Letter") provided to the Sponsors, the Minister of Finance confirmed the Government's position that the Term Sheet, subject to implementation in accordance with its terms, did fully meet the government's objectives and further confirmed the Government Commitments as described in the Minister's Letter (attached as Appendix A to this Letter of Agreement);

And whereas as a consequence, the Government confirmed that, subject to theSponsors implementing the requirements of the Term Sheet, the Government would fulfill the Government Commitments including any necessary regulatory changes to implement the Government Commitments and give effect to the Term Sheet;

And whereas the Sponsors now wish to ensure the implementation of the Term Sheet in respect of OPT according to that confirmation by the Government;

The Sponsors now agree as follows:

I. Terms and Conditions of an Operative Letter Agreement

1. The operation of this Letter of Agreement is dependent upon and shall only occur provided the Government makes the Necessary Regulatory Changes as set out in the Minister's Letter by filing an amendment to Regulation 909 under the Pension Benefits Act on or before December 31, 2012 to allow for a single four-year valuation cycle for a valuation filing that would otherwise be required to be made during the Freeze Period subject to the following conditions:

    a. at least one valuation is filed during the Freeze Period;

    b. there are no more than four years between the valuation dates of filed valuations; and

    c. any benefit reductions arising from valuations filed during the Freeze Period are implemented in accordance with the General Principles (set out in Section II A below) and Parameters (set out in Section II B below) herein.

2. Failing the making and filing of the amendment to the said Regulation, the Letter of Agreement is of no force or effect.

3. The operation of this Letter of Agreement is also dependent upon and shall only occur provided that the Government fulfills the Government Commitments as described above and in the Minister's Letter and takes no actions contrary to those Commitments with respect to the OPT.

4. Provided the requirements of paragraphs 1, 2 and 3 are fulfilled, this Letter of Agreement operates during the Freeze Period notwithstanding any other provision of the Sponsorship Agreement dated April 18, 1994 or any other provision of the pension plan.

5. This Letter of Agreement is operative only during the Freeze Period as herein after defined, with the exception of the provisions of paragraph 18 which shall continue in operation until the provisions therein are exhausted.

6. This Letter of Agreement ceases to be operative and is of no further force or effect as of 12:01 a.m. on December 31, 2017, with the exception of the provisions of paragraph 18 which shall continue in operation until the provisions therein are exhausted.

7. This Letter of Agreement is an addendum to and forms part of the SponsorshipAgreement.

II. Terms to be Operative During the Freeze Period

A. General Principles

8. The Freeze Period means the period beginning at 12:01 a.m. on December 31, 2012 and ending at 12:01 a.m. on December 31, 2017.

9. During the Freeze Period there will be no employer contribution increases except as provided for below. An employer contribution increase is defined as any increase in the employer contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period. Employer' contribution increases already scheduled to occur during the Freeze Period as a result of valuations filed with an effective valuation date before December 31, 2012 will occur.

10. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no benefit improvements unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit improvement amendments come into effect, meets or exceeds 105 per cent, and the benefit improvement will not bring the going concern funded status below 105 per cent as of the effective date of the amendment.

11. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the

Sponsors or the Plan, there will be no restoration of benefits reduced as a result of application of these General Principles unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit restoration amendments come into effect, meets or exceeds 100 per cent and the restoration will not bring the going concern funded status below 100 per cent as of the effective date of the amendment.

12. Ad hoc indexation is not considered to be a benefit improvement or restoration and Plan amendments to provide or restore ad hoc cost of living increases to pensioners can be made, provided the Plan's going concern funded status on the date that the cost of living increase is agreed upon (based on the most recently prepared valuation report with a valuation date that is no more than twelve months earlier and that uses the same valuation methodology and assumptions that would apply to a filed valuation) exceeds 100 per cent and the cost of living increase will not bring the going concern funded status below 100 per cent as of the effective date of the amendment.

B. Valuations and Consequential Actions During the Freeze Period

13. Should any draft valuation prepared for filing during the Freeze Period disclose a funding circumstance in which employer contribution increases would normally be implemented, (ie. a funding shortfall) the funding circumstance must be addressed within the following Parameters. Any valuation filed during the Freeze Period will conform to the General Principles above and the Parameters as follows:

a. During the Freeze Period there will be no employer contribution increases except as provided for below. A contribution increase is defined as any increase in the contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period.

b. Any future benefit reductions determined to be required in order to meet the General Principles and these Parameters during the Freeze Period will not exceed twenty per cent (20%) of the aggregate value of future benefits determined at the date of the benefit reductions based on the Plan provisions in effect on December 31, 2012 ("the Benefit Reduction Limit"). For clarity, twenty per cent (20%) is measured on a cumulative basis in the Freeze Period. Benefit reductions implemented pursuant to a valuation filed in 2012 shall be taken into account for purposes of calculating the 20% Benefit Reduction Limit.

c. Any future benefit reductions, if necessary, will be implemented with an effective date that is no later than the earlier of:

i. two years following the valuation date of the filed actuarial valuation, or

ii. December 30, 2017.

d. In no case will future benefit reductions implemented as a result of the General Principles and/or Parameters affect or reduce pension benefits or ancillary benefits accrued prior to the implementation date of the benefit reduction(s). Ancillary benefits will be considered to have accrued, if, as of the implementation date of the benefit reduction, the person will have met all of the eligibility requirements to exercise the right to receive the ancillary benefits.

e. Sponsors' agreement on future benefit reductions would be effected by a Plan amendment to be prepared and filed within 60 days of agreement or outcome of the dispute resolution process.

f. Once the Benefit Reduction Limit has been reached, subject to the results of the dispute resolution process where applicable, the Sponsors will return to their usual process and make use of their usual tools (e.g., employer and member contribution rate increases and/or benefit reductions beyond the benefit reduction limit) to determine the steps necessary to avoid:

i. any remaining shortfall identified in the draft valuation; or

ii. a future new funding shortfall identified in a subsequent draft valuation during the Freeze Period.

g. Any valuation filed during the Freeze Period must be filed on or before September 30 of the year of filing.

C. Dispute Resolution

14. Any dispute with respect to the interpretation or application of this Letter of Agreement may be referred by either Sponsor to final and binding arbitration. Either of the parties may notify the other in writing of its desire to submit a difference or dispute to arbitration and the notice shall contain the names of the first party's appointment to an Arbitration Board. The recipient of the notice shall within five (5) days inform the other party of the name of its appointee to the Arbitration Board. The two (2) appointees so selected shall, within five (5) days of the appointment of the second of them, appoint a third person who shall be the Chairperson. If the recipient of a notice fails to appoint an appointee, or the two appointees fail to agree upon a Chairperson within the time limit, either party may request that the appointment shall be made by the Chief Justice for Ontario.

15. In the event that a dispute arises with respect to the interpretation or application of paragraph 13 in particular, all steps to appoint an Arbitration Board as set out in paragraph 14 will be taken on or before 60 days before September 30. The decision of the Arbitration Board shall be issued at least 20 days before September 30.

16. In the event that a dispute arises with respect to the interpretation or application of paragraph 13 in particular, the Arbitration Board's mandate will be restricted to determining the means by which the obligations in the Letter of Agreement will be carried out and will be subject to the same restrictions applicable to the Sponsors regarding the available options and for greater certainty will exclude an increase in employer contributions during the Freeze Period.

D. End of the Freeze Period

17. At the end of the Freeze Period, the Letter of Agreement expires and any obligations to conform to the Letter of Agreement, and any measures taken in accordance with it, end with the exception of the provisions in paragraph 18.

18. After the end of the Freeze Period, if the plan's going concern funded status (based on the most recently filed valuation report with a valuation date after December 30, 2017) exceeds 100 per cent, OPSEU on behalf of the plan beneficiaries would have "first call" on 100 percent of the actuarial gains disclosed under a valuation report with a valuation date after December 30, 2017, up to a cumulative total of the value of either: the benefit reductions that are made and apply to plan beneficiaries during the freeze period; or the benefit reduction limit, whichever is lower. The "first call" on surplus (to take the form of "surplus credits") would be subject to the following conditions:

    a. Surplus credits would only take into account the value of benefit reductions made and implemented during the Freeze Period, which will include the value of benefit reductions made to achieve a balanced valuation with a valuation date of December 31, 2011 or January 1, 2012.

    b. The surplus credits are to be used by OPSEU to restore the same benefits that were reduced during the freeze period.

    c. This is a one-time arrangement intended to compensate plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the Government initiated freeze period and is without prejudice or precedent for any future situation.

    d. This surplus credit arrangement does not apply to changes to indexing provisions which include restoration features.

E. Other Matters

19. The Sponsors will ensure that the cooperation of the Administrator is secured in relation to all aspects of the Letter of Agreement, including but not limited to the preparation of the draft valuation, the filed valuation, and applying for any necessary extension of the timelines for filing actuarial valuations and/or Plan amendments as may be necessary to give effect to the Letter of Agreement.

20. This Letter of Agreement is valid if signed in counterpart.

Agreed this 19th day of December, 2012.

FOR OPSEU

FOR ONTARIO

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS
Date: Tuesday, November 22, 2016 16:17:52
Attachment 1: FW: Post AG Update (and requested actions)
Attachment 2: RE: Status update on OPSEUPP history (for Expert Panel)
Attachment 3: image003.jpg

Here's what we got from TBS. It doesn't really get to the heart of the matter.

I asked Mike to send me the OPSEU sponsorship agreement which describes how the reserve funds operate. He will prepare a note by tomorrow noon that summaries this information.

From: MacPherson, Michael (TBS)
Sent: November 22, 2016 3:08 PM
To: Pomykacz, Rob (MOF)
Cc: Smithies, Roger (TBS)
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Rob,

See below note (and attachments) I just flipped to Roger. All material was sent to Nadine Petsche and Pauline Fong. Cindy Veinot was not copied.

Thanks

Mike

From: MacPherson, Michael (TBS)
Sent: November-22-16 2:53 PM
To: Smithies, Roger (TBS)
Subject: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS

Hi Roger,

The relevant info shared with Pauline Fong and Nadine Petsche of Accounting Policy and Financial Reporting Branch, TBS is attached. There were 2 emails (Sept. 8 and Oct. 26) that were sent. The October 26 email included 2 documents – Historical Overview of OPSEU Pension Plan and the other is the spreadsheet identifying the results of the experience analysis and how those actuarial gains or losses were applied.

Subsequent to the October 26th email, you will recall we had a discussion with Nadine. At that time Nadine advised that a future discussion would be arranged that would include Pauline. That discussion never occurred.

Thanks

Mike

Michael MacPherson

Pension Consultant, Pensions Policy Unit

Total Compensation Strategies Branch

Centre for Public Sector Labour Relations and Compensation

Treasury Board Secretariat

77 Wellesley St. W, Ferguson Block, 13th Floor, M7A 1N3

P. 416.325.7246 F. 416.327.8402

From: MacPherson, Michael (TBS) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Smithies, Roger (TBS) [Roger.Smithies@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Jozefacki, Janette (TBS) [Janette.Jozefacki@ontario.ca]
Subject: FW: Post AG Update (and requested actions)
Date: Thursday, September 08, 2016 17:17:49
Attachment 1: image002.jpg

Hi Nadine,

Please see the responses to your queries below:

1) We are not aware of other plans in other jurisdictions. For OPSEUPP, the Ministry of Finance sets the economic assumptions for the accounting valuation. The discount rate for funding purposes is determined by the actuary applying stochastic modelling techniques to OPSEUPP asset mix and a set of asset return assumptions for each asset class.

2) As each valuation is for a different purpose, the assumptions are based on different approaches. The purpose of the accounting valuation is to establish accounting cost and determine the pension plan's benefit obligation so the discount rate reflects market rates currently applicable for settling benefit obligations using the rates of return on high quality fixed income securities at the measurement date.

The purpose of the funding valuation is to determine cash contributions to the pension plan. Both the going concern valuation interest rate and the solvency valuation interest rate are based on the expected future rates of returns on the pension plan assets.

3) We have no issue with the wording for *.052* note.

Thanks

Mike

Michael MacPherson

Pension Consultant, Pensions Policy Unit

Total Compensation Strategies Branch

Employee Relations Division

Treasury Board Secretariat

77 Wellesley St. W, Ferguson Block, 13th Floor, M7A 1N3

P. 416.325.7246 F. 416.327.8402

From: Smithies, Roger (TBS)
Sent: September-07-16 5:18 PM
To: MacPherson, Michael (TBS)
Cc: Elstone, Karen (TBS)
Subject: FW: Post AG Update (and requested actions)

Mike –

Can you please prepare responses to the questions that belong to us.

Thank you.

Roger

From: Petsche, Nadine (TBS)
Sent: September 7, 2016 4:43 PM
To: Killoch, Alex (MOF); Smithies, Roger (TBS)
Cc: Jozefacki, Janette (TBS); Vannelli, Michael (TBS); Pomykacz, Rob (MOF); Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca); Patel, Bharat (TBS); Fong, Pauline (TBS)
Subject: Post AG Update (and requested actions)

Alex/Roger,

As per my previous email, we met with the AG and her staff earlier today and had a chance to discuss her remaining concerns w.r.t. the Province's reported asset. There are a couple of follow up actions that we need your help on as related to OTPP and OPSEUPP.

1) The AG noted that the discount rates for accounting purposes for most other senior Canadian government plans are consistent with the rates used for contribution funding purposes, and that Ontario's situation is unique in that regard. Wondering if you can confirm the AG's statement.

2) For OTPP and OPSEUPP, please provide an explanation as to why we would use a different discount rate for purposes of the Province's accounting vs. rates used by the plans for contribution funding purposes.

(For Alex -- With regards to OTPP in particular, the AG noted that the TP reports a surplus of 6.5B while for funding purposes a 13.5 B surplus is reported vs. ON's calculation of a $20B surplus. Cindy has requested information on why the TP reported surplus would be lower than the funding surplus, and even lower than the 20B surplus calculated by the Province. Since the TP amount of $6.5B is audited, one wouldn't expect it to be so different than that calculated by ON.)

3) The AG would like to see additional note disclosure related to the reported pension asset which comments on the Province's ability to access economic benefits from the asset. Recognizing that the wording on such a note would be sensitive, we thought you

might want to take a first attempt at drafting potential wording. For reference, we are including below the extract from PSAB which references the potential to benefit. Note that the wording does not ‘mandate’ that the government has to be able to withdraw the surplus.

.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.

Please give me a call if you would like to discuss.

Thanks in advance.

Nadine

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From: MacPherson, Michael (TBS) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Smithies, Roger (TBS) [Roger.Smithies@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
Subject: RE: Status update on OPSEUPP history (for Expert Panel)
Date: Wednesday, October 26, 2016 12:55:24
Attachment 1: OPSEU Actuarial Gain or Loss Allocation History.xlsx
Attachment 2: OPSEU Historical Overview.pdf

Attached please find a spreadsheet with accompanying notes for our discussion at 1:30. Also I've added is a pdf document that outlines the history of the benefit improvements and use of the rate stabilization funds for both employer and member up to December 31, 2007. From 2007 to present, all RSF allocation has been put towards paying down the plan's going-concern deficit.

Mike

-----Original Appointment-----
From: Petsche, Nadine (TBS)
Sent: October-25-16 11:30 AM
To: Smithies, Roger (TBS); Fong, Pauline (TBS); MacPherson, Michael (TBS)
Subject: Status update on OPSEUPP history (for Expert Panel)
When: October-26-16 1:30 PM-2:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: teleconference 416 212 8014 (1474532#)

Roger/Michael,
In light of the fast track for preparing work for the upcoming Pension Asset Expert Advisory Panel, we would like to touch base on the status of the information request.
Thanks.
Nadine

TBS

From: Pomykacz, Rob (MOF) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Info Shared w/Accounting Policy and Financial Reporting Branch of TBS
Date: Wednesday, November 23, 2016 13:09:03
Attachment 1: Role of Sponsors in Allocation of Actuarial Gains_Losses in OPSEU PP.docx

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Please find attached the note prepared by TBS on the OPSEU arrangement.

Let me know if you have any questions.

Thanks,

Rob

TBS

Information Note

Employee Relations Division
Total Compensation Strategy Branch

Joint Sponsors' Role and Responsibilities - OPSEU Pension Plan Allocation of Actuarial Gains or Losses

Issue:
Ministry of Finance requested information regarding the role and responsibilities of the sponsors with respect to the allocation of actuarial gains or losses in the OPSEU Pension Plan.

Current Status:
Actuarial gains and losses are recognized in years that an actuarial valuation is filed with Financial Services Commission of Ontario (FSCO).

Background:
A pension plan has actuarial gains or losses each year because the actual events during the year ("experience") do not exactly match the long-term assumptions previously made. Gains or losses on plan assets occur because the actual investment returns were higher or lower than anticipated. Gains or losses on actuarial liabilities can occur because long-term assumptions (e.g., mortality, salary increases, termination, retirement, economic) were not met.

Under the April 18, 1994 Sponsorship Agreement, between Ontario and OPSEU, emerging actuarial gains or losses are to be shared equally between the employer and the members. The employer share of actuarial gains is to be used to reduce the Transferred Initial Unfunded Liability (TIUL) (the unfunded liability established at the initial valuation date of January 1,1993).

Under the Sponsorship Agreement, actuarial gains attributed to the Employer must be used to reduce the TIUL. The TIUL was eliminated in April 2002. The Sponsorship Agreement also states that after the TIUL is fully liquidated, employer allocated gains "shall be used for the benefit of Ontario, to be applied against any special payments required to be made by Ontario and thereafter to reduce Ontario's normal costs." In addition, the Sponsorship Agreement states: "Actuarial gains for the benefit of Ontario under Section 56(c)(i) may be used to establish a rate stabilization fund for the benefit of Ontario."

The Jointly Sponsored Pension Plan Letter of Agreement between Ontario and OPSEU dated October 22, 2012 outlines General Principles and Parameters to the application of

gains or losses based on the Plan's most recently filed valuation on a going concern, non-smoothed basis during the Freeze Period of December 31, 2012 and December 31, 2017.

Under the Sponsorship Agreement and the Plan text, the Employer has the option to apply their share of the gains to reduce Employer costs (special payments, reduce contributions, contribution holiday, etc.), or allocate the gains to the Employer Rate Stabilization Reserve (RSR).

To date, the actuarial gains have been allocated towards the establishment of the RSR, contribution reductions or benefit improvements, at the discretion of the Plan Sponsors. The Employer and Member reserves have been used to cover the cost of negotiated temporary benefit changes (Factor 80 and Surplus Factor 80), to fund future potential losses, and cover any required amortization payments for prior year losses.

Under the Sponsorship Agreement, at no time shall the Sponsors provide for or permit any payment of surplus out of the Fund to Ontario, or any employer participating in the Plan. For greater certainty, the use of actuarial gains to offset Employer Contributions and any going concern unfunded liability or solvency deficiency does not constitute the payment of surplus out of the Fund.

In its history, the OPSEU Pension Plan has not reported excess surplus as per section 147.2(2) of the Income Tax Act.

Prepared by:
Name: Michael MacPherson
Branch: Total Compensation Strategies Branch
Division: Centre for Public Sector Labour Relations and Compensation Division, TBS
Date: November 23, 2016

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: JSPP term sheet - signed copy
Date: Friday, September 16, 2016 15:34:11
Attachment 1: Signed OTPP term sheet with Appendicies.pdf

Were you able to determine if this got to Len?

From: Roberto, Nicole (EDU)
Sent: Thursday, September 15, 2016 4:53 PM
To: Pomykacz, Rob (MOF); Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Franks, Sebastian (EDU)
Subject: JSPP term sheet - signed copy

Hi Rob and Ingrid,

As requested here's a copy of the signed term sheet for the JSPP.

Please let us know if you need anything further,

Nicole

Nicole Roberto

Team Lead (A)

Funding Policy and Pensions Unit

Education Finance Branch | Ministry of Education

416.212.4384 | nicole.roberto@ontario.ca

OTPP Term Sheet – March 13, 2013

CONFIDENTIAL

This Term Sheet (the "Agreement") sets out the key terms of the agreement between the Plan Sponsors, which is effective during the "Freeze Period" (as defined below). The Government will provide a letter to the Plan Sponsors which will explain: the background of the 2012 Ontario Budget measures about jointly sponsored pension plans; the Government's plan to introduce legislation to carry out those measures, including pooling of broader public sector pension fund assets; the fact that discussions lead to this Agreement instead; and will confirm the Government Commitments which are based on those discussions and this Agreement.

A. General Principles

1. The Freeze Period runs from December 31, 2012 to December 30, 2017.

2. During the Freeze Period there will be no employer contribution increases except as provided for below. An employer contribution increase is defined as any increase in the employer contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period. Employer contribution increases already scheduled to occur during the Freeze Period as a result of valuations filed with an effective valuation date before December 31, 2012 will occur.

3. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no benefit improvements unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit improvement amendments come into effect meets or exceeds 105%, and the benefit improvement will not bring the going concern funded status below 105% as of the effective date of the amendment.

4. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no restoration of benefits reduced as a result of application of these principles unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit restoration amendments come into effect meets or exceeds 105% and the restoration will not bring the going concern funded status below 105% as of the effective date of the amendment.

5. Ad hoc/conditional indexation is not considered to be a benefit improvement or restoration and Plan amendments to provide or restore ad hoc or conditional cost of living increases to pensioners can be made provided the Plan's going concern funded status on the date that the cost of living increase is agreed upon (based on the most recently prepared valuation report with a valuation date that is no more than twelve months earlier and that uses the same valuation methodology and assumptions that would apply to a filed valuation) exceeds 100% and the cost of living increase will not

bring the going concern funded status below 100% as of the effective date of the amendment.

B. Valuations and Consequential Actions During the Freeze Period

6. Should any draft valuation prepared for filing during the Freeze Period disclose a funding circumstance in which employer contribution increases would normally be implemented (i.e., a funding shortfall) the funding circumstance must be addressed within the following Parameters. Any valuation filed during the Freeze Period will conform to the General Principles above and the Parameters as follows:

a. During the Freeze Period there will be no employer contribution increases except as provided for below. A contribution increase is defined as any increase in the contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period.

b. Any future benefit reductions determined to be required in order to meet the General Principles and these Parameters during the Freeze Period will not exceed twenty percent (20%) of the aggregate value of future benefits determined based on the Plan provisions in effect on December 31, 2011 ("the Benefit Reduction Limit"), which aggregate value the Sponsors agree is $42.590 billion. Benefit reductions implemented pursuant to the valuation as at January 1, 2012 shall be taken into account for purposes of achieving the 20% Benefit Reduction Limit. For clarity, twenty percent (20%) is measured on an cumulative basis in the Freeze Period.

c. In respect of the benefit reductions provided for under the January 1, 2012 valuation, the Sponsors agree that the reduction in the aggregate value of future benefits is $4.094 billion (9.6%). This reduction in the aggregate value of future benefits was calculated to include:

(i) the reduction in the funding shortfall from the impact of the decrease in the present value of future benefits and contributions stemming from the increase in the discount rate which resulted from the Plan amendment to remove and replace the remaining 50% guaranteed indexing with full conditional inflation protection ("CIP") for post-2013 service;

(ii) the reduction in present value of benefits from invoking an additional 10% of CIP (inflation protection from 60% to 50%) for post-2009 service effective January 1, 2014 along with the associated increase in the present value of the "share the pain payments" (matching contributions made by the Government/employers) plus the reduction in present value of benefits from invoking a further 5% of CIP (inflation protection from 50% to 45%) for post-2013 service effective January 1, 2015.

Appendix A attached hereto provides further details regarding this benefit reduction calculation.

d. Any future benefit reductions under a post-January 1, 2012 valuation, if necessary, will be implemented with an effective date that is no later than the earlier of:

i. two years following the valuation date of the filed actuarial valuation, or

ii. December 30, 2017.

e. In no case will future benefit reductions implemented as a result of the General Principles and/or Parameters affect or reduce pension benefits or ancillary benefits accrued prior to the implementation date of the benefit reduction(s). Ancillary benefits will be considered to have accrued, if, as of the implementation date of the benefit reduction, the person will have met all of the eligibility requirements to exercise the right to receive the ancillary benefits.

f. Sponsors' agreement on future benefit reductions would be effected by a Plan amendment to be prepared and filed within 60 days of agreement or outcome of the dispute resolution process.

g. Once the Benefit Reduction Limit has been reached (i.e., if the second or subsequent valuation(s) filed during the Freeze Period reduce benefits by $4.424 billion (10.4%)), the Sponsors will return to their usual process and make use of their usual tools (e.g., employer and member contribution rate increases and/or benefit reductions beyond the benefit reduction limit) to determine the steps necessary to avoid:

i. any remaining shortfall identified in the draft valuation; or

ii. a future new funding shortfall identified in a subsequent draft valuation during the Freeze Period.

After 2013, any valuation filed during the Freeze Period must be filed on or before September 30 of the year of filing.

C. Dispute Resolution

7. Any dispute with respect to the interpretation or application of this Agreement may be referred by either Sponsor to final and binding arbitration. Either of the parties may notify the other in writing of its desire to submit a difference or dispute to arbitration and the notice shall contain the names of the first party's appointment to an Arbitration Board. The recipient of the notice shall within five (5) days inform the other party of the name of its appointee to the Arbitration Board. The two (2) appointees so selected shall, within five (5) days of the appointment of the second of them, appoint a third person who shall be the Chairperson. If the recipient of a notice fails to appoint an appointee, or the two appointees fail to agree upon a Chairperson within the time limit, either party may request that the appointment shall be made by the Chief Justice for Ontario.

8. In the event that a dispute arises with respect to the interpretation or application of paragraph 6 in particular, all steps to appoint an Arbitration Board as set out in paragraph 7 will be taken on or before 60 days before September 30. The decision of the Arbitration Board shall be issued at least 20 days before September 30.

9. In the event that a dispute arises with respect to the interpretation or application of paragraph 6, in particular, including whether the Benefit Reduction Limit has been reached, the Arbitration Board's mandate will be restricted to determining the means by which the obligations in this Agreement will be carried out and will be subject to the same restrictions applicable to the Sponsors regarding the available options and for greater certainty will exclude an increase in employer contributions during the Freeze Period. The Sponsors, utilizing their usual processes may increase employer contributions once the Benefit Reduction Limit is reached.

D. End of the Freeze Period

10. At the end of the Freeze Period, this Agreement expires and any obligations to conform to this Agreement, and any measures taken in accordance with it, end with the exception of the provisions in paragraph 11.

11. After the end of the Freeze Period, if the Plan's going concern funded status (based on the most recently filed valuation report with a valuation date after December 30, 2017) exceeds 100%, the union/federation sponsors have "first call" on 100% of the surplus disclosed under a valuation report with a valuation date after December 30, 2017, up to a cumulative total of the value of either: the benefit reductions that are made during the Freeze Period; or the Benefit Reduction Limit, whichever is lower. The "first call" on surplus (to take the form of "surplus credits") would be subject to the following conditions:

(a) Surplus credits would only take into account the value of benefit reductions made during the Freeze Period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (i) the value of benefit reductions for which matching contributions are made by the Government/employer ("share the pain payments"), and (ii) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full CIP for post-2013 service and the resulting change to the discount rate (as described in paragraph 6(c)(i) above).

(b) Subject to (c) below, the surplus credits could be used as the union/federation sponsors wish (i.e., credits would not be required to be used to restore the same benefits that were reduced during the Freeze Period).

(c) The union/federation sponsors are permitted to spend the surplus credits so long as the going concern funded status of the Plan does not fall below 100% after the surplus credits are spent.

(d) This is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the government initiated Freeze Period and is without prejudice or precedent for any future situation.

(e) If inflation protection is invoked below 50% during the Freeze Period, subject to paragraph 11(a), surplus credits will include an amount equal to the actual foregone pension payments during and after the Freeze Period that arise from the reduction in indexing invoked during the Freeze Period until such time as that inflation protection is restored at 50% or more during or after the Freeze Period.

Appendix B attached hereto provides further details regarding the surplus credit calculation.

E. Other Matters

12. The Sponsors will ensure that the cooperation of the Administrator is secured in relation to all aspects of this Agreement, including but not limited to the preparation of the draft valuation, the filed valuation, and applying for any necessary extension of the timelines for filing actuarial valuations and/or Plan amendments as may be necessary to give effect to this Agreement.

13. In order for the terms of this agreement to be effective, the Ontario Government will, subject to Cabinet approval, on or before May 1, 2013, amend Regulation 909 under the Pension Benefits Act to allow for a single four-year valuation cycle for a valuation filing that would otherwise be required to be made during the Freeze Period subject to the following conditions:

a. at least one valuation is filed during the Freeze Period;

b. there are no more than four years between the valuation dates of filed valuations; and

c. any benefit reductions arising from valuations filed during the Freeze Period are implemented in accordance with the General Principles and Parameters herein.

Failing amendment of the said Regulation, this Agreement is of no force or effect.

14. The terms of this Agreement supersede all other agreements (written and oral) between the Sponsors, including the Partners' Agreement. The Sponsors shall amend the Plan, the Partners Agreement or any other documents as necessary to give effect to this Agreement.

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Date:

Terry Hamilton – President,
Ontario Teachers' Federation

March 13, 2013
Date:

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Date: Mar 14/13

Terry Hamilton – President,
Ontario Teachers' Federation

Date:

Appendix A to Term Sheet Between Government and OTF

As of January 1, 2012 (all amounts in millions)

Calculation of Benefit Reduction Limit

Present Value of Future Benefits Based on Plan Provisions as of December 31, 2011 But Including Legislated Vesting Change		$ 48,899
Less:	Reduction in Present Value of Future Benefits to Reflect Indexation for Post-2009 Service at 60% of CPI	6,309
Equals:	Present Value of Future Benefits For Purposes of Calculating Benefit Reduction Limit	$ 42,590

Benefit Reduction Limit = 20% x $42,590 = $8,518

Calculation of Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation

Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	$1,367
Plus	
Increase in Government Matching Contributions From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	1,367
Plus	
Reduction in Present Value of Future Benefits Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	1,390
Plus	
Reduction in Present Value of Future Contributions Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	(497)
Plus	
Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 50% to 45% of CPI for Post-2013 Service	467
Equals	
Portion of Benefit Reduction Limit Utilized	
$ Amount	$ 4,094
% Amount from 20%	9.6%

Remaining Benefit Reduction Limit for Plan Changes in Freeze Period

Benefit Reduction Limit		$ 8,518
Less:	Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation	4,094
Equals:	Remaining Benefit Reduction Limit For Plan Changes in Freeze Period	$ 4,424
	% Amount from 20%	10.4%

Appendix B to Term Sheet Between Government and OTF

The following are examples only. For purposes of paragraph 11(e) of the Term Sheet, the actual foregone indexing below 50% will be determined by the Plan Administrator based on the actual pension payments affected.

Subject to the above paragraph, the following example shows how the foregone pension payments in respect of which surplus credits are to be awarded (paragraph 11(e)) would be calculated in connection with invoking CIP below 50%. The example is based on:

- Inflation rate of 2.00% per year
- Retirements as of July 1st of each year
- New pensioner payments each year under the additional 50% CIP provisions for post-2013 service of $3 million times number of years of service from January 1, 2014 to mid-year retirement date
- 10-year period with no mortality reflected
- Indexation at 45% of CPI for the entire period

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,759	27
2018	$ 62,164	$ 62,099	65
2019	$ 92,786	$ 92,658	128
2020	$ 129,714	$ 129,492	222
2021	$ 173,011	$ 172,658	353
2022	$ 222,741	$ 222,212	529
2023	$ 278,968	$ 278,212	756
			$ 2,091

The following example modifies the above example to show the impact of moving from 45% of CPI to 0% of CPI (for post-2013 service) effective January 1, 2017:

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI / 0% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,582	204
2018	$ 62,164	$ 61,582	582
2019	$ 92,786	$ 91,582	1,204
2020	$ 129,714	$ 127,582	2,132
2021	$ 173,011	$ 169,582	3,429
2022	$ 222,741	$ 217,582	5,159
2023	$ 278,968	$ 271,582	7,386
			$ 20,107

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: FW: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
Date: Thursday, October 06, 2016 17:06:56
Attachment 1: Agenda.docx

-----Original Appointment-----
From: Veinot, Cindy (TBS)
Sent: Thursday, October 06, 2016 4:37 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF); Tsang, Ingrid (MOF); Pomykacz, Rob (MOF); Jozefacki, Janette (TBS); Paul, Joshua (EDU); Smithies, Roger (TBS); Fong, Pauline (TBS); Petsche, Nadine (TBS)
Subject: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
When: Thursday, October 13, 2016 10:30 AM-11:30 AM (UTC-05:00) Eastern Time (US & Canada).
Where: 7 Queen's Park Cres., Frost Building South 2nd Floor - ADM Boardroom - teleconference available - details below

Teleconference:

(416) 212-8013

Access Code: 4950903

Chair Passcode: 1705 (Cindy moderator)

Agenda

Kick-off Meeting

Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

1. Next steps pension expert panel around pension assets

2. Further discussion on OPSEUPP and to clarify how the Province and OPSEU may utilize their pools of surplus (i.e. referred to in Koskie Minsky letter).

3. Understanding of the corporate governance of HOOPP and CAATPP and rolls of the Province if any in contribution rates or benefit changes in these plans.

4. Discussion on review of economic assumptions in upcoming PRRT process

    a. How can we get the auditors involved earlier in the review?
    b. Do we need further review of management assumptions by actuaries?
    c. Further requirements or additional information that may be needed this year's request for actuarial information.

5. Other matters - TBD

From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Myers, Leah (MOF) [Leah.Myers@ontario.ca]
Subject: FW: Letter to AG
Date: Monday, November 07, 2016 14:21:33
Attachment 1: Bonnie Lysyk -- November 1.docx

FYI

From: Pearce, Christopher (MOF)
Sent: November 7, 2016 1:20 PM
To: Zhang, Christina (OFA); Birks, Ryan (MOF); Talwar, Garima (MOF)
Cc: Clarke-Darshanand, Jamille (MOF)
Subject: FW: Letter to AG

FYI. Don't think your folks were looped in on the development of this. It's a draft letter to the AG on the establishment of the expert panel.

From: Nelson, Dane (TBS)
Sent: November 4, 2016 11:10 AM
To: Pearce, Christopher (MOF)
Subject: FW: Letter to AG

Hi Chris,

I'd like to share the draft letter to the AG that we're working on with your office. Please let me know if you're okay with the current draft or if your office would like to suggest any edits. Thanks.

Regards,

Dane Nelson

From: Laughton, Patrick (TBS)

Sent: November-01-16 6:45 PM
To: MacIntyre, Kyle (TBS)
Cc: Simone, Nicole (TBS); Nelson, Dane (TBS); Hosick, Sarah (TBS)
Subject: Letter to AG

Hi Kyle –

As the approvals and setup of the panel is finalized this week, I understand there is a meeting in the works between Helen and Bonnie to get acquainted and also chat about the establishment of the panel. The attached letter – which I believe Karen brought over last week for her one on one – could be used as a complementary follow up to that conversation. Karen feels it would provide additional benefit by creating a record of the outreach with the AGO on the file.

There are a few placeholders which would need to be confirmed based on timing, and I can work with OPCD to finalize once we know when the conversation/letter would occur. I wanted to ensure you had the latest on this in the meantime.

Happy to discuss if you need anything further.

P.

Ministry of Finance

Office of the
Deputy Minister

Frost Building South
7 Queen's Park Cr
Toronto ON M7A 1Y7
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Fax (416) 325-1595

Ministère des Finances

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Deputy Minister

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Toronto ON M7A 1A1
Téléphone: (416) 325-1630
Télécopieur: (416) 325-1612

Draft

Ms. Bonnie Lysyk
Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario M5G 2C2

November XX, 2016

Dear Ms. Lysyk:

As announced on October 6, 2016 in connection with the release of the 2015-16 Public Accounts, the government is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets.

Panel members will provide advice on both the criteria required to be met to recognize a net pension asset and as well as how such assets should be valued. The report back from the panel is expected by the end of the calendar year.

While the members of the panel have not yet been finalized, in anticipation of its formation, we are assembling the relevant materials for the panel. In connection with that, we would like to confirm

whether you would like to provide a document articulating your view on the issue. Alternatively, we have your letters to us dated September 13, 2016 and September 26, 2016 to provide to the panel to ensure they have a fulsome understanding of your view.

Please confirm back your preference, and if you would like to provide a new document, we are working towards having the package of information complete by November XX, 2016.

Thank you for your assistance,

Scott Thompson
Deputy Minister
Ministry of Finance

Helen Angus
Deputy Minister, Treasury Board and Secretary to
Treasury Board/Management Board of Cabinet
Treasury Board Secretariat

Draft

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Date: Tuesday, October 18, 2016 12:24:05

From: Tsang, Ingrid (MOF)
Sent: Tuesday, October 18, 2016 11:27 AM
To: Pomykacz, Rob (MOF)
Cc: Killoch, Alex (MOF)
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

FYI. I confirmed with Pauline that she was sending this to us for FYI with the thought that it may even come to us . They are on it at the moment.

From: Fong, Pauline (TBS)
Sent: October 18, 2016 9:21 AM
To: Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Importance: High

From: Hosick, Sarah (TBS)
Sent: October-18-16 8:20 AM
To: Fong, Pauline (TBS)
Cc: Makrigeorgos, Niki (TBS)
Subject: Fw: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Pauline

Please see below - is this something we have off hand? Response required first thing today if so, or tomorrow if we need to calculate it. Please let me know asap.

Thanks

Sarah

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Tuesday, October 18, 2016 8:11 AM

To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)

Cc: @TBS-L-Issues and Media

Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we

discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for

10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain?

Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Fong, Pauline (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Date: Tuesday, October 18, 2016 12:02:33

Hi Cindy,

I touch base with MOF Policy and this is their stance on doing a separate calculation for a media request. See Rob's comments below.

Pauline

From: Pomykacz, Rob (MOF)
Sent: October-18-16 12:00 PM
To: Fong, Pauline (TBS)
Cc: Tsang, Ingrid (MOF); Killoch, Alex (MOF)
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Pauline,

We certainly don't have the information based on the valuation discount rates. As you note below, we would have to ask the boards to ask their external actuaries to undertake this exercise, but I'm not sure the boards would be willing to do so without passing the cost on to the Province. This would not be a request for purposes of calculating the Province's expense and liability for Budget and Public Accounts purposes (the Province does not have to pay for such requests as the boards are required to provide the information under the *Financial Administration Act*).

We would be asking the boards to provide information in order to respond to a media report. As such, it would be difficult to justify members incurring such a cost. Even if there was a willingness on the part of the Province to pay for it (likely $10,000 to $15,000 for each run), it's not clear how such a payment would be made.

The other issue is timing. This information would take some time to generate and would definitely not be available by tomorrow morning.

As you note below, it would be inappropriate to use these rates in any event given that they would not be management's best estimates, which is required by PSAB.

Rob

From: Fong, Pauline (TBS)
Sent: October 18, 2016 11:45 AM
To: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Subject: FW: MO Question: Pension Asset Value - 10 am deadline

I sent this to Cindy. Waiting for further instruction.

From: Fong, Pauline (TBS)
Sent: October-18-16 11:24 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Cindy,

Not sure how to answer the MOs request as we don't have the actuarial valuations for accounting using the funding discount rate. This is information we don't have and would require another request of actuarial information to be run by the boards.

Here is what I come up so far but I don't think it answers the questions posed below:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating it's pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered.

The OTPP and OSPEUPP discount rate of 4.8% and 5.55% is the discount rate on a funding basis. The funding basis valuation determines whether a pension plan has sufficient money to pay for its obligation when they become due. The funding valuation also determines the contributions required to meet the pension benefit obligations.

Because the purposes of valuation for accounting versus funding are different, the discount rate used for accounting is different from funding, and thus will be inappropriate to use the funding discount rate for accounting purposes.

As for using what discount rate to use in the future and whether we can take a contribution holiday, I don't think I am in position to comment on it.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-18-16 9:28 AM
To: Veinot, Cindy (TBS)
Cc: Fong, Pauline (TBS)

Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Cindy

Just wanted to give you a heads up that MO has asked quick turnaround questions on:

- the rates that we discount our pension liabilities
- the rates OTPP and OPSEUPP plans discount and
- what the pension assets would look like using the pension fund discount rate.

As neither OPCD or ERD has this info off hand, we have until 10am tomorrow to provide a response. Pauline is taking a closer look at the article today and will give us an update on what information we can provide.

Thanks

Sarah

From: Hosick, Sarah (TBS)
Sent: October-18-16 8:20 AM
To: Fong, Pauline (TBS)
Cc: Makrigeorgos, Niki (TBS)
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Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

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The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

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A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

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Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

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The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

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Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Date: Tuesday, October 18, 2016 09:30:56

From: Fong, Pauline (TBS)
Sent: October 18, 2016 9:21 AM
To: Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Importance: High

From: Hosick, Sarah (TBS)
Sent: October-18-16 8:20 AM
To: Fong, Pauline (TBS)
Cc: Makrigeorgos, Niki (TBS)
Subject: Fw: MO Question: Pension Asset Value - 10 am deadline
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Thanks

Sarah

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Tuesday, October 18, 2016 8:11 AM

To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)

Cc: @TBS-L-Issues and Media

Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Looping Niki in for ERD.

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Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016

Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

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To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

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Date: October 17, 2016

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From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Date: Tuesday, October 18, 2016 12:24:05

From: Tsang, Ingrid (MOF)
Sent: Tuesday, October 18, 2016 11:27 AM
To: Pomykacz, Rob (MOF)
Cc: Killoch, Alex (MOF)
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

FYI. I confirmed with Pauline that she was sending this to us for FYI with the thought that it may even come to us . They are on it at the moment.

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Sent: October 18, 2016 9:21 AM
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Cc: Tsang, Ingrid (MOF)
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
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Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

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Date: October 17, 2016

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From: Fong, Pauline (TBS) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Sawosch, Mercedes (TBS) [Mercedes.Sawosch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: FW: NB
Date: Friday, September 30, 2016 15:32:40

Hi Ian,

I pulled off the "Agreement and Declaration of Trust of the Public Service Shared Risk Plan" from the web and it notes in section 3.4 (d) (ii), it specifically states the following:

"Neither the Province, Unions, Employers, Members, nor any other person, association or corporation shall have any right, title or interest in or to the Fund."

I understanding you are following up with New Brunswick on this but it appears they do not have claim to the assets.

Pauline

From: Pomykacz, Rob (MOF)
Sent: September-30-16 3:17 PM
To: Sawosch, Mercedes (TBS)
Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: RE: NB

According to what's written in the notes to their consolidated financial statements (p. 28 of Volume 1),

"Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets."

So on this basis, it appears that they do not have a claim to the assets. (This is not the case in Ontario for the TPP and the OPSEU Pension Plan, as there is no such agreement.) That's all the information we have. I understand Ian is attempting to get more information from NB. Perhaps they will confirm this.

Rob

From: Sawosch, Mercedes (TBS)
Sent: September 30, 2016 2:47 PM
To: Pomykacz, Rob (MOF)
Subject: FW: NB

Can your folks clarify for David McLean that NB specifically doesn't have a claim to the assets? My peeps are a bit swamped today. I will close the loop here after you do that.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 2:05 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Fong, Pauline (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 2:01:21 PM EDT

To: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
Subject: FW: NB

FYI

From: Killoch, Alex (MOF)
Sent: September 30, 2016 2:00 PM
To: McLean, David (MOF); Schuurman, Tim (MOF); Pomykacz, Rob (MOF)
Subject: RE: NB

Not sure that is entirely accurate. As the 2016 public accounts noted, they have deemed the asset to be nil for shared risk plans (which are not unlike jspp). It is true that NB was using DC accounting, but they seem to agree with AG now.

http://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html

Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets. On this basis, the Province records the value of the plan net assets as nil when these plans are in a net asset position. When these plans are in a net obligation position, the Province records a liability for its share. The plans accounted for using this method are: the Public Service Shared Risk Pension Plan, the New Brunswick Teachers' Pension Plan, the Shared Risk Plan for CUPE Employees of New Brunswick Hospitals, and the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals.

From: McLean, David (MOF)
Sent: Friday, September 30, 2016 1:55 PM
To: Schuurman, Tim (MOF); Killoch, Alex (MOF)
Cc: Pearce, Christopher (MOF); Clarke-Darshanand, Jamille (MOF)
Subject: FW: NB

OPCD's response below. Short answer – different issue.

From: MacIntyre, Kyle (TBS)
Sent: September 30, 2016 1:48 PM
To: McLean, David (MOF)
Subject: Fwd: NB

Begin forwarded message:

> **From:** "Fong, Pauline (TBS)" <Pauline.Fong@ontario.ca>
> **Date:** September 30, 2016 at 1:46:57 PM EDT
> **To:** "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Sawosch, Mercedes (TBS)" <Mercedes.Sawosch@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
> **Cc:** "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
> **Subject: RE: NB**
>
> Cindy is correct. Previously NB reported their shared risk plan as defined contribution plan and this year they have accounted for their shared risk plans as a defined benefit plan. This issue is not similar to what Ontario is facing.

> **From:** Veinot, Cindy (TBS)
> **Sent:** September-30-16 1:37 PM
> **To:** Sawosch, Mercedes (TBS); MacIntyre, Kyle (TBS); Petsche, Nadine (TBS)
> **Cc:** Laughton, Patrick (TBS); Fong, Pauline (TBS)
> **Subject:** RE: NB
>
> My understanding is that NB changed their plan into a shared risk plan. Government accounted for it as a defined contribution plan and the auditor said it should be accounted for as a defined benefit plan. Looks like NB now agreed to account for the plan as a defined benefit plan.

Cindy

From: Sawosch, Mercedes (TBS)
Sent: September-30-16 1:36 PM
To: MacIntyre, Kyle (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

Pauline is on it.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 1:35 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

Can folks pls review ASAP?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 1:33:05 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**
>
> Hey Kyle - have you seen this? Wondering if OPCD should look into this? Our MO is looking for background on whether this is the same or similar situation we're in and what this could mean for us. Attached email has the tweet.
>
> -----Original Message-----
> From: Mendes, Elizabeth (MOF)
> Sent: September 30, 2016 1:22 PM
> To: McLean, David (MOF)

Subject: Fw: NB

Original Message
From: Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>
Sent: Friday, September 30, 2016 1:20 PM
To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
Subject: NB

On Twitter it says that the Auditor of New Brunswick has given their PA a clean audit based on pensions treatment. Eerily like us. Can we look into this asap? Want to know what media is saying. Liz need to know substance.

Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: NB
Date: Friday, September 30, 2016 13:57:06

From: McLean, David (MOF)
Sent: Friday, September 30, 2016 1:55 PM
To: Schuurman, Tim (MOF); Killoch, Alex (MOF)
Cc: Pearce, Christopher (MOF); Clarke-Darshanand, Jamille (MOF)
Subject: FW: NB

OPCD's response below. Short answer – different issue.

From: MacIntyre, Kyle (TBS)
Sent: September 30, 2016 1:48 PM
To: McLean, David (MOF)
Subject: Fwd: NB

Begin forwarded message:

> **From:** "Fong, Pauline (TBS)" <Pauline.Fong@ontario.ca>
> **Date:** September 30, 2016 at 1:46:57 PM EDT
> **To:** "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Sawosch, Mercedes (TBS)" <Mercedes.Sawosch@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
> **Cc:** "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
> **Subject: RE: NB**
>
> Cindy is correct. Previously NB reported their shared risk plan as defined contribution plan and this year they have accounted for their shared risk plans as a defined benefit plan. This issue is not similar to what Ontario is facing.

From: Veinot, Cindy (TBS)
Sent: September-30-16 1:37 PM
To: Sawosch, Mercedes (TBS); MacIntyre, Kyle (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

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Cindy

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To: MacIntyre, Kyle (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

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Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
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To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
Subject: NB

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Chief of Staff
Minister of Finance
416.948.5409

From: McLean, David (MOF) []
To: Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pearce, Christopher (MOF) [Christopher.Pearce@ontario.ca]; Clarke-Darshanand, Jamille (MOF) [Jamille.Clarke-Darshanand@ontario.ca]
Subject: FW: NB
Date: Friday, September 30, 2016 13:54:42

OPCD's response below. Short answer – different issue.

From: MacIntyre, Kyle (TBS)
Sent: September 30, 2016 1:48 PM
To: McLean, David (MOF)
Subject: Fwd: NB

Begin forwarded message:

> **From:** "Fong, Pauline (TBS)" <Pauline.Fong@ontario.ca>
> **Date:** September 30, 2016 at 1:46:57 PM EDT
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> **Cc:** "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
> **Subject: RE: NB**
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> **Sent:** September-30-16 1:37 PM
> **To:** Sawosch, Mercedes (TBS); MacIntyre, Kyle (TBS); Petsche, Nadine (TBS)
> **Cc:** Laughton, Patrick (TBS); Fong, Pauline (TBS)
> **Subject:** RE: NB
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To: MacIntyre, Kyle (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
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Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From: Sawosch, Mercedes (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: FW: NB
Date: Friday, September 30, 2016 18:11:13

Understood. Ian received the following clarification from communication with NB:

The reason for the qualification last year was about excluding the plan from the financial statements and not about valuation. Basically they took the plan off the books and just expensed the cash contributions to the plan.

Now they brought the plan back on the books and with a compromised PSAB accounting where the asset valuation includes unamortized losses, the fiscal expense is approximately the same (and looks the same over the foreseeable future) as the cash contributions. (they still disagree with the accounting to include it but it does not have a fiscal impact). Both NB and their auditor felt this was a compromise they both could live with.

External analysis is key related to our plans and comparing to their plan, however even if we see our position at risk regarding the access to the assets of the plan, the regulation would give us the accounting under PSAB, and if we are right we can bring the asset back on in the future. I think the only thing we need to worry about is how this is communicated (we are taking a conservative approach using a regulation while we assess whether it is PSAB considering we had previous clean opinions under PSAB) and this is not a problem with the numbers.

Mercedes

From: Killoch, Alex (MOF)
Sent: Friday, September 30, 2016 5:45 PM
To: Sawosch, Mercedes (TBS); Pomykacz, Rob (MOF)
Cc: Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: Re: NB

I am not comfortable with that analysis based on a paragraph in the financial statements.

The reference is to the fact that access to the assets of the plans is restricted. Access to the assets of the plan is different from the plan as an asset. The PBA in Ontario also restricts our right to the assets of the plan.

Nor am I familiar with the ability of government or members to take a contribution holiday in the NB shared risk model.

I think best to await the analysis of external lawyers who are familiar with the nature of the NB plans.

From: Sawosch, Mercedes (TBS)

Sent: Friday, September 30, 2016 5:33 PM

To: Pomykacz, Rob (MOF)

Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)

Subject: RE: NB

Ian confirmed with NB. I verbally updated on my side, but it would be good to close the loop with a response to Kyle and David. If you don't mind, I will modify your response below for circulation and ensure our DMO gets an answer.

Mercedes

From: Pomykacz, Rob (MOF)
Sent: September-30-16 3:17 PM
To: Sawosch, Mercedes (TBS)
Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: RE: NB

According to what's written in the notes to their consolidated financial statements (p. 28 of Volume 1),

"Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets."

So on this basis, it appears that they do not have a claim to the assets. (This is not the case in Ontario for the TPP and the OPSEU Pension Plan, as there is no such agreement.) That's all the information we have. I understand Ian is attempting to get more information from NB. Perhaps they will confirm this.

Rob

From: Sawosch, Mercedes (TBS)
Sent: September 30, 2016 2:47 PM
To: Pomykacz, Rob (MOF)
Subject: FW: NB

Can your folks clarify for David McLean that NB specifically doesn't have a claim to the

assets? My peeps are a bit swamped today. I will close the loop here after you do that.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 2:05 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Fong, Pauline (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 2:01:21 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**
>
> FYI

> **From:** Killoch, Alex (MOF)
> **Sent:** September 30, 2016 2:00 PM
> **To:** McLean, David (MOF); Schuurman, Tim (MOF); Pomykacz, Rob (MOF)
> **Subject:** RE: NB

> Not sure that is entirely accurate. As the 2016 public accounts noted, they have deemed the asset to be nil for shared risk plans (which are not unlike jspp). It is true that NB was using DC accounting, but they seem to agree with AG now.

> http://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html

Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets. On this basis, the Province records the value of the plan net assets as nil when these plans are in a net asset position. When these plans are in a net obligation position, the Province records a liability for its share. The plans accounted for using this method are: the Public Service Shared Risk Pension Plan, the New Brunswick Teachers' Pension Plan, the Shared Risk Plan for CUPE Employees of New Brunswick Hospitals, and the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals.

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Chief of Staff
Minister of Finance
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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Need an off the shelf summary
Date: Monday, September 12, 2016 14:17:39

From: Paul, Joshua (EDU)
Sent: Monday, September 12, 2016 2:04 PM
To: Sekaly, Gabriel (EDU); Killoch, Alex (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU); Franks, Sebastian (EDU)
Subject: Fw: Need an off the shelf summary

Here is some follow up from our call this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Roberto, Nicole (EDU) <Nicole.Roberto@ontario.ca>

Sent: Monday, September 12, 2016 2:00 PM

To: Paul, Joshua (EDU)

Cc: Duffy, Paul (EDU); Di Renzo, Stephen (EDU)

Subject: RE: Need an off the shelf summary

Was on the communications working group call and Mary Cover (OTPP's Director of Actuarial Services) confirmed that the government's share the pain provision once we move to 90% CIP is approximately $2.3B. At 70% CIP the payment was approximately $6.6B – so the quantum is approximately $4.3B.

Also FYI – we are on track for an OTPP release of the funding announcement for Wednesday September 14th at 10 a.m. and Mary thinks they will be filing the valuation with FSCO sometime over the next week (deadline is September 30).

From: Duffy, Paul (EDU)
Sent: September-12-16 10:46 AM
To: Paul, Joshua (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Need an off the shelf summary

Here's the off the shelf description:

As part of the 2008 agreement to introduce Conditional Inflation Protection (CIP), the government agreed to a "sharing the pain" provision. The provision states that for years where members receive less than 100% inflation protection, the government is required to make additional contributions to the Plan equal to the amount forgone by members. Contributions are made up to 50% for CIP on service accrued after 2013 (e.g. if CIP for this period was 40% the government is required to make additional contributions at 50%, not 60%).

From: Paul, Joshua (EDU)
Sent: September 12, 2016 10:43 AM
To: Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: Re: Need an off the shelf summary
Importance: High

Need quantum of reduction in share the pain as a result of recent CIP restore

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Joshua.Paul@ontario.ca

Sent: Monday, September 12, 2016 10:41 AM

To: Duffy, Paul (EDU)

Cc: Roberto, Nicole (EDU)

Subject: Re: Need an off the shelf summary

In Gabe's office

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Duffy, Paul (EDU)

Sent: Monday, September 12, 2016 10:38 AM

To: Paul, Joshua (EDU)

Cc: Roberto, Nicole (EDU)

Subject: RE: Need an off the shelf summary

Working on it.

From: Paul, Joshua (EDU)
Sent: September 12, 2016 10:36 AM
To: Duffy, Paul (EDU)
Subject: Need an off the shelf summary

Of the share the pain arrangements.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) []
To: Allan Shapira (allan.shapira@aonhewitt.com) [allan.shapira@aonhewitt.com]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: FW: New Model Output
Date: Monday, September 26, 2016 16:09:16
Attachment 1: image001.png
Attachment 2: OTPP_going_concern_projection_ITA_surplus.docx
Attachment 3: Valuation_allowance_projection_scen1_and_scen2.xlsx
Attachment 4: calculation_EFB_estimate_Sept_26_2016.xlsx

Allan

Would you be able to take a look at the latest modelling results from Deloitte, assuming that we are using 50% of surplus on benefits.

Thanks for your help

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Veinot, Cindy (TBS)
Sent: Monday, September 26, 2016 3:58 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Petsche, Nadine (TBS)
Subject: FW: New Model Output

Hi Alex,

Deloitte completed some additional modelling described both in 2 below and in the word document. We asked what the results of the asset ceiling test would be if 50% of the surplus was used to improve benefits. Could you ask Allan to do a cold review of this scenario. The result Deloitte noted is that the asset ceiling would still exceed the asset == $12.xB vs. 10.1 B.

Thanks very much,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-26-16 3:18 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: New Model Output

Cindy and Nadine

To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the

ITA limit.

Note the document is in bullet form mostly for ease of reading and really describes the step-by-step of the work performed.

It also includes a short summary at the end that is just factual observations of the results obtained.

There are also the 2 excel files that were used (same files as last time for 1- projection and 2- expected future benefit calculation by applying reduction % to Government contributions coming from the projection).

There are 2 scenarios:

1- Similar to last time, no use of surplus before attainment of the ITA limit and then 50% / 50% share to the employees and Government contribution reduction. The % reduction in Government contribution may differ a little from the previous set of results due to some refinements in calculation but only minor difference if any

2- I was not sure about your scenario Cindy about benefit improvement. If your question was about using in scenario 1- above the 50% of employee to improve benefit instead of reducing their contribution, then the results are similar to 1- as only a small difference in interest on obligation (4.85%) vs return on asset (6.25%) would affect the results and really small impact. However, as it was not so clear if you were referring to the surplus above ITA, we also looked at what would happen if the surplus before reaching ITA limit was spent at 50% to improve employee benefits. The remaining 50% would be maintained unused until reaching the ITA limit when the 50% / 50% contribution reduction would apply. This scenario is like saying that we always use the 50% share of the employees for their benefit and we leave the Government share in the plan not to be spent. Even in this scenario, we reach ITA limit in year 2041 and we do have expected future benefit that supports the accrued benefit asset, although much closer. So either your question is easy and only related to the surplus above ITA limit to be used for benefit improvement – answer is same or almost results as 1- or your question was also targeting surplus before ITA limit and the Scenario 2 covers this.

Note that the Scenario 2 is found in excel calculation but also described in the word document on the approach. So if this was not the intended scenario, it can be taken out easily.

Also note that the excel file on projection also includes the data input sheet from the Government accounting spreadsheet that was provided to us for calculation purposes. Just wanted you to know in case some information in it were not meant to be distributed afterward.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

Please consider the environment before printing.

Deloitte is proud to be an Official Supplier of the Canadian Olympic team

De : Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Envoyé : 25 septembre 2016 09:50
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Objet : RE: New Model Output

Re: the additional modelling, I will try to explain in a bit more detail We have an internal call at 10 am (so in 10 minutes) and then another at noon so maybe we can connect live between those or after the noon update.

As I understand it, both the initial model from August and the ITA model from Friday both assume that benefits will not increase (other than the cost of the benefits that are currently being provided). In other words there will not be a decision by the sponsors to improve the benefits provided

We have been asked to determine the outcome of the pension ceiling test on the assumption that 50% of the surplus is used to improve benefits for the teachers. So instead of assuming that the level of benefits remains constant, we're assuming that for 50% of the surplus, instead of using the surplus to reduce contributions, the sponsors agree the benefits for the teachers will be improved.

I'm not sure how this scenario is modeled, but I think the question would then be how many years of contributions would be made before the asset ceiling would be reached.

I'm testing my understanding of the actuarial model here, but would the service cost in the model increase (e.g. part 1 of 56(a)) as well as the level of contributions required to support the increased benefits (part 2 of 56(a)) ?

Thanks all for your assistance,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-25-16 9:28 AM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: New Model Output

Cindy

Will work today but will need review by Matt on the wording

For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%

If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...

Envoyé de mon iPhone

Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

> Hi Martin,
>
> Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.
>
> Two questions for you:

1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.

2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?

Thanks again,

Cindy

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:30 AM
To: Veinot, Cindy (TBS)
Subject: FW: New Model Output

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 3:13 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

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<image001.png>

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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<calculation_EFB_estimate_Sept_23_2016.xlsx>

<Valuation_allowance_projection.xlsx>

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Summary of projection approach for Income Tax Act excess surplus

At the request of the Ontario Government, some projection scenarios of the Ontario Teachers Pension Plan (OTPP) financial situation were looked at.

Projections are performed with the consideration that above a certain surplus amount, the Income Tax Act (ITA) requires that contributions to a pension plan be reduced (or even stopped) to avoid "undue" accrual of pension funds in a plan that is overly funded.

The Income Tax Act (ITA) excess surplus threshold

The excess surplus is defined as follows:

- The threshold for a pension plan is determined as being 25% of the plan going-concern obligation
- If the value of the assets exceeds 125% of the going-concern obligation at a given valuation date (December 31 as an example), the assets above that threshold are identified as the plan excess surplus
- If the plan has an excess surplus at a given valuation date, the employer cannot contribute to the plan until the excess surplus no longer exists, starting with the upcoming year
- Considering the nature of the OTPP being shared between the employees and the Government, the projections performed are based on the assumption that the Government and the employees would both benefit from contribution reduction when an excess surplus exists

Objective

- Project going-concern valuation results over future years through usual extrapolation process of the going-concern obligation and the value of assets
- Determine the plan going-concern surplus in future years
- Identify the plan going-concern surplus that exceeds the Income Tax Act (ITA) threshold
- Calculate the Government contribution reduction derived from the ITA excess surplus application
- Use the Government contribution reduction form the projection file to determine the minimum employer contribution required within the expected future benefit calculation for the Province financial statements accounting purposes
- 2 scenarios are looked at:
    - Scenario 1, the surplus ongoing is never use until the time it reaches the ITA threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Government to reduce contributions in ensuing year
    - Scenario 2, the surplus ongoing is used at 50% to improve members benefit (increase the plan obligation) while the remaining unused 50% remains in a balance account that continues to accrue with return on asset. Every year, 50% of the new surplus element (not the past unused) is applied for improved benefits and the remaining 50% of the new surplus is added to the balance account that continues to accrue. Once the ITA threshold is used, the excess surplus is used 50% and 50% to reduce contributions by the employees and the Government.

Information to use

Taken from the January 1, 2015 funding report and from the Government March 31, 2016 excel calculation supporting file

- Going-concern financial situation at January 1, 2015 for the service accrued to date, $142,569M from page 9 of the funding report
- Going-concern service cost to determine the value of service accrual (derived from future service value of benefits vs future contribution values in the January 1, 2015 going-concern valuation) – present value of future accrual = $54,774M and total present value of future contributions = ($38,817M + $3,406M = $42,223M) from page 9 of the funding report
- Fair value of asset at January 1, 2016 of $171,420M taken from the Government accounting excel file – sheet “Data Input”, cell AC26
- Going-concern actuarial value of asset methodology based on smoothing of gains and losses - 3 years recognition of gains and losses – from page 23 of the funding report
- 2015 employees contribution taken from the Government accounting excel file – sheet “Data Input”, cell AC32
- 2015 Government contribution taken from the Government accounting excel file – sheet “Data Input”, cells AC33, AC34, AC35, AC36
- 2015 benefit payments taken from the Government accounting excel file – sheet “Data Input”, cell AC18
- Assumption for going-concern interest to project obligation at 4.85%, from page 6 of the funding report
- Assumption for asset return projection at 6.25%, Government best estimate for Province financial statements
- Assumption for projection of contributions and service cost based on 3%, Government best estimate of salary increase for Province financial statements
- Assumption for projection of benefit payment at 4% - this is based on the average of most recent years and upcoming years increase (10 increase average) taken from the Government accounting excel file – sheet “Data Input”, cells W18 to AG18 (covering years 2009 to 2019)
- Use of surplus before reaching ITA excess surplus threshold as per the scenarios described in the objective section
- Use of surplus for portion above ITA excess surplus threshold once attained as per the scenarios described in the objective section

Steps (reference of line coming from the projection file)

- Start with January 1, 2015 going-concern valuation obligation for the service rendered to date – line f of projection file
- Derive the annual going-concern service cost based on the January 1, 2015 going-concern information on future service as follows:
    - Total going-concern current service cost = % of total plan contributions (employees + Government)
    - Based on going-concern January 1, 2015, the present value of future service accruals is $54,774M vs total expected contributions to the plan is ($38,817M + $3,406M = $42,223M)
    - The derived % is therefore $54,774M / $42,203M = 129.7%
    - Going-concern service cost used for extrapolation purposes is therefore determined as 129.7% x (employees contribution + Government contribution)
    - If a year is affected by a contribution reduction for employees and / or Government, the going-concern service cost is still based on pre-reduction contribution since service continues to accrue on the obligation even when contributions do not accrue on the asset value side
- Extrapolation of going-concern obligation at every year-end is defined as follows – line q of projection file : Going-concern Obligation (t+1) =
    - Going-concern Obligation (t) – line f of projection file, plus
    - total going-concern current service cost in the year – line l of projection file, minus
    - benefit payments in the year – line k of projection file, plus
    - cost of benefit improvement – line i – 3 of projection file, plus
    - interest at 4.85% (full year on obligation and half-year on service cost, benefit payments and plan modification) – line n of projection file
- Derive the January 1, 2016 going-concern obligation value for services rendered to date – cell E32 of projection file
- Determine the annual going-concern service cost as 129.7% of total employees + Government contributions – line k of projection file
- Start with January 1, 2016 fair value of asset to extrapolate fair value over future years as follows – line s of the projection file: Fair value of assets (t + 1) =
    - Fair value of assets (t) – line h of projection file, plus
    - total employees + Government contributions, net of respective reductions – lines i – 1, i – 2, j – 1, j - 2 of projection file, minus
    - benefit payments in the year – line k of projection file, plus
    - return on plan assets based on 6.25% (full year on asset and half-year on contributions, benefit payments) – line p of projection file
- Determine the Actuarial value of assets using the going-concern methodology that recognizes gains (losses) in excess of the interest assumption over a 3 year period as follows – line t of projection file: Going-concern Actuarial asset value (t + 1) =
    - Fair value (t +1) – line s of projection file, minus
    - 66 2/3 % of the difference (actual return at 6.25% (t+1) less expected return at 4.85% (t+1)) – line ee of projection file includes 2 times line dd of year (t+1), minus

    - 33 1/3 % of the difference (actual return (t) less expected return at 4.85% (t)) – line ee of projection file includes 1 time line dd of year (t) of projection file
    - Note that since the future return (6.25%) is in excess of the interest used in Going-concern valuation (4.85%) for Actuarial value calculation, there is always an excess return that within the Actuarial value calculation gets amortized over 3 years and therefore Actuarial value of asset is always slightly lower than the fair value on every year-end of the projection performed (ratio of 98.7%) – line t / line s of projection file
- Assume no other gains and losses on the going-concern valuation results since this is extrapolation
- Assume no use of surplus before reaching the ITA excess surplus threshold (Scenario 1) or use 50% of surplus to improve benefits (while the remaining 50% remains unused and accumulates with return on asset in future years)
- Determine every year if the going-concern surplus of the plan exceeds the ITA excess surplus threshold and if this is the case, identify the portion of surplus in excess – line z of the projection file for the going-concern ratio to compare with 125% and line ff for the excess surplus
- Use the excess surplus amount to reduce contributions for the employees and the Government in equal amount 50% / 50% which is applied against the ensuing year annual contribution – lines i – 2 and j – 2 of projection file. Note that since employees contribution in the year 2015 are slightly lower than Government, the projection contributions are also slightly lower. In order to ensure that 50% / 50% of the excess surplus is shared, any difference between the Government and the employees contribution reduction is added as a benefit improvement to maintain that sharing.
- Identify the % reduction of the Government contributions for all future years based on the projection – line hh of projection file
- Apply the % reduction to the Government contribution in the calculation of the minimum required employee contributions for the expected future benefit that serves for the Province financial statements

<u>Observations</u>

- For Scenario 1:
    - From the projection file we note that the 125% ITA limit for surplus is attained at end of year 2025 for Scenario 1, leading to forced contribution reduction from year 2026
    - Considering a share of contribution reduction for both the employees and the Government, the Government reduction starts around 65% and increases to about 83%
    - Excess surplus never leads to 100% reduction in contributions
    - Every year, the going-concern ratio remains around 125%, slightly higher due to interest difference between the time of recognition of an excess surplus amount (December 31 valuation) and the time of use of the excess surplus to reduce contribution which is over the upcoming year
    - Once attained, excess surplus is always present in future years since the return on plan asset at 6.25% always exceeds the interest on obligation at 4.85%
    - Applying the Government contribution reduction to the expected future benefit calculation, the resulting amount is $23.2B that exceeds $10.1B of accrued benefit asset.

- For Scenario 2:
    - The 125% ITA limit is attained at the end of year 2041. This is later than Scenario 1, since the surplus is used at 50% before to improve employee benefits.
    - Once the limit is attained, the Government and employees do get a full contribution reduction.
    - Similar to Scenario 1, the plan remains in excess surplus position due to the difference in return on plan assets and interest on obligation.
    - Applying the Government contribution reduction to the expected future benefit calculation, the resulting amount is $12.9B that exceeds $10.1B of accrued benefit asset.

accounting best estimate
funding report page 6
accounting best estimate
accounting best estimate
based on recent experience average (data input)

funding report page 9 for service rendered and 100% CPI
data input sheet
data input sheet

data input sheet
= (gg) assuming employees use same % of the ITA excess surplus
increase in going-concern obligation value for benefit improvement
estimated increase in accounting obligation for benefit improvement
data input sheet
= (gg)
data input sheet
looking at the PV of future service / PV future contribution (funding report page 9)
data input sheet

= (f) x (b) + (l) x (b) x 50% + (k) x (b) x 50% + (i - 3) x (b) x 50%
= (g) x (c) + (m) x (c) x 50% + (k) x (c) x 50% + (i - 4) x (c) x 50%
= (h) x (a) + (i -1) x (a) x 50% + (j - 1) x (a) x 50% + (i -2) x (a) x 50% + (j - 2) x (a) x 50% + (k) x (a) x 50%

= (f) + (l) + (k) + (n) + (i - 3)
= (g) + (m) + (k) + (o) + (i - 4)
= (h) + (i -1) + (j - 1) + (i -2) + (j - 2) + (k) + (p)
= (s) - (ee)

= (s) - (q)
= (s) - (r)
= (t) - (q)

= (s) / (q)
= (s) / (r)
= (t) / (q)

Actuarial value calculation
expected return for the year at 4.85% = (p) / (a) * (b)
actual return for the year = (p)
gain (loss) on asset return = (bb) - (aa)
spread over 3 years = (cc) / 3
3-year adjustment to get Actuarial value = 2 x (dd) + 1 x (dd) previous year

Going-concern surplus in excess of 125% from the Income Tax Act = (t) - 125% x (q)
Reduction required in Government contribution assuming uses 50% of excess surplus = min (50% x (ff) ; (j -1) form
Asuming employees get the other 50% of excess surplus through cont reduction

% reduction in the Government contribution

		Calendar year	**2015**
	a	Return on plan asset	6.25%
	b	Interest rate on funding obligation	4.85%
	c	Interest rate on accounting obligation	6.25%
	d	Increase in salary (used for cont)	3.00%
	e	Increase in benefit	4.00%
		Total Plan	
		Beginning of calendar year	
	f	Funding obligation - 100% CPI	**142,569**
	g	Accounting obligation - 100% CPI	113,801
	h	Asset fair value	154,476
	i - 1	Employee contributions	**1,615**
	i - 2	Employee reduction in cont	
	i - 3	Increase in going-concern obligation for benefit improvement	
	i - 4	Estimated increase in accounting obligation	0
	j - 1	Government contributions	**1,684**
	j - 2	Government reduction in contribution	
	k	Benefit payments	**(5,536)**
129.7%	l	Funding service cost	**4,280**
	m	Accounting service cost	**2,902**
	n	Funding obligation interest	6,884
	o	Accounting obligation interest	
	p	Asset return for the year	19,181
			12.4%
		End of year	
	q	Funding obligation - 100% CPI	148,197
	r	Accounting obligation - 100% CPI	116,367
	s	Asset Fair value	171,420
	t	Asset Actuarial value	
		Surplus (Deficit) in $M	
	u	Going concern (using fair value)	23,223
	v	Accounting	55,053
	w	Going concern (using actuarial value)	
		Ratio in %	
	x	Going concern (using fair value)	115.7%
	y	Accounting	147.3%
	z	Going concern (using actuarial value)	
	aa		
	bb		
	cc		
	dd		
	ee		

	ff
next year)	gg
	hh

2016	2017	2018	2019	2020	2021	2022	2023
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
148,197	154,003	159,990	166,162	172,522	179,072	185,817	192,759
116,367	120,785	125,335	130,018	134,835	139,787	144,875	150,100
171,420	179,701	188,368	197,438	206,930	216,863	227,258	238,136
1,663	1,713	1,764	1,817	1,872	1,928	1,986	2,046
		0	0	0	0	0	0
0	0	0	0	0	0	0	0
1,735	1,787	1,841	1,896	1,953	2,012	2,072	2,134
		0	0	0	0	0	0
(5,757)	(5,987)	(6,226)	(6,475)	(6,734)	(7,003)	(7,283)	(7,574)
4,408	4,540	4,676	4,816	4,960	5,109	5,262	5,420
2,989	3,079	3,171	3,266	3,364	3,465	3,569	3,676
7,155	7,434	7,722	8,019	8,324	8,639	8,963	9,297
7,186	7,458	7,738	8,026	8,322	8,626	8,939	9,259
10,640	11,154	11,691	12,254	12,842	13,458	14,103	14,777
154,003	159,990	166,162	172,522	179,072	185,817	192,759	199,902
120,785	125,335	130,018	134,835	139,787	144,875	150,100	155,461
179,701	188,368	197,438	206,930	216,863	227,258	238,136	249,519
	185,908	194,859	204,227	214,030	224,289	235,025	246,260
	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
25,698	28,378	31,276	34,408	37,791	41,441	45,377	49,617
58,916	63,033	67,420	72,095	77,076	82,383	88,036	94,058
	25,918	28,697	31,705	34,958	38,472	42,266	46,358
116.7%	117.7%	118.8%	119.9%	121.1%	122.3%	123.5%	124.8%
148.8%	150.3%	151.9%	153.5%	155.1%	156.9%	158.7%	160.5%
	116.2%	117.3%	118.4%	119.5%	120.7%	121.9%	123.2%
8,257	8,656	9,072	9,509	9,965	10,443	10,944	11,467
10,640	11,154	11,691	12,254	12,842	13,458	14,103	14,777
2,383	2,498	2,619	2,745	2,877	3,015	3,159	3,310
794	833	873	915	959	1,005	1,053	1,103
	2,460	2,579	2,703	2,833	2,969	3,111	3,259

	0 0	0 0	0 0	0 0	0 0	0 0	0 0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2024	2025	2026	2027	2028	2029	2030	2031
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
199,902	207,248	214,798	222,556	230,523	238,701	247,092	255,696
155,461	160,958	166,592	172,360	178,262	184,296	190,458	196,746
249,519	261,430	273,894	285,060	295,368	305,894	316,681	327,743
2,107	2,170	2,235	2,302	2,371	2,442	2,515	2,590
0	0	(910)	(1,562)	(1,662)	(1,743)	(1,819)	(1,899)
0	0	0	0	0	0	0	0
2,198	2,264	2,332	2,402	2,474	2,548	2,624	2,703
0	0	(910)	(1,562)	(1,662)	(1,743)	(1,819)	(1,899)
(7,877)	(8,192)	(8,520)	(8,861)	(9,215)	(9,584)	(9,967)	(10,366)
5,583	5,750	5,923	6,101	6,284	6,473	6,667	6,867
3,786	3,900	4,017	4,138	4,262	4,390	4,522	4,658
9,640	9,992	10,355	10,727	11,109	11,502	11,904	12,316
9,588	9,926	10,271	10,625	10,987	11,356	11,733	12,118
15,483	16,222	16,938	17,589	18,220	18,866	19,528	20,207
207,248	214,798	222,556	230,523	238,701	247,092	255,696	264,513
160,958	166,592	172,360	178,262	184,296	190,458	196,746	203,156
261,430	273,894	285,060	295,368	305,894	316,681	327,743	339,079
258,015	270,316	281,319	291,477	301,861	312,503	323,418	334,603
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
54,182	59,096	62,504	64,845	67,193	69,589	72,047	74,566
100,472	107,302	112,700	117,106	121,598	126,223	130,997	135,923
50,767	55,518	58,763	60,954	63,160	65,411	67,722	70,090
126.1%	127.5%	128.1%	128.1%	128.1%	128.2%	128.2%	128.2%
162.4%	164.4%	165.4%	165.7%	166.0%	166.3%	166.6%	166.9%
124.5%	125.8%	126.4%	126.4%	126.5%	126.5%	126.5%	126.5%
12,015	12,588	13,144	13,649	14,139	14,640	15,154	15,681
15,483	16,222	16,938	17,589	18,220	18,866	19,528	20,207
3,468	3,634	3,794	3,940	4,081	4,226	4,374	4,526
1,156	1,211	1,265	1,313	1,360	1,409	1,458	1,509
3,415	3,578	3,741	3,891	4,033	4,178	4,325	4,476

0	1,819	3,124	3,324	3,485	3,638	3,798	3,962
0	910	1,562	1,662	1,743	1,819	1,899	1,981
0.0%	0.0%	-39.0%	-65.0%	-67.2%	-68.4%	-69.3%	-70.3%

2032	2033	2034	2035	2036	2037	2038	2039
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
264,513	273,544	282,789	292,247	301,917	311,797	321,885	332,176
203,156	209,683	216,322	223,067	229,911	236,844	243,858	250,941
339,079	350,690	362,579	374,742	387,179	399,888	412,866	426,108
2,668	2,748	2,830	2,915	3,002	3,092	3,185	3,281
(1,981)	(2,065)	(2,152)	(2,242)	(2,334)	(2,428)	(2,526)	(2,627)
0	0	0	0	0	0	0	0
2,784	2,868	2,954	3,043	3,134	3,228	3,325	3,425
(1,981)	(2,065)	(2,152)	(2,242)	(2,334)	(2,428)	(2,526)	(2,627)
(10,781)	(11,212)	(11,660)	(12,126)	(12,611)	(13,115)	(13,640)	(14,186)
7,073	7,285	7,504	7,729	7,961	8,200	8,446	8,699
4,798	4,942	5,090	5,243	5,400	5,562	5,729	5,901
12,739	13,172	13,614	14,067	14,530	15,003	15,485	15,977
12,510	12,909	13,315	13,727	14,144	14,567	14,994	15,425
20,902	21,614	22,343	23,089	23,851	24,629	25,423	26,234
273,544	282,789	292,247	301,917	311,797	321,885	332,176	342,666
209,683	216,322	223,067	229,911	236,844	243,858	250,941	258,081
350,690	362,579	374,742	387,179	399,888	412,866	426,108	439,609
346,059	357,790	369,792	382,063	394,602	407,407	420,473	433,793
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
77,146	79,790	82,495	85,262	88,091	90,981	93,932	96,943
141,007	146,257	151,675	157,268	163,044	169,008	175,167	181,528
72,515	75,001	77,545	80,146	82,805	85,522	88,297	91,127
128.2%	128.2%	128.2%	128.2%	128.3%	128.3%	128.3%	128.3%
167.2%	167.6%	168.0%	168.4%	168.8%	169.3%	169.8%	170.3%
126.5%	126.5%	126.5%	126.5%	126.6%	126.6%	126.6%	126.6%
16,220	16,772	17,338	17,917	18,508	19,112	19,728	20,358
20,902	21,614	22,343	23,089	23,851	24,629	25,423	26,234
4,682	4,842	5,005	5,172	5,343	5,517	5,695	5,876
1,561	1,614	1,668	1,724	1,781	1,839	1,898	1,959
4,631	4,789	4,950	5,116	5,286	5,459	5,635	5,816

4,129	4,304	4,484	4,667	4,856	5,051	5,253	5,461
2,065	2,152	2,242	2,334	2,428	2,526	2,627	2,731
-71.2%	-72.0%	-72.9%	-73.7%	-74.5%	-75.2%	-76.0%	-76.7%

2040	2041	2042	2043	2044	2045	2046	2047
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
342,666	353,352	364,227	375,285	386,517	397,915	409,470	421,169
258,081	265,265	272,477	279,701	286,917	294,105	301,242	308,302
439,609	453,362	467,361	481,595	496,061	510,741	525,624	540,699
3,379	3,480	3,584	3,692	3,803	3,917	4,035	4,156
(2,731)	(2,837)	(2,946)	(3,056)	(3,172)	(3,290)	(3,410)	(3,534)
0	0	0	0	0	0	0	0
3,528	3,634	3,743	3,855	3,971	4,090	4,213	4,339
(2,731)	(2,837)	(2,946)	(3,056)	(3,172)	(3,290)	(3,410)	(3,534)
(14,753)	(15,343)	(15,957)	(16,595)	(17,259)	(17,949)	(18,667)	(19,414)
8,960	9,229	9,506	9,791	10,085	10,388	10,700	11,021
6,078	6,260	6,448	6,641	6,840	7,045	7,256	7,474
16,479	16,989	17,509	18,036	18,572	19,116	19,666	20,223
15,859	16,295	16,733	17,170	17,607	18,041	18,471	18,896
27,060	27,901	28,756	29,626	30,509	31,405	32,313	33,232
353,352	364,227	375,285	386,517	397,915	409,470	421,169	432,999
265,265	272,477	279,701	286,917	294,105	301,242	308,302	315,258
453,362	467,361	481,595	496,061	510,741	525,624	540,699	555,945
447,363	461,175	475,218	489,490	503,973	518,656	533,528	548,570
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
100,010	103,134	106,310	109,544	112,826	116,154	119,530	122,946
188,097	194,884	201,894	209,144	216,636	224,382	232,397	240,687
94,011	96,948	99,933	102,973	106,058	109,186	112,359	115,571
128.3%	128.3%	128.3%	128.3%	128.4%	128.4%	128.4%	128.4%
170.9%	171.5%	172.2%	172.9%	173.7%	174.5%	175.4%	176.3%
126.6%	126.6%	126.6%	126.6%	126.7%	126.7%	126.7%	126.7%
20,999	21,651	22,315	22,990	23,675	24,370	25,075	25,788
27,060	27,901	28,756	29,626	30,509	31,405	32,313	33,232
6,061	6,250	6,441	6,636	6,834	7,035	7,238	7,444
2,020	2,083	2,147	2,212	2,278	2,345	2,413	2,481
5,999	6,186	6,377	6,571	6,768	6,968	7,171	7,375

5,673	5,892	6,112	6,344	6,580	6,819	7,067	7,322
2,837	2,946	3,056	3,172	3,290	3,410	3,534	3,661
-77.4%	-78.1%	-78.7%	-79.3%	-79.9%	-80.4%	-80.9%	-81.4%

2048	2049	2050	2051	2052	2053	2054	2055
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
432,999	444,946	456,994	469,126	481,321	493,557	505,811	518,057
315,258	322,078	328,729	335,175	341,376	347,287	352,861	358,046
555,945	571,342	586,876	602,520	618,250	634,038	649,855	665,666
4,281	4,409	4,541	4,677	4,817	4,962	5,111	5,264
(3,661)	(3,789)	(3,921)	(4,055)	(4,192)	(4,332)	(4,475)	(4,618)
0	0	0	0	0	0	0	0
4,469	4,603	4,741	4,883	5,029	5,180	5,335	5,495
(3,661)	(3,789)	(3,921)	(4,055)	(4,192)	(4,332)	(4,475)	(4,618)
(20,191)	(20,999)	(21,839)	(22,713)	(23,622)	(24,567)	(25,550)	(26,572)
11,352	11,693	12,044	12,405	12,777	13,160	13,555	13,962
7,698	7,929	8,167	8,412	8,664	8,924	9,192	9,468
20,786	21,354	21,927	22,503	23,081	23,661	24,241	24,820
19,313	19,721	20,118	20,502	20,869	21,217	21,543	21,843
34,160	35,098	36,042	36,993	37,948	38,906	39,864	40,821
444,946	456,994	469,126	481,321	493,557	505,811	518,057	530,267
322,078	328,729	335,175	341,376	347,287	352,861	358,046	362,785
571,342	586,876	602,520	618,250	634,038	649,855	665,666	681,438
563,759	579,083	594,517	610,035	625,610	641,212	656,807	672,365
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
126,396	129,882	133,394	136,929	140,481	144,044	147,609	151,171
249,264	258,147	267,345	276,874	286,751	296,994	307,620	318,653
118,813	122,089	125,391	128,714	132,053	135,401	138,750	142,098
128.4%	128.4%	128.4%	128.4%	128.5%	128.5%	128.5%	128.5%
177.4%	178.5%	179.8%	181.1%	182.6%	184.2%	185.9%	187.8%
126.7%	126.7%	126.7%	126.7%	126.8%	126.8%	126.8%	126.8%
26,508	27,236	27,969	28,707	29,448	30,191	30,934	31,677
34,160	35,098	36,042	36,993	37,948	38,906	39,864	40,821
7,652	7,862	8,073	8,286	8,500	8,715	8,930	9,144
2,551	2,621	2,691	2,762	2,833	2,905	2,977	3,048
7,583	7,793	8,003	8,215	8,428	8,643	8,859	9,073

7,577	7,841	8,110	8,384	8,664	8,949	9,236	9,532
3,789	3,921	4,055	4,192	4,332	4,475	4,618	4,766
-81.9%	-82.3%	-82.7%	-83.0%	-83.4%	-83.6%	-83.9%	-84.0%

2056	2057	2058	2059	2060	2061	2062	2063
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
530,267	542,410	554,451	566,353	578,076	589,577	600,809	611,721
362,785	367,017	370,676	373,689	375,976	377,454	378,030	377,605
681,438	697,128	712,695	728,090	743,262	758,157	772,711	786,864
5,422	5,585	5,753	5,926	6,104	6,287	6,476	6,670
(4,766)	(4,915)	(5,067)	(5,220)	(5,375)	(5,532)	(5,688)	(5,846)
0	0	0	0	0	0	0	0
5,660	5,830	6,005	6,185	6,371	6,562	6,759	6,962
(4,766)	(4,915)	(5,067)	(5,220)	(5,375)	(5,532)	(5,688)	(5,846)
(27,635)	(28,740)	(29,890)	(31,086)	(32,329)	(33,622)	(34,967)	(36,366)
14,381	14,812	15,256	15,714	16,185	16,671	17,171	17,686
9,752	10,045	10,346	10,656	10,976	11,305	11,644	11,993
25,397	25,969	26,536	27,095	27,645	28,183	28,708	29,215
22,115	22,354	22,557	22,717	22,831	22,893	22,898	22,839
41,775	42,722	43,660	44,586	45,498	46,390	47,260	48,103
542,410	554,451	566,353	578,076	589,577	600,809	611,721	622,256
367,017	370,676	373,689	375,976	377,454	378,030	377,605	376,071
697,128	712,695	728,090	743,262	758,157	772,711	786,864	800,542
687,842	703,196	718,380	733,344	748,034	762,386	776,342	789,829
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
154,718	158,244	161,737	165,186	168,580	171,902	175,143	178,286
330,111	342,019	354,401	367,286	380,703	394,681	409,259	424,471
145,432	148,745	152,027	155,268	158,457	161,577	164,621	167,573
128.5%	128.5%	128.6%	128.6%	128.6%	128.6%	128.6%	128.7%
189.9%	192.3%	194.8%	197.7%	200.9%	204.4%	208.4%	212.9%
126.8%	126.8%	126.8%	126.9%	126.9%	126.9%	126.9%	126.9%
32,417	33,152	33,880	34,599	35,306	35,999	36,674	37,328
41,775	42,722	43,660	44,586	45,498	46,390	47,260	48,103
9,358	9,570	9,780	9,987	10,192	10,391	10,586	10,775
3,119	3,190	3,260	3,329	3,397	3,464	3,529	3,592
9,286	9,499	9,710	9,918	10,123	10,325	10,522	10,713

9,830	10,133	10,439	10,749	11,063	11,375	11,691	12,009
4,915	5,067	5,220	5,375	5,532	5,688	5,846	6,005
-84.2%	-84.3%	-84.4%	-84.4%	-84.4%	-84.3%	-84.1%	-84.0%

2064	2065	2066
6.25%	6.25%	6.25%
4.85%	4.85%	4.85%
6.25%	6.25%	6.25%
3.00%	3.00%	3.00%
4.00%	4.00%	4.00%
622,256	632,356	641,956
376,071	373,312	369,202
800,542	813,668	826,161
6,870	7,076	7,288
(6,005)	(6,164)	(6,322)
0	0	0
7,171	7,386	7,608
(6,005)	(6,164)	(6,322)
(37,821)	(39,334)	(40,907)
18,217	18,764	19,327
12,353	12,724	13,106
29,704	30,170	30,612
22,709	22,500	22,206
48,915	49,692	50,427
632,356	641,956	650,988
373,312	369,202	363,607
813,668	826,161	837,933
802,772	815,089	826,693
98.7%	98.7%	98.7%
181,312	184,205	186,945
440,356	456,959	474,326
170,416	173,133	175,705
128.7%	128.7%	128.7%
218.0%	223.8%	230.5%
126.9%	127.0%	127.0%
37,958	38,561	39,131
48,915	49,692	50,427
10,957	11,131	11,296
3,652	3,710	3,765
10,896	11,072	11,240

12,327	12,644	12,958
6,164	6,322	6,479
-83.7%	-83.4%	-83.1%

	Plan	OTPP	(in $B)
a)	Value of asset - market value used		85.7
b)	Value of accounting obligation		58.2
c)	Surplus (deficit)		27.5
d)	Unamortized (gains) losses - market value used		-16.2
e)	Adjustment for March 31, 2016		-0.9
f)	Asset (liability) position		10.4
g)	Specific Government adjustment		-0.3
h)	Final Asset (liability) position on balance sheet		10.1
i)	Adjusted benefit asset		10.1
j)	Expected future benefit		12.9
k)	- Perpetuity of employer service cost		44.6
l)	- Minimum funding requirement		31.7
m)	- Surplus withdrawal		0.0
	TEST : Valuation allowance = max (0 ; i - j)		0.0

Expected Future Benefit Calculations

n)	Total plan service accrual accounting	2.9
o)	Employer service accrual share	50%
p)	Expected return on asset - accounting assumption	6.25%
q)	Salary increase - accounting assumption	3.00%
r)	Perpetuity of Employer service cost - accounting	44.6
s)	Minimum employer funding requirement as at March 31, 2016	31.7
t)	Expected Future Benefit	12.9

Reduction in Gov contr based on projection	**Year**	**Estimated Contributions[1]**	**Contribution required considering use of 50% of the surplus in excess of ITA excess surplus threshold**	**Present value of each contribution required**
0.0%	2016[2]	1.3	1.3	1.2
0.0%	2017	1.7	1.7	1.6
0.0%	2018	1.8	1.8	1.6
0.0%	2019	1.8	1.8	1.5
0.0%	2020	1.9	1.9	1.5
0.0%	2021	2.0	2.0	1.4
0.0%	2022	2.0	2.0	1.4
0.0%	2023	2.1	2.1	1.3
0.0%	2024	2.1	2.1	1.3
0.0%	2025	2.2	2.2	1.3
0.0%	2026	2.3	2.3	1.2
0.0%	2027	2.3	2.3	1.2
0.0%	2028	2.4	2.4	1.1
0.0%	2029	2.5	2.5	1.1
0.0%	2030	2.5	2.5	1.1
0.0%	2031	2.6	2.6	1.0
0.0%	2032	2.7	2.7	1.0
0.0%	2033	2.8	2.8	1.0

0.0%	2034	2.9	2.9	0.9
0.0%	2035	3.0	3.0	0.9
0.0%	2036	3.0	3.0	0.9
0.0%	2037	3.1	3.1	0.9
0.0%	2038	3.2	3.2	0.8
0.0%	2039	3.3	3.3	0.8
0.0%	2040	3.4	3.4	0.8
0.0%	2041	3.5	3.5	0.8
-42.6%	2042	3.6	2.1	0.4
-63.4%	2043	3.7	1.4	0.3
-91.8%	2044	3.9	0.3	0.1
-93.5%	2045	4.0	0.3	0.0
-100.0%	2046	4.1	0.0	0.0
-100.0%	2047	4.2	0.0	0.0
-100.0%	2048	4.3	0.0	0.0
-100.0%	2049	4.5	0.0	0.0

Information

From Excel File
From Excel File
a - b
From Excel File
From Excel File
c + d + e
From Excel File
f + g

h - max (0 ; d) as per PS3250.053

Minimum EFB basis calculation illustrated (k - l + m)
r)
s), assuming contribution based on use of 50% of the excess surplus as per the Income Tax Act, ongoing surplus before ITA is used 50% for benefit improvement, balance of 50% accrue with return as unused
As per the plan funding policy, the employer may have some access to surplus withdrawal. For simplicity, we have used 0 in the test.

No valuation allowance required, no adjustment to the balance sheet asset position, PS3250.050 and PS3250.054

From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation

*n * o / (p - q), present value of all future service cost to the employer (the 50% share)*

Sum of the present value of future required contributions (table below), using the funding report, projections and assuming the Government uses 50% of the surplus above Income Tax Act excess surplus threshold for contribution holiday and the employees use the other 50%

r - s, Perpetuity of employer service cost minus the minimum funding requirement as at March 31, 2016

	% assumpt	$B return
Accounting return on asset	*6.25%*	*5.4*
Funding return on asset	*4.85%*	*4.2*
Excess return each year using best estimate		*1.2*

[1] Estimated contributions from funding report (p.16), increased based on salary increase accounting assumption
[2] Remaining contributions used as at March 31,2016 (9 months for 2016)

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: FW: New Model Output
Date: Monday, September 26, 2016 15:58:29
Attachment 1: image001.png
Attachment 2: OTPP_going_concern_projection_ITA_surplus.docx
Attachment 3: Valuation_allowance_projection_scen1_and_scen2.xlsx
Attachment 4: calculation_EFB_estimate_Sept_26_2016.xlsx

Hi Alex,

Deloitte completed some additional modelling described both in 2 below and in the word document. We asked what the results of the asset ceiling test would be if 50% of the surplus was used to improve benefits. Could you ask Allan to do a cold review of this scenario. The result Deloitte noted is that the asset ceiling would still exceed the asset == $12.xB vs. 10.1 B.

Thanks very much,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-26-16 3:18 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: New Model Output

Cindy and Nadine

To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the ITA limit.

Note the document is in bullet form mostly for ease of reading and really describes the step-by-step of the work performed.

It also includes a short summary at the end that is just factual observations of the results obtained.

There are also the 2 excel files that were used (same files as last time for 1- projection and 2- expected future benefit calculation by applying reduction % to Government contributions coming from the projection).

There are 2 scenarios:

1- Similar to last time, no use of surplus before attainment of the ITA limit and then 50% / 50% share to the employees and Government contribution reduction. The % reduction in Government contribution may differ a little from the previous set of results due to some refinements in calculation but only minor difference if any

2- I was not sure about your scenario Cindy about benefit improvement. If your question was about using in scenario 1- above the 50% of employee to improve benefit instead of reducing their contribution, then the results are similar to 1- as only a small difference in interest on obligation (4.85%) vs return on asset (6.25%) would affect the results and really small impact. However, as it was not so clear if you were referring to the surplus above ITA, we also looked at what would happen if the surplus before reaching ITA limit was spent at 50% to improve employee benefits. The remaining 50% would be maintained unused until reaching the ITA limit when the 50% / 50% contribution reduction would apply. This scenario is like saying that we always use the 50% share of the employees for their benefit and we leave the Government share in the plan not to be spent. Even in this scenario, we reach ITA limit in year 2041 and we do have expected future benefit that supports the accrued benefit asset, although much closer. So either your question is easy and only related to the surplus above ITA limit to be used for benefit improvement – answer is same or almost results as 1- or your question was also targeting surplus before ITA limit and the Scenario 2 covers this.

Note that the Scenario 2 is found in excel calculation but also described in the word document on the approach. So if this was not the intended scenario, it can be taken out easily.

Also note that the excel file on projection also includes the data input sheet from the Government accounting spreadsheet that was provided to us for calculation purposes. Just wanted you to know in case some information in it were not meant to be distributed afterward.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

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De : Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Envoyé : 25 septembre 2016 09:50
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Objet : RE: New Model Output

Re: the additional modelling, I will try to explain in a bit more detail We have an internal call at 10 am (so in 10 minutes) and then another at noon so maybe we can connect live between those or after the noon update.

As I understand it, both the initial model from August and the ITA model from Friday both assume that benefits will not increase (other than the cost of the benefits that are currently being provided). In other words there will not be a decision by the sponsors to improve the benefits provided

We have been asked to determine the outcome of the pension ceiling test on the assumption that 50% of the surplus is used to improve benefits for the teachers. So instead of assuming that the level of benefits remains constant, we're assuming that for 50% of the surplus, instead of using the surplus to reduce contributions, the sponsors agree the benefits for the teachers will be improved.

I'm not sure how this scenario is modeled, but I think the question would then be how many years of contributions would be made before the asset ceiling would be reached.

I'm testing my understanding of the actuarial model here, but would the service cost in the model increase (e.g. part 1 of 56(a)) as well as the level of contributions required to support the increased benefits (part 2 of 56(a)) ?

Thanks all for your assistance,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-25-16 9:28 AM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: New Model Output

Cindy

Will work today but will need review by Matt on the wording

For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%

If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...

Envoyé de mon iPhone

Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

> Hi Martin,
>
> Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.
>
> Two questions for you:

1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.

2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?

Thanks again,

Cindy

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:30 AM
To: Veinot, Cindy (TBS)
Subject: FW: New Model Output

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 3:13 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA
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<image001.png>

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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<calculation_EFB_estimate_Sept_23_2016.xlsx>

<Valuation_allowance_projection.xlsx>

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Summary of projection approach for Income Tax Act excess surplus

At the request of the Ontario Government, some projection scenarios of the Ontario Teachers Pension Plan (OTPP) financial situation were looked at.

Projections are performed with the consideration that above a certain surplus amount, the Income Tax Act (ITA) requires that contributions to a pension plan be reduced (or even stopped) to avoid "undue" accrual of pension funds in a plan that is overly funded.

The Income Tax Act (ITA) excess surplus threshold

The excess surplus is defined as follows:

- The threshold for a pension plan is determined as being 25% of the plan going-concern obligation
- If the value of the assets exceeds 125% of the going-concern obligation at a given valuation date (December 31 as an example), the assets above that threshold are identified as the plan excess surplus
- If the plan has an excess surplus at a given valuation date, the employer cannot contribute to the plan until the excess surplus no longer exists, starting with the upcoming year
- Considering the nature of the OTPP being shared between the employees and the Government, the projections performed are based on the assumption that the Government and the employees would both benefit from contribution reduction when an excess surplus exists

Objective

- Project going-concern valuation results over future years through usual extrapolation process of the going-concern obligation and the value of assets
- Determine the plan going-concern surplus in future years
- Identify the plan going-concern surplus that exceeds the Income Tax Act (ITA) threshold
- Calculate the Government contribution reduction derived from the ITA excess surplus application
- Use the Government contribution reduction form the projection file to determine the minimum employer contribution required within the expected future benefit calculation for the Province financial statements accounting purposes
- 2 scenarios are looked at:
    - Scenario 1, the surplus ongoing is never use until the time it reaches the ITA threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Government to reduce contributions in ensuing year
    - Scenario 2, the surplus ongoing is used at 50% to improve members benefit (increase the plan obligation) while the remaining unused 50% remains in a balance account that continues to accrue with return on asset. Every year, 50% of the new surplus element (not the past unused) is applied for improved benefits and the remaining 50% of the new surplus is added to the balance account that continues to accrue. Once the ITA threshold is used, the excess surplus is used 50% and 50% to reduce contributions by the employees and the Government.

Information to use

Taken from the January 1, 2015 funding report and from the Government March 31, 2016 excel calculation supporting file

- Going-concern financial situation at January 1, 2015 for the service accrued to date, $142,569M from page 9 of the funding report
- Going-concern service cost to determine the value of service accrual (derived from future service value of benefits vs future contribution values in the January 1, 2015 going-concern valuation) – present value of future accrual = $54,774M and total present value of future contributions = ($38,817M + $3,406M = $42,223M) from page 9 of the funding report
- Fair value of asset at January 1, 2016 of $171,420M taken from the Government accounting excel file – sheet “Data Input”, cell AC26
- Going-concern actuarial value of asset methodology based on smoothing of gains and losses - 3 years recognition of gains and losses – from page 23 of the funding report
- 2015 employees contribution taken from the Government accounting excel file – sheet “Data Input”, cell AC32
- 2015 Government contribution taken from the Government accounting excel file – sheet “Data Input”, cells AC33, AC34, AC35, AC36
- 2015 benefit payments taken from the Government accounting excel file – sheet “Data Input”, cell AC18
- Assumption for going-concern interest to project obligation at 4.85%, from page 6 of the funding report
- Assumption for asset return projection at 6.25%, Government best estimate for Province financial statements
- Assumption for projection of contributions and service cost based on 3%, Government best estimate of salary increase for Province financial statements
- Assumption for projection of benefit payment at 4% - this is based on the average of most recent years and upcoming years increase (10 increase average) taken from the Government accounting excel file – sheet “Data Input”, cells W18 to AG18 (covering years 2009 to 2019)
- Use of surplus before reaching ITA excess surplus threshold as per the scenarios described in the objective section
- Use of surplus for portion above ITA excess surplus threshold once attained as per the scenarios described in the objective section

Steps (reference of line coming from the projection file)

- Start with January 1, 2015 going-concern valuation obligation for the service rendered to date – line f of projection file
- Derive the annual going-concern service cost based on the January 1, 2015 going-concern information on future service as follows:
    - Total going-concern current service cost = % of total plan contributions (employees + Government)
    - Based on going-concern January 1, 2015, the present value of future service accruals is $54,774M vs total expected contributions to the plan is ($38,817M + $3,406M = $42,223M)
    - The derived % is therefore $54,774M / $42,203M = 129.7%
    - Going-concern service cost used for extrapolation purposes is therefore determined as 129.7% x (employees contribution + Government contribution)
    - If a year is affected by a contribution reduction for employees and / or Government, the going-concern service cost is still based on pre-reduction contribution since service continues to accrue on the obligation even when contributions do not accrue on the asset value side
- Extrapolation of going-concern obligation at every year-end is defined as follows – line q of projection file : Going-concern Obligation (t+1) =
    - Going-concern Obligation (t) – line f of projection file, plus
    - total going-concern current service cost in the year – line l of projection file, minus
    - benefit payments in the year – line k of projection file, plus
    - cost of benefit improvement – line i – 3 of projection file, plus
    - interest at 4.85% (full year on obligation and half-year on service cost, benefit payments and plan modification) – line n of projection file
- Derive the January 1, 2016 going-concern obligation value for services rendered to date – cell E32 of projection file
- Determine the annual going-concern service cost as 129.7% of total employees + Government contributions – line k of projection file
- Start with January 1, 2016 fair value of asset to extrapolate fair value over future years as follows – line s of the projection file: Fair value of assets (t + 1) =
    - Fair value of assets (t) – line h of projection file, plus
    - total employees + Government contributions, net of respective reductions – lines i – 1, i – 2, j – 1, j - 2 of projection file, minus
    - benefit payments in the year – line k of projection file, plus
    - return on plan assets based on 6.25% (full year on asset and half-year on contributions, benefit payments) – line p of projection file
- Determine the Actuarial value of assets using the going-concern methodology that recognizes gains (losses) in excess of the interest assumption over a 3 year period as follows – line t of projection file: Going-concern Actuarial asset value (t + 1) =
    - Fair value (t +1) – line s of projection file, minus
    - 66 2/3 % of the difference (actual return at 6.25% (t+1) less expected return at 4.85% (t+1)) – line ee of projection file includes 2 times line dd of year (t+1), minus

    - 33 1/3 % of the difference (actual return (t) less expected return at 4.85% (t)) – line ee of projection file includes 1 time line dd of year (t) of projection file
    - Note that since the future return (6.25%) is in excess of the interest used in Going-concern valuation (4.85%) for Actuarial value calculation, there is always an excess return that within the Actuarial value calculation gets amortized over 3 years and therefore Actuarial value of asset is always slightly lower than the fair value on every year-end of the projection performed (ratio of 98.7%) – line t / line s of projection file
- Assume no other gains and losses on the going-concern valuation results since this is extrapolation
- Assume no use of surplus before reaching the ITA excess surplus threshold (Scenario 1) or use 50% of surplus to improve benefits (while the remaining 50% remains unused and accumulates with return on asset in future years)
- Determine every year if the going-concern surplus of the plan exceeds the ITA excess surplus threshold and if this is the case, identify the portion of surplus in excess – line z of the projection file for the going-concern ratio to compare with 125% and line ff for the excess surplus
- Use the excess surplus amount to reduce contributions for the employees and the Government in equal amount 50% / 50% which is applied against the ensuing year annual contribution – lines i – 2 and j – 2 of projection file. Note that since employees contribution in the year 2015 are slightly lower than Government, the projection contributions are also slightly lower. In order to ensure that 50% / 50% of the excess surplus is shared, any difference between the Government and the employees contribution reduction is added as a benefit improvement to maintain that sharing.
- Identify the % reduction of the Government contributions for all future years based on the projection – line hh of projection file
- Apply the % reduction to the Government contribution in the calculation of the minimum required employee contributions for the expected future benefit that serves for the Province financial statements

<u>Observations</u>

- For Scenario 1:
    - From the projection file we note that the 125% ITA limit for surplus is attained at end of year 2025 for Scenario 1, leading to forced contribution reduction from year 2026
    - Considering a share of contribution reduction for both the employees and the Government, the Government reduction starts around 65% and increases to about 83%
    - Excess surplus never leads to 100% reduction in contributions
    - Every year, the going-concern ratio remains around 125%, slightly higher due to interest difference between the time of recognition of an excess surplus amount (December 31 valuation) and the time of use of the excess surplus to reduce contribution which is over the upcoming year
    - Once attained, excess surplus is always present in future years since the return on plan asset at 6.25% always exceeds the interest on obligation at 4.85%
    - Applying the Government contribution reduction to the expected future benefit calculation, the resulting amount is $23.2B that exceeds $10.1B of accrued benefit asset.

- For Scenario 2:
    - The 125% ITA limit is attained at the end of year 2041. This is later than Scenario 1, since the surplus is used at 50% before to improve employee benefits.
    - Once the limit is attained, the Government and employees do get a full contribution reduction.
    - Similar to Scenario 1, the plan remains in excess surplus position due to the difference in return on plan assets and interest on obligation.
    - Applying the Government contribution reduction to the expected future benefit calculation, the resulting amount is $12.9B that exceeds $10.1B of accrued benefit asset.

accounting best estimate
funding report page 6
accounting best estimate
accounting best estimate
based on recent experience average (data input)

funding report page 9 for service rendered and 100% CPI
data input sheet
data input sheet

data input sheet
= (gg) assuming employees use same % of the ITA excess surplus
increase in going-concern obligation value for benefit improvement
estimated increase in accounting obligation for benefit improvement
data input sheet
= (gg)
data input sheet
looking at the PV of future service / PV future contribution (funding report page 9)
data input sheet

= (f) x (b) + (l) x (b) x 50% + (k) x (b) x 50% + (i - 3) x (b) x 50%
= (g) x (c) + (m) x (c) x 50% + (k) x (c) x 50% + (i - 4) x (c) x 50%
= (h) x (a) + (i -1) x (a) x 50% + (j - 1) x (a) x 50% + (i -2) x (a) x 50% + (j - 2) x (a) x 50% + (k) x (a) x 50%

= (f) + (l) + (k) + (n) + (i - 3)
= (g) + (m) + (k) + (o) + (i - 4)
= (h) + (i -1) + (j - 1) + (i -2) + (j - 2) + (k) + (p)
= (s) - (ee)

= (s) - (q)
= (s) - (r)
= (t) - (q)

= (s) / (q)
= (s) / (r)
= (t) / (q)

Actuarial value calculation
expected return for the year at 4.85% = (p) / (a) * (b)
actual return for the year = (p)
gain (loss) on asset return = (bb) - (aa)
spread over 3 years = (cc) / 3
3-year adjustment to get Actuarial value = 2 x (dd) + 1 x (dd) previous year

Going-concern surplus in excess of 125% from the Income Tax Act = (t) - 125% x (q)
Reduction required in Government contribution assuming uses 50% of excess surplus = min (50% x (ff) ; (j -1) form
Asuming employees get the other 50% of excess surplus through cont reduction

% reduction in the Government contribution

		Calendar year	**2015**
	a	Return on plan asset	6.25%
	b	Interest rate on funding obligation	4.85%
	c	Interest rate on accounting obligation	6.25%
	d	Increase in salary (used for cont)	3.00%
	e	Increase in benefit	4.00%
		Total Plan	
		Beginning of calendar year	
	f	Funding obligation - 100% CPI	**142,569**
	g	Accounting obligation - 100% CPI	113,801
	h	Asset fair value	154,476
	i - 1	Employee contributions	**1,615**
	i - 2	Employee reduction in cont	
	i - 3	Increase in going-concern obligation for benefit improvement	
	i - 4	Estimated increase in accounting obligation	0
	j - 1	Government contributions	**1,684**
	j - 2	Government reduction in contribution	
	k	Benefit payments	**(5,536)**
129.7%	l	Funding service cost	**4,280**
	m	Accounting service cost	**2,902**
	n	Funding obligation interest	6,884
	o	Accounting obligation interest	
	p	Asset return for the year	19,181
			12.4%
		End of year	
	q	Funding obligation - 100% CPI	148,197
	r	Accounting obligation - 100% CPI	116,367
	s	Asset Fair value	171,420
	t	Asset Actuarial value	
		Surplus (Deficit) in $M	
	u	Going concern (using fair value)	23,223
	v	Accounting	55,053
	w	Going concern (using actuarial value)	
		Ratio in %	
	x	Going concern (using fair value)	115.7%
	y	Accounting	147.3%
	z	Going concern (using actuarial value)	
	aa		
	bb		
	cc		
	dd		
	ee		

	ff
next year)	gg
	hh

2016	2017	2018	2019	2020	2021	2022	2023
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
148,197	154,003	159,990	166,162	172,522	179,072	185,817	192,759
116,367	120,785	125,335	130,018	134,835	139,787	144,875	150,100
171,420	179,701	188,368	197,438	206,930	216,863	227,258	238,136
1,663	1,713	1,764	1,817	1,872	1,928	1,986	2,046
		0	0	0	0	0	0
0	0	0	0	0	0	0	0
1,735	1,787	1,841	1,896	1,953	2,012	2,072	2,134
		0	0	0	0	0	0
(5,757)	(5,987)	(6,226)	(6,475)	(6,734)	(7,003)	(7,283)	(7,574)
4,408	4,540	4,676	4,816	4,960	5,109	5,262	5,420
2,989	3,079	3,171	3,266	3,364	3,465	3,569	3,676
7,155	7,434	7,722	8,019	8,324	8,639	8,963	9,297
7,186	7,458	7,738	8,026	8,322	8,626	8,939	9,259
10,640	11,154	11,691	12,254	12,842	13,458	14,103	14,777
154,003	159,990	166,162	172,522	179,072	185,817	192,759	199,902
120,785	125,335	130,018	134,835	139,787	144,875	150,100	155,461
179,701	188,368	197,438	206,930	216,863	227,258	238,136	249,519
	185,908	194,859	204,227	214,030	224,289	235,025	246,260
	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
25,698	28,378	31,276	34,408	37,791	41,441	45,377	49,617
58,916	63,033	67,420	72,095	77,076	82,383	88,036	94,058
	25,918	28,697	31,705	34,958	38,472	42,266	46,358
116.7%	117.7%	118.8%	119.9%	121.1%	122.3%	123.5%	124.8%
148.8%	150.3%	151.9%	153.5%	155.1%	156.9%	158.7%	160.5%
	116.2%	117.3%	118.4%	119.5%	120.7%	121.9%	123.2%
8,257	8,656	9,072	9,509	9,965	10,443	10,944	11,467
10,640	11,154	11,691	12,254	12,842	13,458	14,103	14,777
2,383	2,498	2,619	2,745	2,877	3,015	3,159	3,310
794	833	873	915	959	1,005	1,053	1,103
	2,460	2,579	2,703	2,833	2,969	3,111	3,259

	0 0	0 0	0 0	0 0	0 0	0 0	0 0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2024	2025	2026	2027	2028	2029	2030	2031
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
199,902	207,248	214,798	222,556	230,523	238,701	247,092	255,696
155,461	160,958	166,592	172,360	178,262	184,296	190,458	196,746
249,519	261,430	273,894	285,060	295,368	305,894	316,681	327,743
2,107	2,170	2,235	2,302	2,371	2,442	2,515	2,590
0	0	(910)	(1,562)	(1,662)	(1,743)	(1,819)	(1,899)
0	0	0	0	0	0	0	0
2,198	2,264	2,332	2,402	2,474	2,548	2,624	2,703
0	0	(910)	(1,562)	(1,662)	(1,743)	(1,819)	(1,899)
(7,877)	(8,192)	(8,520)	(8,861)	(9,215)	(9,584)	(9,967)	(10,366)
5,583	5,750	5,923	6,101	6,284	6,473	6,667	6,867
3,786	3,900	4,017	4,138	4,262	4,390	4,522	4,658
9,640	9,992	10,355	10,727	11,109	11,502	11,904	12,316
9,588	9,926	10,271	10,625	10,987	11,356	11,733	12,118
15,483	16,222	16,938	17,589	18,220	18,866	19,528	20,207
207,248	214,798	222,556	230,523	238,701	247,092	255,696	264,513
160,958	166,592	172,360	178,262	184,296	190,458	196,746	203,156
261,430	273,894	285,060	295,368	305,894	316,681	327,743	339,079
258,015	270,316	281,319	291,477	301,861	312,503	323,418	334,603
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
54,182	59,096	62,504	64,845	67,193	69,589	72,047	74,566
100,472	107,302	112,700	117,106	121,598	126,223	130,997	135,923
50,767	55,518	58,763	60,954	63,160	65,411	67,722	70,090
126.1%	127.5%	128.1%	128.1%	128.1%	128.2%	128.2%	128.2%
162.4%	164.4%	165.4%	165.7%	166.0%	166.3%	166.6%	166.9%
124.5%	125.8%	126.4%	126.4%	126.5%	126.5%	126.5%	126.5%
12,015	12,588	13,144	13,649	14,139	14,640	15,154	15,681
15,483	16,222	16,938	17,589	18,220	18,866	19,528	20,207
3,468	3,634	3,794	3,940	4,081	4,226	4,374	4,526
1,156	1,211	1,265	1,313	1,360	1,409	1,458	1,509
3,415	3,578	3,741	3,891	4,033	4,178	4,325	4,476

0	1,819	3,124	3,324	3,485	3,638	3,798	3,962
0	910	1,562	1,662	1,743	1,819	1,899	1,981
0.0%	0.0%	-39.0%	-65.0%	-67.2%	-68.4%	-69.3%	-70.3%

2032	2033	2034	2035	2036	2037	2038	2039
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
264,513	273,544	282,789	292,247	301,917	311,797	321,885	332,176
203,156	209,683	216,322	223,067	229,911	236,844	243,858	250,941
339,079	350,690	362,579	374,742	387,179	399,888	412,866	426,108
2,668	2,748	2,830	2,915	3,002	3,092	3,185	3,281
(1,981)	(2,065)	(2,152)	(2,242)	(2,334)	(2,428)	(2,526)	(2,627)
0	0	0	0	0	0	0	0
2,784	2,868	2,954	3,043	3,134	3,228	3,325	3,425
(1,981)	(2,065)	(2,152)	(2,242)	(2,334)	(2,428)	(2,526)	(2,627)
(10,781)	(11,212)	(11,660)	(12,126)	(12,611)	(13,115)	(13,640)	(14,186)
7,073	7,285	7,504	7,729	7,961	8,200	8,446	8,699
4,798	4,942	5,090	5,243	5,400	5,562	5,729	5,901
12,739	13,172	13,614	14,067	14,530	15,003	15,485	15,977
12,510	12,909	13,315	13,727	14,144	14,567	14,994	15,425
20,902	21,614	22,343	23,089	23,851	24,629	25,423	26,234
273,544	282,789	292,247	301,917	311,797	321,885	332,176	342,666
209,683	216,322	223,067	229,911	236,844	243,858	250,941	258,081
350,690	362,579	374,742	387,179	399,888	412,866	426,108	439,609
346,059	357,790	369,792	382,063	394,602	407,407	420,473	433,793
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
77,146	79,790	82,495	85,262	88,091	90,981	93,932	96,943
141,007	146,257	151,675	157,268	163,044	169,008	175,167	181,528
72,515	75,001	77,545	80,146	82,805	85,522	88,297	91,127
128.2%	128.2%	128.2%	128.2%	128.3%	128.3%	128.3%	128.3%
167.2%	167.6%	168.0%	168.4%	168.8%	169.3%	169.8%	170.3%
126.5%	126.5%	126.5%	126.5%	126.6%	126.6%	126.6%	126.6%
16,220	16,772	17,338	17,917	18,508	19,112	19,728	20,358
20,902	21,614	22,343	23,089	23,851	24,629	25,423	26,234
4,682	4,842	5,005	5,172	5,343	5,517	5,695	5,876
1,561	1,614	1,668	1,724	1,781	1,839	1,898	1,959
4,631	4,789	4,950	5,116	5,286	5,459	5,635	5,816

4,129	4,304	4,484	4,667	4,856	5,051	5,253	5,461
2,065	2,152	2,242	2,334	2,428	2,526	2,627	2,731
-71.2%	-72.0%	-72.9%	-73.7%	-74.5%	-75.2%	-76.0%	-76.7%

2040	2041	2042	2043	2044	2045	2046	2047
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
342,666	353,352	364,227	375,285	386,517	397,915	409,470	421,169
258,081	265,265	272,477	279,701	286,917	294,105	301,242	308,302
439,609	453,362	467,361	481,595	496,061	510,741	525,624	540,699
3,379	3,480	3,584	3,692	3,803	3,917	4,035	4,156
(2,731)	(2,837)	(2,946)	(3,056)	(3,172)	(3,290)	(3,410)	(3,534)
0	0	0	0	0	0	0	0
3,528	3,634	3,743	3,855	3,971	4,090	4,213	4,339
(2,731)	(2,837)	(2,946)	(3,056)	(3,172)	(3,290)	(3,410)	(3,534)
(14,753)	(15,343)	(15,957)	(16,595)	(17,259)	(17,949)	(18,667)	(19,414)
8,960	9,229	9,506	9,791	10,085	10,388	10,700	11,021
6,078	6,260	6,448	6,641	6,840	7,045	7,256	7,474
16,479	16,989	17,509	18,036	18,572	19,116	19,666	20,223
15,859	16,295	16,733	17,170	17,607	18,041	18,471	18,896
27,060	27,901	28,756	29,626	30,509	31,405	32,313	33,232
353,352	364,227	375,285	386,517	397,915	409,470	421,169	432,999
265,265	272,477	279,701	286,917	294,105	301,242	308,302	315,258
453,362	467,361	481,595	496,061	510,741	525,624	540,699	555,945
447,363	461,175	475,218	489,490	503,973	518,656	533,528	548,570
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
100,010	103,134	106,310	109,544	112,826	116,154	119,530	122,946
188,097	194,884	201,894	209,144	216,636	224,382	232,397	240,687
94,011	96,948	99,933	102,973	106,058	109,186	112,359	115,571
128.3%	128.3%	128.3%	128.3%	128.4%	128.4%	128.4%	128.4%
170.9%	171.5%	172.2%	172.9%	173.7%	174.5%	175.4%	176.3%
126.6%	126.6%	126.6%	126.6%	126.7%	126.7%	126.7%	126.7%
20,999	21,651	22,315	22,990	23,675	24,370	25,075	25,788
27,060	27,901	28,756	29,626	30,509	31,405	32,313	33,232
6,061	6,250	6,441	6,636	6,834	7,035	7,238	7,444
2,020	2,083	2,147	2,212	2,278	2,345	2,413	2,481
5,999	6,186	6,377	6,571	6,768	6,968	7,171	7,375

5,673	5,892	6,112	6,344	6,580	6,819	7,067	7,322
2,837	2,946	3,056	3,172	3,290	3,410	3,534	3,661
-77.4%	-78.1%	-78.7%	-79.3%	-79.9%	-80.4%	-80.9%	-81.4%

2048	2049	2050	2051	2052	2053	2054	2055
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
432,999	444,946	456,994	469,126	481,321	493,557	505,811	518,057
315,258	322,078	328,729	335,175	341,376	347,287	352,861	358,046
555,945	571,342	586,876	602,520	618,250	634,038	649,855	665,666
4,281	4,409	4,541	4,677	4,817	4,962	5,111	5,264
(3,661)	(3,789)	(3,921)	(4,055)	(4,192)	(4,332)	(4,475)	(4,618)
0	0	0	0	0	0	0	0
4,469	4,603	4,741	4,883	5,029	5,180	5,335	5,495
(3,661)	(3,789)	(3,921)	(4,055)	(4,192)	(4,332)	(4,475)	(4,618)
(20,191)	(20,999)	(21,839)	(22,713)	(23,622)	(24,567)	(25,550)	(26,572)
11,352	11,693	12,044	12,405	12,777	13,160	13,555	13,962
7,698	7,929	8,167	8,412	8,664	8,924	9,192	9,468
20,786	21,354	21,927	22,503	23,081	23,661	24,241	24,820
19,313	19,721	20,118	20,502	20,869	21,217	21,543	21,843
34,160	35,098	36,042	36,993	37,948	38,906	39,864	40,821
444,946	456,994	469,126	481,321	493,557	505,811	518,057	530,267
322,078	328,729	335,175	341,376	347,287	352,861	358,046	362,785
571,342	586,876	602,520	618,250	634,038	649,855	665,666	681,438
563,759	579,083	594,517	610,035	625,610	641,212	656,807	672,365
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
126,396	129,882	133,394	136,929	140,481	144,044	147,609	151,171
249,264	258,147	267,345	276,874	286,751	296,994	307,620	318,653
118,813	122,089	125,391	128,714	132,053	135,401	138,750	142,098
128.4%	128.4%	128.4%	128.4%	128.5%	128.5%	128.5%	128.5%
177.4%	178.5%	179.8%	181.1%	182.6%	184.2%	185.9%	187.8%
126.7%	126.7%	126.7%	126.7%	126.8%	126.8%	126.8%	126.8%
26,508	27,236	27,969	28,707	29,448	30,191	30,934	31,677
34,160	35,098	36,042	36,993	37,948	38,906	39,864	40,821
7,652	7,862	8,073	8,286	8,500	8,715	8,930	9,144
2,551	2,621	2,691	2,762	2,833	2,905	2,977	3,048
7,583	7,793	8,003	8,215	8,428	8,643	8,859	9,073

7,577	7,841	8,110	8,384	8,664	8,949	9,236	9,532
3,789	3,921	4,055	4,192	4,332	4,475	4,618	4,766
-81.9%	-82.3%	-82.7%	-83.0%	-83.4%	-83.6%	-83.9%	-84.0%

2056	2057	2058	2059	2060	2061	2062	2063
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
530,267	542,410	554,451	566,353	578,076	589,577	600,809	611,721
362,785	367,017	370,676	373,689	375,976	377,454	378,030	377,605
681,438	697,128	712,695	728,090	743,262	758,157	772,711	786,864
5,422	5,585	5,753	5,926	6,104	6,287	6,476	6,670
(4,766)	(4,915)	(5,067)	(5,220)	(5,375)	(5,532)	(5,688)	(5,846)
0	0	0	0	0	0	0	0
5,660	5,830	6,005	6,185	6,371	6,562	6,759	6,962
(4,766)	(4,915)	(5,067)	(5,220)	(5,375)	(5,532)	(5,688)	(5,846)
(27,635)	(28,740)	(29,890)	(31,086)	(32,329)	(33,622)	(34,967)	(36,366)
14,381	14,812	15,256	15,714	16,185	16,671	17,171	17,686
9,752	10,045	10,346	10,656	10,976	11,305	11,644	11,993
25,397	25,969	26,536	27,095	27,645	28,183	28,708	29,215
22,115	22,354	22,557	22,717	22,831	22,893	22,898	22,839
41,775	42,722	43,660	44,586	45,498	46,390	47,260	48,103
542,410	554,451	566,353	578,076	589,577	600,809	611,721	622,256
367,017	370,676	373,689	375,976	377,454	378,030	377,605	376,071
697,128	712,695	728,090	743,262	758,157	772,711	786,864	800,542
687,842	703,196	718,380	733,344	748,034	762,386	776,342	789,829
98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%	98.7%
154,718	158,244	161,737	165,186	168,580	171,902	175,143	178,286
330,111	342,019	354,401	367,286	380,703	394,681	409,259	424,471
145,432	148,745	152,027	155,268	158,457	161,577	164,621	167,573
128.5%	128.5%	128.6%	128.6%	128.6%	128.6%	128.6%	128.7%
189.9%	192.3%	194.8%	197.7%	200.9%	204.4%	208.4%	212.9%
126.8%	126.8%	126.8%	126.9%	126.9%	126.9%	126.9%	126.9%
32,417	33,152	33,880	34,599	35,306	35,999	36,674	37,328
41,775	42,722	43,660	44,586	45,498	46,390	47,260	48,103
9,358	9,570	9,780	9,987	10,192	10,391	10,586	10,775
3,119	3,190	3,260	3,329	3,397	3,464	3,529	3,592
9,286	9,499	9,710	9,918	10,123	10,325	10,522	10,713

9,830	10,133	10,439	10,749	11,063	11,375	11,691	12,009
4,915	5,067	5,220	5,375	5,532	5,688	5,846	6,005
-84.2%	-84.3%	-84.4%	-84.4%	-84.4%	-84.3%	-84.1%	-84.0%

2064	2065	2066
6.25%	6.25%	6.25%
4.85%	4.85%	4.85%
6.25%	6.25%	6.25%
3.00%	3.00%	3.00%
4.00%	4.00%	4.00%
622,256	632,356	641,956
376,071	373,312	369,202
800,542	813,668	826,161
6,870	7,076	7,288
(6,005)	(6,164)	(6,322)
0	0	0
7,171	7,386	7,608
(6,005)	(6,164)	(6,322)
(37,821)	(39,334)	(40,907)
18,217	18,764	19,327
12,353	12,724	13,106
29,704	30,170	30,612
22,709	22,500	22,206
48,915	49,692	50,427
632,356	641,956	650,988
373,312	369,202	363,607
813,668	826,161	837,933
802,772	815,089	826,693
98.7%	98.7%	98.7%
181,312	184,205	186,945
440,356	456,959	474,326
170,416	173,133	175,705
128.7%	128.7%	128.7%
218.0%	223.8%	230.5%
126.9%	127.0%	127.0%
37,958	38,561	39,131
48,915	49,692	50,427
10,957	11,131	11,296
3,652	3,710	3,765
10,896	11,072	11,240

12,327	12,644	12,958
6,164	6,322	6,479
-83.7%	-83.4%	-83.1%

	Plan	OTPP	(in $B)
a)	Value of asset - market value used		85.7
b)	Value of accounting obligation		58.2
c)	Surplus (deficit)		27.5
d)	Unamortized (gains) losses - market value used		-16.2
e)	Adjustment for March 31, 2016		-0.9
f)	Asset (liability) position		10.4
g)	Specific Government adjustment		-0.3
h)	Final Asset (liability) position on balance sheet		10.1
i)	Adjusted benefit asset		10.1
j)	Expected future benefit		12.9
k)	- Perpetuity of employer service cost		44.6
l)	- Minimum funding requirement		31.7
m)	- Surplus withdrawal		0.0
	TEST : Valuation allowance = max (0 ; i - j)		0.0

Expected Future Benefit Calculations

n)	Total plan service accrual accounting	2.9
o)	Employer service accrual share	50%
p)	Expected return on asset - accounting assumption	6.25%
q)	Salary increase - accounting assumption	3.00%
r)	Perpetuity of Employer service cost - accounting	44.6
s)	Minimum employer funding requirement as at March 31, 2016	31.7
t)	Expected Future Benefit	12.9

Reduction in Gov contr based on projection	**Year**	**Estimated Contributions[1]**	**Contribution required considering use of 50% of the surplus in excess of ITA excess surplus threshold**	**Present value of each contribution required**
0.0%	2016[2]	1.3	1.3	1.2
0.0%	2017	1.7	1.7	1.6
0.0%	2018	1.8	1.8	1.6
0.0%	2019	1.8	1.8	1.5
0.0%	2020	1.9	1.9	1.5
0.0%	2021	2.0	2.0	1.4
0.0%	2022	2.0	2.0	1.4
0.0%	2023	2.1	2.1	1.3
0.0%	2024	2.1	2.1	1.3
0.0%	2025	2.2	2.2	1.3
0.0%	2026	2.3	2.3	1.2
0.0%	2027	2.3	2.3	1.2
0.0%	2028	2.4	2.4	1.1
0.0%	2029	2.5	2.5	1.1
0.0%	2030	2.5	2.5	1.1
0.0%	2031	2.6	2.6	1.0
0.0%	2032	2.7	2.7	1.0
0.0%	2033	2.8	2.8	1.0

0.0%	2034	2.9	2.9	0.9
0.0%	2035	3.0	3.0	0.9
0.0%	2036	3.0	3.0	0.9
0.0%	2037	3.1	3.1	0.9
0.0%	2038	3.2	3.2	0.8
0.0%	2039	3.3	3.3	0.8
0.0%	2040	3.4	3.4	0.8
0.0%	2041	3.5	3.5	0.8
-42.6%	2042	3.6	2.1	0.4
-63.4%	2043	3.7	1.4	0.3
-91.8%	2044	3.9	0.3	0.1
-93.5%	2045	4.0	0.3	0.0
-100.0%	2046	4.1	0.0	0.0
-100.0%	2047	4.2	0.0	0.0
-100.0%	2048	4.3	0.0	0.0
-100.0%	2049	4.5	0.0	0.0

Information

From Excel File
From Excel File
a - b
From Excel File
From Excel File
c + d + e
From Excel File
f + g

h - max (0 ; d) as per PS3250.053

Minimum EFB basis calculation illustrated (k - l + m)
r)
s), assuming contribution based on use of 50% of the excess surplus as per the Income Tax Act, ongoing surplus before ITA is used 50% for benefit improvement, balance of 50% accrue with return as unused
As per the plan funding policy, the employer may have some access to surplus withdrawal. For simplicity, we have used 0 in the test.

No valuation allowance required, no adjustment to the balance sheet asset position, PS3250.050 and PS3250.054

From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation

*n * o / (p - q), present value of all future service cost to the employer (the 50% share)*

Sum of the present value of future required contributions (table below), using the funding report, projections and assuming the Government uses 50% of the surplus above Income Tax Act excess surplus threshold for contribution holiday and the employees use the other 50%

r - s, Perpetuity of employer service cost minus the minimum funding requirement as at March 31, 2016

	% assumpt	$B return
Accounting return on asset	*6.25%*	*5.4*
Funding return on asset	*4.85%*	*4.2*
Excess return each year using best estimate		*1.2*

[1] Estimated contributions from funding report (p.16), increased based on salary increase accounting assumption
[2] Remaining contributions used as at March 31,2016 (9 months for 2016)

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: FW: New Model Output
Date: Sunday, September 25, 2016 10:48:50

Alex – have you heard back from Allan? Could you follow up with him?

From: Veinot, Cindy (TBS)
Sent: September-24-16 2:00 PM
To: Allan Shapira
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

Thanks Allan – re: the first statement, I don't think we need to know whether it would be in the temporary or permanent.

With respect to the modelling that Martin has done re: when the plan would be expected to hit the CRA limit, have you had a chance to review and are you in agreement with the output (e.g. that based on the assumptions used, the plan would be expected to hit the CRA limit in 15 years)?

Thanks again,

Cindy

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September-24-16 10:15 AM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)

Subject: Re: New Model Output

It would definitely be in the temporary zone and may even be in the permanent zone. I would have to take some time today to figure that out if that is important.

It seems like the AG is hung up on the fact that the government needs agreement of another party, the other joint sponsor to use surplus. That is the essence of a joint plan and it plays out in both increasing contributions when necessary and reducing then when there is an opportunity to do so. I should remind everyone that the temporary zone was introduced in response to the concerns of the member sponsor that with what they view as conservative funding the surplus would grow very large with only a permanent zone and they would not get access to it early enough. Clearly that reflects their desire to use the surplus and they can only do so if the government gets its 50% share.

Allan

Sent from my iPhone

On Sep 24, 2016, at 9:01 AM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

> Thanks everyone for looking at this so quickly.
>
> One question on #3 – does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued expected returns, one model suggests that the plan would be in the permanent zone in 15 years?
>
> **From:** Killoch, Alex (MOF)
> **Sent:** September-24-16 8:57 AM
> **To:** Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
> **Cc:** allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
> **Subject:** Re: New Model Output

I talked to Allan last night.

The answer to number 1 is that the rule applies to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The otf would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

2- Is the Income Tax Act only requiring the employer to reduce contribution even in a joint plan ? if so, our estimate of using 50% of the excess surplus would move to 100%. However, we have used 50% of the excess surplus as a benefit to the employer knowing that under the plan, the sharing principle would lead to employees and employer reducing both their contributions to meet the requirement of the Income Tax Act

3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

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Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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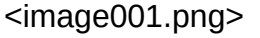

De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

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<image001.png>

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: New Model Output
Date: Saturday, September 24, 2016 08:56:37
Attachment 1: image001.png

DT will be finalizing their opinion today (which will be shared with the AG immediately after receipt by the gov't). If it's at all possible to get some feedback on the questions soon, that would be very helpful (just in case they are waiting for further details before having comfort to reference the results of their model in their opinion). Thanks. N

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:36 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: RE: New Model Output
Importance: High

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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Regards

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Partner – Audit – Actuarial services

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Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
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Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

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Thanks.

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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: New Model Output
Date: Wednesday, October 05, 2016 16:17:01
Attachment 1: image001.png
Attachment 2: calculation_EFB_estimate_Sept_23_2016.xlsx
Attachment 3: Valuation_allowance_projection.xlsx

Have you looked at these? Wondering if they have value on the impact of assumptions

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: Friday, September 23, 2016 3:13 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
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	Plan	OTPP	(in $B)
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j)	Expected future benefit		22.3
k)	- Perpetuity of employer service cost		44.6
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m)	- Surplus withdrawal		0.0
	TEST : Valuation allowance = max (0 ; i - j)		0.0

Expected Future Benefit Calculations

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p)	Expected return on asset - accounting assumption	6.25%
q)	Salary increase - accounting assumption	3.00%
r)	Perpetuity of Employer service cost - accounting	44.6
s)	Minimum employer funding requirement as at March 31, 2016	22.3
t)	Expected Future Benefit	22.3

Reduction in Gov contr based on projection	**Year**	**Estimated Contributions[1]**	**Contribution required considering use of 50% of the surplus in excess of ITA excess surplus threshold**	**Present value of each contribution required**
0.0%	2016[2]	1.3	1.3	1.2
0.0%	2017	1.7	1.7	1.6
0.0%	2018	1.8	1.8	1.6
0.0%	2019	1.8	1.8	1.5
0.0%	2020	1.9	1.9	1.5
0.0%	2021	2.0	2.0	1.4
0.0%	2022	2.0	2.0	1.4
0.0%	2023	2.1	2.1	1.3
0.0%	2024	2.1	2.1	1.3
-2.5%	2025	2.2	2.1	1.2
-62.5%	2026	2.3	0.8	0.5
-65.4%	2027	2.3	0.8	0.4
-66.7%	2028	2.4	0.8	0.4
-67.7%	2029	2.5	0.8	0.4
-68.6%	2030	2.5	0.8	0.3
-69.5%	2031	2.6	0.8	0.3
-70.4%	2032	2.7	0.8	0.3
-71.2%	2033	2.8	0.8	0.3

-72.1%	2034	2.9	0.8	0.3
-72.9%	2035	3.0	0.8	0.2
-73.6%	2036	3.0	0.8	0.2
-74.4%	2037	3.1	0.8	0.2
-75.1%	2038	3.2	0.8	0.2
-75.8%	2039	3.3	0.8	0.2
-76.5%	2040	3.4	0.8	0.2
-77.2%	2041	3.5	0.8	0.2
-77.8%	2042	3.6	0.8	0.2
-78.4%	2043	3.7	0.8	0.2
-79.0%	2044	3.9	0.8	0.1
-79.5%	2045	4.0	0.8	0.1
-80.0%	2046	4.1	0.8	0.1
-80.5%	2047	4.2	0.8	0.1
-80.9%	2048	4.3	0.8	0.1
-81.3%	2049	4.5	0.8	0.1

Information

From Excel File
From Excel File
a - b
From Excel File
From Excel File
c + d + e
From Excel File
f + g

h - max (0 ; d) as per PS3250.053

Minimum EFB basis calculation illustrated (k - l + m)
r)
s), assuming contribution based on use of 50% of the excess surplus as per the Income Tax Act
As per the plan funding policy, the employer may have some access to surplus withdrawal. For simplicity, we have used 0 in the test.

No valuation allowance required, no adjustment to the balance sheet asset position, PS3250.050 and PS3250.054

From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation

*n * o / (p - q), present value of all future service cost to the employer (the 50% share)*

Sum of the present value of future required contributions (table below), using the funding report, projections and assuming the Government uses 50% of the surplus above Income Tax Act excess surplus threshold for contribution holiday and the employees use the other 50%

r - s, Perpetuity of employer service cost minus the minimum funding requirement as at March 31, 2016

	% assumpt	$B return
Accounting return on asset	*6.25%*	*5.4*
Funding return on asset	*4.85%*	*4.2*
Excess return each year using best estimate		*1.2*

[1] Estimated contributions from funding report (p.16), increased based on salary increase accounting assumption
[2] Remaining contributions used as at March 31,2016 (9 months for 2016)

accounting best estimate
funding report page 29
accounting best estimate
accounting best estimate
based on recent experience average (data input)

funding report page 9 for service rendered and 100% CPI
data input sheet
data input sheet

data input sheet
= (gg) assuming employees use same % of the ITA excess surplus
data input sheet
= (gg)
data input sheet
looking at the PV of future service / PV future contribution (funding report page 9)
data input sheet

= (f) x (b) + (l) x (b) x 50% + (k) x (b) x 50%
= (g) x (c) + (m) x (c) x 50% + (k) x (c) x 50%
= (h) x (a) + (i -1) x (a) x 50% + (j - 1) x (a) x 50% + (i -2) x (a) x 50% + (j - 2) x (a) x 50% + (k) x (a) x 50%

= (f) + (l) + (k) + (n)
= (g) + (m) + (k) + (o)
= (h) + (i -1) + (j - 1) + (i -2) + (j - 2) + (k) + (p)
= (s) - (ee)

= (s) - (q)
= (s) - (r)
= (t) - (q)

= (s) / (q)
= (s) / (r)
= (t) / (q)

Market-related value calculation
expected return for the year at 4.85% = (p) / (a) * (b)
actual return for the year = (p)
gain (loss) on asset return = (bb) - (aa)
spread over 3 years = (cc) / 3
3-year adjustment to get market related value = (dd) + (dd) previous year

Going-concern surplus in excess of 125% from the Income Tax Act = (t) - 125% x (q)

Reduction required in Government contribution assuming uses 50% of excess surplus = min (50% x (ff) ; (j -1) form Asuming employees get the other 50% of excess surplus through cont reduction

% reduction in the Government contribution

		Calendar year	2015	2016	2017
	a	Return on plan asset	6.25%	6.25%	6.25%
	b	Interest rate on funding obligation	4.85%	4.85%	4.85%
	c	Interest rate on accounting obligation	6.25%	6.25%	6.25%
	d	Increase in salary (used for cont)	3.00%	3.00%	3.00%
	e	Increase in benefit	4.00%	4.00%	4.00%
		Total Plan			
		Beginning of calendar year			
	f	Funding obligation - 100% CPI	142,569	148,197	154,003
	g	Accounting obligation - 100% CPI	113,801	116,367	120,785
	h	Asset fair value	154,476	171,420	179,701
	i - 1	Employee contributions	1,615	1,663	1,713
	i - 2	Employee reduction in cont			
	j - 1	Government contributions	1,684	1,735	1,787
	j - 2	Government reduction in contribution			
	k	Benefit payments	(5,536)	(5,757)	(5,987)
129.7%	l	Funding service cost	4,280	4,408	4,540
	m	Accounting service cost	2,902	2,989	3,079
	n	Funding obligation interest	6,884	7,155	7,434
	o	Accounting obligation interest		7,186	7,458
	p	Asset return for the year	19,181	10,640	11,154
			12.4%		
		End of year			
	q	Funding obligation - 100% CPI	148,197	154,003	159,990
	r	Accounting obligation - 100% CPI	116,367	120,785	125,335
	s	Asset fair value	171,420	179,701	188,368
	t	Market related value			186,741
		Surplus (Deficit) in $M			
	u	Going concern (using fair value)	23,223	25,698	28,378
	v	Accounting	55,053	58,916	63,033
	w	Going concern (using market related)			26,751
		Ratio in %			
	x	Going concern (using fair value)	115.7%	116.7%	117.7%
	y	Accounting	147.3%	148.8%	150.3%
	z	Going concern (using market related)			116.7%
	aa			8,257	8,656
	bb			10,640	11,154
	cc			2,383	2,498
	dd			794	833
	ee				1,627
	ff				0

next year)	gg	0
	hh	0.0%

2018	2019	2020	2021	2022	2023	2024	2025
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
159,990	166,162	172,522	179,072	185,817	192,759	199,902	207,248
125,335	130,018	134,835	139,787	144,875	150,100	155,461	160,958
188,368	197,438	206,930	216,863	227,258	238,136	249,519	261,430
1,764	1,817	1,872	1,928	1,986	2,046	2,107	2,170
0	0	0	0	0	0	0	(56)
1,841	1,896	1,953	2,012	2,072	2,134	2,198	2,264
0	0	0	0	0	0	0	(56)
(6,226)	(6,475)	(6,734)	(7,003)	(7,283)	(7,574)	(7,877)	(8,192)
4,676	4,816	4,960	5,109	5,262	5,420	5,583	5,750
3,171	3,266	3,364	3,465	3,569	3,676	3,786	3,900
7,722	8,019	8,324	8,639	8,963	9,297	9,640	9,992
7,738	8,026	8,322	8,626	8,939	9,259	9,588	9,926
11,691	12,254	12,842	13,458	14,103	14,777	15,483	16,218
166,162	172,522	179,072	185,817	192,759	199,902	207,248	214,798
130,018	134,835	139,787	144,875	150,100	155,461	160,958	166,592
197,438	206,930	216,863	227,258	238,136	249,519	261,430	273,779
195,732	205,142	214,989	225,294	236,078	247,363	259,171	271,412
31,276	34,408	37,791	41,441	45,377	49,617	54,182	58,981
67,420	72,095	77,076	82,383	88,036	94,058	100,472	107,187
29,570	32,620	35,917	39,477	43,319	47,461	51,923	56,614
118.8%	119.9%	121.1%	122.3%	123.5%	124.8%	126.1%	127.5%
151.9%	153.5%	155.1%	156.9%	158.7%	160.5%	162.4%	164.3%
117.8%	118.9%	120.1%	121.2%	122.5%	123.7%	125.1%	126.4%
9,072	9,509	9,965	10,443	10,944	11,467	12,015	12,585
11,691	12,254	12,842	13,458	14,103	14,777	15,483	16,218
2,619	2,745	2,877	3,015	3,159	3,310	3,468	3,633
873	915	959	1,005	1,053	1,103	1,156	1,211
1,706	1,788	1,874	1,964	2,058	2,156	2,259	2,367
0	0	0	0	0	0	111	2,915

0	0	0	0	0	0	56	1,458
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-2.5%

2026	2027	2028	2029	2030	2031	2032	2033
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
214,798	222,556	230,523	238,701	247,092	255,696	264,513	273,544
166,592	172,360	178,262	184,296	190,458	196,746	203,156	209,683
273,779	283,808	294,021	304,489	315,222	326,231	337,513	349,071
2,235	2,302	2,371	2,442	2,515	2,590	2,668	2,748
(1,458)	(1,570)	(1,650)	(1,726)	(1,801)	(1,879)	(1,960)	(2,043)
2,332	2,402	2,474	2,548	2,624	2,703	2,784	2,868
(1,458)	(1,570)	(1,650)	(1,726)	(1,801)	(1,879)	(1,960)	(2,043)
(8,520)	(8,861)	(9,215)	(9,584)	(9,967)	(10,366)	(10,781)	(11,212)
5,923	6,101	6,284	6,473	6,667	6,867	7,073	7,285
4,017	4,138	4,262	4,390	4,522	4,658	4,798	4,942
10,355	10,727	11,109	11,502	11,904	12,316	12,739	13,172
10,271	10,625	10,987	11,356	11,733	12,118	12,510	12,909
16,897	17,510	18,137	18,779	19,438	20,113	20,806	21,514
222,556	230,523	238,701	247,092	255,696	264,513	273,544	282,789
172,360	178,262	184,296	190,458	196,746	203,156	209,683	216,322
283,808	294,021	304,489	315,222	326,231	337,513	349,071	360,904
281,335	291,452	301,828	312,466	323,378	334,560	346,015	357,744
61,252	63,498	65,788	68,130	70,535	73,000	75,527	78,115
111,448	115,759	120,193	124,764	129,485	134,357	139,388	144,582
58,779	60,929	63,127	65,374	67,682	70,047	72,471	74,955
127.5%	127.5%	127.6%	127.6%	127.6%	127.6%	127.6%	127.6%
164.7%	164.9%	165.2%	165.5%	165.8%	166.1%	166.5%	166.8%
126.4%	126.4%	126.4%	126.5%	126.5%	126.5%	126.5%	126.5%
13,112	13,588	14,074	14,573	15,084	15,608	16,145	16,695
16,897	17,510	18,137	18,779	19,438	20,113	20,806	21,514
3,785	3,922	4,063	4,206	4,354	4,505	4,661	4,819
1,262	1,307	1,354	1,402	1,451	1,502	1,554	1,606
2,473	2,569	2,661	2,756	2,853	2,953	3,056	3,160
3,140	3,299	3,452	3,601	3,758	3,919	4,085	4,258

1,570	1,650	1,726	1,801	1,879	1,960	2,043	2,129
-62.5%	-65.4%	-66.7%	-67.7%	-68.6%	-69.5%	-70.4%	-71.2%

2034	2035	2036	2037	2038	2039	2040	2041
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
282,789	292,247	301,917	311,797	321,885	332,176	342,666	353,352
216,322	223,067	229,911	236,844	243,858	250,941	258,081	265,265
360,904	373,010	385,389	398,038	410,955	424,135	437,572	451,260
2,830	2,915	3,002	3,092	3,185	3,281	3,379	3,480
(2,129)	(2,218)	(2,308)	(2,402)	(2,498)	(2,598)	(2,700)	(2,805)
2,954	3,043	3,134	3,228	3,325	3,425	3,528	3,634
(2,129)	(2,218)	(2,308)	(2,402)	(2,498)	(2,598)	(2,700)	(2,805)
(11,660)	(12,126)	(12,611)	(13,115)	(13,640)	(14,186)	(14,753)	(15,343)
7,504	7,729	7,961	8,200	8,446	8,699	8,960	9,229
5,090	5,243	5,400	5,562	5,729	5,901	6,078	6,260
13,614	14,067	14,530	15,003	15,485	15,977	16,479	16,989
13,315	13,727	14,144	14,567	14,994	15,425	15,859	16,295
22,240	22,982	23,740	24,515	25,306	26,112	26,934	27,771
292,247	301,917	311,797	321,885	332,176	342,666	353,352	364,227
223,067	229,911	236,844	243,858	250,941	258,081	265,265	272,477
373,010	385,389	398,038	410,955	424,135	437,572	451,260	465,193
369,743	382,012	394,549	407,352	420,415	433,732	447,299	461,108
80,763	83,472	86,241	89,070	91,959	94,906	97,908	100,966
149,943	155,478	161,194	167,097	173,194	179,491	185,995	192,716
77,496	80,095	82,752	85,467	88,239	91,066	93,947	96,881
127.6%	127.6%	127.7%	127.7%	127.7%	127.7%	127.7%	127.7%
167.2%	167.6%	168.1%	168.5%	169.0%	169.5%	170.1%	170.7%
126.5%	126.5%	126.5%	126.6%	126.6%	126.6%	126.6%	126.6%
17,258	17,834	18,422	19,024	19,637	20,263	20,901	21,550
22,240	22,982	23,740	24,515	25,306	26,112	26,934	27,771
4,982	5,148	5,318	5,491	5,669	5,849	6,033	6,221
1,661	1,716	1,773	1,830	1,890	1,950	2,011	2,074
3,267	3,377	3,489	3,603	3,720	3,840	3,961	4,085
4,435	4,616	4,803	4,996	5,195	5,400	5,609	5,825

2,218	2,308	2,402	2,498	2,598	2,700	2,805	2,913
-72.1%	-72.9%	-73.6%	-74.4%	-75.1%	-75.8%	-76.5%	-77.2%

2042	2043	2044	2045	2046	2047	2048	2049
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
364,227	375,285	386,517	397,915	409,470	421,169	432,999	444,946
272,477	279,701	286,917	294,105	301,242	308,302	315,258	322,078
465,193	479,361	493,757	508,367	523,179	538,181	553,354	568,679
3,584	3,692	3,803	3,917	4,035	4,156	4,281	4,409
(2,913)	(3,022)	(3,136)	(3,253)	(3,371)	(3,493)	(3,618)	(3,744)
3,743	3,855	3,971	4,090	4,213	4,339	4,469	4,603
(2,913)	(3,022)	(3,136)	(3,253)	(3,371)	(3,493)	(3,618)	(3,744)
(15,957)	(16,595)	(17,259)	(17,949)	(18,667)	(19,414)	(20,191)	(20,999)
9,506	9,791	10,085	10,388	10,700	11,021	11,352	11,693
6,448	6,641	6,840	7,045	7,256	7,474	7,698	7,929
17,509	18,036	18,572	19,116	19,666	20,223	20,786	21,354
16,733	17,170	17,607	18,041	18,471	18,896	19,313	19,721
28,623	29,488	30,367	31,259	32,162	33,077	34,001	34,934
375,285	386,517	397,915	409,470	421,169	432,999	444,946	456,994
279,701	286,917	294,105	301,242	308,302	315,258	322,078	328,729
479,361	493,757	508,367	523,179	538,181	553,354	568,679	584,138
475,150	489,418	503,898	518,578	533,446	548,483	563,670	578,991
104,076	107,240	110,452	113,709	117,012	120,355	123,733	127,144
199,660	206,840	214,262	221,937	229,879	238,096	246,601	255,409
99,865	102,901	105,983	109,108	112,277	115,484	118,724	121,997
127.7%	127.7%	127.8%	127.8%	127.8%	127.8%	127.8%	127.8%
171.4%	172.1%	172.9%	173.7%	174.6%	175.5%	176.6%	177.7%
126.6%	126.6%	126.6%	126.6%	126.7%	126.7%	126.7%	126.7%
22,211	22,883	23,565	24,257	24,958	25,668	26,385	27,109
28,623	29,488	30,367	31,259	32,162	33,077	34,001	34,934
6,412	6,605	6,802	7,002	7,204	7,409	7,616	7,825
2,137	2,202	2,267	2,334	2,401	2,470	2,539	2,608
4,211	4,339	4,469	4,601	4,735	4,871	5,009	5,147
6,044	6,272	6,505	6,741	6,985	7,235	7,488	7,749

3,022	3,136	3,253	3,371	3,493	3,618	3,744	3,875
-77.8%	-78.4%	-79.0%	-79.5%	-80.0%	-80.5%	-80.9%	-81.3%

2050	2051	2052	2053	2054	2055	2056	2057
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
456,994	469,126	481,321	493,557	505,811	518,057	530,267	542,410
328,729	335,175	341,376	347,287	352,861	358,046	362,785	367,017
584,138	599,706	615,361	631,074	646,814	662,548	678,242	693,856
4,541	4,677	4,817	4,962	5,111	5,264	5,422	5,585
(3,875)	(4,006)	(4,141)	(4,280)	(4,420)	(4,562)	(4,706)	(4,853)
4,741	4,883	5,029	5,180	5,335	5,495	5,660	5,830
(3,875)	(4,006)	(4,141)	(4,280)	(4,420)	(4,562)	(4,706)	(4,853)
(21,839)	(22,713)	(23,622)	(24,567)	(25,550)	(26,572)	(27,635)	(28,740)
12,044	12,405	12,777	13,160	13,555	13,962	14,381	14,812
8,167	8,412	8,664	8,924	9,192	9,468	9,752	10,045
21,927	22,503	23,081	23,661	24,241	24,820	25,397	25,969
20,118	20,502	20,869	21,217	21,543	21,843	22,115	22,354
35,874	36,820	37,771	38,724	39,678	40,630	41,579	42,521
469,126	481,321	493,557	505,811	518,057	530,267	542,410	554,451
335,175	341,376	347,287	352,861	358,046	362,785	367,017	370,676
599,706	615,361	631,074	646,814	662,548	678,242	693,856	709,347
594,419	609,933	625,505	641,103	656,694	672,245	687,717	703,067
130,580	134,040	137,517	141,003	144,491	147,975	151,446	154,896
264,531	273,985	283,787	293,953	304,502	315,457	326,839	338,671
125,293	128,612	131,948	135,292	138,637	141,978	145,307	148,616
127.8%	127.8%	127.9%	127.9%	127.9%	127.9%	127.9%	127.9%
178.9%	180.3%	181.7%	183.3%	185.0%	187.0%	189.1%	191.4%
126.7%	126.7%	126.7%	126.7%	126.8%	126.8%	126.8%	126.8%
27,838	28,572	29,310	30,050	30,790	31,529	32,265	32,996
35,874	36,820	37,771	38,724	39,678	40,630	41,579	42,521
8,036	8,248	8,461	8,674	8,888	9,101	9,314	9,525
2,679	2,749	2,820	2,891	2,963	3,034	3,105	3,175
5,287	5,428	5,569	5,711	5,854	5,997	6,139	6,280
8,012	8,282	8,559	8,840	9,123	9,412	9,705	10,004

4,006	4,141	4,280	4,420	4,562	4,706	4,853	5,002
-81.7%	-82.0%	-82.3%	-82.6%	-82.8%	-83.0%	-83.1%	-83.2%

2058	2059	2060	2061	2062	2063	2064	2065
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
554,451	566,353	578,076	589,577	600,809	611,721	622,256	632,356
370,676	373,689	375,976	377,454	378,030	377,605	376,071	373,312
709,347	724,666	739,763	754,582	769,063	783,144	796,752	809,811
5,753	5,926	6,104	6,287	6,476	6,670	6,870	7,076
(5,002)	(5,153)	(5,305)	(5,459)	(5,612)	(5,767)	(5,923)	(6,078)
6,005	6,185	6,371	6,562	6,759	6,962	7,171	7,386
(5,002)	(5,153)	(5,305)	(5,459)	(5,612)	(5,767)	(5,923)	(6,078)
(29,890)	(31,086)	(32,329)	(33,622)	(34,967)	(36,366)	(37,821)	(39,334)
15,256	15,714	16,185	16,671	17,171	17,686	18,217	18,764
10,346	10,656	10,976	11,305	11,644	11,993	12,353	12,724
26,536	27,095	27,645	28,183	28,708	29,215	29,704	30,170
22,557	22,717	22,831	22,893	22,898	22,839	22,709	22,500
43,455	44,377	45,283	46,171	47,037	47,876	48,684	49,456
566,353	578,076	589,577	600,809	611,721	622,256	632,356	641,956
373,689	375,976	377,454	378,030	377,605	376,071	373,312	369,202
724,666	739,763	754,582	769,063	783,144	796,752	809,811	822,239
718,246	733,205	747,888	762,235	776,185	789,665	802,601	814,911
158,313	161,687	165,005	168,254	171,423	174,496	177,455	180,283
350,977	363,787	377,128	391,033	405,539	420,681	436,499	453,037
151,893	155,129	158,311	161,426	164,464	167,409	170,245	172,955
128.0%	128.0%	128.0%	128.0%	128.0%	128.0%	128.1%	128.1%
193.9%	196.8%	199.9%	203.4%	207.4%	211.9%	216.9%	222.7%
126.8%	126.8%	126.9%	126.9%	126.9%	126.9%	126.9%	126.9%
33,721	34,437	35,140	35,829	36,501	37,152	37,779	38,378
43,455	44,377	45,283	46,171	47,037	47,876	48,684	49,456
9,734	9,940	10,143	10,342	10,536	10,724	10,905	11,078
3,245	3,313	3,381	3,447	3,512	3,575	3,635	3,693
6,420	6,558	6,694	6,828	6,959	7,087	7,210	7,328
10,305	10,610	10,917	11,224	11,534	11,845	12,156	12,466

5,153	5,305	5,459	5,612	5,767	5,923	6,078	6,233
-83.3%	-83.3%	-83.3%	-83.2%	-83.0%	-82.8%	-82.6%	-82.3%

2066
6.25%
4.85%
6.25%
3.00%
4.00%
641,956
369,202
822,239
7,288
(6,233)
7,608
(6,233)
(40,907)
19,327
13,106
30,612
22,206
50,188
650,988
363,607
833,950
826,510
182,962
470,343
175,522
128.1%
229.4%
127.0%
38,946
50,188
11,242
3,747
7,440
12,775

-81.9%

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]
Subject: FW: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 09:18:56

---

fyi

From: Hosick, Sarah (TBS)
Sent: October 19, 2016 9:07 AM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline,

Lots of interest on this one this morning…DMO has some questions/clarifications in red. Can we see what we can clarify for them by 10am? (sorry for the tight turnaround)

Let me know if any questions

Thanks

Sarah

The Provinces (all of them?) follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. (who writes these standards, so we can reinforce legitimacy) An accounting valuation is performed using management's (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of

the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. (what does this previous sentence mean, thinking of a public audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans. (do the plans have websites or the pension organizations - what can we call them) The most recent funding valuation for OTPP (as of January 1, 2016) reported a funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why), the discount rates and the methodologies used for the valuations differ.

From: Fong, Pauline (TBS)
Sent: October-19-16 8:45 AM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

The $13.2 billion and $8 million are using the discount rates of the plans itself and not the province's rates. The surplus for the plans are based on the plans funding valuation. We do not have the actuarial information to calculate the net pension assets for accounting purposes using the individual plan rates.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 8:29 AM
To: Fong, Pauline (TBS)
Subject: Fw: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

Many thanks,

Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie,

Please see below for the response prepared by OPCD:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The OTPP and OSPEUPP discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans. The most recent funding valuation for OTPP (as of January 1, 2016) reported a funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

Thanks,

Sarah

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:22 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

I have confirmed with program area that TCSB is not able to answer any of these - this is an OPCD lead

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 11:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks Niki!

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

Working with program area on getting you a response to the 6.25% discount rate

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 10:34 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah and Niki,

Checking in on this request. I know there’s a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 9:47 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

-Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 9:19 AM
To: Smith, Emilie (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Same on our end – we don't have this information offhand. Program area here will see if this is something we can help calculate or shed light on today.

Thanks,

Sarah

From: Smith, Emilie (TBS)
Sent: October-18-16 9:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Thanks Niki! I'll let the MO know to expect the response tomorrow morning.

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 9:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Emilie

We need more time with this. Program area is working on a TB/MBC submission and prepping for a DM briefing this morning

From: Smith, Emilie (TBS)
Sent: October-18-16 9:08 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Sarah and Niki,

Checking in to see if it's possible to provide this information this morning to the MO?

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 8:11 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere,

discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

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(e) Emilie.Smith@ontario.ca

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 10:22:50

From: Fong, Pauline (TBS)
Sent: October 19, 2016 10:22 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

In light of Rob's comments, I added a bit more explanation below. Please review and provide any further comments.

From: Fong, Pauline (TBS)
Sent: October-19-16 9:43 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

My edits are in green. If you have a chance please review and provide any further comments.

Pauline

From: Hosick, Sarah (TBS)

Sent: October-19-16 9:07 AM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline,

Lots of interest on this one this morning…DMO has some questions/clarifications in red. Can we see what we can clarify for them by 10am? (sorry for the tight turnaround)

Let me know if any questions

Thanks

Sarah

The Province~~s~~ (all of them?) follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada. (who writes these standards, so we can reinforce legitimacy)

An accounting valuation is performed using Province's ~~management~~'s (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit ~~obligations to the period related to services that have been rendered~~ over the employees' working life. (what does this previous sentence mean, thinking of a public

audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). (do the plans have websites or the pension organizations - what can we call them) The most recent funding valuation for OTPP (as of January 1, 2016) reported a funding surplus of ~~$13.2~~ 4.5 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why – the fact is mentioned in the two paragraphs above), the discount rates and the methodologies used for the valuations differ.

From: Fong, Pauline (TBS)
Sent: October-19-16 8:45 AM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

The $13.2 billion and $8 million are using the discount rates of the plans itself and not the province's rates. The surplus for the plans are based on the plans funding valuation. We do not have the actuarial information to calculate the net pension assets for accounting purposes using the individual plan rates.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 8:29 AM
To: Fong, Pauline (TBS)
Subject: Fw: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

Many thanks,

Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie,

Please see below for the response prepared by OPCD:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The OTPP and OSPEUPP discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans. The most recent funding valuation for OTPP (as of January 1, 2016) reported a funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

Thanks,

Sarah

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:22 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

I have confirmed with program area that TCSB is not able to answer any of these - this is an OPCD lead

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 11:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks Niki!

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

Working with program area on getting you a response to the 6.25% discount rate

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 10:34 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah and Niki,

Checking in on this request. I know there’s a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 9:47 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

-Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 9:19 AM
To: Smith, Emilie (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Same on our end – we don't have this information offhand. Program area here will see if this is something we can help calculate or shed light on today.

Thanks,

Sarah

From: Smith, Emilie (TBS)
Sent: October-18-16 9:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Thanks Niki! I'll let the MO know to expect the response tomorrow morning.

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 9:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Emilie

We need more time with this. Program area is working on a TB/MBC submission and prepping for a DM briefing this morning

From: Smith, Emilie (TBS)
Sent: October-18-16 9:08 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Sarah and Niki,

Checking in to see if it's possible to provide this information this morning to the MO?

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 8:11 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere,

discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Provis, Ian (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Smook, Nick (TBS) [Nick.Smook@ontario.ca]
Subject: FW: Now they're resurfacing the leg acctg optionm
Date: Monday, September 26, 2016 15:48:33

Paul – News from the meeting today – discussion on the reg on accounting treatment again. Where did this land – did Leg council do a draft

Ian Provis

' 416.327.2722 | 8 ian.provis@ontario.ca

From: Petsche, Nadine (TBS)
Sent: Monday, September 26, 2016 3:33 PM
To: Provis, Ian (TBS); Sun, Alicia (TBS); Patel, Bharat (TBS); Fong, Pauline (TBS)
Subject: Now they're resurfacing the leg acctg optionm

Ian-. Please work with LSB/MAG ASAP

Bharat/Alicia, please prep CFS and FSDA with the additional note disclosure and Intro/Foreword versions

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: OPCD Pension Asset Ceiling_Sept 12v2.ppt
Date: Tuesday, September 13, 2016 12:56:55
Attachment 1: OPCD Pension Asset Ceiling_Sept 12v2.ppt

Please review. Looks like might be 8:30 tomorrow am

From: Veinot, Cindy (TBS)
Sent: Tuesday, September 13, 2016 12:13 PM
To: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Thompson, Scott (MOF); Killoch, Alex (MOF)
Cc: Chen, Raymond (TBS)
Subject: Fw: OPCD Pension Asset Ceiling_Sept 12v2.ppt

Please see attached. Reflects our most recent discussions with the AG re the pension asset ceiling.

Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Tuesday, September 13, 2016 12:11

To: Hughes, Karen (TBS); Orencsak, Greg (TBS)

Cc: Laughton, Patrick (TBS); Coulter, Travis (TBS); MacIntyre, Kyle (TBS); Chen, Raymond (TBS)

Subject: Fw: OPCD Pension Asset Ceiling_Sept 12v2.ppt

Updated deck based on Greg's feedback. Will forward to MOF (Tim, Gadi, Scott) based on discussion with Karen.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>

Sent: Tuesday, September 13, 2016 12:01

To: Veinot, Cindy (TBS)

Cc: Petsche, Nadine (TBS); Patel, Bharat (TBS)

Subject: OPCD Pension Asset Ceiling_Sept 12v2.ppt

Hi Cindy,

Updated slides per your edits are attached.

Pauline

Office of the Provincial Controller Division

Accounting for Pension Assets – OTPP and OPSEUPP

September 12, 2016

Draft – for discussion purposes

Government's Position on Pension Assets

- To date, pension assets reflected on the audited consolidated financial statements of the Province are based on an appropriate and consistent interpretation and application of Public Sector Accounting Standards (PSAB)
- Almost all (more than 90%) of the pension asset relates to OTPP. That plan has been in an asset position on the Province's financial statements for the past 16 years, including 2014 and 2015 which were signed by the current AG ($7.7 billion and $8.7 billion respectively)
- Valuations of pension assets based on PSAB standards reflect management's best estimates which is appropriate for measuring the asset values in the Public Accounts
- Decisions taken by OTPP in selecting assumptions for the plan's stand-alone financial statements, and assumptions by OTPP for purposes of preparing a funding valuation are separate and distinct from the Province's accounting which is determined based on PSAB standards
- Reporting the Province's surplus on a basis which is not aligned with PSAB standards would mis-represent the Province's financial position and results

Auditor General's position

- The AG does not agree with the Province's interpretation of PSAB standards and the measurement of the pension assets reported for OTPP and OPSEUPP
- Assets recognized by the Province in the Public Accounts for these two plans are:

(in billions)	March 31, 2016 (preliminary)	March 31, 2015 (audited)
OTPP	$ 10.1	$ 8.7
OPSEUPP	$ 0.5	$ 0.5

- On September 12, 2016, TBS shared a draft legal opinion with the AG which supported the Province's ability to access the benefits associated with the surplus
- As of September 12, 2016, despite the legal opinion, the AG remains convinced that the measurement of the surplus should be based on the OTPP's funding valuation as a starting point which is more conservative and compiled for different purposes which are not PSAB related. She feels that this alternate pension asset value is relevant and has requested information on the government's plans to access the pension asset in the current year

- Given the relative size of the asset values in question, the balance of the deck will focus on OTPP.

Versions to consider based on AG's methodology

- **Version 1** - based on Province's share of surplus based on OTPP funding valuation

- **Version 2** – based on share of surplus for which a decision to use has been made

- In both versions, the impact is a decrease in 2015-16 deficit because the surplus in the funding valuation has increased significantly during the year.

Version 1: Estimated impact to based on AG's methodology

- The following table compares the Province's respective asset values currently reported in the Public Accounts to 50% of the surplus based on the funding valuation as disclosed on the OTPP website

(in billions)	2016	2015
100% of surplus per funding valuation (OTPP Website)	13.2	6.8
50% of surplus per funding valuation	6.6	3.4
Vs.		
Asset value recorded by the Province	10.1	8.7
Excess of asset over 50% of surplus per funding valuation	(3.5)	(5.3)

- Impact of adopting the AG's methodology would require:
  1. Increase opening accumulated deficit for the March 31, 2016 year by $5.3 billion
  2. Reduce the annual deficit for the 2015-16 year by $1.7 billion ($5.3 – 3.5)
  3. Increase total liabilities as at March 31, 2016 (impacts debt and net debt) by $3.5 billion

Version 1: 2015-16 Public Accounts -- Potential Impact

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	(1.7)	130.5
Annual Deficit	(3.8)	1.7	(2.1)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	3.5	381.9
Net debt	(294.9)	(3.5)	(298.4)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(3.5)	(195.9)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.5%		39.9%

Version 2: Estimated impact to based on AG's methodology

- The following table compares the Province's respective asset values currently reported in the Public Accounts to 50% of the surplus for which a decision to use has been made:

(in billions)	2016	2015
100% of surplus for which a decision to use has been made	8.6	3.7
50% of surplus for which a decision to use has been made	4.3	1.85
Vs.		
Asset value recorded by the Province	10.1	8.7
Excess of asset over 50% of surplus per funding valuation	(5.8)	(6.85)

- Impact of adopting the AG's methodology would require:
  1. Increase opening accumulated deficit for the March 31, 2016 year by $6.85 billion
  2. Reduce the annual deficit for the 2015-16 year by $1.05 billion ($6.85 – $5.8)
  3. Increase total liabilities as at March 31, 2016 (impacts debt and net debt) by $5.8 billion

Version 2: 2015-16 Public Accounts -- Potential Impact

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	(1.05)	131.15
Annual Deficit	(3.8)	1.05	(2.75)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	5.8	384.2
Net debt	(294.9)	(5.8)	(300.7)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(5.8)	(198.2)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.5%		40.2%

Next steps in process

- AG to share issues summary with OPCD when available (may be September 13)
  - AG will not share written opinions she has sought (from CCOLA and national accounting firm)
    - We are not aware of the facts provided or the questions asked
  - AG will not permit us to speak to her advisors

- AG did agree to have a discussion with the Province's advisors
    - We have requested a discussion at 6:30 pm on September 13, but have not heard back from the AG

Potential outcomes of next steps

1. **AG changes her view to align with Province's view**
   - Issues summary from AG will provide additional insight into their views; to the extent we disagree with their views, we may be able to provide additional analysis to support the Province's view

   - If discussion between AG and the Province's external advisors (Deloitte) provides convincing arguments to help change the AG's interpretation of PSAB, this could be bolstered by a formal accounting opinion by Deloitte.

Potential outcomes of next steps

2. AG does not change her view

a) Province agrees to reduce asset value to Province's share of surplus based on funding valuation

- Impact on financial results for 2016 and beyond
- Risks of accepting the AG's position on following slides

b) Province accepts a qualified audit opinion

- Communication of reason for qualification
  - AG could suggest that the Province has been understating liabilities and making the results appear more favourable

c) Province delays issuance of public accounts

- Does the basis for the delay due to disagreement on the application of PSAB be considered an extraordinary circumstance?
  - TBS legal is reviewing
- Impact of delay; public perception
- Will the AG agree to involve another party for purposes of resolving the issue?
- Can the Province approach CCOLA for an opinion?

Risks to accepting AG's methodology

- Not based on PSAB Standards
- The use of a funding valuation to value a pension asset is not consistent with any other accounting framework
  - Canadian GAAP prior to the adoption of IFRS was consistent with PSAB standards
  - IFRS has a specific methodology that is similar to PSAB Standards
  - US GAAP does not have the concept of a valuation allowance

- In the current year, the AG has also noted that there needs to be a plan in place that is agreed to between the parties to use the asset; in the current year, the timing of the public accounts coincides with an announcement regarding use of the funding surplus
  - It is unclear what the AG's position would be if the surplus was left in the plan for a period of years as has been done in the past – would the asset be required to be reduced to NIL?

Risks to accepting the AG's methodology

- Because we do not understand how the AG is getting to her current position based on PSAB standards, we would have no ability to predict the accounting implications of future transactions – we would be subject accounting standards as interpreted by the AG at the time of her interpretation

- OTPP is not required to obtain a funding valuation each year (only required every 3 years).
  - If OTPP does not obtain a valuation, what is the value of the asset based on?
  - Can the Province require OTPP to obtain a funding valuation?

Risks to accepting the AG's methodology

- Increase volatility between future interim forecasts versus future actual results
  - Assuming OTPP will provide an annual funding valuation, information on funding will likely not be available by time of Budget and can not be incorporated as part of the interim forecast.
  - OTPP in the past have announced their preliminary funding status on their website late March or early April.
  - Adjustments to asset valuation allowance is made in each year of assessment and no deferral of the impact is currently allowed under PSAB standards.
  - We currently do not have models that can predict the future funding status of the plan.

From: Myers, Leah (MOF) []
To: Tim Shortill [TShortill@optrust.com]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: OPTrust paper on PSAB
Date: Friday, February 10, 2017 15:34:43
Attachment 1: OPTrust Statement on PSAB -v- feb 10 FINAL.pdf
Attachment 2: ATT00001.htm

Thanks for this Tim.

From: Tim Shortill [mailto:TShortill@optrust.com]
Sent: February-10-17 11:56 AM
To: Myers, Leah (MOF); Thompson, Scott (MOF)
Subject: Fwd: OPTrust paper on PSAB

Deputy and Leah - heads up on a paper we are submitting to the AG later today. I'll send a copy to your MO in a bit.

hope you are both well.

Tim

Begin forwarded message:

> **From:** Tim Shortill <TShortill@optrust.com>
> **Date:** February 10, 2017 at 11:52:07 AM EST
> **To:** Marc Rondeau <Marc.Rondeau@ontario.ca>, Kyle MacIntyre <Kyle.MacIntyre@ontario.ca>
> **Cc:** Claire Prashaw <CPrashaw@optrust.com>, Darcy McNeill <DMcNeill@optrust.com>
> **Subject: OPTrust paper on PSAB**
>
> Marc and Kyle,
>
> On Hugh's behalf, I am writing to let you know of a paper we wrote regarding the joint risk-sharing and joint-governance of OPTrust and the OPSEU Pension Plan.
>
> As you know, we have been closely following, as an interested party, the differing

opinions between the Auditor General and the Government on the accounting treatment of JSPPs.

While it is not our intent to get between the two sides, we do want both to be aware of the unique structure of a JSPP, where both governance and risk (upside and downside risk) are shared equally between our two Sponsors. We feel this specific aspect has not been fully considered in the debate.

We will be sending this paper to the Auditor General later today, and sharing it with our other Sponsor as well.

As always, we are happy to answer any questions you may have.

Tim

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Pension Surplus and its Availability to OPSEU Pension Plan Sponsors

With net assets of $18.4 billion, OPTrust invests and manages one of Canada's largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan with almost 87,000 members and retirees.

OPTrust is proud of its role as the administrator of a jointly sponsored defined benefit pension plan ("JSPP"). We believe strongly in the value of the risk-sharing model as one of equity and fairness. Our two sponsors, the Government of Ontario (the "government") and Ontario Public Service Employees Union ("OPSEU") share equally in the risk, reward and governance of the Plan.

Background

The Province of Ontario released its financial statements on October 3, 2016. The statement accompanying the release identified concerns by the Auditor General regarding the government's practices related to the accounting treatment of pension assets for the OPSEU Pension Plan and the Ontario Teachers' Pension Plan.

The Auditor General's work improves transparency and the delivery of public services in Ontario. It drives improvements to the administration of Ontario's finances by holding the government accountable in virtually every area of its use of public funds. The discussion around the way risk-sharing is treated in accounting should be consistent with these outcomes.

This paper is meant to inform the debate on this important matter. OPTrust's goal is to ensure the joint risk-sharing within the JSPP model, and specifically the OPSEU Pension Plan, is faithfully reflected in the government's accounting for the Plan. Further, this paper attempts to confirm the facts and circumstances of the plan as they relate to governance and sharing of risks and costs between the two plan sponsors.

OPSEU Pension Plan Governance

OPTrust was established to give plan members and the government an equal voice in the administration of the OPSEU Pension Plan and the management of the assets through joint trusteeship. OPTrust is governed by a 10-member Board of Trustees, five of whom are appointed by OPSEU and five by the government.

While OPTrust is charged with plan administration and investment of plan assets, the Board of Trustees does not have authority to change benefit or contribution levels, or decide on the use of any plan surplus. Those decisions rest with the two plan sponsors – the government and OPSEU.

DRAFT

The OPSEU Pension Plan

The OPSEU Pension Plan was created by legislation, the "*Ontario Public Service Employees' Union Pension Act, 1994*, S.O. 1994, c. 17, s. 143, Sched." (the "OPSEU Pension Act" or "Act"). In explaining this act to the Standing Committee on Estimates - 1994-Nov-01 - Management Board Secretariat, the Hon Brian A. Charlton, Chair, Management Board of Cabinet stated;

> *"We retain full responsibility for that unfunded liability, but all future gains and liabilities against the plan will be jointly shared by the employer -- the government -- and the employees. It's a particularly responsible, if not somewhat frightening, position for any union to move into with a pension plan that size, but they've done it, and done it, in my view, in an extremely professional and responsible way."*
>
> *http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&BillID=&ParlCommID=502&Date=1994-11-01&Business=Management+Board+Secretariat&DocumentID=18243*

This Act overrides the *Pension Benefits Act*, R.S.O 1990, c. P.8, as amended (the PBA) as described in sections 3.2 and 11.2 of the Act which state:

> *3 (2) For greater certainty, in the event of a conflict between this Act and the Pension Benefits Act, this Act prevails.*
>
> *11.(2) The OPSEU Plan shall be deemed to comply with the Pension Benefits Act and the regulations made under that Act so long as it complies with this Act and the Sponsorship Agreement.*

The Plan describes the benefits under the Plan and the use of actuarial gains. Section 6.3, entitled Actuarial Gains and Losses, states as follows in section 6.3 (3) (c) and section 6.4:

> *6.3 (3)(c) thereafter, the remaining gains shall be used equally for the benefit of employers and OPSEU subject to the following:*
>
> *(i) 50% of the gain or such other amount as may be collectively bargained shall be used for the benefit of employers, to be applied against any special payments required to be made by any employers and thereafter to reduce employers' normal costs;*
>
> 6.4 *"Surplus No surplus shall be paid out of the Fund to any employer.*

Sections 6.3 and 6.4 of the Plan have an impact on the application of the PSAB Standard PS3250 .055, which states in part:

> *PS3250.055 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*

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> *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.*

Section 6.4 of the Plan is very clear that surplus cannot be removed from the Plan by the employer. Thus the only way the government can have an expected future benefit is by reduction in future contributions. Section 6.3 of the Plan text allows the government to use actuarial gains to reduce employers' normal costs. The use of surplus was also a critical issue in the establishment of this Plan and in the OPSEU Pension Act creating this Plan.

Impact of Surplus on Province's Financial Statements

The Auditor General is correct when she states the government is unable to withdraw surplus from the Plan. Paragraph 6.4 of the Plan Text is clear: surplus cannot be paid to an employer. Still, Paragraph 6.3 of the Plan Text grants 50 per cent of surplus to the employer while restricting the employer's use of surplus to cover special payments and normal cost contributions. Any payment made by government from its share of the surplus reduces the Province's need for future tax and other revenue sources by a corresponding amount. Similarly, the Act requires the government to fund its share of the deficit.

It is further useful to note that no other approvals are needed for the two sponsors to use each of their surplus portions. In particular, there is no requirement to seek regulatory approval to use the surplus to reduce future contributions. The two plan sponsors can, and have in the past, made such decisions.

In the past both sponsors have used surplus to improve benefits for members and reduce contributions to both members and the government. The government used surplus to eliminate the initial unfunded liability in 1999 and then again in 2001. In addition, it reduced its contribution rates in 1994 and 1995. The government also used surplus to improve benefits for members on various occasions after collective bargaining. OPSEU used surplus in 1994, 1999 and 2002 to reduce contribution rates and improve benefits. Deficits were funded by raising contributions in 2008.

Because of these factors, the expected future benefit of the pension assets is greater than nil, and correspondingly the economic value of that surplus should be recorded as the pension asset in the Province's financial statements.

The public sector accounting rules – and accounting rules in general – are intended to and should result in a faithful representation of the economic realities of public pension plans, including their governance, decision-making structure and contractual arrangements, as well as, in the case

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of JSPPs, the manner in which plan funding and plan risks are in fact shared between the plan's two sponsors.

A central concept behind JSPPs is the sharing of risk between the employer and employees. Any accounting standard used to value the obligations and cost of the Plan must appropriately recognize the existing risk-sharing agreement between the sponsors. The failure to fully recognize risk-sharing in accounting would raise questions about the Plan's governance and possible outcomes. It would also bring into question the appropriateness of "joint defined benefit plan" accounting that has historically been applied, and that is accepted both by the government and the Auditor General. That is because joint defined benefit plan classification requires equitable sharing of costs and risks – if the sharing is not equitable (e.g. the government is responsible for deficits but the plan members benefit from surpluses) then that definition may not be met.

Conclusion

To the extent the plan sponsors are required to fund Plan deficits and are entitled to benefit from Plan surpluses, any interpretation of accounting rules and the resulting accounting must be transparent to stakeholders, including taxpayers, and must treat deficits and surpluses in a uniform manner. Therefore, surpluses and deficits should both be recognized on the Province's balance sheet. Not recognizing a surplus on the balance sheet, when the Plan's documents, legislation, and governance enable the plan sponsors to benefit from such surplus, not only leaves a large amount of assets off the Province's balance sheet but also means that the Province's accounts do not reflect the economic substance of the arrangement and thereby weakens disclosure as well as transparency by giving those that read the Province's financial statements an incorrect perception of how the Plan functions. Similarly, stakeholders would not see an impact should the government decide to spend a surplus in the future because the surplus would not have been included in the Province's financial statements. The public interest is best served by recognizing any accounting surplus of the Plan in the Province's accounts.

DRAFT

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]
Subject: FW: OTPP: Comparison of expense Basis 1, 2 and 3
Date: Friday, February 24, 2017 12:35:53
Attachment 1: OTPP 2017 PRRT Variance v3 (Basis 3).xlsx
Attachment 2: Teachers variance explanation 2017-18 PRRT v3.doc

---

fyi

From: Fong, Pauline (TBS)
Sent: February 23, 2017 11:12 AM
To: Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS); Patel, Bharat (TBS); Sun, Alicia (TBS)
Subject: OTPP: Comparison of expense Basis 1, 2 and 3

Hi Rob,

Attach is the summary of the difference in expense due to change in Basis from 1, 2 and 3 for OTPP. Let me know if you need further details to support the numbers.

Pauline

Ontario Teachers' Pension Plan (OTPP) Expense Variance ($M)
2017 Budget versus 2016 Budget*
Comparison from Original Budget to Basis 1, Basis 2 and Basis 3

								Increase/(Decrease)								Increase/(Decrease)			
	Actual	Actual	Actual	2017			2016	2016 Budget	Basis 1	Basis 2	2017 Budget	2017			2015	2015 Budget	Basis 1	Basis 2	2017 Budget
				Basis 3	Basis 2	Basis 1	Budget	to	to	to	to	Basis 3	Basis 2	Basis 1	Budget	to	to	to	to
	2013-14	2014-2015	2015-2016	2016-2017	2016-2017	2016-2017	2016-2017	Basis 1	Basis 2	Basis 3	Basis 3	2017-2018	2017-2018	2017-2018	2017-2018	Basis 1	Basis 2	Basis 3	Basis 3
Current period benefit cost	1,334	1,465	1,455	1,471	1,471	1,471	1,515	-44	0	0	-44	1,620	1,662	1,539	1,635	-96	123	-42	-15
Amortization of experience losses/(gains)	28	-164	-374	-682	-682	-682	-681	-1	0	0	-1	-753	-728	-870	-880	10	142	-25	127
Pension interest expense/(revenue)	-454	-703	-936	-1,255	-1,255	-1,255	-1,251	-4	0	0	-4	-1,362	-1,340	-1,535	-1,540	5	195	-22	178
Less: amortization of initial unfunded liability	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less: amortization of cumulative transfers	-6	-6	-6	-5	-5	-5	-5	0	0	0	0	-5	-5	-5	-5	0	0	0	0
Amortization of difference in contributions	-29	-28	-29	-31	-31	-31	-30	-1	0	0	-1	-31	-30	-30	-30	0	0	-1	-1
Total pension expense (includes RCA from prior year)	873	564	110	-502	-502	-502	-452	-50	0	0	-50	-531	-441	-901	-820	-81	460	-90	289

*RCA has not been updated for most recent draft f/s as information is not available at this time.

Ontario Teachers' Pension Plan (OTPP) Expense Variance ($M)
2017 Budget versus 2016 Budget*
Comparison from Original Budget to Basis 1, Basis 2 and Basis 3

	2017			2015	Increase/(Decrease)				2017			2015	Increase/(Decrease)			
	Basis 3	Basis 2	Basis 1	Budget	2015 Budget to Basis 1	Basis 1 to Basis 2	Basis 2 to Basis 3	2017 Budget to Basis 3	Basis 3	Basis 2	Basis 1	Budget	2015 Budget to Basis 1	Basis 1 to Basis 2	Basis 2 to Basis 3	2017 Budget to Basis 3
	2018-2019	2018-2019	2018-2019	2018-2019					2019-2020	2019-2020	2019-2020	2019-2020				
Current period benefit cost	**1,691**	**1,739**	**1,610**	1,754	-144	129	-48	-63	**1,755**	**1,809**	**1,675**	1,882	-207	134	-54	-127
Amortization of experience losses/(gains)	**-872**	**-847**	**-989**	-1,035	46	142	-25	163	**-976**	**-952**	**-1,093**	-1,175	82	141	-24	199
Pension interest expense/(revenue)	**-1,561**	**-1,534**	**-1,757**	-1,793	36	223	-27	232	**-1,737**	**-1,705**	**-1,958**	-2,021	63	253	-32	284
Less: amortization of initial unfunded liability	**0**	**0**	**0**	0	0	0	0	0	**0**	**0**	**0**	0	0	0	0	0
Less: amortization of cumulative transfers	**-5**	**-5**	**-5**	-5	0	0	0	0	**-5**	**-5**	**-5**	-5	0	0	0	0
Amortization of difference in contributions	**-31**	**-31**	**-32**	-31	-1	1	0	0	**-32**	**-32**	**-32**	-31	-1	0	0	-1
Total pension expense (includes RCA from prior year)	**-778**	**-678**	**-1,173**	**-1,110**	-63	495	-100	332	**-995**	**-885**	**-1,413**	**-1,350**	-63	528	-110	355

*RCA has not been updated for most recent draft f/s as information is not availab

Attachment Teachers variance explanation 2017-18 PRRT v3.doc (79360 Bytes) cannot be converted to PDF format.

From: Pomykacz, Rob (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: OTPP
Date: Wednesday, September 21, 2016 11:57:33

Hi Nadine,

As requested, please find information below from Allan Shapira on the "Call Right" provision under the term sheet.

Thanks,
Rob

-----Original Message-----
From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September 21, 2016 10:27 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

I am responding to the questions on the surplus credits under the term sheet.

It is important to understand the purpose of the term sheet. The OTF and the government entered into this agreement to freeze any increase in contribution rates for a specified period. That meant that if the plan funding deteriorated during this perIod such that an actuarial report identified a funding shortfall that had to be addressed by the sponsors, this shortfall would have to be addressed by benefit reductions for future service.

If there were benefit reductions, the term sheet created a corresponding surplus credit that could be used by the OTF if and when the plan was in surplus. There have been no material benefit reductions to date nor are any anticipated now that the next required filing is after the expiration of the term sheet. Any credit that exists would be a negligible amount.

Allan

Sent from my iPhone

****
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From: Hughes, Karen (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: OTPP
Date: Wednesday, September 14, 2016 19:24:32
Attachment 1: Key Funding Decisions.pdf
Attachment 2: AnnRepCommentary2000 (1).pdf
Attachment 3: Financials2000.pdf

From: Sekaly, Gabriel (EDU)
Sent: September 14, 2016 5:11 PM
To: Hughes, Karen (TBS)
Cc: Paul, Joshua (EDU)
Subject: OTPP

Karen,

Please find attached some additional info on the OTPP as discussed.

From the 2000 Financials – p. 17-18

Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;

(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost

of $8.45 billion; and

(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008.

From this summary of Key funding Decisions

A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

From the Annual Report 2000 (pg. 6)

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability.

This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion. The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to improve benefits.

Hope this is helpful

Gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

Key Funding Decisions Since 1990

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the provincial pension regulator at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Ontario Teachers' pension plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

YEAR	VALUATION STATUS AND KEY DECISIONS
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.

YEAR	VALUATION STATUS AND KEY DECISIONS
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.

YEAR	VALUATION STATUS AND KEY DECISIONS
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	Some of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Teachers' Pension Plan Board

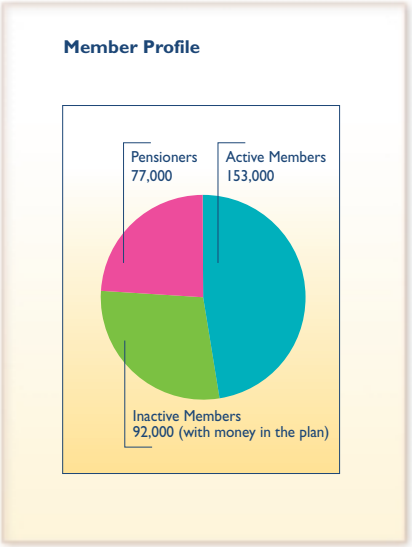
Conseil du régime de retraite des enseignantes et des enseignants

Ontario

2000 ANNUAL REPORT

CORPORATE VISION

OUTSTANDING SERVICE TODAY, RETIREMENT SECURITY TOMORROW



CORPORATE PROFILE

The Ontario Teachers' Pension Plan Board is responsible for the future retirement income of 153,000 elementary and secondary school teachers, 77,000 retired teachers and their survivors, and 92,000 former teachers with entitlements in the plan. The plan is sponsored by a partnership between the Ontario government and the plan members, represented by the Ontario Teachers' Federation. The co-sponsors negotiate the use of surplus and have an equal say in the plan's design, including changes in benefits.

The pension board's current asset-mix policy is 60 percent equities, such as shares in public and private companies and equity-return derivative contracts; 22 percent inflation-sensitive assets such as real estate, real-rate bonds and commodities; and 18 percent fixed-income securities, largely federal and provincial government bonds.

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CORPORATE DIRECTORY

FINANCIAL HIGHLIGHTS

AS AT DECEMBER 31

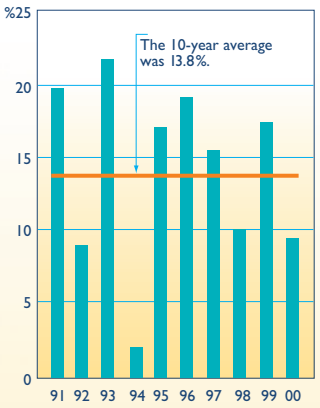
INVESTMENT PERFORMANCE

Rate of return on investments (%)	2000	1999
Annual	**9.3%**	17.4%
Composite benchmark	**5.3**	17.6
Four-year average	**13.0**	15.4
Four-year benchmark	**12.5**	15.8

Average annual compound rates of return (%)

	1 yr	4 yr	5 yr	10 yr	SINCE INCEPTION
Our return	9.3	13.0	14.2	13.8	13.1
Benchmark	5.3	12.5	13.6	12.7	10.7

Rates of Return



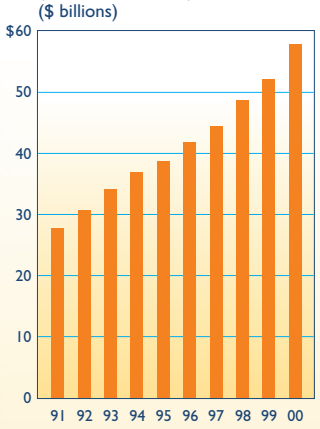
FINANCIAL OVERVIEW

($ Billions)	2000	1999[2]
Net investments	**$ 72.0**	$ 67.1
Net receivables	**1.1**	1.2
Net assets	**73.1**	68.3
Smoothing reserve[1]	**4.3**	8.3
Actuarially adjusted net assets	**68.8**	60.0
Cost of future pensions	**58.6**	52.1
Surplus	**$ 10.2**	$ 7.9

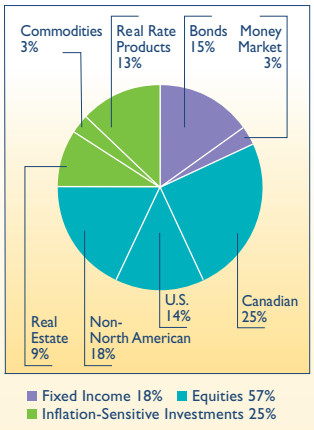
[1] We smooth equity gains (or losses) over five years to reduce the impact of market volatility on plan surplus. The smoothing reserve consists of investment gains in excess of the rate of return assumptions used in the financial statement valuation.

[2] Restated

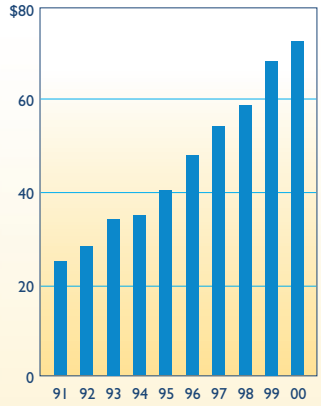
Cost of Future Pensions
(as at December 31)
($ billions)



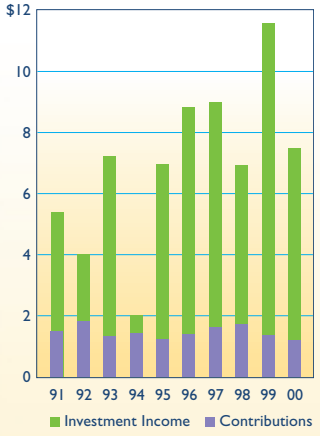
Asset Mix
(as at December 31, 2000)



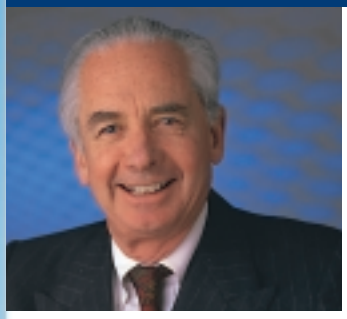
Net Assets
(as at December 31)
($ billions)



Income
($ billions)



CHAIR'S REPORT



ROBERT W. KORTHALS
CHAIR

Financial markets were highly volatile in 2000, a trend we expect to continue. Despite the less reliable investment climate, the pension board's investment staff have done a great job of creating value by exceeding market returns.

Since 1990, strong stock markets around the world have helped the fund grow faster than the increase in the cost of future pension benefits. However, what has really made the difference are deliberate decisions that allowed us to do better than the market.

Over the past decade we have gained exposure to foreign markets through equity-based derivatives and partnerships with external managers to earn value-added returns from active equity selection. We have built one of the largest merchant banks in Canada to earn premium returns from private equity markets. We have introduced innovative portfolio management techniques to earn above-market returns from equity and fixed-income index funds. Most recently, we purchased The Cadillac Fairview Corporation, making us one of the largest Canadian owners of North American real estate.

BEST-EVER VALUE ADDED

These and other initiatives paid off handsomely in 2000, with portfolio managers achieving $2.6 billion in value added. This amount is the difference between the total fund return of 9.3 percent and the 5.3 percent return for the composite benchmark. All this confirms the importance of actively managing the asset base and rewarding investment managers and senior executives for their effort.

Looking back at the value added to the fund over the last four years, the investment team averaged 13 percent against a benchmark of 12.5 percent. Since inception, they averaged 13.1 percent, beating the benchmark of 10.7 by 2.4 percent. In dollar terms, that means our investment team has created $6 billion in value added since 1990.

On behalf of the Board of Directors, I want to congratulate our entire investment team for their professionalism, foresight and innovation to meet the growing needs of the pension plan with value added investment income. It has been, and continues to be, a job well done.

AVOIDING UNDUE LOSS

The emphasis on maximizing returns also means trying to avoid unnecessary losses when markets turn for the worse. It is difficult, of course, for a large investment fund to predict short-term trends. Nevertheless, the pension board is attentive to prudent opportunities.

A good example in 2000 concerned technology stocks. Going into the year, we believed that most technology stocks were overvalued. The pension board took proactive action by reducing its technology holdings in Canadian and American stocks. As a result, we avoided substantial losses that would otherwise have occurred.

Managing Our Technology Exposure

(percent)	Q1	Q2	Q3	Q4
Technology Stocks % of TSE 300 Index	31.1	41.5	38.4	26.0
% Underweight in our portfolios	3.4	4.8	5.8	3.6

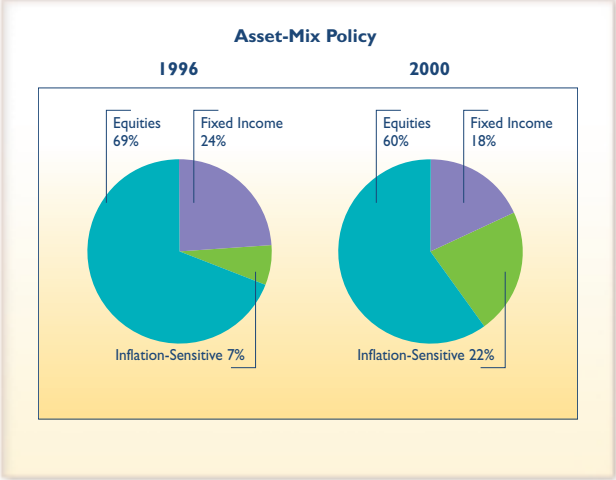
We reduced our exposure to technology stocks as a percentage of the TSE 300 Index throughout 2000.

PROTECTING THE FUND

Finding ways to add value by maximizing returns without incurring undue loss is a priority in view of the increasing number of pensioners. Since the mid-1990s, we have modified our investment approach to meet the changing needs of the pension plan.

Our asset mix continues to shift from equities and bonds to inflation-sensitive assets, especially commercial real estate properties, real-rate bonds and

commodities. These investment classes have been chosen specifically for their ability to rise in value with inflation, mitigating the long-term cost impact of inflation on growing liabilities, and safeguarding the fund if current expectations of lower returns from investment in stocks over the next decade are realized.



The asset-mix policy has changed over the past five years as we strive to better match assets that react to inflation with the indexed nature of pension benefits.

ACKNOWLEDGEMENTS

We are pleased with the investment performance of the pension fund in 2000 and prior years, and remain confident that our investment strategy, implemented by innovative portfolio managers, will continue to add value to the fund. We are impressed with the progress made to provide members of the plan with faster, more personalized service.

We are also pleased that both partners recognize the need for a strong and independent Board of Directors to oversee the pension board. We thank them for appointing directors with the skills and knowledge relevant to governing both a large investment and customer service organization.

ROBERT W. KORTHALS

CHAIR

BOARD OF DIRECTORS

ROBERT W. KORTHALS
Former President of the Toronto-Dominion Bank
Chair of the Board and Chair of Human Resources and Compensation Committee

JALYNN H. BENNETT
President of Jalynn H. Bennett & Associates Ltd., a consulting firm specializing in strategic planning and organizational development
Chair of the Investment Committee and member of the Governance Committee

GEOFFREY W. CLARKSON
Fellow of the Institute of Chartered Accountants of Ontario and former senior partner with Ernst & Young
Chair of the Benefits Adjudication Committee and member of the Audit and Actuarial Committee

ANN FINLAYSON
Journalist, speaker, freelance editor and consultant, author of three books, including *Whose Money is it Anyway? The Showdown on Pensions* (1988)
Member of the Audit and Actuarial Committee

LUCY G. GREENE
Former Vice-President of Human Resources with Sun Life Assurance Company of Canada
Chair of the Governance Committee and Vice-Chair of the Benefits Adjudication Committee

JOHN S. LANE
Former Senior Vice-President of Investments for Sun Life Assurance Company of Canada, and a Chartered Financial Analyst
Member of the Audit and Actuarial Committee

RALPH E. LEAN, Q.C.
Senior partner with the law firm Cassels Brock & Blackwell in Toronto
Member of the Governance Committee

DAVID J. LENNOX
Former Secretary of the Ontario Public School Teachers' Federation, former school principal
Chair of the Audit and Actuarial Committee

GARY PORTER
Chartered accountant and founding partner of the accounting firm Porter Hétu International, and a past president of the Certified General Accountants Association of Ontario
Member of the Audit and Actuarial and Governance Committees

All board members serve on the Investment and the Human Resources and Compensation Committees.

CLAUDE LAMOUREUX
PRESIDENT AND CHIEF EXECUTIVE OFFICER

The pension plan enjoyed another strong year in 2000, despite the negative performance of foreign equity markets, where we had about one-third of our assets invested. The total fund return of 9.3 percent produced $6.2 billion in investment income, increasing the value of net assets to $73.1 billion at year end. These results compared with a 17.4 percent total fund return and $10.1 billion in investment income in 1999.

IMPORTANCE OF THE FUNDING SURPLUS

As most readers of annual reports know, the most important number is often hidden in a footnote in the back of the report. This report is no exception – if you look at page 41, you'll find the surplus based on the funding valuation. I want to explain its significance and the resulting funding surplus. It is this figure – the funding surplus – that is particularly important to active and retired teachers because it is the amount available to the co-sponsors for plan changes.

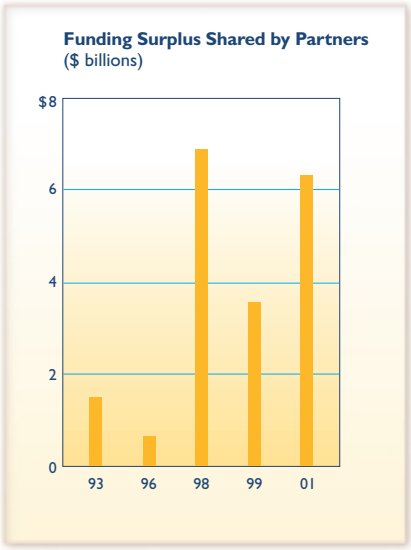
However, in our annual report, we focus on the "financial surplus" for financial statement purposes (sometimes called "management's best-estimate"). Both the annual and funding valuations look to the future, estimating the length of a teaching career, inflation and salary increases, and how long teachers will live. However, the annual valuation only looks at the financial situation at year-end and does not include the benefits that members will accrue in the future. For example, if a teacher taught for 10 years, the financial statement surplus takes into account that the plan has enough money to pay the pension equivalent for 10 years' credit.

The funding valuation, used to determine the funding surplus available to spend on benefit improvements, is a different calculation. In addition to the factors already mentioned, the funding valuation takes into account the pension that will be earned in the future, not just what has been earned up to the end of last year. In comparison, if a teacher taught for 10 years, the funding valuation includes 10 years of credit plus estimates how much money will be needed to pay the pension if he or she teaches to the 85 factor in 20 more years. It also includes how much more the teacher and the government will contribute over that time, and how much investments will grow.

USE OF SURPLUS

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability. This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion.

The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to improve benefits.



The partners will have used $18.7 billion in surplus by April 2001 to pay off the pre-1990 unfunded liability and make benefit improvements, including early retirement incentives.

A funding valuation by an independent actuary is required at least every three years. It determines whether the plan has sufficient funds to meet all future pension obligations resulting in a funding surplus or deficit, and is used as a guide to set contribution rates.

The funding valuation is a comprehensive calculation about the pension plan's financial future. It estimates the length of a teaching career, inflation and salary increases, teacher and government contributions over the length of a career, how long teachers will live, and how much investments will grow in the future.

The accompanying chart demonstrates how the funding valuation surplus is calculated.

Funding Valuation Results (before surplus allocation)

($ Billions) (at January 1)	**2001**	2000	1999	1998	1996	1993	1990
Net assets	**73.1**	68.3	59.1	54.5	40.1	29.4	21.0
Smoothing reserve	**4.3**	7.3	5.1	6.0	1.8	—	—
Value of assets	**68.8**	61.0	54.0	48.5	38.3	29.4	21.0
Future contributions	**14.4**	13.4	12.0	12.6	14.5	14.3	12.2
Future special payments*	**—**	—	3.7	8.5	8.4	8.4	—
Actuarial assets	**83.2**	74.4	69.7	69.6	61.2	52.1	33.2
Future benefits	**76.4**	69.8	66.2	62.8	60.5	50.6	41.0
Surplus (deficit)	**6.8**	4.6	3.5	6.8	0.7	1.5	(7.8)

* Payments by the government toward the pre-1990 unfunded liability.

Most of the surplus will be used in April 2001 to improve benefits, including a permanent 85 factor.

Value of assets is the value of net assets minus the smoothing reserve.

Actuarial assets refers to the value of assets as determined by the market plus the present value of future contributions by existing plan members.

Future benefits is an actuarial estimate of what it will cost to pay promised pensions over the lifetime of all current members. The cost fluctuates with market conditions and is not smoothed.

Surplus refers to the "funding surplus" (or deficit) above the cost of all future pension benefits for current members.

ASSUMPTIONS

Underlying the valuation are economic and demographic assumptions. The three most important assumptions are identified in the accompanying table.

Funding Valuation Assumptions

(percent) (at January 1)	**2001**	2000	1999	1998	1996	1993	1990
Discount rate	**6.25**	6.5	7.5	7.5	8.0	8.0	8.5
Salary escalation	**3.20**	3.25	4.5[2]	4.5[1]	5.0	5.0[1]	5.75
Inflation rates	**2.20**	2.25	3.5[3]	3.5[1]	4.0	4.0[1]	4.5

[1] except 2% for 2 years.
[2] except 2% for 2 years, 3.25% for 1 year
[3] except 2% for 2 years, 2.75% for 1 year

Salary changes affect the cost of future benefits because pension calculations are based on each member's best five years' salary. Pensions are fully indexed to inflation, which also increases pension costs.

Starting in 2000, we use the same assumptions for the annual valuation included in the financial statements.

Discount rate refers to the long-term market rate of return used to determine the present value of all future pension benefits and assets. It is assumed, as shown in the chart, that the discount rate will exceed inflation by approximately four percent.

Salary escalation and inflation rates It is assumed that, over the long term, increases in teachers' salaries will exceed inflation by one percent.

Even a seemingly small economic or demographic change can have a major impact on the plan's funding position. For example, a male teacher retiring at 57 years of age in 1995 had a life expectancy of 24.0 years, compared with 25.1 years for a similarly aged male teacher retiring in 2000. Changing the assumptions to reflect this improvement in the mortality experience of male retirees increases the plan's liability costs by $800 million.

PARTNERSHIP

As sole plan sponsor from 1917 until 1992, the Ontario government was responsible for all funding deficits and entitled to all funding surplus.

In 1992, the Ontario Teachers' Federation negotiated a partnership with the government. Teachers are now responsible for half of any surplus or deficit. As stated earlier, the partners negotiate the use of surplus and also have an equal say in the plan's design, including changes in benefits. The past use of actuarial surplus is discussed in note 9 to the financial statements.

NEED FOR A SURPLUS POLICY

Since 1990, whenever a funding surplus has existed, it has been used to eliminate special contributions or increase benefits.

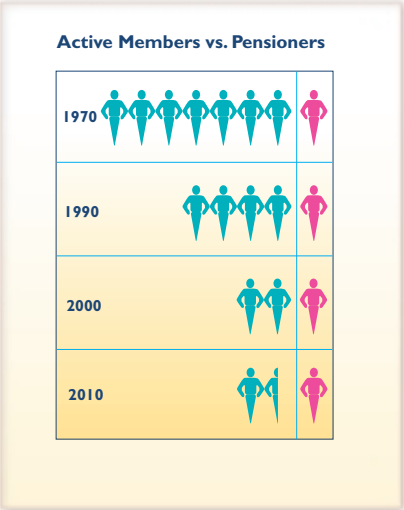
The partners know this level of yearly surplus creation is not sustainable. We are very concerned that current contribution rates will not be sufficient to cover the cost of future benefits, particularly if our current market forecasts for the next 10 years prove correct.

We encourage the partners to create a surplus policy, and we will commit resources to assist them. This policy would include the level above which the funding surplus would be used, and would be similar to the legislated capital reserve policies for banks and insurance companies. This would help to ensure some stability for contribution rates.

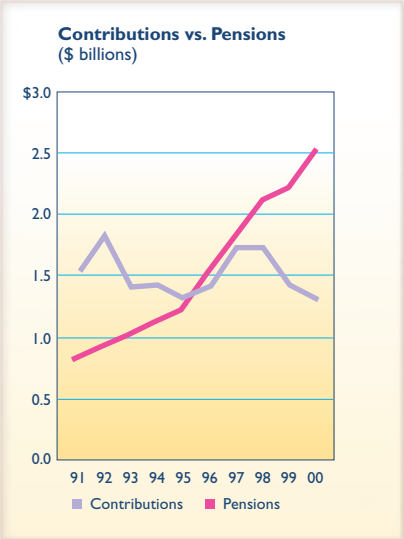
We believe it is essential to begin working today on a policy for the future because, if the plan is underfunded at a statutory valuation in the future, it will be the responsibility of the partners to make up the shortfall.

Small surplus The present value of all pensions is rising rapidly as the plan matures, totalling $76.4 billion at January 1, 2001. Sufficient assets were in place to meet these obligations with actuarially valued assets of $68.8 billion and future contributions valued at $14.4 billion, leaving a surplus of $6.8 billion. After these funds are assigned to plan improvements in April 2001, the plan will have only a small surplus of $600 million, less than one percent of liabilities.

Changing profile The profile of the plan has changed leaving fewer contributors while the number of teachers on pension continues to grow. Therefore, even an increase in contribution rates will have a reduced ability to compensate for a deficit. Ten years ago, future contributions were sufficient to cover about one-third of future benefits. Today, those contributions would only cover 19 percent.

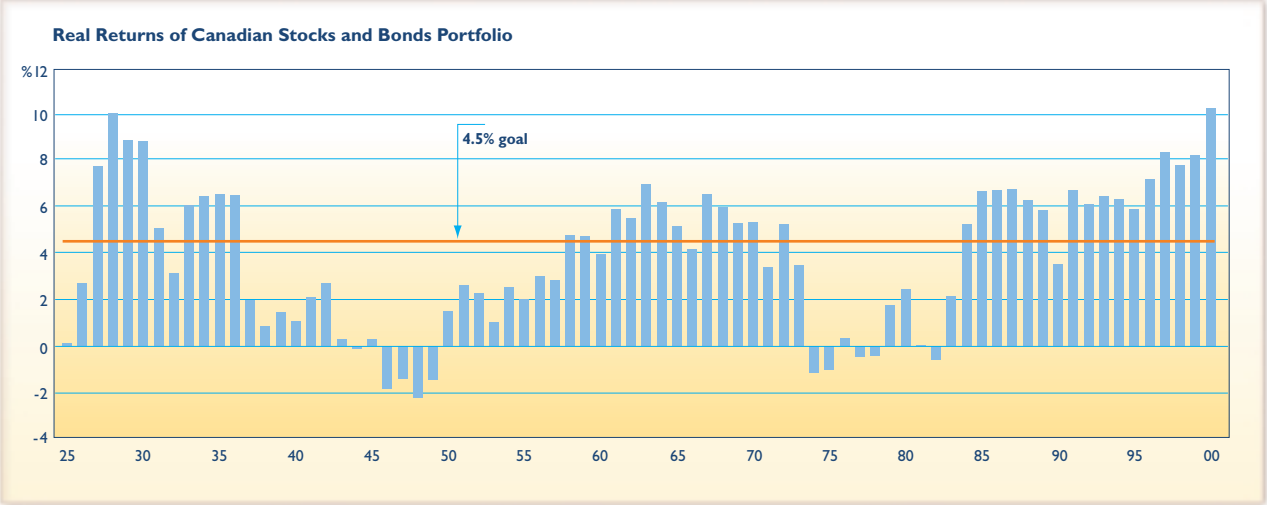


With only two active members for every pensioner today, there are half as many contributors per retiree as there were 10 years ago.



The gap between contributions and pension payments continues to widen. In 2000, 153,000 teachers and the government contributed $1.3 billion and we paid out $2.5 billion in benefits.

Increased risk In future, we expect modest real rates of return from stock and bond markets compared with the past 10 years. If history repeats itself, low or negative real-rate returns are possible over multiple years, as the accompanying chart illustrates. We are more concerned now about the impact of short-term market volatility on our ability to keep contributions stable than we were 10 years ago.



This chart tracks the rolling 10-year average real rate performance of an index-based portfolio consisting of two-thirds Canadian stocks and one-third Canadian bonds. The portfolio would reach our long-term investment target of 4.5% less than half the time.

WORKING WITH THE PARTNERS

Based on current valuation assumptions and the benefit improvements on April 1, the plan could require at least a 1.5 percent increase (matched by the government) in the contribution rates from the current average of 8 percent of salary. In the absence of such an increase in contribution rates, the plan must rely on investment returns above the actuarial assumption to make up the difference.

Our job as investment managers is to ensure that teachers receive the pensions they are promised. In the interest of prudent management, we will support the partners in developing a policy on surplus because we believe a large increase in the contribution rate would be unacceptable to plan members. Having a surplus policy in place would also help us plan our investment strategy, allowing us to build the most appropriate asset mix and investment programs around the policy.

In the meantime, we assure plan members that the pension board is committed to maximizing investment returns so that asset values have a better chance of keeping pace with the rising value of promised pensions.

STRIVING FOR EFFICIENCY

In seeking above-average investments, as well as providing timely and personalized member services, we strive to be an efficient organization. Last year, it cost $133 million to operate the pension board. Ongoing administrative costs were $106 per member. Investment expenses at 14 cents per $100 of net assets were low compared with many other institutional investors. These costs are tabulated in note 12 to the financial statements.

ACKNOWLEDGEMENTS

Our bi-annual employee survey showed that the pension board continues to be an attractive place to work. The positive attitudes and professionalism of staff are behind our standing as one of the consistent top investment performers in the pension fund industry as well as our highest-ever customer satisfaction rating from teachers and retirees. We remain committed to doing an even better job in the future.

CLAUDE LAMOUREUX

PRESIDENT AND CHIEF EXECUTIVE OFFICER

The challenge of faster, better and friendlier service

We are a customer-focused organization with a broad mandate that covers dozens of benefit entitlements and we serve more than 300,000 clients. Our services extend far beyond calculating and paying pensions; we respond to the ever-changing needs of our plan members and pensioners.

Member Services Volumes

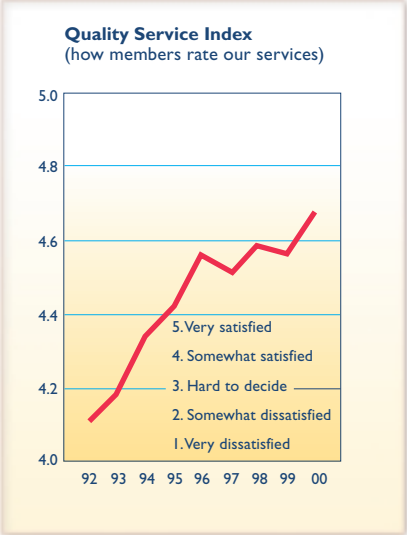
	2000	1999
Telephone calls	**94,296**	78,654
Purchase of credit	**12,541**	18,021
Pension inceptions	**7,034**	6,397
Pension estimates	**5,880**	6,331
Changes to survivor benefits	**3,358**	3,455
Termination estimates	**2,512**	2,736
Death benefits	**2,656**	2,713
Plan transfers	**2,019**	2,208
Marriage breakdown calculations	**806**	836
Commuted value payouts	**761**	612

Last year, we advised more than 2,800 teachers on their options at retirement planning workshops throughout Ontario, sent out 153,000 personalized annual benefit statements to active members, and collected $615 million in pension contributions from teachers through their employers. We paid out benefits of $2.5 billion to approximately 77,000 pensioners and members who left the plan.

HIGHEST-EVER CUSTOMER SATISFACTION

Our commitment to providing outstanding immediate and personalized service to all plan members and pensioners earned us the highest-ever customer satisfaction rating in 2000. The strongest improvements were in satisfaction with our services in providing pension inceptions, estimates, transfers, terminations and purchases of credit.

In 2001, we will replace the satisfaction survey, based on written member responses collated by staff, with an extensive random telephone survey conducted by an independent market research firm. The new approach

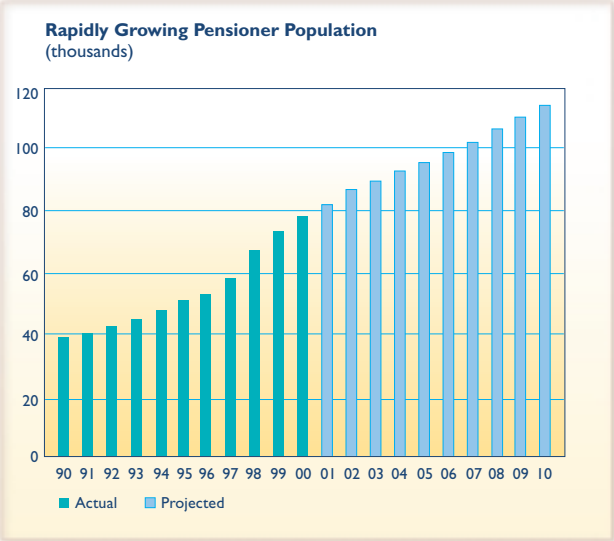


will measure a broader range of customer interactions, with the emphasis on services and service levels. This should provide a more informative evaluation of our personalized relationship with members.

EXPANDING PENSIONER POPULATION

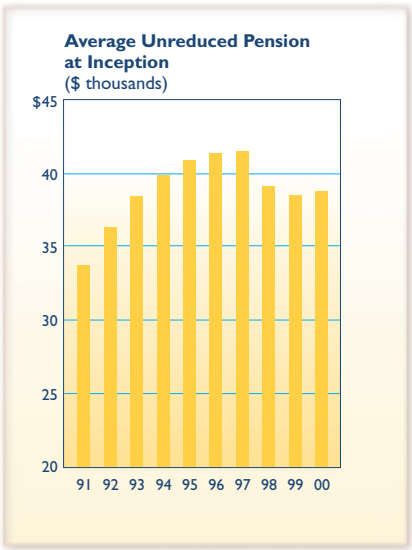
In the past three years, 21,800 teachers retired with two out of three taking advantage of the 85 factor. This increased the pensioner population to 77,000 at the end of 2000.

A large proportion of teachers is in the 45 to 55 age range and will retire in the current decade. As they consider their retirement options, these teachers will require frequent interaction with the pension board by telephone, e-mail, the Internet and one-on-one meetings.



The pension board is positioned to handle the influx of personal service needs from an expected 50,000 retirements over the current decade.

To provide better and faster customer service, we believe we have put in place some of the best technology and information management systems of any pension plan in North America. Personal service is delivered by 60 pension benefit specialists, who deal with situations ranging from members coping with the death of a spouse to requests for information on commuted value pay-outs. Staff are continuously retrained on best business practices, and we closely track our performance based on member feedback.

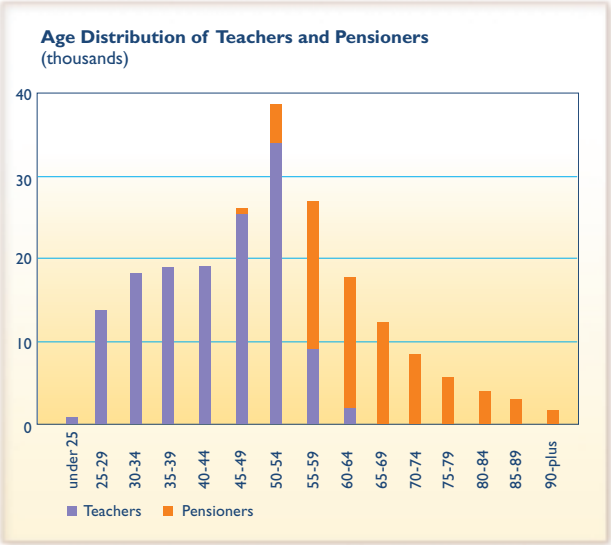


The average unreduced pension has declined from $42,000 in 1997 to $38,400 in 2000 due to early retirements under the 85 factor.

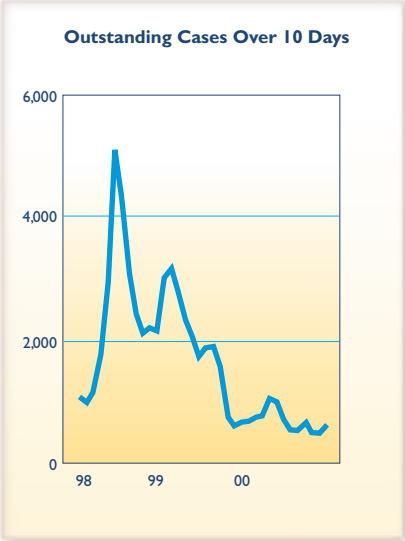
IMPROVED SERVICES

An example of how we use technology to improve service is our Computer Telephone Integration system that automatically recognizes a member's telephone number. By the time the member talks to a pension benefit specialist seconds later, the member's file is open on the specialist's computer.

The friendliness of our specialists is one reason why our customer satisfaction level is so high. Another reason for higher satisfaction is our new easier-to-read member's annual personal statement of benefits, including greater disclosure such as commuted value (the lump sum required to replace the individual's future entitlements).

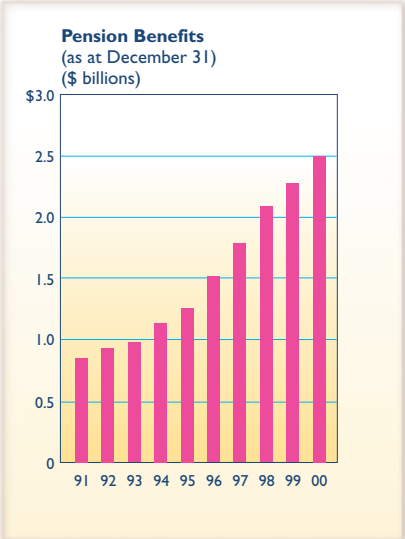


Over the past 10 years, retirees in their 50s have increased as a percentage of the pensioner population. The average pensioner age has decreased to 66.5 years.



Introduction of the 85 factor in 1998 caused a backlog in our workload. Our goal is to handle all member requests, no matter how complex, within 10 working days.

The commitment to outstanding service is evident in the time it takes to handle and complete requests from members. Outstanding requests more than 10 days old peaked at 5,000 in June 1998, following introduction of the 85 factor, and have remained well below 1,000 for most of the past year.

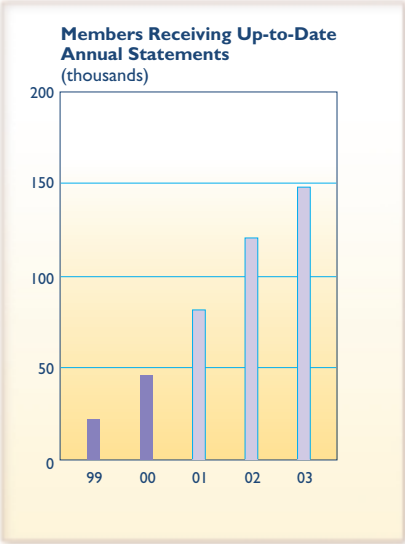


Benefits paid to retirees and their survivors continue to rise rapidly as a large number of teachers enter normal retirement or opt for early retirement.

We are also working with 218 employers to improve the quality and timeliness of member information we receive, including service credit and salary information on each active teacher.

By the end of 2000, 17 percent of employers, with more than 75,000 members, had been transferred from annual to payroll-based reporting. This also means that 75,000 members will now get annual statements that are one to two years more up to date than before.

With the continued cooperation of school boards, we expect to complete the transfer of all plan members to payroll-based reporting – and thus to up-to-date annual statements – by the end of 2003.

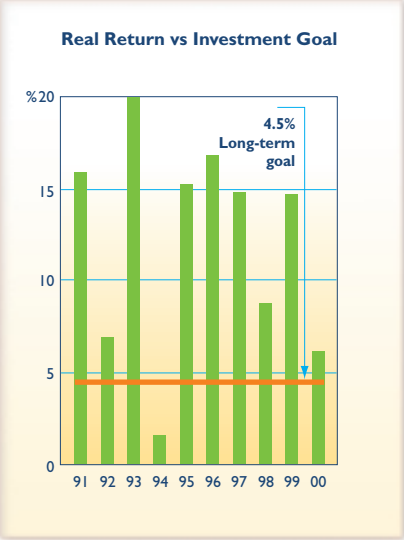


Typically, statements are only current as of August of the previous year, a situation we expect to correct for all members by the end of 2003.

The challenge of earning above-market returns

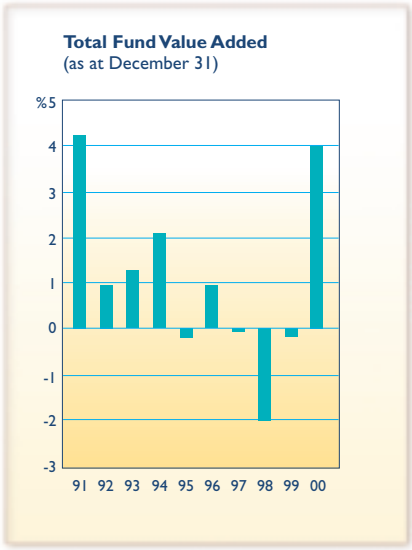
Our long-term goal is to create a surplus by growing assets faster than pension liabilities. To match average liability growth, assets must generate an annual real return of 4.5 percent (that is, 4.5 percent above the rate of inflation).

Over the long term, we believe that investing mostly in stocks will earn the level of real returns the plan needs. Consequently, our asset-mix policy has always been weighted much more to equities, a strategy that has paid off since 1990 with real returns substantially above the long-term goal. However, equity returns over the current decade could be below our target of 4.5 percent.



Because of exceptional investment markets, we exceeded the long-term investment objective in the 1990s, an achievement that will be more difficult over the next decade.

Because it will be more difficult to earn the required level of returns from passive investing alone – that is, by replicating market indices for stocks, bonds and commodities – we have reduced our index funds by shifting capital to active portfolios where we can add value. Over the past 10 years, active management and tactical asset allocation improved the returns we would otherwise have received from passive index investing by 1.1 percent.



Active management produces higher returns than the markets in which we invest can produce on their own. In 2000, this approach created $2.6 billion in value added.

INVESTMENT MANAGEMENT TEAM

We employ about 95 investment professionals, from portfolio managers, bond traders and stock analysts to foreign exchange managers, merchant bankers, and derivative traders. In addition, we employ a large staff at our wholly owned real estate subsidiary, The Cadillac Fairview Corporation Limited.

About 60 finance professionals support our investment effort. They ensure compliance with rigorous operational controls, policy guidelines and risk management limits. Every day, they settle transactions, forecast liquidity requirements, and report on investment positions, portfolio risk and returns.

Approximately 35 information technology professionals maintain and enhance our trading, risk management and reporting systems. They are developing a system that instantly routes orders from portfolio managers to various trading desks and allows for electronic execution and settlement of trades.

MAXIMIZING INVESTMENT RETURNS

To maximize returns, we actively manage 36 percent of invested assets. Even the indexed equity and fixed-income portfolios are partially actively managed through quantitative, arbitrage and other performance-enhancing strategies. We also use derivative products to manage risk and maximize returns. As a result, we are one of the largest international traders of equity-based swaps, futures and options. Many of our active strategies are independent of market direction.

We allocate a risk capital budget to each investment portfolio with the expectation of earning a minimum 10 percent return on this risk capital. The budget allocation varies among portfolios and is proportionately smaller, for example, for fixed-income securities than for merchant banking. In aggregate, the risk capital budgets are approximately 5 percent of invested assets.

We also macro-manage the total fund through "overlay" programs. For example, the asset-mix policy allows equity exposure to vary between 50 and 70 percent of net assets relative to a target of 60 percent. In 2000, we under-weighted equities and reallocated capital to fixed-income securities and real-rate bonds.

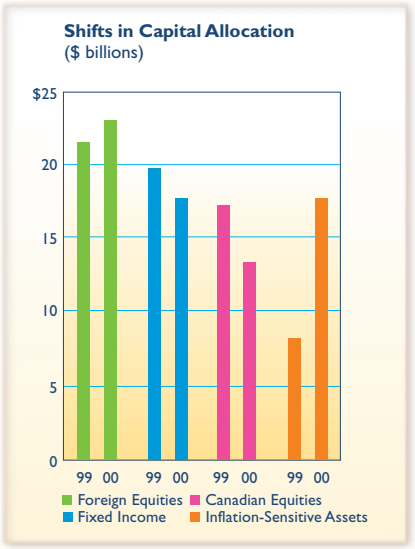
When we invest abroad, we earn a return on the investment and incur a gain or loss as a result of currency fluctuations. To reduce the volatility of returns from foreign currency fluctuations, we hedge 50 percent of investments in major foreign currencies that have a low correlation to the Canadian dollar.

Portfolio managers are rewarded for optimizing total assets and not just their own portfolios. An investment planning committee meets every two weeks to review the asset-mix policy and develop a tactical asset allocation response to current market conditions.

INDEX BANKING

We believe in being fully invested, and consider cash a drag on investment returns. Excess cash is normally invested in equity and fixed-income index funds until we identify opportunities that can earn above-market returns.

For example, to improve returns above the Canadian market benchmark, we have developed quantitative portfolios that invest in TSE 300 stocks based on models that attempt to identify strategies and stocks that should outperform the index. These portfolios have exceeded the TSE 300 returns for eight consecutive years. We account for about 4 percent of the value of trading volume in TSE 300 companies and have minimized transaction costs by trading large blocks of individual stocks or baskets of different stocks in a single transaction. Greater use of electronic trading is further reducing costs.



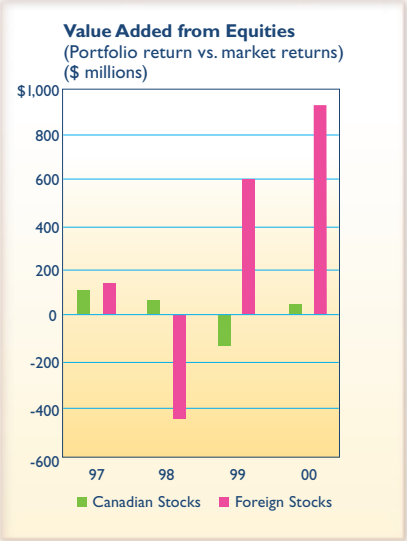
We reduced most asset classes as we transferred capital to inflation-sensitive assets such as real estate, real-rate bonds and commodities.

In the case of foreign equity index funds, our staff invest entirely in equity-based derivatives to earn market returns. Since the correlation of these investments to market performance is extremely high, these portfolios achieve market returns on a consistent basis.

ACTIVELY MANAGED EQUITY PORTFOLIOS

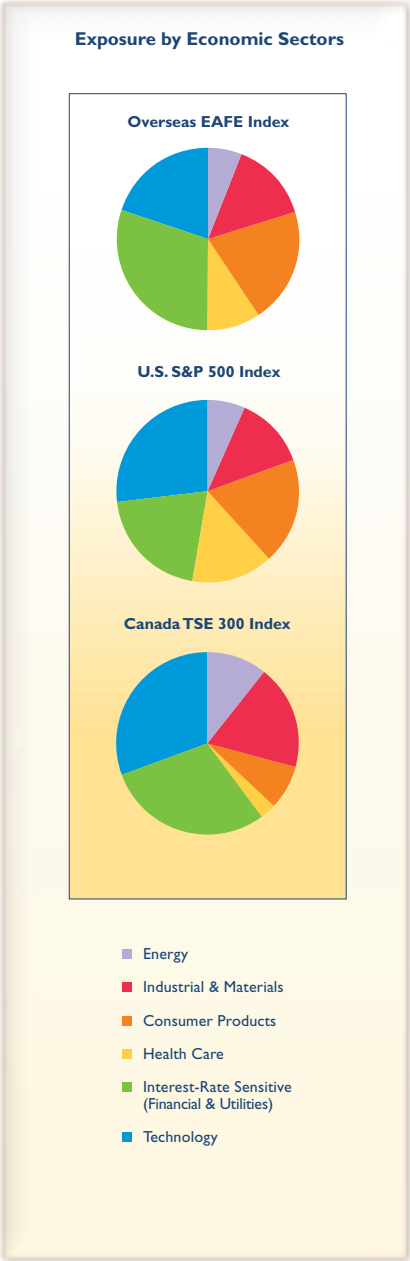
Stocks We have considerable experience as an active equity investor in Canada. In 2000, we began to expand this expertise to the global marketplace by transferring capital from foreign equity index funds to internally managed global equity programs. At the end of 2000, our staff managed more than $640 million of a total $8.3 billion in global equities.

At the same time, we remain committed to external foreign equity managers who have earned exceptional returns for the plan for many years. Building our skills in active global investing will strengthen our relationships with these managers and improve our understanding of their investment decisions.



In Canada, we have added value above equity benchmarks (indicated as zero). Outside Canada, the value-added has been more volatile and more spectacular.

Opportunities to invest in public companies in Canada are limited. The Canadian market is relatively small compared to the capital held by large institutional investors. For this and other reasons, it is important to look beyond Canada for additional investment opportunities. Focusing on global opportunities should reduce fund risks and enhance returns because global markets provide a greater diversity of economic sectors. A more global focus also allows us to select companies that are world competitors with strong performance prospects.



Greater economic diversification outside Canada offers investment opportunities that should reduce risk and improve long-term returns.

Corporate governance We attempt to improve shareholder value in public companies by voting our shares, encouraging boards of directors to practice good corporate governance, and being more involved in certain companies.

We now publish our proxy voting record on our web site **www.otpp.com**. Sharing our voting inten-

tions with management, shareholders and plan members in advance of shareholder meetings increases the transparency of our decisions and strengthens our corporate relationships with the companies in which we invest.

2000 Proxy-Voting Record

	For	Against
Employee Stock Options	46	89
Shareholder Rights Plans	1	36
Other	246	135

The most contentious issue is excessive stock options that dilute shareholders' value. In our view, the cost of options should be recorded in financial statements so that shareholders know the full financial impact of these awards.

The proxy voting record shown in the table has changed little over the past three years. We intend to be more active in working with other large investors to bring about change.

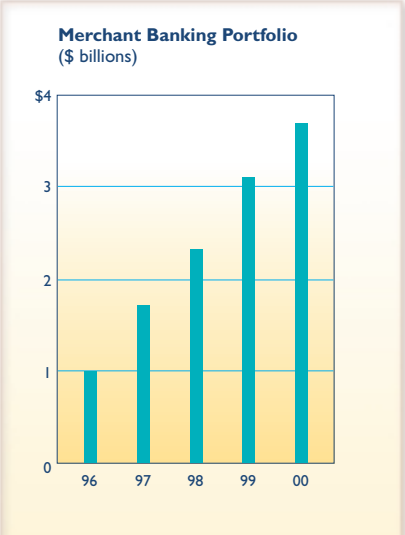
Our involvement with select companies is intended to support their boards of directors in requiring management to develop a value-added strategy with growth targets. In 2000, we made direct investments in four such companies in telecommunications, energy and industrial products. The investments are 10 to 20 percent of each firm's outstanding shares and totalled $810 million. These commitments doubled the value of our relationship investing portfolio to $1.5 billion with direct and indirect investments in eight U.S., seven Canadian and 21 U.K. companies.

Merchant banking We have developed expertise in all facets of merchant banking and ended 2000 with $3.9 billion in over 100 investments in the consumer products, communications, industrial products, entertainment & media, financial services, retail, and energy industries. We invest directly in Canadian firms, which represent 40 percent of the merchant banking portfolio. In the United States and Europe, we invest both directly and indirectly through limited partnerships.

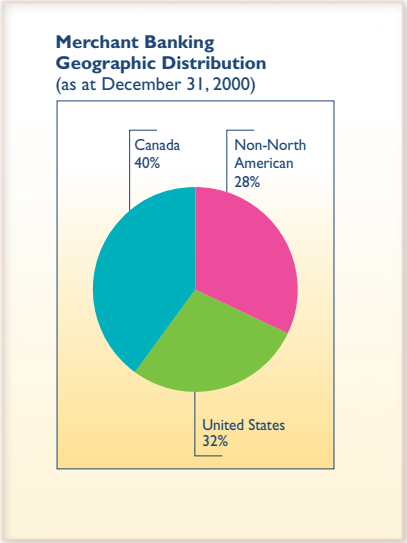
There are many opportunities to earn premium returns in the private market, where we are specialists in identifying value-added prospects. For example, we invested $14.8 million in a Canadian technology company in 1992 as part of a management buyout. In late 1993, the refinanced and refocused company was taken public. We divested our interest in stages and, by the time the last shares were sold in 2000, had realized $131 million in gains. In 2000, we sold positions in eight companies acquired for $201 million to realize net proceeds of $310 million.

Our equity and mezzanine debt investments facilitate management buyouts, business expansions, acquisitions, financial restructurings, ownership changes and taking companies private or public. In 2000, we participated with four U.S. funds in the management buyout of Shoppers Drug Mart and acquired a significant minority interest.

We first offered mezzanine debt in 1999 and had $244 million invested by the end of 2000. This product appeals to many companies as an alternative to equity and senior debt, filling the void in Canada served by the high-yield market in the U.S.



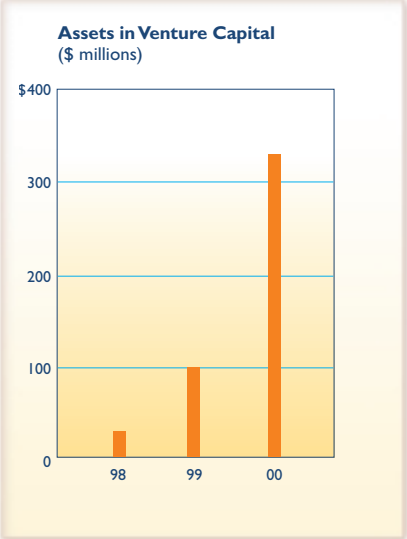
Our merchant bank has grown to be one of the largest in Canada, earning annual returns in excess of 23% since 1991.



We are increasingly adopting a global perspective in our search for premium investment returns from merchant banking.

Our merchant banking portfolio includes a venture capital fund launched three years ago that ranks among the top sources of early-stage capital in Canada. Investing in start-up enterprises carries higher risks in the expectation of higher rewards. Our size, long-term investment perspective and diverse asset base allow us to take risks in the most promising opportunities on the assumption that the successes will exceed the costs of failures.

At the end of 2000, we had $329 million invested in 24 companies and 12 venture capital funds, principally in life sciences and information technology. These investments typically involve multiple rounds of financing of $3 million to $20 million each. Approximately 54 percent of our venture capital investments are in Canada and 46 percent in the United States.

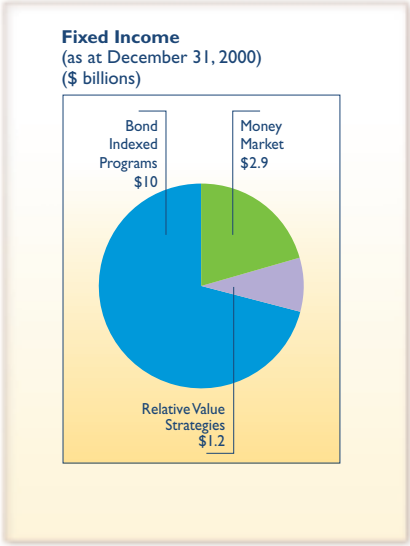


We are committed to Canadian venture capital investments where there are reasonable prospects of earning good returns for the risks involved.

FIXED-INCOME PORTFOLIOS

During the past two years, our consolidated bond portfolios have been among the top quartile of fixed-income performers.

Our basic approach is to invest the majority of fixed-income assets in bond indexed programs to replicate the Scotia Capital Canada Universe, which contains federal government bonds. Our portfolio contains substantial holdings in Government of Canada bonds, more than three percent of the Bank of Canada's domestic public debt. However, we use relative value strategies to attempt to earn returns 20 to 30 basis points above this benchmark.



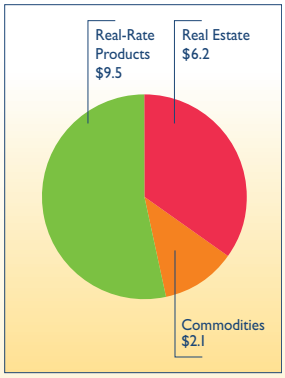
The fixed-income group manages $14.1 billion in assets.

Fixed income includes $2.9 billion allocated to the money-market portfolio and $1.2 billion in programs where we use relative value strategies to enhance returns. We have also expanded the relative value approach to include Canadian high-yield corporate securities that are well diversified by industry and economic segment. At year-end, this portfolio totalled $286 million. We are targeting the high-yield U.S. market for future expansion. We also continue to develop quantitative techniques to improve analytics, capture mispricing, and find other relative value opportunities in both bond and money markets. In this way we benefit from diversification by implementing strategies where expected returns have a low correlation to the fixed-income market overall.

INFLATION-SENSITIVE INVESTMENTS

The assets that best match the plan's liabilities have stable real returns and a high correlation with inflation. Nominal bonds are only a good fit during periods of stable inflation. Stocks have high average returns and a positive long-term correlation with inflation, but are highly volatile in the short run. Real estate, real-rate bonds and commodities are highly sensitive to inflation.

Inflation-Sensitive Investments
(as at December 31, 2000)
($ billions)



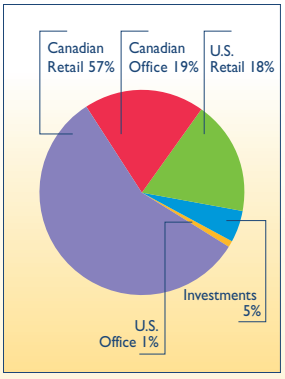
To better match inflation-indexed pensions, we are building up ownership of inflation-sensitive investments.

Since late 1998, we have managed these investments as a separate asset class. While we strive to maximize long-term real returns from these assets, their primary role is to shield the fund's surplus from the short-term risks we experienced in 2000 – a rapid rise in liabilities due to higher inflation from 2.6 to 3.2 percent and falling real interest rates from 4 to 3.4 percent.

Real estate We own a $10.4 billion real estate portfolio ($6.2 billion net of liabilities), managed by Cadillac Fairview, our wholly owned subsidiary. Approximately 95 percent of the portfolio consists of full or partial ownership of 69 shopping centres and 48 office buildings in Canada and the United States.

Our current strategy is to reposition the North American office and retail assets through a combination of redevelopment, acquisitions and dispositions with the goal of owning premier properties in key markets. This strategy is being implemented by Cadillac Fairview. We previously owned 22 percent of this company and acquired full ownership in March 2000 for $2.4 billion. As a result, we own Canada's best property portfolio and the industry's top property management company.

Real Estate Portfolio
(as at December 31, 2000)

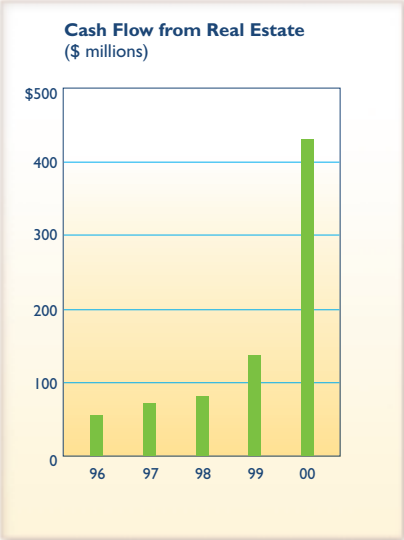


Our plan is to increase ownership of high-quality office buildings and large shopping centres in North America.

The Canadian portfolio includes premier properties, such as the Toronto Eaton Centre, Vancouver's Pacific Centre and the Toronto-Dominion Centre complex in Toronto. We recently purchased full ownership of these properties from the previous co-investor. We also strengthened our retail ownership in the Toronto area by acquiring Sherway Gardens. In the United States we own 23 shopping centres in the major markets of 10 states.

Owning Cadillac Fairview provides exclusive access to the expertise of 1,750 employees dedicated to maximizing the value of the plan's real estate assets. The Cadillac Fairview brand is internationally renowned and the company is the first call for major American and European retailers seeking a presence in the leading shopping centres. A testament to the market-draw of our shopping centres was the decision by Sears in 2000 to open five of its seven new Eatons stores in our properties.

The size and quality of our real estate portfolio provides large and predictable income. In 2000, the portfolio generated approximately $427 million in cash flow from operations.



The cash flow from real estate in 2000 was equivalent to paying close to 13,000 annual pensions.

Real-rate bonds Real-rate bonds are an excellent match against plan liabilities and, along with index-linked mortgages, are risk free with respect to inflation. As a result, we continue to be a keen buyer of these securities. In 2000, we increased our holdings of Canadian real-rate products from $4.2 billion to $5.8 billion and entered the U.S. market by acquiring $3.7 billion of U.S. Treasury Inflation-Protected Securities (TIPS). At year- end, our consolidated portfolio of real-rate securities totalled $9.5 billion.

Commodities Commodities generally have high real returns when there is unanticipated inflation and provide a hedge against short-term inflation risks in the value of the plan's liabilities. We invest through derivatives in the Goldman Sachs Commodity Index, which is heavily weighted to oil and gas, and doubled the plan's holdings to $2.1 billion in 2000.

This section of the annual report provides an overview of our operations and provides a more detailed explanation of the consolidated financial statements. It should be read in conjunction with the financial statements. Our objective is to present readers with a view of the pension board through the eyes of management by interpreting the material trends and uncertainties that affected the operating results, liquidity or financial condition of the pension plan in the last fiscal year. In addition to historical information, this section contains forward-looking statements that reflect management's objectives and expectations as at the date of this report, which involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.

YEAR-END FINANCIAL POSITION

The plan's accrued pension liabilities increased from $52.1 billion to $58.6 billion during 2000. The actuarial assumptions used to determine these liabilities for financial statement purposes reflect management's best estimate of teachers' salaries, inflation, demographic factors, and market-based yields. These estimates at the end of 2000 were in line with the markets.

Valuation Assumptions

(as at December 31) (percent)	2000	1999
Discount rate	**6.25**	6.75
Salary escalation	**3.20**	3.25
Inflation rate	**2.20**	2.25

Both the financial statement and funding valuations now use the same assumptions.

Benefit payments In 2000, the plan paid $2.5 billion in benefits, an increase of $200 million over the previous year. The increase principally reflected 6,200 teachers retiring, bringing to 77,000 the number of retired members and their survivors receiving benefits.

Accrued Pension Benefits

($ Billions)	2000	1999
Accrued pension benefits, beginning of year	**$ 52.11**	$ 49.63
Interest on accrued pension benefits	**3.48**	3.49
Benefits earned	**1.36**	1.30
Benefits paid	**(2.54)**	(2.28)
	54.41	52.14
Changes in actuarial assumptions	**3.89**	0.77
Experience gains	**0.26**	(0.80)
Accrued pension benefits, end of year	**$ 58.56**	$ 52.11

The 2000 payments included $164 million in commuted value transfers (versus $108 million in 1999) and a 1.5 percent cost-of-living adjustment. To calculate the inflation adjustment rate, we average the annual change in inflation for 12 months ending in September each year. The inflation adjustment paid in January 2001 was 2.5 percent.

Change in net assets The plan began 2000 with $68.3 billion in net assets available for benefits. During the year, the plan gained $7.5 billion of income – $6.2 billion from investments, compared with $10.1 billion in 1999, and $1.3 billion from contributions, compared with $1.4 billion a year earlier.

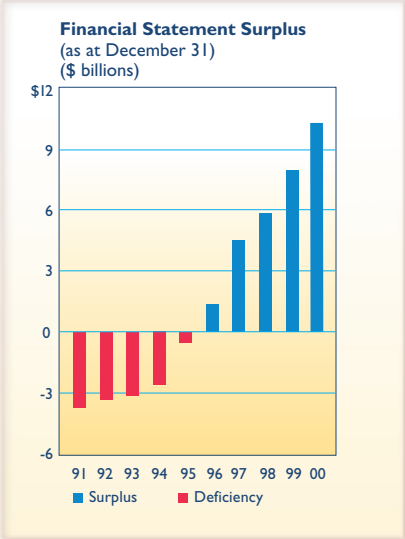
Changes in Net Assets

($ Billions)	2000	1999
Income		
Investment income	**$ 6.21**	$ 10.12
Contributions	**1.28**	1.41
	7.49	11.53
Expenditures		
Benefits	**2.54**	2.28
Operating expenses		
Member services	**0.03**	0.03
Investments	**0.10**	0.09
	2.67	2.40
Increase in net assets	**$ 4.82**	$ 9.13

Expenditures, including benefits paid to members and survivors, totalled $2.5 billion and $133 million to operate the pension board.

As a result of these changes, net assets available for benefits grew by $4.8 billion to $73.1 billion by the end of 2000.

Surplus The plan had a surplus for financial statement purposes of $10.2 billion at December 31, 2000. This compared with $7.9 billion a year earlier on a restated basis.



The year-end surplus, based on the financial statements, quantifies the plan's financial position from an accounting perspective.

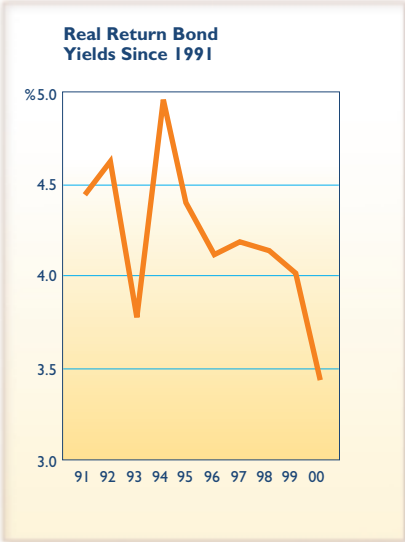
In the past, management used its best estimate of the long-term rate of return to determine the present value of all future pension benefits and assets. Net asset gains that exceed the actuarial assumptions were amortized over five years to smooth out the impact of market volatility from one year to the next.

Beginning in 2000, and as explained in note 2 to the financial statements, a market interest rate is now used to determine fair value for both fixed-income assets and accrued pension benefits. The value of equities (including real estate and commodities) continues to be adjusted for actuarial purposes to reflect the difference between the actual equity asset returns at year-end and management's best estimate of future equity returns. The difference in dollar terms (the actuarial asset value adjustment) is then amortized over five years. Strong performance by fixed-income assets increased our financial statement surplus.

MATCHING ASSETS AND LIABILITIES

To create a funding surplus we manage the relationship between investment assets and pension liabilities. Our goal is an asset mix that balances risks and rewards, avoids excessive volatility, and maintains stable contribution rates.

Because both assets and liabilities are sensitive to interest rate changes, one of our goals is to reduce the risk that liabilities will increase more than assets in response to lower real interest rates. Unfortunately,



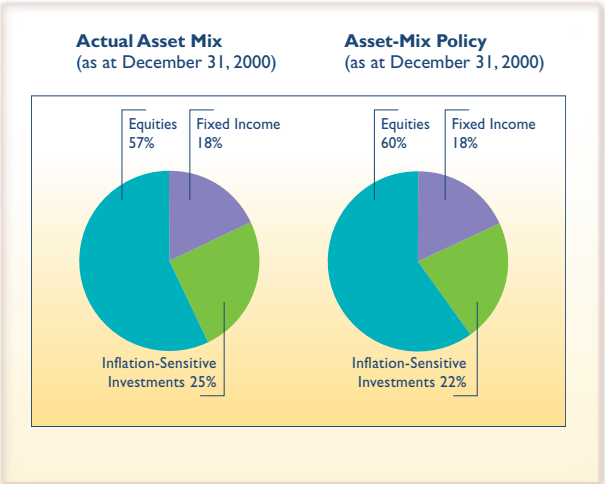
Real return yields declined by 59 basis points in 2000, after remaining within a 10 basis point range for the three previous years.

that is what happened in 2000. The sharp decline in real rates of return increased the value of total liabilities by $3 billion. During the year, we shifted assets from fixed-income and equity portfolios to real-rate products and real estate. Debt securities, along with inflation-sensitive assets, outperformed total equities to produce the healthy accounting surplus.

ASSET-MIX POLICY

The asset-mix policy is reviewed annually by management and the board of directors and changes are made as necessary to reflect changes in our asset/liability model. The asset mix is crucial to long-term performance. Studies show that approximately 90 percent of the variability of returns over time is driven by the asset-mix decision with the remaining 10 percent influenced by active management. In recent years, we have reduced our exposure to both stocks and fixed-income securities and created an asset class of inflation-sensitive assets that correlate well with the inflation-sensitive nature of our liabilities. The change in asset-mix policy also recognized that stock markets, especially in Canada, were overvalued on both a short-term and long-term basis.

Our current asset-mix policy, set in early 2000, is 60 percent equities, 22 percent inflation-sensitive assets (specifically real estate, real-rate products, and commodities), and 18 percent fixed-income securities. This asset-mix policy has a high probability of ensuring assets grow at least as fast as the liabilities over the long term. We estimate that the change in asset-mix policy contributed $600 million of value added during 2000 in addition to the $2.6 billion in benchmark outperformance.



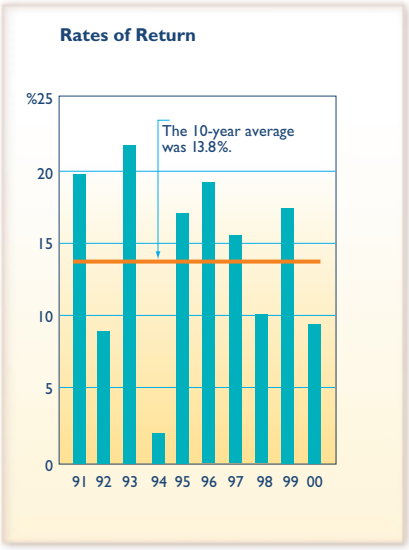
In 2000, we reduced equity investments below policy and ended the year overweight in inflation-sensitive investments compared with the new policy level.

INVESTMENT PERFORMANCE

Net investments increased to $72 billion in 2000, compared with $67.1 billion at the end of 1999.

2000 total fund performance During a year of volatile and generally negative stock markets, we achieved a 9.3 percent total fund rate of return in 2000, compared with 17.4 percent the prior year. After inflation of 3.2 percent, the real return was 6.1 percent, compared with 14.8 percent in 1999. The 2000 return generated $6.2 billion in investment income, compared with $10.1 billion a year earlier. Approximately one-third of equities are exposed to foreign markets, which had negative returns in 2000.

Four-year return We calculate average performance on a four-year cycle to produce a less volatile and more reliable measure than a single year's results. Our four-year average return was 13.0 percent, compared with 12.5 percent for the benchmark. The real rate of return (after inflation of 1.9 percent) was 11.1 percent – well in excess of the investment objective of 4.5 percent on average over the long term.



Over the current decade, returns are expected to revert to historical performance levels, which are closer to the long-term goal.

Rates of Return Compared to Benchmarks

(percent)	Investment returns	Benchmark return	Composite Benchmark
Fixed income and short-term securities	15.6	13.7	Scotia Capital Treasury Bills (91 days) Scotia Capital Canada Universe Scotia Capital Long Bond
Canadian equity	13.5	7.4	TSE 300
U.S. equity	(4.1)	(5.5)	S&P 500
Non-North American equity	(8.5)	(13.5)	Morgan Stanley EAFE, EMF National Index
Inflation-sensitive	19.9	18.0	Scotia Capital Real Return Bond Custom US Treasury Inflation-Protected Securities Goldman Sachs Commodities CPI plus 4%
Total Plan	9.3	5.3	Benchmark weighted by the policy asset mix

Ten-year return The average annual compounded rate of return for the past 10 years was 13.8 percent. The real return (after inflation of 1.9 percent) of 11.9 percent was substantially above the long-term goal.

PERFORMANCE VS. BENCHMARKS

The **total fund benchmark** aggregates the benchmark returns for each asset class, using our asset-mix policy weights. In 2000, the 9.3 percent total fund return compared with 5.3 percent for the benchmark. As a result, our portfolio managers created $2.6 billion of value above the returns that the markets in which we invested would have produced on their own. This was our largest one-year gain in value added. Included in our total fund return is our global tactical asset allocation program, which generated $519 million of value above the composite benchmark. (Performance incentives are based on the results achieved versus the benchmark, less 34 basis points for implementation and overhead costs).

Fixed income securities returned 15.6 percent, a dramatic turnaround from two percent a year earlier. These assets exceeded their benchmark of 13.7 percent to earn $229 million of value added.

Canadian equities (actively managed, enhanced index, and merchant banking) posted a 13.5 percent return versus 7.4 percent for the Canadian equity benchmark. Our enhanced quantitative index funds portfolio beat its benchmark for the eighth consecutive year to earn value added of $252 million. Our actively managed Canadian equity portfolios earned $21 million above their benchmark.

Merchant banking earned a 21.8 percent return – almost three times its benchmark to generate $427 million in value added. This $3.9 billion portfolio has contributed considerable value to total returns over the past 10 years.

Foreign equities (actively managed and enhanced index) returned a negative 4.1 percent in the U.S. and negative 8.5 percent for Non-North America (including $30 million in implementation costs) compared with negative 5.5 percent and 13.5 percent for their respective benchmarks. We increased our exposure to foreign stock markets during the year and ended 2000 with $23.1 billion in these assets. We also shifted capital from foreign equity index funds to actively managed programs. As a result, our actively managed programs produced $894 million above benchmark.

Inflation-sensitive investments of real-rate products, commodities and real estate earned 19.9 percent versus 18 percent for the composite benchmark. Real-rate bonds had a return of 17.3 percent, or $15 million better than the benchmark return. Commodities returned an exceptional 54.4 percent, though $15 million less than the benchmark due to unavoidable implementation costs. Our real estate portfolio had one of its best years, earning 13.0 percent, versus 7.2 percent for its benchmark to add $288 million in value.

RISKS AND RISK MANAGEMENT

We manage **surplus risk** using a Value at Risk (VaR) methodology. VaR has forced us to think of surplus risk as the aggregate of liability risk, asset-mix policy risk, and active management risk, taking into account correlation and diversification between the components.

The main source of **liability risk** is a drop in real interest rates, which increases the present value of future pensions accumulated up to that point. It makes new pension liabilities more difficult to finance, and puts upward pressure on contribution rates. Higher real interest rates have the opposite effect.

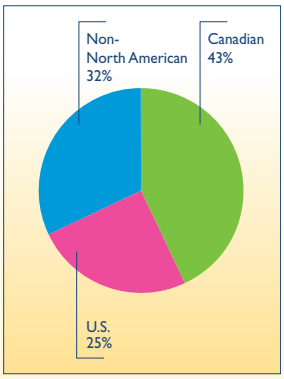
Asset-mix policy risk would be the mirror image of liability risk, and surplus risk would be zero, if investments perfectly matched the plan's long-term objective that asset growth will average a real rate of about 4.5 percent plus inflation. Real return bonds come close, but fall a bit short on yield.

The absence of a perfectly matching asset forces us to consider assets that individually do not always behave like our pension promise, but collectively give us the best trade-off between longer term expected surplus return and acceptable short-term surplus risk. Consequently, our asset mix is heavily weighted to equities because they meet our long-term goals, while our inflation-sensitive investments give more modest real returns but dampen surplus risk.

Active management risk is the potential risk of under-performing the benchmark by trying to improve on the return we get from passive implementation of asset-mix policy. The incremental surplus risk from active management is small. We control active risk through policy guidelines and procedures. Again using VaR, we assign each manager "risk capital" to go along with that manager's value added target with an expectation of a specific return on that risk capital. Risk from active positions is measured daily against the risk limits. One additional benefit from these risk measures has been an improvement in operational risk management.

Changes in the value of the Canadian dollar relative to foreign currencies can increase or decrease returns on our foreign investments, creating **foreign exchange risk**. We hedge 50 percent of our exposure to the main currencies in our asset-mix policy, and had $11.8 billion of foreign currency hedges in place at the end of 2000 to reduce volatility.

Equities
(as at December 31, 2000)



Through global diversification, we aim to reduce **excessive sensitivity to Canadian asset returns** by investing in foreign stocks and equity derivative contracts. Overall, Canada remains our primary equity market, where the plan had $17.7 billion invested in equities in 2000, followed by $10.1 billion in the United States, $2.8 billion in the United Kingdom, and $2.3 billion in Japan. However, we are concerned about the limited availability of stocks on the TSE 300. Many leading

Canadian corporations are closely owned, or listed in the U.S., further diminishing the investment pool in Canada.

With respect to **liquidity risk**, after payment of pension benefits and operating costs, the increase in net assets available for benefits totalled $4.8 billion in 2000. Cash flow came from $6.2 billion of investment income (dividends, interest income, rental income, and realized and unrealized gains) and $1.3 billion in contributions.

The cash needs for pension payments and operating expenses are predictable. On the investment side, our major liquidity risk is associated with our equity derivative contracts. A drop in foreign equity markets sustained for more than three months would require us to pay more cash to counterparties than we would otherwise expect.

We regularly assess the fund's ability to withstand the liquidity effects of a catastrophic 25 percent drop in all markets. Because the equity contracts have been profitable, we currently hold $493 million in net cash collateral from counterparties. This cash collateral, along with marketable short-term securities, annual cash flow, and other liquid assets, is more than sufficient to cover the fund's liquidity risk.

Every investment exposes us to the risk that a security issuer could default on payments or become insolvent. **Credit risk** exists with security issuers, such as governments and corporations, as well as with financial institutions and investment dealers with whom we have investment contracts. The largest credit exposure (note 3e) is to the Province of Ontario, which owes the plan $12.2 billion of non-marketable debentures valued at $15.7 billion, and $1.3 billion in contributions receivable. The next largest credit exposure is to the Government of Canada at $14.5 billion.

In the case of security issuers and derivative counterparties, we continuously monitor credit risk and, depending on the credit rating, restrict debt and equity investment in a single corporation or financial institution to between one and five percent of total fund assets.

In the case of swap counterparties, we deal primarily with 19 financial institutions rated Single A or better. Unrealized gains and losses on equity swaps are exchanged every three to six months. We exchange cash flows on interest rate swaps every six months, reducing the potential impact of a counterparty defaulting on its contractual obligations.

OUTLOOK

Our current expectation is that returns will not be as strong in the future as they have been in the past 10 years. We will continue to monitor financial markets and adjust our asset mix to achieve the best possible performance in the coming years. In the meantime, we assure all members that our first priority is to maximize returns without incurring undue risk.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgements. The accounting policies followed in the preparation of these consolidated financial statements conform with Canadian generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by internal audit programs which are subject to scrutiny by the external auditors.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the consolidated financial statements and recommends them for approval by the board.

The plan's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal control systems.

CLAUDE LAMOUREUX
PRESIDENT AND CHIEF EXECUTIVE OFFICER

ANDREW JONES
VICE-PRESIDENT, FINANCE

FEBRUARY 14, 2001

AUDITORS' REPORT TO THE ADMINISTRATOR

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Teachers' Pension Plan as at December 31, 2000 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These consolidated financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2000 and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS
TORONTO, CANADA

FEBRUARY 14, 2001

ACTUARIES' OPINION

William M. Mercer Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 2000, for inclusion in the Plan's consolidated financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at December 31, 1999;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- real and nominal interest rates on long term Canada bonds at the end of 2000;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events;
- information obtained from the Ontario Ministry of Labour and published reports on negotiated wage settlements in the 1999/2000 and 2000/01 school years; and
- an estimate of the salary grid increase for the 2000/01 school year based on the information above, along with input from the Partners.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan on December 31, 2000 as a going concern. This is different from the statutory valuation [the actuarial valuation required by the *Teachers' Pension Act* and the *Pension Benefits Act [Ontario]*], which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements represent the Board's best estimate of future events and market conditions at the end of 2000, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.

LESTER J. WONG, F.C.I.A.

MALCOLM P. HAMILTON, F.C.I.A.

FEBRUARY 14, 2001

CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND SURPLUS

AS AT DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 3)	**$85,117**	$73,872
Receivable from the Province of Ontario (note 4)	**1,251**	1,252
Receivable from brokers	**37**	210
Cash	**40**	42
Fixed assets	**8**	8
	86,453	75,384
Liabilities		
Investment-related liabilities (note 3a)	**13,074**	6,780
Due to brokers	**166**	230
Accounts payable and accrued liabilities	**92**	71
	13,332	7,081
Net assets available for benefits	**73,121**	68,303
Actuarial asset value adjustment (note 1e)	**(4,341)**	(8,316)
Actuarial value of net assets available for benefits	**$68,780**	$59,987
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits (note 5)	**$58,556**	$52,105
Surplus	**10,224**	7,882
Accrued pension benefits and surplus	**$68,780**	$59,987

ON BEHALF OF THE BOARD

CHAIR

BOARD MEMBER

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999
Net assets available for benefits, beginning of year	**$68,303**	$59,171
Investment operations		
Investment income (note 7)	**6,211**	10,121
Investment expenses (note 12a)	**(100)**	(91)
Net investment operations	**6,111**	10,030
Member service operations		
Contributions (note 10)	**1,281**	1,413
Benefits (note 11)	**(2,541)**	(2,278)
Member service expenses (note 12b)	**(33)**	(33)
Net member service operations	**(1,293)**	(898)
Increase in net assets	**4,818**	9,132
Net assets available for benefits, end of year	**$73,121**	$68,303

CONSOLIDATED STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
Accrued pension benefits, beginning of year	**$52,105**	$49,626
Increase in accrued pension benefits		
Interest on accrued pension benefits	**3,478**	3,493
Benefits accrued	**1,359**	1,301
Changes in actuarial assumptions (note 5a)	**3,893**	766
	8,730	5,560
Decrease in accrued pension benefits		
Benefits paid (note 11)	**2,541**	2,278
Experience (losses) gains (note 5b)	**(262)**	803
	2,279	3,081
Net increase in accrued pension benefits	**6,451**	2,479
Accrued pension benefits, end of year	**$58,556**	$52,105

CONSOLIDATED STATEMENT OF CHANGES IN SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
Surplus, beginning of year	**$7,882**	$4,381
Increase in net assets available for benefits	**4,818**	9,132
Change in actuarial asset value adjustment (note 1e)	**3,975**	(3,152)
Increase in actuarial value of net assets available for benefits	**8,793**	5,980
Net increase in accrued pension benefits	**(6,451)**	(2,479)
Surplus, end of year	**$10,224**	$7,882

FOR THE YEAR ENDED DECEMBER 31, 2000

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act* (the TPA) as amended.

(a) General The Plan is governed by the TPA. It is a contributory defined benefit pension plan co-sponsored by the Partners who are the Province of Ontario (the Province) and Plan members, represented by the Ontario Teachers' Federation (the OTF). The terms of the Plan are set out in the *Partners' Agreement.*

The Plan is registered with the Financial Services Commission of Ontario and with the *Income Tax Act (Canada)* (registration number 0345785) as a Registered Pension Plan not subject to income taxes.

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.

(b) Funding Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (note 9).

(c) Retirement pensions A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced retirement pension is available at age 65 or at any age if the member has 35 years' credit or if the sum of a member's age and qualifying service equals 90. An early retirement window covering the period between June 1, 1998 and December 31, 2002 is currently provided, during which time a member can retire with an unreduced pension if the sum of the member's age and qualifying service equals 85 rather than 90.

(d) Disability pensions A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits Death benefits are available on the death of an active member and may be available on the death of a retired member. The benefit may take the form of a survivor pension, lump sum payment or both.

(f) Escalation of benefits Pension benefits are adjusted annually for inflation at 100 percent of the Consumer Price Index, subject to a limit of 8 percent in any one year with any excess carried forward.

(g) Retirement Compensation Arrangement The Retirement Compensation Arrangement (RCA) has been created by agreement between the Partners as a supplementary plan to provide the members of the Plan with benefits that, due to limitations imposed by the *Income Tax Act (Canada)* and its regulations, cannot be provided under the Registered Pension Plan. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits of the RCA are not included in these financial statements (note 13).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements present the financial position and the results of operations of the Plan and are prepared in accordance with Canadian generally accepted accounting principles.

The financial statements of wholly-owned subsidiary companies are consolidated as part of the Plan's financial statements.

Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Investments and investment-related assets and liabilities

Fair Value Investments and investment-related assets and liabilities are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Where ascertainable, fair values are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not ascertainable, fair values are derived using methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate.

Trade date reporting Purchases and sales of investments and derivative contracts are recorded as of the trade date (the date upon which the substantial risks and rewards have been transferred).

Investment income Dividend income is recognized based on ex-dividend date and interest income and real estate operating income is recognized on the accrual basis as earned. Investment income also includes realized and unrealized gains and losses.

(c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included in investment income.

(d) Accrued pension benefits

The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made as at the start of the year and then extrapolated to year-end. It uses the projected benefit method prorated on service and management's best estimate, as at valuation date, of various economic and non-economic assumptions (note 5).

(e) Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined by reference to market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents the difference between the actual and management's best estimate of return on the Plan's equity investments (including real estate and commodities) amortized over five years. Fixed income securities are valued at fair value on a basis consistent with the discount rate used to value the Plan's accrued pension benefits.

The year-over-year change in the actuarial asset value adjustment is reflected in the Consolidated Statement of Changes in Surplus.

(f) Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions that primarily affect the reported values of assets and liabilities, related income and expenses and related disclosures.

2. CHANGES IN ACCOUNTING POLICY– ACCRUED PENSION BENEFITS

Consistent with a new Canadian Institute of Chartered Accountants standard on Employee Future Benefits, the Board changed its method of determining the best estimate assumptions used in valuing the accrued pension benefits. The Board now uses a market interest rate to discount the accrued pension benefits, in order to arrive at the fair value of the Plan's liabilities. In prior years, the Board used a rate which reflected management's best estimate of the expected long-term asset rate of return.

With this change to the determination of the discount rate, the method for calculating the actuarial asset value adjustment has also been modified. In prior years, the adjustment represented the difference between the actual and management's best estimate of return on all Plan assets, amortized over five years. The actuarial asset value now values fixed income securities at fair value, consistent with the measurement of the Plan's liabilities at fair value. For the Plan's equity investments, an actuarial asset value adjustment is calculated as the difference between the actual and management's best estimate of return on the Plan's equity assets, amortized over five years.

The changes in accounting policy referred to above have been applied retroactively in the financial statements and have the following impact on 1999 figures previously reported:

($ Millions)	1999 Reported	1999 Restated
Net assets available for benefits	$68,303	$68,303
Actuarial asset value adjustment	(7,264)	(8,316)
Actuarial value of net assets available for benefits	$61,039	$59,987
Accrued pension benefits – opening	$48,636	$49,626
Changes during the year	3,469	2,479
Accrued pension benefits – closing	52,105	52,105
Surplus, beginning of year	5,747	4,381
Increase in net assets available for benefits	9,132	9,132
Change in actuarial asset value adjustment (note 1e)	(2,476)	(3,152)
Increase in actuarial value of assets available for benefits	6,656	5,980
Net increase in accrued pension benefits	(3,469)	(2,479)
Surplus, end of year	8,934	7,882
Accrued benefits and surplus	$61,039	$59,987

3. INVESTMENTS

The Plan invests directly or through derivatives in fixed income, equities and inflation-sensitive investments in accordance with its policy of asset diversification. The purpose of such diversification is to minimize the likelihood of an overall reduction in surplus and maximize the opportunity for gains across the investment portfolio.

(a) Investments[1] before allocating the effect of derivative contracts and investment-related receivables and liabilities

The schedule below summarizes the Plan's investments, including net accrued interest and dividends of $388 million (1999 – $454 million), before allocating the effect of derivative contracts and investment-related receivables and liabilities, as at December 31:

($ Millions)	2000		1999	
	Fair Value	**Cost**	Fair Value	Cost
Fixed income				
Debentures	**$15,715**	**$12,205**	$16,328	$12,991
Bonds	**13,218**	**12,696**	13,303	13,198
Money market securities	**4,273**	**4,238**	2,153	2,153
Alternative investments[2]	**2,162**	**1,720**	1,326	1,166
	35,368	**30,859**	33,110	29,508
Equities				
Publicly traded				
Canadian	**13,487**	**9,618**	17,125	11,195
United States	**1,885**	**1,565**	516	559
Non–North American	**6,415**	**5,455**	8,149	5,591
Non–Publicly traded				
Canadian	**1,110**	**856**	464	446
United States	**769**	**671**	699	510
Non–North American	**1,196**	**1,188**	984	852
	24,862	**19,353**	27,937	19,153
Inflation-sensitive investments				
Real estate (note 6)	**10,393**	**9,711**	3,508	3,220
Real rate products				
Canadian	**5,822**	**5,054**	4,656	4,349
United States	**4,424**	**4,190**	391	404
	20,639	**18,955**	8,555	7,973
	80,869	**69,167**	69,602	56,634
Investment-related receivables				
Securities purchased under agreements to resell	**1,948**	**1,946**	992	990
Derivative-related, net	**2,300**	**493**	3,278	409
Investments	**85,117**	**71,606**	73,872	58,033
Investment-related liabilities				
Securities sold under agreements to repurchase	**(3,578)**	**(3,572)**	(2,883)	(2,879)
Securities sold but not yet purchased	**(1,592)**	**(1,606)**	(973)	(992)
Real estate (note 6)	**(4,192)**	**(4,002)**	(693)	(710)
Derivative-related, net	**(3,712)**	**(1,199)**	(2,231)	(2,294)
Net investments (note 3c)	**$72,043**	**$61,227**	$67,092	$51,158

(1) For additional details, refer to the Schedule of Investments for our holdings over $50 million on page 45.

(2) Comprised of hedge funds, managed futures accounts and fund of funds programs.

(b) Derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter market or on regulated exchanges. The Plan utilizes derivatives to manage its asset mix, as well as its exposure to interest rates, foreign currencies, and credit. Derivatives are also utilized for trading purposes in a manner consistent with the Plan's investment objectives.

Notional amounts of derivative contracts serve as the basis upon which the returns from, and the fair value of, the contracts are determined.

The following schedule summarizes the Plan's derivative contracts as at December 31:

($ Millions)	**2000**		1999	
	Notional	**Fair Value**	Notional	Fair Value
Asset conversion				
Interest rate swaps	**$6,353**	**$(933)**	$ 6,091	$(763)
Equity and commodity swaps	**17,436**	**(215)**	13,719	3,257
		(1,148)		2,494
Interest rate management				
Interest rate swaps	**1,330**	**4**	1,104	1
Futures	**6,962**	**(1)**	4,238	(1)
Exchange traded options				
Purchased	**2,509**	**5**	3,041	4
Written	**2,644**	**(4)**	3,771	(4)
Over-the-counter options				
Purchased	**40**	**1**	97	3
Written	**100**	**(1)**	169	(4)
		4		(1)
Foreign currency management				
Currency swaps	**499**	**(10)**	553	10
Forwards	**13,347**	**24**	13,567	343
Futures	**708**	**1**	—	—
		15		353
Trading				
Interest rate swaps	**2,427**	**(7)**	2,836	28
Volatility swaps	**967**	**34**	66	1
Futures	**18,484**	**(17)**	13,715	(161)
Forwards	**5,899**	**175**	3,791	53
Exchange traded options				
Purchased	**454**	**14**	313	22
Written	**816**	**(5)**	441	(32)
Over-the-counter options				
Purchased	**1,964**	**38**	2,062	43
Written	**1,153**	**(22)**	1,042	(19)
		210		(65)
		(919)		2,781
Less: Net cash collateral received under derivative contracts		**(493)**		(1,734)
Net fair value of derivative contracts		**$(1,412)**		$1,047

The net fair value of derivative contracts as at December 31 on page 33 are represented by:

($ Millions)	**2000**	1999
Derivative-related receivables	**$2,562**	$4,755
Cash collateral paid under derivative contracts	**428**	324
Derivative-related liabilities	**(3,481)**	(1,974)
Cash collateral received under derivative contracts	**(921)**	(2,058)
	$(1,412)	$1,047

Securities with a fair value of $320 million (1999 – $246 million) have been deposited with various financial institutions as margin to effect derivatives transactions.

The derivative contracts on page 33 mature within one year except for the following, which have a weighted average maturity (in years) of:

	2000		1999	
	Notional *($ millions)*	**Maturity *(years)***	Notional *($ millions)*	Maturity *(years)*
Asset conversion				
Interest rate swaps	**$6,119**	**8.4**	$5,487	6.6
Equity and commodity swaps	**2,468**	**1.4**	5,155	1.6
Interest rate management				
Interest rate swaps	**1,004**	**8.2**	993	4.4
Over-the-counter options	**140**	**1.9**	—	—
Foreign currency management				
Currency swaps	**493**	**5.7**	553	7.1
Forwards	**182**	**1.5**	57	2.2
Trading				
Interest rate swaps	**2,155**	**5.1**	2,536	5.1
Volatility swaps	**221**	**3.2**	66	3.1
Over-the-counter options	**83**	**1.6**	102	2.1
Forwards	**23**	**1.4**	—	—

(c) Investment asset mix

The Plan has established a long-term asset-mix policy of approximately 60 percent equities, 18 percent fixed income and 22 percent inflation-sensitive investments.

The Plan's investments, after allocating the effect of derivative contracts and investment-related receivables and liabilities, as at December 31 are summarized below:

	2000		1999	
	Effective Net Investments at Fair Value *($ millions)*	**Asset Mix *%***	Effective Net Investments at Fair Value *($ millions)*	Asset Mix *%*
Fixed income				
Bonds	**$10,771**	**15%**	$14,926	22%
Money market and equivalents	**2,548**	**3**	2,378	4
	13,319	**18**	17,304	26
Equities				
Canadian	**17,739**	**25**	19,885	30
United States	**10,119**	**14**	8,191	12
Non–North American	**13,022**	**18**	13,568	20
	40,880	**57**	41,644	62
Inflation-sensitive investments				
Commodities	**2,098**	**3**	1,090	2
Real estate (note 6)	**6,201**	**9**	2,815	4
Real rate products	**9,545**	**13**	4,239	6
	17,844	**25**	8,144	12
Total net investments	**$72,043**	**100%**	$67,092	100%

(d) Interest rate risk

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to long-term market interest rates as well as expectations for salary escalation.

The Plan's primary exposure is to a decline in the long-term real rate of return which may result in higher contribution rates required to meet pension obligations. As at December 31, 2000, holding the inflation and salary escalation assumptions constant, a 1 percent decrease in the assumed real long-term rates of return would result in an increase in the pension liabilities of approximately 13 percent (1999 – 16 percent).

After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 3b, a 1 percent increase in nominal interest rates would result in a decline in the value of the fixed income securities of 6.6 percent (1999 – 7.7 percent).

(e) Credit risk

At December 31, 2000, the Plan's most significant concentration of credit risk is with the Government of Canada and the Province of Ontario. This concentration relates primarily to the holding of $14.5 billion of Government of Canada-issued securities and $15.7 billion of non-marketable Province of Ontario Debentures, a receivable from the Province of $1.3 billion and future provincial funding requirements of the Plan.

The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher, and by utilizing an internal credit limit monitoring process, as well as through the use of credit mitigation techniques such as master netting arrangements and obtaining collateral where appropriate.

(f) Foreign currency risk

Foreign currency exposure arises from the Plan's holdings of foreign currency-denominated investments and related derivative contracts.

The Plan uses a currency overlay program to hedge a portion of its asset-mix policy allocation to U.S. and Non-North American equities. The Plan also takes trading positions in foreign currencies with the objective of adding incremental returns. The Plan's net foreign currency exposure in Canadian dollars after giving effect to the related policy hedge, as at December 31, is as follows:

($ Millions)	**2000**			1999
	Foreign Currency Exposure	**Net Foreign Currency Hedge**	**Net Foreign Currency Exposure**	Net Foreign Currency Exposure
United States Dollar	**$12,021**	**$5,389**	**$6,632**	$4,854
Euro	**5,920**	**2,528**	**3,392**	2,245
British Pound Sterling	**3,370**	**1,405**	**1,965**	1,537
Swiss Franc	**1,561**	**483**	**1,078**	252
Japanese Yen	**2,489**	**1,774**	**715**	1,280
Other	**2,165**	**187**	**1,978**	1,532
	$27,526	**$11,766**	**$15,760**	$11,700

(g) Securities lending

The Plan lends securities as a means of generating incremental income or supporting other investment strategies. As at December 31, 2000, the Plan's investments included loaned securities with a fair value of $3,402 million (1999 – $3,280 million). The fair value of collateral in respect of these loans was $3,590 million (1999 – $3,444 million).

4. RECEIVABLE FROM THE PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

($ Millions)	**2000**	1999
Contributions receivable	**$1,194**	$1,194
Accrued interest receivable	**57**	58
	$1,251	$1,252

The receivable from the Province consists of $636 million to be received in 2001 and $615 million to be received in 2002.

5. ACCRUED PENSION BENEFITS

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $58.6 billion (1999 – $52.1 billion), reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality, withdrawal rates and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. As discussed in note 2, the discount rate is now set at the market rate, as at the valuation date, of debt obligations with characteristics similar to the Plan's liabilities. The inflation rate is the difference between the yield on federal long-term nominal bonds and federal real return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2000	1999
Discount rate	**6.25%**	6.75%
Salary escalation rate	**3.20%**	3.25%
Inflation rate	**2.20%**	2.25%

The main economic assumptions were changed as a result of changes in capital markets during 2000. These changes resulted in a net increase in the value of accrued pension benefits of $3,297 million. In addition, a change was made to the assumed post-retirement mortality rates to better reflect the Plan's experience. This change increased the value of accrued pension benefits by a further $596 million. In 1999, changes to the actuarial assumptions resulted in a net increase in the value of accrued pension benefits of $766 million.

(b) Experience gains and losses

An experience loss of $262 million (1999 – gain of $803 million), arising from differences between the actuarial method and assumptions and actual results, relates primarily to current experience for members' salary and inflation rates.

6. INVESTMENT IN REAL ESTATE

(a) Acquisition of Cadillac Fairview Corporation ("CFC")

On March 17, 2000, pursuant to a plan of arrangement, the Plan acquired the remaining 78.2 percent of the common shares that it did not previously own of CFC, a fully integrated commercial real estate operating company, and $100 million of CFC convertible debentures for total consideration of $2,355 million.

The fair value of CFC's net assets acquired is summarized below:

($ Millions)	
Real estate properties	$5,730
Other assets	403
	6,133
Debt on real estate properties	(2,892)
Other liabilities	(324)
Net assets of CFC	2,917
Less: Investment in CFC previously held	(562)
Total consideration	**$2,355**

(b) Investment in Real Estate

The Plan's investment in real estate, which is comprised of real estate–related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited, as at December 31, is as follows:

($ Millions)	**2000**		1999	
	Fair Value	**Cost**	Fair Value	Cost
Assets				
Real estate properties	**$9,635**	**$8,901**	$2,454	$2,411
Investments	**526**	**577**	485	498
Other assets	**232**	**233**	7	7
Investment in CFC	**—**	**—**	562	304
Total assets	**10,393**	**9,711**	3,508	3,220
Liabilities				
Debt on real estate properties	**3,833**	**3,694**	693	710
Other liabilities	**359**	**308**	—	—
Total liabilities	**4,192**	**4,002**	693	710
Net investment in real estate	**$6,201**	**$5,709**	$2,815	$2,510

(c) Real Estate Income[1]

The Plan's real estate income for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Revenue		
Rental	**$1,140**	$263
Investment	**41**	24
	1,181	287
Expenses		
Property operating	**447**	101
Interest	**242**	41
Management	**42**	7
Other	**23**	—
	754	149
Operating income	**427**	138
Realized gain (loss)	**14**	(16)
Unrealized gain	**187**	190
Net income	**$628**	$312

(1) Operating income, on a fair value basis, excludes a charge for depreciation and amortization.

7. INVESTMENT INCOME

(a) Investment income, before allocating the effect of derivative contracts

Investment income, before allocating the effect of derivative contracts and before allocating the realized and unrealized net gains/losses, for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Fixed income interest		
Debentures (net of interest incurred on swap contracts of $1,039 million; 1999 – $753 million)	**$386**	$762
Money market securities	**197**	104
Bonds	**720**	633
	1,303	1,499
Equity dividend income		
Canadian equity	**222**	271
United States equity	**13**	13
Non–North American equity	**234**	241
	469	525
Inflation-sensitive investments		
Real estate operating income (note 6c)	**427**	138
Real rate products interest income		
Canadian	**189**	152
United States	**92**	14
	708	304
	2,480	2,328
Net gain on investments [1]	**3,731**	7,793
	$6,211	$10,121

(1) Includes net unrealized gains (losses) of $(4,145) million (1999 – $1,075 million).

(b) Investment income

Investment income by asset class, after allocating the effect of the derivative contracts and net gains, including foreign currency losses of $71 million (1999 – $1,106 million gain), for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Fixed income	**$1,689**	$(347)
Canadian equity	**2,523**	4,475
United States equity	**316**	1,559
Non–North American equity	**(694)**	3,697
Inflation-sensitive investments	**2,377**	737
	$6,211	$10,121

8. INVESTMENT RETURNS AND RELATED BENCHMARK RETURNS

Investment returns and related benchmark returns by investment asset class for the year ended December 31 are as follows:

	2000		1999	
	Investment Returns	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income	**15.6%**	**13.7%**	2.0%	2.8%
Canadian equity	**13.5**	**7.4**	30.4	32.0
United States equity	**(4.1)**	**(5.5)**	12.7	14.1
Non–North American equity	**(8.5)**	**(13.5)**	27.7	21.6
Inflation-sensitive investments	**19.9**	**18.0**	12.0	9.8
Total Plan	**9.3%**	**5.3%**	17.4%	17.6%

Investment returns have been calculated in accordance with the acceptable methods set forth by the Association for Investment Management and Research and the Pension Investment Association of Canada.

The Plan identifies benchmarks to evaluate the performance of the investment management process. The performance of each asset class is measured against a benchmark that simulates the results of the markets in which the managers invest, except that the inflation-sensitive investments composite benchmark includes real estate which is measured against an inflation-related benchmark.

The total return of the Plan is measured against a Canadian dollar denominated composite benchmark produced by aggregating Canadian dollar equivalent returns from each of the policy asset class benchmarks, using the Plan's asset mix policy weights. The total return incorporates the Plan's tactical asset allocation decisions.

9. FUNDING POLICY

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding requirements of the Plan. Active members are currently required to contribute 7.3 percent of the portion of their salaries covered by the Canada Pension Plan and 8.9 percent of salaries above this level. Aggregate member contributions are matched by the Province and other employers.

The actuarial assumptions and methods used to determine statutory pension liabilities are different than those used to calculate the amounts disclosed in these financial statements. The statutory valuations use a more conservative approach than the valuations used in these financial statements (note 5) and also take into account benefits to be earned and contributions to be made after the valuation date.

The initial statutory valuation of the Plan, prepared by William M. Mercer Limited as at January 1, 1990 disclosed an unfunded liability of $7.8 billion which was the amount by which the Plan's liabilities exceeded its assets. This liability was the responsibility of the Province and was to be paid off with interest by a series of special payments over a 40 year period, which began January 1, 1990. Subsequent statutory valuations have treated the present value of the remaining special payments as an asset.

The statutory valuation as at January 1, 1998 disclosed the present value of special payments to be $8.45 billion, with an actuarial gain of $6.78 billion. Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;
(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost of $8.45 billion; and
(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008. These changes consumed the actuarial gain. The present value of the remaining special payments after application of gains was $3.91 billion as at January 1, 1998.

The statutory valuation as at January 1, 1999 disclosed the present value of the remaining special payments to be $3.65 billion with an actuarial gain of $3.52 billion. Pursuant to the 1998 agreement noted above, all of this gain was used to eliminate the obligation of the Province to make special payments after April 1999.

The statutory valuation as at January 1, 2001 disclosed an actuarial gain of $6.78 billion (2000 – $4.54 billion).

10. CONTRIBUTIONS

($ Millions)	**2000**	1999
Members		
Current service	**$604**	$612
Optional credit	**11**	8
	615	620
Province of Ontario		
Current service	**601**	592
Interest	**42**	43
Optional credit	**5**	11
Special payments (note 9)	**—**	128
	648	774
Other employers	**9**	9
Transfer from other pension plans	**9**	10
	18	19
	$1,281	$1,413

11. BENEFITS

($ Millions)	**2000**	1999
Retirement pensions	**$2,215**	$2,016
Disability pensions	**31**	30
Death benefits	**102**	93
Refunds	**18**	16
Commuted value transfers	**164**	108
Transfers to other plans	**11**	15
	$2,541	$2,278

12. ADMINISTRATIVE EXPENSES

(a) Investment expenses

($ Millions)	**2000**	1999
Salaries and benefits	**$40.5**	$31.8
External investment management fees	**34.3**	34.8
Custodial fees	**6.6**	6.4
Premises and equipment	**6.6**	6.5
Professional consulting services	**5.0**	4.3
Information services	**3.7**	3.6
Communication and travel	**2.1**	1.8
Statutory audit fees	**0.3**	0.3
Other	**1.0**	1.1
	$100.1	**$90.6**

(b) Member service expenses

($ Millions)	**2000**	1999
Salaries and benefits	**$20.9**	$21.2
Premises and equipment	**6.2**	6.1
Professional and consulting services	**2.4**	2.2
Communication and travel	**2.1**	1.9
Board and committee remuneration	**0.2**	0.2
Statutory audit fees	**0.2**	0.2
Other	**0.7**	0.8
	$32.7	$32.6

(c) Executive compensation

The compensation table represents full disclosure of base salary, annual bonus, long-term incentives and other compensation earned in 1998, 1999 and 2000 by the Chief Executive Officer and the four other most highly compensated executives.

Name and Principal Position	Year	Base Salary	Annual Bonus[1]	Long-term Incentive Plan[3]	Group Term Life Insurance	Other Compensation
Claude Lamoureux	2000	$389,169	$504,500	$790,100	$1,119	$9,600[4]
President & CEO	1999	357,637	196,100	131,900	1,033	9,600
	1998	349,077	177,600	0	964	9,600
Robert Bertram	2000	$302,800	$404,000	$627,000	$ 870	$13,962[5]
Executive V.P. Investments	1999	276,309	102,600	101,800	798	13,343
	1998	269,053	63,200	0	777	13,209
Neil Petroff	2000	$196,130	$338,500	$451,900	$ 561	$ 0
Sr. V.P. International Equity Indexes, Fixed Income & Foreign Exchange	1999	175,444	202,800	51,400	507	0
	1998	170,606	124,700	0	490	0
Morgan McCague	2000	$186,384	$323,800	$460,000	$ 533	$ 0[6]
Sr. V.P. Quantitative Investments	1999	164,863	188,000	53,200	476	3,218
	1998	155,037	162,900	0	448	3,009
Allan Reesor	2000	$237,976	$319,200[2]	$280,100	$ 682	$ 4,808[6]
Executive V.P., Member Services and C.I.O.	1999	195,619	100,900	40,797	564	3,792
	1998	188,736	94,400	59,600	545	3,654

[1] Bonuses for investment professionals are based on a combination of total fund, asset class, and individual performance, measured in dollars of value added. Performance versus benchmark is measured over four annual performance periods.

Bonuses for other executive staff are based on achievement of annual corporate and divisional objectives.

[2] Includes deferred annual incentive for 1999.

[3] The investment long-term incentive program was restructured in 1999 following a review of competitive market practices. The new program continues to be based on four-year performance periods. Initial grants are adjusted by the four-year total fund rate of return and by a performance modifier, based on total fund dollar value-added over a composite benchmark.

[4] Automobile allowance.

[5] Includes an automobile allowance of $8,000 per annum plus unused vacation cashout.

[6] Unused vacation cashout.

13. RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement (RCA) is established pursuant to an agreement between the Province of Ontario and the Ontario Teachers' Federation (the Partners), to provide to the members of the Plan certain benefits that would have been provided under the Registered Pension Plan, but for amendments made to the *Income Tax Act (Canada)* and its Regulations that restrict benefits that may be provided under a registered plan for periods of service after 1991 and for certain periods before 1992 that are credited after 1991.

The RCA is administered under a trust separate from the assets of the Registered Pension Plan. The Board has been appointed by the Partners to act as the trustee of the RCA.

Because the RCA is a separate trust, the net assets available for benefits and the value of accrued benefits and deficiency, referred to below, have not been included in the accompanying financial statements of the Registered Pension Plan on pages 26 to 28.

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Board by teachers, the Province of Ontario and designated private schools and organizations. The portion is based on a rate determined periodically by the Board's independent actuary in a manner that is expected to be sufficient to pay the benefits over the next 12 months. Due to the funding policy adopted by the Partners, the assets will continue to be substantially less than the liabilities.

In addition, since it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and the contributions raised in order to fund the payments that are due under the RCA.

A summary of the balance sheet for the RCA as at December 31 is as follows:

($ Thousands)	**2000**	1999
Net assets available for benefits		
Assets	**$2,200**	$1,799
Liabilities	**(408)**	(655)
	$1,792	$1,144
Accrued benefits and deficiency		
Accrued benefits	**$305,900**	$238,768
Deficiency	**(304,108)**	(237,624)
	$1,792	$1,144

The actuarial assumptions used in determining the value of accrued benefits are consistent with the assumptions used in the Plan except that the assumed discount rate has been adjusted to reflect the impact of the 50 percent refundable tax under the RCA.

The estimate of the value of accrued benefits is highly sensitive to salary increases, both actual and assumed. Any changes to the salary assumptions will have a significant impact on the liabilities for future benefits. In addition, significant uncertainty exists in projecting the liabilities of the RCA due to changes in the number of future participants as well as changes to the income tax regulations relating to pensions.

14. COMMITMENTS

The Plan has committed to enter into investment transactions, which will be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2000, these commitments totalled $2,824 million (1999 – $1,634 million).

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

FIXED INCOME

($ Millions)

Type	Year of Maturity	Coupon (%)	Fair Value	Cost
Government of Canada bonds	2001–2029	4.50–13.00	$9,516	$9,467
Canadian corporate bonds	2001–2049	0.00–16.00	1,988	1,997
Canadian treasury bills	2001–2002	5.41–5.97	1,839	1,819
Commercial paper	2001	5.71–5.93	549	548
International corporate bonds	2003–2012	5.74–10.00	317	305
Provincial bonds	2002–2016	5.50–9.75	267	270
Foreign denominated Canadian bonds	2001–2085	4.40–13.00	213	220
Term deposits	2001	5.50–5.70	133	133
Discount instruments	2001	5.47–5.80	113	111
Securities purchased under agreements to resell	2001	2.00–6.30	1,948	1,946
Securities sold under agreements to repurchase	2001	5.75–6.45	(3,578)	(3,572)

PROVINCE OF ONTARIO DEBENTURES

($ Millions)

Maturity Date	Coupon (%)	Fair Value	Cost
2001 to 2006	9.00–15.00	$6,186	$5,170
2007 to 2012	10.00–16.00	9,155	6,661
Total debentures net of accrued interest		15,341	11,831
Accrued interest		374	374
Total		$15,715	$12,205

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

CORPORATE SHARES

(Millions)

Security Name	Shares	Fair Value $
Nortel Networks Corporation	37.8	1,823.9
Nexen Inc.	21.4	791.4
Royal Bank of Canada	9.4	476.7
Toronto-Dominion Bank, The	8.4	366.4
Encal Energy Ltd.	31.1	331.6
Bank of Montreal	4.2	328.4
BCE Inc.	7.6	328.1
Bank of Nova Scotia, The	7.5	326.1
Manulife Financial Corporation	6.8	317.8
AT&T Canada Inc.	6.9	299.7
Maple Leaf Foods Inc.	37.9	299.2
Enron Corp.	2.2	279.1
Canadian Imperial Bank of Commerce	5.7	263.3
Sun Life Financial Services of Canada Inc.	6.2	248.7
Alcan Aluminium Limited	4.7	242.4
Canadian Pacific Limited	5.5	234.5
Petro-Canada	5.1	194.1
WestJet Airlines Ltd.	8.3	192.8
Alberta Energy Company Ltd.	2.6	184.9
Celestica Inc.	2.2	177.3
Talisman Energy Inc.	2.8	155.6
Bombardier Inc.	6.3	146.7
Barrick Gold Corporation	5.9	145.3
Thomson Corporation, The	2.5	144.8
Suncor Energy Inc.	3.6	136.1
Gulf Canada Resources Limited	17.8	135.9
Canadian National Railway Company	3.1	135.5
TELUS Corporation	2.9	117.9
TransCanada PipeLines Limited	6.6	112.9
HSBC Holdings	5.0	110.2
Total Fina SA	0.6	109.3
Ballard Power Systems Inc.	1.1	103.3
Canadian Natural Resources Limited	2.4	101.6
Enbridge Inc.	2.3	101.2
Shaw Communications Inc.	2.9	99.0
Potash Corporation of Saskatchewan Inc.	0.8	97.1
Abitibi-Consolidated Inc.	7.0	95.9
ENI SpA	9.7	93.2
United Dominion Industries Limited	5.1	91.0
Imperial Oil Limited	2.3	89.6
Power Corporation of Canada	2.4	89.1
Akzo Nobel NV	1.1	86.7
Inco Limited	3.2	86.4
ING Groep NV	0.7	86.4
Research In Motion Limited	0.7	85.5
BAE Systems PLC	9.9	84.8
NewPower Holdings, Inc. (Warrants)	5.7	83.2

CORPORATE SHARES

(Millions)

Security Name	Shares	Fair Value $
XTRA Corporation	1.1	81.7
Veba AG	0.9	80.8
Placer Dome Inc.	5.5	79.2
Clarica Life Insurance Company	1.9	78.4
C-MAC Industries Inc.	1.2	77.4
Anderson Exploration Ltd.	2.3	77.4
BioChem Pharma Inc.	1.6	76.7
Hitachi Ltd.	5.6	75.2
Kirby Corporation	2.3	73.6
Bayer AG	0.9	73.5
Telefonos de Mexico SA	1.1	73.3
Westcoast Energy Inc.	2.0	73.2
Magna International Inc.	1.2	72.6
Loblaw Companies Limited	1.4	70.4
Seagram Company Ltd., The	0.9	70.3
Zurich Financial Services Group, The	0.1	69.8
National Bank of Canada	2.6	69.5
Power Financial Corporation	2.0	69.1
Telecom Italia SpA	5.8	68.4
Matsushita Electric Works, Ltd.	1.9	67.6
Telefonica, SA	1.5	65.5
NOVA Chemicals Corporation	2.3	65.0
Shell Transport & Trading Company	5.1	63.3
Novartis AG	0.02	61.9
Portugal Telecom SA	4.5	61.5
Unilever PLC	4.8	61.4
Aventis SA	0.5	59.4
TransAlta Corporation	2.7	59.3
Lindsay Manufacturing Co.	1.7	58.9
Nokia OYJ	0.9	58.1
Mackenzie Financial Corporation	2.1	57.3
George Weston Limited	0.7	56.2
Daiichi Pharmaceutical Co., Ltd.	1.2	55.7
Rogers Communications Inc.	2.2	55.2
Deutsche Bank AG	0.4	54.6
Australia & New Zealand Banking Group Limited	4.5	54.1
Trizec Hahn Corporation	2.3	53.4
Allied Irish Banks plc	3.1	53.3
Jardine Strategic Holdings PLC	12.2	53.2
Wolters Kluwer	1.3	52.4
Cheung Kong (Holding) Ltd.	2.7	52.3
Quebecor World Inc.	1.4	51.3
Shell Canada Limited	1.3	50.4
Royal Bank of Scotland Group	1.4	50.1
Alcatel	0.6	50.1

Note: For a complete list of companies, please see our website at **www.otpp.com.**

CONVERTIBLE AND EXCHANGEABLE DEBENTURES

(Millions)

Security Name	Par Value ($)	Fair Value ($)
Power Financial Corporation 8.0% Due April 30, 2014	85.5	529.8
PDFB Investments Inc. 3.25% Due March 12, 2018	89.1	254.6

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

REAL ESTATE PORTFOLIO

Property	Total Square Footage	Effective % Ownership
	(in thousands)	
Canadian Regional Shopping Centres		
Cataraqui Town Centre, Kingston	580	50%
Champlain Place, Dieppe	729	100%
Chinook Centre, Calgary	1,056	100%
Don Mills Shopping Centre, Toronto	420	100%
Eastgate Square, Hamilton	578	100%
Erin Mills Town Centre, Mississauga	759	50%
Fairview Mall, Toronto	883	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,044	50%
Georgian Mall, Barrie	533	100%
Hillcrest Mall, Richmond Hill	558	100%
Intercity Shopping Centre, Thunder Bay	455	100%
Le Carrefour Laval, Montreal	1,183	100%
Les Galeries D'Anjou, Montreal	1,011	50%
Les Promenades St. Bruno, Montreal	1,036	100%
Lime Ridge Mall, Hamilton	827	100%
Market Mall, Calgary	754	50%
Markville Shopping Centre, Markham	954	100%
Masonville Place, London	684	100%
McAllister Place, St. John	471	100%
Midtown Plaza/Village, Saskatoon	687	100%
New Sudbury Centre, Sudbury	496	100%
Pacific Centre, Vancouver	1,348	50%*
Polo Park Mall, Winnipeg	1,197	100%
Regent Mall, Fredericton	446	100%
Richmond Centre, Vancouver	488	100%
Rideau Centre, Ottawa	692	31%
Sherway Gardens, Toronto	979	100%
Southland Mall, Regina	423	100%
The Promenade, Toronto	693	50%
Toronto Eaton Centre, Toronto	1,559	100%
Victoria Eaton Centre, Victoria	406	100%
Woodbine Centre, Toronto	682	60%

Property	Total Square Footage	Effective % Ownership
	(in thousands)	
Canadian Office Properties		
1 Queen Street East and 20 Richmond Street East, Toronto	503	50%
Granville Square, Vancouver	398	100%
Pacific Centre Office Complex, Vancouver	1,537	50%*
Shell Centre, Calgary	681	50%
Toronto Dominion Centre Office Complex, Toronto	4,437	50%*
Toronto Eaton Centre Office Complex, Toronto	1,899	100%
Waterfront Centre, Vancouver	395	100%
Yonge Corporate Centre, Toronto	661	50%
US Regional Shopping Centers		
Broward Mall, Fort Lauderdale, Florida	1,000	100%
Dover Mall, Dover, Delaware	834	100%
Galleria at White Plains, White Plains, New York	885	100%
Golden East Crossing, Rocky Mount, North Carolina	584	100%
Gwinnett Place, Duluth, Georgia	1,249	33%
Kitsap Mall, Silverdale, Washington	715	49%
Lakewood Center, Lakewood, California	2,044	49%
Los Cerritos Center, Cerritos, California	1,302	49%
Northpark Mall, Ridgeland, Mississippi	958	100%
Redmond Town Center, Redmond, Washington	1,119	49%
Stonewood Mall, Downey, California	929	49%
The Esplanade, Kenner, Louisiana	911	100%
Town Centre at Cobb, Kennesaw, Georgia	1,273	33%
Washington Square, Tigard, Oregon	1,239	49%

* Ownership increased to 100% subsequent to year end

PRIVATE COMPANIES AND PARTNERSHIPS

Absolute Return Fund Ltd.
Apaquogue Limited
ARC Canadian Energy Venture Fund
BC European Capital V
BC European Capital VI
BC European Capital VII
CACF Limited
DLJ Merchant Banking Partners II, L.P.
Exxel Capital Partners V, L.P.
Friedrich Grohe AG
Hicks, Muse, Tate & Furst Latin America Fund, L.P.
Magnatrax Corp.
Maple Leaf Sports & Entertainment
Maple Partners Financial Group
Morgan Stanley Real Estate Fund III International L.P.
Newcastle Capital Management Inc.
Providence Equity Partners Fund II, L.P.
Providence Equity Partners Fund III, L.P.
Schroder Asian Properties L.P.
Shoppers Drug Mart Inc.
The Macerich Company
The Third Hermes UK Focus Fund
Trimac Corporation

ELEVEN-YEAR REVIEW

FOR THE YEAR ENDED DECEMBER 31

($ Millions)	**2000**	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
CHANGE IN NET ASSETS											
Income											
Investment income	**6,211**	10,121	5,137	7,246	7,436	5,656	528	5,907	2,145	3,843	1,031
Contributions											
Members/transfers	**624**	630	612	591	620	636	732	689	711	651	559
Province of Ontario	**657**	655	653	649	673	669	704	712	740	663	587
– special payments	**—**	128	492	456	152	—	—	—	438	270	187
Total Income	**7,492**	11,534	6,894	8,942	8,881	6,961	1,964	7,308	4,034	5,427	2,364
Expenditures											
Benefits paid	**2,541**	2,278	2,103	1,802	1,520	1,261	1,130	1,001	921	829	760
Investment expenses	**100**	91	67	59	40	30	25	20	14	7	1
Member service expenses	**33**	33	32	31	29	27	26	24	23	18	19
Distribution of gain	**—**	—	—	—	—	—	—	325	—	—	—
Total Expenditures	**2,674**	2,402	2,202	1,892	1,589	1,318	1,181	1,370	958	854	780
INCREASE IN NET ASSETS	**4,818**	9,132	4,692	7,050	7,292	5,643	783	5,938	3,076	4,573	1,584
NET ASSETS											
Fixed income	**13,319**	17,304	11,476	10,276	10,622	12,509	11,409	17,569	19,007	19,199	18,129
Equities – Canadian	**17,739**	19,885	17,613	19,433	17,367	12,218	9,943	7,510	3,217	2,618	520
– Foreign	**23,141**	21,759	24,015	19,955	16,005	12,287	10,714	7,035	3,253	1,796	807
Inflation-sensitive investments											
– Commodities	**2,098**	1,090	401	126	—	—	—	—	—	—	—
– Real Estate	**6,201**	2,815	1,582	1,561	1,272	925	694	608	451	180	—
– Real Rate Products	**9,545**	4,239	3,019	1,597	1,066	1,064	653	548	457	16	—
Net Investments	**72,043**	67,092	58,106	52,948	46,332	39,003	33,413	33,270	26,385	23,809	19,456
Receivable from											
Province of Ontario	**1,251**	1,252	1,233	1,262	1,286	1,308	1,338	1,362	1,323	1,190	945
Other assets	**13,159**	7,040	5,391	8,537	3,293	1,586	622	36	72	10	—
Total assets	**86,453**	75,384	64,730	62,747	50,911	41,897	35,373	34,668	27,780	25,009	20,401
Liabilities	**(13,332)**	(7,081)	(5,559)	(8,268)	(3,482)	(1,760)	(879)	(957)	(7)	(312)	(277)
Net Assets	**73,121**	68,303	59,171	54,479	47,429	40,137	34,494	33,711	27,773	24,697	20,124
Smoothing reserve	**(4,341)**	(8,316)	(4,788)	(5,578)	(4,416)	(1,907)	(252)	(2,947)	(414)	(883)	709
Actuarial value of net assets	**68,780**	59,987	54,383	48,901	43,013	38,230	34,242	30,764	27,359	23,814	20,833
Accrued pension benefits	**58,556**	52,105	48,636	44,457	41,833	38,744	36,848	33,998	30,781	27,479	24,391
Surplus (Deficiency)	**10,224**	7,882	5,747	4,444	1,180	(514)	(2,606)	(3,234)	(3,422)	(3,665)	(3,558)
PERFORMANCE (%)											
Rate of return	**9.3**	17.4	9.9	15.6	19.0	16.9	1.7	21.7	8.9	19.6	5.6
Benchmark	**5.3**	17.6	11.9	15.6	18.1	17.2	(0.3)	20.5	8.0	15.4	(7.8)
Long-term goal	**7.7**	7.1	5.5	5.2	6.7	6.2	4.7	6.2	6.6	8.3	9.5

CORPORATE DIRECTORY

President & Chief Executive Officer
Claude Lamoureux

Investments
Robert Bertram, Executive Vice-President

Active Equities
Brian Gibson, Senior Vice-President

Relationship Investing
Roy Graydon, Vice-President

International Equity Indexes, Fixed Income & Foreign Exchange
Neil Petroff, Senior Vice-President

Fixed Income
Sean Rogister, Vice-President

International Equity Indexes
Barbara Trott, Vice-President

Quantitative Investments
Morgan McCague, Senior Vice-President

Canadian Core Portfolios
Marcus Dancer, Vice-President

Research & Economics
Leo de Bever, Senior Vice-President

New Business Development
Russ Bruch, Vice-President

Merchant Banking
Dean Metcalf, Vice-President

Member Services
Allan J. Reesor, Executive Vice-President & Chief Information Officer

Client Services
Rosemarie McClean, Vice-President

MIS Member Services
Phil Nichols, Vice-President

Finance
Andrew Jones, Vice-President

Human Resources & Public Affairs
John Brennan, Vice-President

Internal Audit
Peter Maher, Vice-President

Law
Roger Barton, Vice-President, General Counsel & Secretary

THE CADILLAC FAIRVIEW CORPORATION LIMITED
Real Estate Portfolio

President & Chief Executive Officer
Peter Sharpe

Portfolio Operations
Brian Muzyk, Executive Vice-President & Chief Operating Officer

Eastern Canada Portfolio
Normand Blouin, Senior Vice-President

Greater Toronto Area Portfolio
Tony Grossi, Senior Vice-President

Ontario Portfolio
Linda Gray, Senior Vice-President

U.S. Portfolio
Alan Carlisle, Senior Vice-President

Western Portfolio
Ron Wratschko, Senior Vice-President

E-business
Ronald Peddicord, Executive Vice-President

Technology
Scot Adams, Senior Vice-President and Technology Officer

Finance and Taxation
Ian MacKellar, Executive Vice-President and Chief Financial Officer

Law
Peter Barbetta, Executive Vice-President, General Counsel and Secretary

Office and Retail Development
Michael Kitt, Executive Vice-President

Architecture and Design
Rudy Adlaf, Senior Vice-President

Office Development
John Sullivan, Senior Vice-President

Project Management and Environmental Services
David Handley, Senior Vice-President

Investments
Andrea Stephen, Senior Vice-President

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please call Lee Fullerton, Communications Manager, at 416-730-5347. e-mail: communications@otpp.com

Communications Department
Ontario Teachers' Pension Plan Board
5650 Yonge Street Toronto, Ontario M2M 4H5
Toll-free: 1-877-812-7989 Local: 416-228-5900
www.otpp.com

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: FW: OTPP
Date: Tuesday, September 13, 2016 08:39:45

I will look at what you are proposing to share now

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: Monday, September 12, 2016 9:52 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

The numbers do match. Here is part of the balance sheet from the actuarial report

Plus:

Reduction in present value of benefits to reflect less than 100% indexing for service after December 31, 2009 (up to 50% indexing): $5,947

Present value of special contributions receivable from province and other employers in respect of benefit reduction due to conditional indexing: $5,947

Reduction in present value of benefits to reflect less than 50% indexing for service after December 31, 2013: $0

Allan H. Shapira, FSA, FCIA | Managing Director

Aon Hewitt Canada
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
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****
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****
La présente communication (et tout fichier rattaché) s'adresse uniquement au(x) destinataire(s) précité(s) et ne peut être autrement distribuée, copiée ou utilisée. Le contenu de cette communication peut être assujetti au privilège. Tout droit à ce privilège est expressément revendiqué et nullement abandonné. Si vous avez reçu cette communication par erreur, veuillez nous en avertir immédiatement en répondant à ce courriel ou en nous appelant. Veuillez également effacer cette communication (et tout fichier rattaché) sans en conserver une copie. Merci.

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: FW: OTPP - Funding Update
Date: Thursday, September 22, 2016 16:14:30
Attachment 1: OTPP Funding Position Update Sept. 15 2016.pdf

Hi Nadine

Attached is the September funding position with all the pages this time. You can see that the value of the share the pain payments has been reduced by $4.3 billion. We will pull together something more formal explaining this.

I will also call EDU regarding the $8.6 billion

Alex

From: Bessiris, Mary (MOF)
Sent: Thursday, September 22, 2016 4:06 PM
To: Killoch, Alex (MOF)
Subject: OTPP - Funding Update

Alex,

Per your request.

Mary Bessiris

Ministry of Finance

Income Security And Pension Policy Division

BPS Pensions Branch

7 Queen's Park Cres., Frost Bldg. S., 1st Floor

Toronto, ON M7A 1Y7

Phone: 416.326.9847|email: mary.bessiris@ontario.ca

Funding Position Update

Partners' Consultative Committee – September 15, 2016

Mary Cover, FSA, FCIA

Director, Pension Strategy

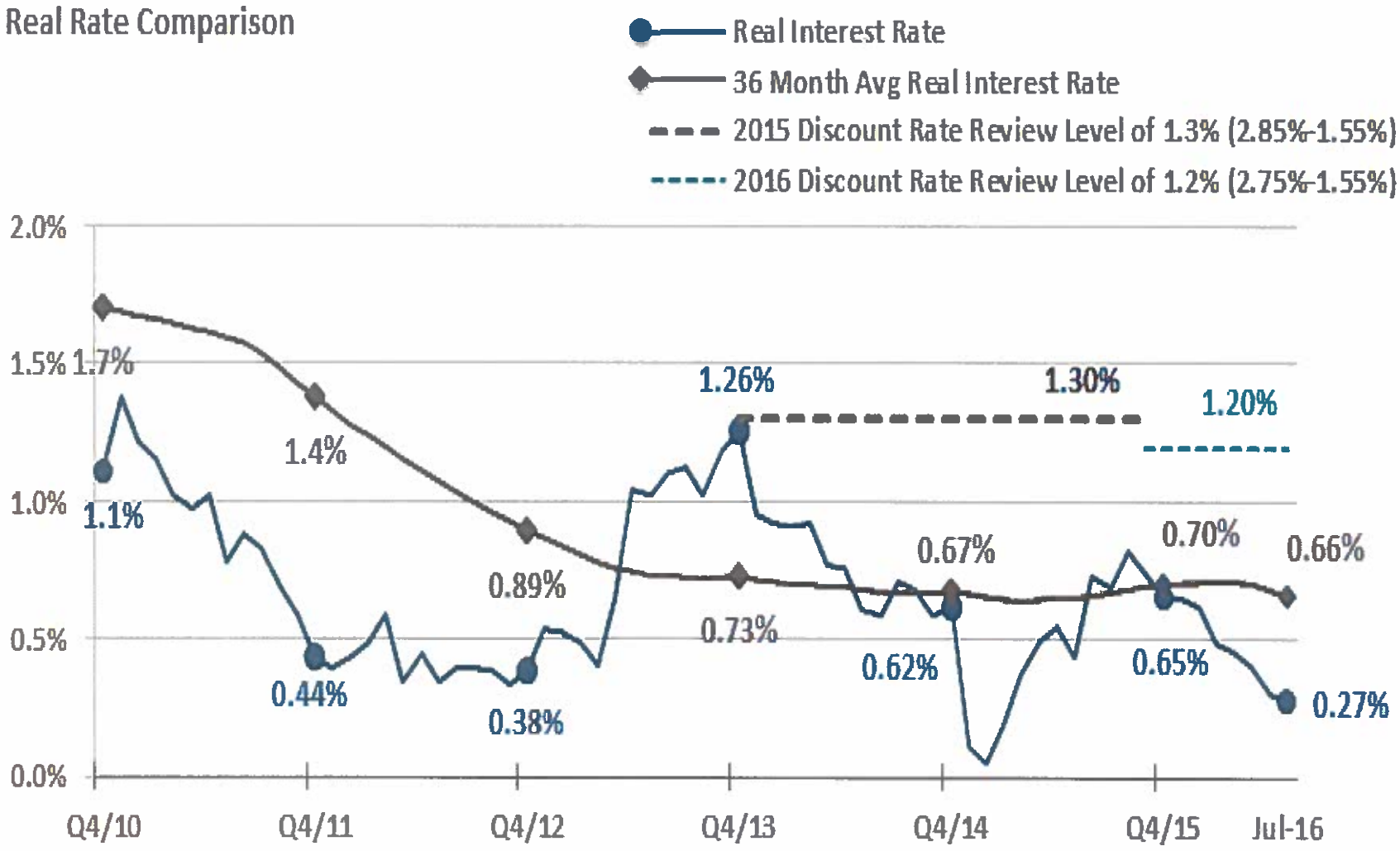
& Enterprise Risk

ONTARIO TEACHERS' PENSION PLAN

Agenda

- Real Yield Update
- Funding Estimate as of July 31, 2016
- Status of Valuation Filing Report
- Funding Management Policy

Real Yield Update



RRB yields have ranged from 18 bps to 76 bps year to date

Funding Estimate as of July 31, 2016

Funding Status ($Billions)

	January 1, 2016 Preliminary	January 1, 2016 Filed	July 31, 2016 Estimate	
Market Value of Assets	$171.4	$171.4	$172.2	
Smoothing Adjustment	($10.8)	($10.8)	($4.7)	
Actuarial Value of Assets	**$160.6**	**$160.6**	**$167. 5**	↑ **$6.9**
Present Value of Basic Contributions	$41.5	$41.5	$42.4	
Present Value of Special Contributions	$3.1	$3.1	$3.1	
Present Value of Benefits (100% indexing)	($205.3)	($205.3)	($209.9)	
Reduction in PV of Benefits due to CIP	$6.6	$2.3	$2.4	
Present value of Matching Contributions	$6.6	$2.3	$2.4	
Net Liability	**($147.5)**	**($156.1)**	**($159.6)**	↑ **$3.5**
Surplus/(Deficit) (CIP invoked)	**$13.1**	**$4.5**	**$7.9**	↑ **$3.4**
Surplus/(Deficit) (100% Indexing, no specials)	**($3.2)**	**($3.2)**	**$0.0**	
Funding Ratio (CIP invoked)	**106.6%**	**102.2%**	**103.8%**	↑ **1.6%**
Funding Ratio (100% Indexing, no specials)	**98.4%**	**98.4%**	**100.0%**	

Notes:

- Private Investments have not been revalued since the beginning of the year.
- Nominal discount rate: 4.8% (2.75% real, 2% inflation)
- CIP level per filed valuation: 90%
- CIP level per preliminary valuation: 70%

Status of Valuation Filing Report

- Robust 70 page report and related forms
- Will be filed with FSCO and CRA
- Deadline of September 30th
- Next filing required no later than January 1, 2019

FMP Framework Description

Valuation Basis

Assets = 110% of Liabilities valued at Ref Rate + 0.5%

Zone: Permanent Plan Improvements

Mechanism: Improve benefits as negotiated

Assets = Liabilities valued at Ref Rates + 1.25%

Zone: Temporary Plan Improvements

Mechanism: Improve benefits or lower contributions as negotiated

Assets = Liabilities valued at Ref. Rate + 1.55%

Zone: Fully Funded (Do Nothing)

Mechanism: Maintain Base Benefits and Contributions

Zone: Additional Support Required From Current FMP Levers

Mechanism: Raise Contribution Rates and/or Invoke Conditional Inflation Protection as negotiated

Zone: Additional Support Required From New/Additional Changes

Mechanism: Negotiate other plan changes

FMP Zones as of July 31, 2016

Valuation Basis

FP: Funding Position **FR:** Funding Ratio

Assets = 110% of Liabilities valued at interest rates + 0.5%

That is, Assets ~ 133% Liabilities valued at interest rates + 1.55%

Net Liability valued at Distribution Basis
w/o DR Review Adj. (1.15%[1]): 110% of Net Liability = $280.9B, FP[2] = -$113.4B, FR = 66.2%
w/ DR Review Adj. (1.70%[1]): 110% of Net Liability = $241.1B, FP[2] = -$73.6B, FR = 74.9%

Assets = Liabilities valued at interest rates + 1.25%

That is, Assets ~ 107% Liabilities valued at interest rates + 1.55%

Net Liability valued at Temporary Basis
w/o DR Review Adj. (1.90%[1]): Net Liability = $207.7B, FP = -$40.2B, FR = 84.1%
w/ DR Review Adj. (2.45%[1]): Net Liability = $180.0B, FP = -$12.6B, FR = 94.4%

Assets = Liabilities valued at interest rates + 1.55%

Net Liability valued at Restoration Basis
w/o DR Review Adj. (2.20%[1]): Net Liability = $191.9B, FP = -$24.5B, FR = 89.7%
w/ DR Review Adj. (2.75%[1]): Net Liability = $167.5B, FP = $0.0B, FR = 100.0%

Actual Plan Position
Net Liability valued at the Restoration Basis (2.75% real) = $159.6B
FP at 31.July.2016 = $7.9B (FR = 103.8%)

*Special CR: 1.1%, Post 2009-Pre2014 indexation: 90%, Post 2013 indexation: 90%

Diff. in F

$73.2B - $61.0B

$15.7B - $12.6B

$32.4B - $7.9 B

[1] Discount Rates reported in real terms
[2] Smoothed assets/liabilities used for funding positions

From: Di Renzo, Stephen (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: FW: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 13:45:25
Attachment 1: OTPP Asset Options v9.pptx

Thanks all for the edits. Attached is the clean version for the meeting today.

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 10:35 AM
To: Roberto, Nicole (EDU)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Moadel, Maryam (MOF); Tsang, Ingrid (MOF); Franks, Sebastian (EDU); Ryan, Kate (EDU); Paul, Joshua (EDU)
Subject: OTPP Asset Options (BPS Comments).pptx

Hi Nicole,

Please find attached some additional edits to the version we sent you last night. Today's changes are indicated in blue font.

Please let us know if you have any questions.

Thanks,

Rob

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with approaching the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms in order to meet the Auditor General's (AG) interpretation of the standard to recognize a pension asset.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts. [OPCD to confirm that this is a part of the test]

Context

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change. [in accounting treatment or to pension plan?]
      - [OPCD PLACEHOLDER]

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists once a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.
   - Any change to the plan governance should contemplate change to accounting standards.

     [PLACEHOLDER OPCD]

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - [OPCD Placeholder] What would be required to satisfy the AG's concerns? How extensive an amendment?
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector. For example:
    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
    - The Board determines the discount rate that is used to establish the funding level.

Considerations

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This would change how the two Partners interact with each other and could affect each Partner's decision making with respect to the plan overall.
  - If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.
- This would also impact the way the Board interacts with the Partners.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.
- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, a constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Board and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Di Renzo, Stephen (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: FW: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 13:45:25
Attachment 1: OTPP Asset Options v9.pptx

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From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 10:35 AM
To: Roberto, Nicole (EDU)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Moadel, Maryam (MOF); Tsang, Ingrid (MOF); Franks, Sebastian (EDU); Ryan, Kate (EDU); Paul, Joshua (EDU)
Subject: OTPP Asset Options (BPS Comments).pptx

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Office of the Provincial Controller

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      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change. [in accounting treatment or to pension plan?]
      - [OPCD PLACEHOLDER]

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists once a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.
   - Any change to the plan governance should contemplate change to accounting standards.

     [PLACEHOLDER OPCD]

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - [OPCD Placeholder] What would be required to satisfy the AG's concerns? How extensive an amendment?
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector. For example:
    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
    - The Board determines the discount rate that is used to establish the funding level.

Considerations

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This would change how the two Partners interact with each other and could affect each Partner's decision making with respect to the plan overall.
  - If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.
- This would also impact the way the Board interacts with the Partners.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.
- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, a constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Board and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: OTPP Asset Options
Date: Thursday, December 15, 2016 14:56:09
Attachment 1: OTPP Asset Options v9 updated by OPCD.pptx

Fyi…OPCD's version

From: Duffy, Paul (EDU)
Sent: December 15, 2016 1:52 PM
To: Pomykacz, Rob (MOF)
Subject: FW: OTPP Asset Options

As requested.

From: Tam, Nelson (TBS)
Sent: December 15, 2016 12:24 PM
To: Duffy, Paul (EDU)
Subject: RE: OTPP Asset Options

Paul

Attached is the updated slide deck. We removed the OPCD placeholders as we don't have updates at this time. Also, there were a couple of comments embedded in the document that we removed.

We wanted you to have the updated version of the deck.

I will be bringing copies to the meeting.

Thanks

Nelson

X20514

From: Duffy, Paul (EDU)
Sent: December-15-16 11:42 AM
To: Tam, Nelson (TBS)
Subject: OTPP Asset Options

Nelson,

Please find attached the draft deck to inform the discussion today. We have populated the considerations, potential options and risks, as well as some placeholders for you, which we can discuss at today's meeting.

Happy to chat.

Thanks

Paul

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with approaching the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms in order to meet the Auditor General's (AG) interpretation of the standard to recognize a pension asset.

Overview of AG concerns

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts.

Context

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue.
   b) The panel agrees with the AG.
      - What change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change in accounting treatment or to pension plan

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists once a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP)
2) Legislative changes (unilateral action that does not require OTF support)

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector. For example:
    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
    - The Board determines the discount rate that is used to establish the funding level.

Considerations

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This would change how the two Partners interact with each other and could affect each Partner's decision making with respect to the plan overall.
  - If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.
- This would also impact the way the Board interacts with the Partners.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.
- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, a constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Board and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Tsang, Ingrid (MOF) []
To: Keates, James (TBS) [James.Keates@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: OTPP Funding Valuation
Date: Friday, November 04, 2016 15:13:28
Attachment 1: image001.jpg
Attachment 2: Assumption comparisons for OPCD.docx

Hi Jim,

It was very nice talking to you today. Attached are our comments. We would appreciate the opportunity to see the next version once you've had the opportunity to incorporate our suggested changes.

Many thanks,
Ingrid

From: Keates, James (TBS) <James.Keates@ontario.ca>

Sent: Friday, October 28, 2016 2:10 PM

To: Killoch, Alex (MOF)

Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS)

Subject: OTPP Funding Valuation

Alex, I am working on a paper for the Pension Asset Expert Advisory Panel.

We have prepared a summary of the similarities and differences in valuation assumptions and methodologies for OTPP under their funding valuation relative to their Part IV and PSAS valuations. Could you confirm the descriptions below are correct?

Thanks

Jim

Appendix I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology

Funding valuation

(Going concern basis)

Accounting Part IV –

(OTPP Financial statements)

Accounting PSAS –

(Province Financial statements)

Purpose

To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits

Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.

Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.

Actuarial cost method

[To confirm – not clear from the valuation report]

Projected benefit method prorated on services

Asset valuation

The actuary should select an asset valuation method that is consistent with the

circumstances of the work.

The value of assets may be, subject to specific requirements for different types of valuation, any of:

• Their market value;

• Their market value adjusted to moderate volatility in investment returns;

• The present value of their cash flows after the calculation date; and

• Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values

[To confirm the approach taken in OTPP funding valuation][NP1]

Fair value for all plan assets.

Fair value is determined in accordance with IFRS 13, *Fair value measurement*.

Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently.

The Province uses adjusted market values for some classes of assets in certain plans.

Discount rate

Best estimate less Margins for adverse deviations and expenses where appropriate.

For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work

To confirm the approach taken in OTPP funding valuation][NP2]

In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.

Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists.

Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.

Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[1]

The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.

Underlying population data

All valuation methodologies should use consistent underlying data of the population covered by the plan

Inflation rate

All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate).

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Demographic assumptions

All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Other economic assumptions

All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?][NP3]

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

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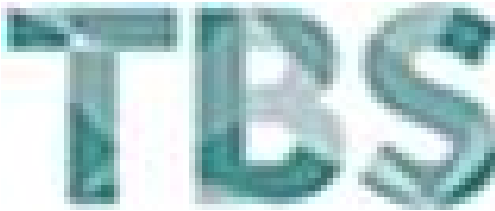
[1] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

[NP1]Opcd to confirm with Alex Killoch

[NP2]OPCD to confirm with Alex Killoch

[NP3]Opcd to confirm with Alex Killoch


TBS

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits and to provide information on financial position of the plan as of the valuation date on a funding basis.	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations and the financial position of the plan as of the valuation date on an IFRS basis. ***[Note: we can't confirm if the OTPP Board reports under IFRS. The wording here is just based on the description below on the asset valuation section]***	Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered and to provide information on financial position of the plan on a PSAB basis.
Actuarial cost method	*[To confirm – not clear from the valuation report]*Modified aggregate method (one of the level cost methods).	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date;	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. ~~The Province uses adjusted market values for some classes of assets in certain plans.~~ Market value of assets adjusted with investment

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	and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation] Market value of assets adjusted with investment gains/losses smoothed over a period of 3 years		gains/losses over a period of 5 years.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation] [Market related rates averaged over 36 months]	~~In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.~~ *[Note: Suggest taking out as this dese not appear to be applicable. OTPP is a JSPP. The OTPP Board is the administrator and its financial statement is not the sponsor's financial statement.]* *[Additional Note: as per statement on page 37 of the 2015 annual report, the Board is reporting based on section 3460 of the CPA Handbook. Not sure if this is the same as IFRS 13 or Section 3462 or IAS 19]* Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE	Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing. The Province of Ontario uses a discount rate for OTPP determined by reference to the expected long-term return on plan assets ~~earnings~~.

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		BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	
Underlying population data	All valuations ~~methodologies should~~ use consistent underlying data of the population covered by the plan [membership data based on August 30 of previous year and projected to the valuation date].		
Inflation rate	All valuations ~~methodologies should~~ treat inflation in a consistent manner ~~and use a consistent inflation assumption~~ (best estimate). [Note: best estimate assumption means that the assumption is derived based on best estimate of future events. The final outcome of any best estimate may not be the same, ie, the best estimate of inflation assumption from the province may be different from that of the Board, even though they are both best estimate assumptions]. [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board].		
Demographic assumptions	All valuations ~~methodologies should~~ use ~~a~~ consistent demographic assumptions (best estimate by the OTPP Board) ~~in similar ways~~ [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Based on PSAB, the Province is not required to prescribe demographic assumptions. It is our understanding the Board applies the same demographic assumption for the funding valuation and financial statement valuations].		
Other economic assumptions	~~All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways~~		

	[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Another economic assumption the Province prescribes is the future salary escalation rates. The Province develops this assumption by referencing to the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted. It is our understanding that the OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation]. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. It is our understanding that they are the same for funding valuation and the Board's financial statement valuation.

From: Killoch, Alex (MOF) []
To: Chen, Raymond (TBS) [SOM.5Raymond.Chen@ontario.ca]
Subject: FW: OTPP question
Date: Friday, September 16, 2016 10:53:44

Ray, can you help out here with some scheduling. EDU needs to know what is going on and where things are at, and I have fallen behind on the context

From: Paul, Joshua (EDU)
Sent: Friday, September 16, 2016 9:36 AM
To: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU)
Subject: Re: OTPP question

I agree w Alex that we should discuss and delegate together to make most use of time and get you what you need when you need it.

How is 11?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Friday, September 16, 2016 9:28 AM

To: Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)

Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF)

Subject: RE: OTPP question

Hi Cindy

Can we do a call today at some point and discuss this issue, along with the request from last night that we obtain a letter covering the partner's approach to surplus.

Rather than various one-offs, I think it would be helpful, especially for our EDU colleagues, to have a conversation about what we need and to what purpose various materials would be used.

I know that Josh is in negotiations at the moment, so perhaps we can start with EDU availability. I am headed into a meeting now, but the rest of the day has flex.

Alex

From: Veinot, Cindy (TBS)
Sent: Friday, September 16, 2016 8:54 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Paul, Joshua (EDU)
Cc: Petsche, Nadine (TBS)
Subject: OTPP question

Good morning – another question on OTPP:

– if the sponsors of the plan were to decide to increase the benefits under the OTPP (something other than conditional inflation indexation), how would that impact the

Province’s share of the surplus in the plan.

– With the change in conditional inflation indexation, the impact to the surplus in the plan is a reduction that is tied to (a) increased payment to the teachers and (b) reduced future payments from the province, but I think that is unique to the conditional inflation indexation

Thanks,

Cindy

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: OTPP surplus accounting issue - follow-up Q
Date: Saturday, September 17, 2016 10:34:24

FYI. n

From: Hatzis, Len (TBS)
Sent: September-17-16 10:15 AM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Fw: OTPP surplus accounting issue - follow-up Q

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Marin, Jon <jomarin@osler.com>

Sent: Saturday, September 17, 2016 10:13 AM

To: Allan Shapira

Cc: Rienzo, Douglas; Hatzis, Len (TBS); Steele, Jana

Subject: Re: OTPP surplus accounting issue - follow-up Q

Allan,

Many thanks for getting back to us so quickly with your comments.

Have a great weekend.

Best regards,

Jon

Sent from my iPhone

On Sep 17, 2016, at 10:09 AM, Allan Shapira <allan.shapira@aonhewitt.com> wrote:

> The arbitration issue is a legal issue that I don't think is in my bailiwick.
>
> My reference was to the surplus credits from the term sheet. If there were benefit reductions arising from the application of the term sheet then the members would get a surplus credit from those reductions. I don't think there are any surplus credits so the term sheet provisions are a non-issue.
>
> If the surplus is used contribution reductions for both parties there is an easy symmetry. If the members want to use their surplus for a benefit improvement then the form of the corresponding value to the government has to be addressed in the side agreement. It is only about the form not whether they get a corresponding value.
>
> Allan
>
> Sent from my iPhone
>
> On Sep 16, 2016, at 1:32 PM, Rienzo, Douglas <DRienzo@osler.com> wrote:
>
> > Allan:
> >
> > We have a few more questions about the technical application of the Funding Management Policy, and are hoping you can help us.
> >
> > 1. You mentioned some restrictions on the use of surplus to benefit members. Aside from the 2013 Term Sheet promises under 6.03 (which you said are not big ticket items, if they end up applying at all), are you referring to

the “side agreement” provision in 4.06?

Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

What does that section mean? It refers to an agreement to “offset any surplus distribution or temporary improvement in benefits” – does that mean that the government is supposed to get a contribution reduction of equivalent value if surplus is used for a distribution to members or for a temporary benefit improvement? Are there any other provisions in the FMP like this, that the government can point to as supporting its expectation to benefit from part of the surplus?

2. We understand that every time there is a valuation, the parties must sit down and consider what action to take under Article III, and go to mediation and perhaps to arbitration if they cannot agree (i.e. they follow the procedures set out in sections 74 to 100 of the Partners Agreement). If the plan is in Zone 4 or Zone 5, are the potential actions under Articles IV and V also folded into the mediation/arbitration process? The FMP is unclear on this point, and only seems to refer to that process applying to Article III decisions as set out below:

Section 8.01

Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

3. The Partners Agreement contains some guidelines for the arbitrator, in section 92:

92. The award made by the board of arbitration will,

(a) deal only with the contribution rate and/or benefits of the pension plan and otherwise maintain the plan as it is set out in Schedule 1,

(b) comply with the laws of Ontario,

(c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,

(d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,

(e) ensure that any increase in benefits is adequately funded,

(f) not impair the ability of the Board to fulfil its fiduciary responsibilities,

(g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). [emphasis added]

Do you have any idea what the reference to "subparagraph EE(2) means?

Could you perhaps reply by email or, if it's easier, suggest a time when we might chat about this? We have been asked to provide our opinion asap, so if we could speak to you this afternoon that would be ideal. I apologize for the short notice. Thanks, Allan.

Doug

<image001.gif>

Douglas Rienzo
Partner, Pensions & Benefits

Chair, Diversity Committee

416.862.5683

DIRECT

416.862.6666

FACSIMILE

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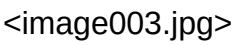
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8



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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: OTPP surplus accounting issue - follow-up Q
Date: Saturday, September 17, 2016 12:38:20

Alex,

Hoping you'll be able to join the call at 2 pm. It will be an important discussion to help inform the external legal opinion that the accounting opinion will rely upon. The email below will help shed some light on the nature of their areas of interest to which Alan already provided some feedback today.

Thanks.

Nadine

From: Marin, Jon <jomarin@osler.com>

Sent: Saturday, September 17, 2016 10:13 AM

To: Allan Shapira

Cc: Rienzo, Douglas; Hatzis, Len (TBS); Steele, Jana

Subject: Re: OTPP surplus accounting issue - follow-up Q

Allan,

Many thanks for getting back to us so quickly with your comments.

Have a great weekend.

Best regards,

Jon

Sent from my iPhone

On Sep 17, 2016, at 10:09 AM, Allan Shapira <allan.shapira@aonhewitt.com> wrote:

The arbitration issue is a legal issue that I don't think is in my bailiwick.

My reference was to the surplus credits from the term sheet. If there were benefit reductions arising from the application of the term sheet then the members would get a surplus credit from those reductions. I don't think there are any surplus credits so the term sheet provisions are a non-issue.

If the surplus is used contribution reductions for both parties there is an easy symmetry. If the members want to use their surplus for a benefit improvement then the form of the corresponding value to the government has to be addressed in the side agreement. It is only about the form not whether they get a corresponding value.

Allan

Sent from my iPhone

On Sep 16, 2016, at 1:32 PM, Rienzo, Douglas <DRienzo@osler.com> wrote:

Allan:

We have a few more questions about the technical application of the Funding Management Policy, and are hoping you can help us.

1. You mentioned some restrictions on the use of surplus to benefit members. Aside from the 2013 Term Sheet promises under 6.03 (which you said are not big ticket items, if they end up applying at all), are you referring to the “side agreement” provision in 4.06?

Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

What does that section mean? It refers to an agreement to "offset any surplus distribution or temporary improvement in benefits" – does that mean that the government is supposed to get a contribution reduction of equivalent value if surplus is used for a distribution to members or for a temporary benefit improvement? Are there any other provisions in the FMP like this, that the government can point to as supporting its expectation to benefit from part of the surplus?

2. We understand that every time there is a valuation, the parties must sit down and consider what action to take under Article III, and go to mediation and perhaps to arbitration if they cannot agree (i.e. they follow the procedures set out in sections 74 to 100 of the Partners Agreement). If the plan is in Zone 4 or Zone 5, are the potential actions under Articles IV and V also folded into the mediation/arbitration process? The FMP is unclear on this point, and only seems to refer to that process applying to Article III decisions as set out below:

Section 8.01

Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

3. The Partners Agreement contains some guidelines for the arbitrator, in section 92:

92. The award made by the board of arbitration will,

(a) deal only with the contribution rate and/or benefits of the pension plan

and otherwise maintain the plan as it is set out in Schedule 1,

(b) comply with the laws of Ontario,

(c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,

(d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,

(e) ensure that any increase in benefits is adequately funded,

(f) not impair the ability of the Board to fulfil its fiduciary responsibilities,

(g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). [emphasis added]

Do you have any idea what the reference to "subparagraph EE(2) means?

Could you perhaps reply by email or, if it's easier, suggest a time when we might chat about this? We have been asked to provide our opinion asap, so if we could speak to you this afternoon that would be ideal. I apologize for the short notice. Thanks, Allan.

Doug

<image001.gif>

Douglas Rienzo
Partner, Pensions & Benefits

Chair, Diversity Committee

416.862.5683

DIRECT

416.862.6666

FACSIMILE

drienzo@osler.com

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8

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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: PAEAP NR - TBS edits
Date: Thursday, February 09, 2017 10:20:16
Attachment 1: PAEAP Report NR_v15_PO edits_MO ok_20170208 1620_cv.doc

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Please review

From: Patel, Lesley (MOF)
Sent: February 9, 2017 9:09 AM
To: Birks, Ryan (MOF); Buckland Foster, Jamie (MOF); Wynberg, Lynsey (OFA)
Cc: Killoch, Alex (MOF)
Subject: PAEAP NR - TBS edits
Importance: High

Hi all,

TBS made some minor edits to the NR, please let me know if you have any concerns with any of the language asap. If you do, I can flag them for TBS but please note as they are the lead ministry on this file they may not accept all of them.

Thanks,

Lesley

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February 13, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans: the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

The panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements, which Ontario has done consistently since 2001.

The panel's report outlined the following reasons why an asset exists and should be reported in the financial statements:

- Recognizing the asset will provide a faithful representation of the Province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the Province's share of the assets in Public Accounts

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

As a result, the government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The Province remains on track to balance the budget by 2017-18, and remain balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"**TBC** I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"As a result of the expert assessment of the independent advisory panel, we now have additional advice on how to account for these jointly sponsored pension plans as assets. This advice will help us continue to present the province's finances fairly and accurately, as we work

Commented [CV1]: There were two main aspects to the panel's work – whether to recognize the assets and if so, how to measure them – this only addresses the first issue

Commented [CV2]: Not a reason why the asset exists – hence the change above

Commented [CV3]: Also not a reason by the asset exists – see comment 2 re: the change necessary in the introductory sentence

Commented [CV4]: See comment #1

DRAFT

toward balancing the budget in 2017-18. We will provide a full update on the Province's fiscal situation in the near future."
— Charles Sousa, Minister of Finance

QUICK FACTS

- By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.
- For 2015-16, ~~this~~ following the advice of the panel means the province's deficit ~~has~~ would be~~been~~ lowered by $1.5 billion.
- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.
- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets.
- The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and Public Sector Accounting Standards.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [CV5]: Debt doesn't change – what is the message that we are trying to convey? -- the impact on net debt? Let us know and we can write the bullet.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

From: Noor, Khalida (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]
Subject: FW: PSAB's ITC: Discount Rates
Date: Thursday, March 01, 2018 23:12:47
Attachment 1: image001.jpg
Attachment 2: BN_Employment Benefits Discount Rate ITC December 2017.docx
Attachment 3: Ontario Response to PSAB on ITC - Employment Benefits Discount Rate December 2017.doc

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Hi Alex

It was nice meeting you. In the attach please find the responses we have put together.

As discussed, can you please get Allan to:

1. Review and update the QA based on his experience with the plans

2. Develop an overall discussion on high-level differences between private vs public sectors and discount rate implications

I would appreciate to have something back from Allan by March 15, so that Cindy has sufficient review time. Please let me know if you foresee challenges with the date.

Thanks again for assisting us with this deliverable.

Thank you
Khal

Sent with BlackBerry Work
(www.blackberry.com)

From: Provis, Ian (TBS) <Ian.Provis@ontario.ca>
Date: Tuesday, Feb 27, 2018, 1:55 PM
To: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Subject: FW: PSAB's ITC: Discount Rates

Ian Provis, OPCD

' 416.327.2722 | 8 ian.provis@ontario.ca

From: Keates, James (TBS)
Sent: Wednesday, February 21, 2018 10:22 AM
To: Provis, Ian (TBS)
Subject: PSAB's ITC: Discount Rates

Hi Ian, attached is the draft briefing note and response letter for your review.

The parts highlighted in yellow are the areas where we need someone more involved in the calculations to provide input.

Thanks

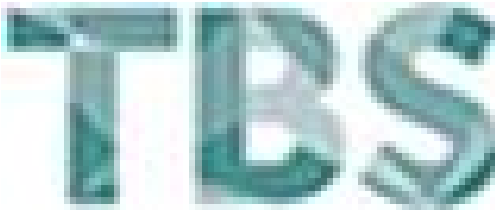
Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 325-8082


TBS

Briefing Note

Office of the Provincial Controller Division
Accounting Policy and Financial Reporting

PSAB's Invitation to Comment "Employment Benefits: Discount Rate Guidance in Section PS 3250"

Issue:

The Public Sector Accounting Board (PSAB) has requested comments on an *Invitation to Comment (ITC) on Employment Benefits: Discount Rate Guidance* due March 9, 2018.

Project Status:

- RETIREMENT BENEFITS, Section PS 3250 was revised and issued in September 2001 (replacing the prior EMPLOYEE PENSION OBLIGATIONS, Section PS 3250 which was based on Accounting Statement No. 5). POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255 was issued in May 2002. The requirements in Section PS 3255 were developed to be consistent with the recommendations in Section PS 3250. No changes have been made to either Section PS 3250 or Section PS 3255 since 2001 and 2002, respectively, other than those of an editorial nature.
- This project is directed at developing a new, comprehensive Handbook Section for the CPA Canada Public Sector Accounting (PSA) Handbook on employment benefits which will replace existing Sections PS 3250 and PS 3255. Due to the complexity of the issues involved, PSAB decided to undertake this project in two phases. Phase I will address specific issues related to the measurement of employment benefits, including the deferral provisions and the discount rate guidance in the standards.
- The scope of this ITC is the discount rate guidance in Section PS 3250. A prior Invitation to Comment on the guidance in the standards on the deferral provisions was issued in November 2016. The next stage of the project (Phase 2) will be a third Invitation to Comment on the accounting for plans with risk-sharing features, the accounting for multi-employer defined benefit plans and sick leave benefits, and other improvements to existing standards.

Background:

- The Province sponsors several pension plans. It is the sole sponsor of the Public Service Pension Plan (PSPP) and joint sponsor of the Ontario Public Service Employees Union (OPSEUPP) Pension Plan and the Ontario Teachers' Pension Plan (OTPP). In addition to the Provincial sponsored plans, pension benefits for employees in the hospital and colleges sectors are provided by the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of

Applied Arts and Technology Pension Plan (CAATPP) respectively, and are included in the Province's financial statements.

- Ontario's pension plans are all substantially funded as at December 31, 2016. The percentage for each of Ontario's pension plans is as follows:

Pension plan	Funded %
PSPP	103%
OPSEUPP	110%
OTPP	93%
HOOPP	122%
CAATPP	113%

- The Province of Ontario complies with the requirements in Section PS 3250. In the 2016-17 Public Accounts for Ontario (note 6), it is indicated the discount rate used to calculate pension benefits is based on the expected rate of return on pension assets. While Section PS 3250 does not provide specific guidance, paragraph .044 does provide two examples.

> *Paragraph PS 3250.044 states: For example, when a government determines its discount rates by reference to its plan asset earnings, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the short-term forecast of rates of return on assets currently held in the fund. When a government determines its discount rates by reference to its cost of borrowing, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the specific rates of interest and the periods committed to by the government on amounts borrowed.*

- There is also guidance on discount rates in other sections of the PSA Handbook as follows:

Section	Guidance on discount rates
PS 3250 Loans Receivable	.23 Present value techniques would be used to quantify the portion of a loan transaction that is, in substance, a grant. The government's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the loan. The grant portion would be the difference between the face value of the loan and its present value.

PS 3260 Liability for Contaminated Sites	.67 The notes to the financial statements would disclose the basis of recognition and measurement of the liability. Disclosures would include the significant assumptions underlying the reported amount. If a present value technique is used to estimate the liability, the estimated total future expenditures for settlement of the liability and the discount rate would be disclosed. When possible, the anticipated timing of future expenditures would also be disclosed. Additional disclosures are encouraged when the disclosures will enhance the financial statement users' understanding of the estimate of the liability.
PS 3270 Solid Waste Landfill Closure and Post-Closure Liability	.16 The estimated total expenditure represents the sum of the discounted future cash flows associated with closure and post-closure care activities. The government's average long-term borrowing rate, determined on a consistent basis, may be appropriate to use as the discount rate.
PS 3310 Loan Guarantees	.16 Present value techniques may be used to measure the provision. The government's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the estimated loss.

- In accordance with the requirements in Section PS 3250, other Provinces and their sponsored plans similarly use the expected return on plan assets as the discount rate with the exception of OTPP which uses the market rate of provincial bonds in their standalone financial statements (see appendix A – this analysis was prepared in November 2016). The range of discount rates used in Ontario varied from 5.65% to 6.25% (with the exception of OTPP which was 3.25%). This range of discount rates in Ontario was consistent with the rates used in other provinces. The use of a consistent basis for determining discount rates supports comparability amongst public sector pension plans and Provincial financial statements.

- A conference call with the other Comptroller Offices was held on January 31, 2018. Generally, other Provinces use the expected return on plan assets for funded plans and the average cost of borrowing for unfunded plans. There was general support for the status quo although the Federal government considered that valuation of the pension obligation should be independent of any pension asset.

- Typically, a government’s cost of borrowing will be lower than its expected return on plan assets. A lower discount rate results in a higher pension benefit obligation and higher unfunded obligation. The ITC in paragraph .022 indicates a 1% change in the discount rate may result in a 12 to 18% change in the value of the accrued benefit obligation and a 15 to 25% change in the current service cost.

- PSAB’s ITC indicates the requirements of other private and public sector standard setters regarding the discount rate. Market yield of high-quality debt instruments (the most commonly used basis for the discount rate) is required to be used by:

- private sector standard setters: IASB, U.K. Accounting Standards Board and U.S. FASB (which also allows the effective settlement rate to be used); and
- public sector standard setters: IPSASB, South Africa Accounting Standards Board and U.S. FASAB (which also allows the average historical rate for marketable treasury securities to be used).

- Expected return on plan investments is an option under Part II of the CPA Canada Handbook-Accounting (along with market yield of high-quality debt instruments or the effective settlement rate) for private sector entities; and under U.S. GASB (along with market yield of high-quality debt instruments) for public sector entities.

Analysis:

- The ITC includes a list of alternative discount rate bases as follows:
  - Expected return on plan assets
  - Expected return of an effective hedge portfolio
  - Market yield of high-quality debt instruments
  - Market yield of risk-free debt instruments
  - Entity's cost of borrowing
  - Effective settlement rate

- Two options not being considered in the below analysis are:
  1. Expected return of an effective hedge portfolio – This alternative is not being considered as it represents the return of a hypothetical fictional portfolio with assets that match the economic risk factors of the benefit obligation. It is not representative of the segregated assets held by the pension plan. Practically, developing such a portfolio would be subjective and challenging. It is not a bases of discounting allowed by other standard setters.
  2. Effective settlement rate – This alternative is not being considered as it not a practical alternative for governments. This is the rate implicit in the total costs involved in releasing the entity/government from its accrued benefit obligation. Releasing governments from their benefit obligations is not a realistic alternative. It would consider costs (for example, profit margins which would need to be paid to the acquiring party) which are not expected to be incurred. Although it is an alternative allowed under US FASB and Part II of the CPA Canada Handbook-Accounting (both private sector standard setters), practically estimating settlement costs would be subjective, challenging and time consuming.

- The two general alternatives being considered in the below analysis for the discount rate are:
  1. The expected return on plan assets; and/or
  2. A debt rate (either the market yield of high-quality debt instruments, market yield of risk-free debt instruments or the entity's cost of borrowing).

- A primary objective of government financial statements is to demonstrate accountability by the government to the public and its legislature. Financial statements are a vehicle by which governments demonstrate whether they did or did not do what they intended and why or why not. Government financial statements should therefore be clear and understandable to the public. Pension plans are long-term in nature. Because of the long-term nature of pension

plans, government's long-term accountability should be demonstrated to the public with respect to pension plans. Standards on retirement benefits in the PSA Handbook should consider the long-term accountability of government to the public.

- For public sector pension plans, the public is interested in knowing whether the assets segregated for pension purposes are sufficient to meet the government's current pension obligations. If not, how much of a pension shortfall exists.

- As presented previously, most of Ontario's pension plans are at least 100% funded. The Province does not need to borrow or raise additional funds to pay for their current pension obligations. The pension assets set aside by government are expected to earn a certain rate of return over future years, as the pension obligations come due.

- Discounting the future pension payments to be made by the expected return on plan assets (projected over the period of the pension plan) represents the plan assets required to be held by the government to fully fund the pension plan. The expected return on plan assets represents the cost of funding the pension obligation and best reflect the current obligation of the Province.

- If a government has set aside sufficient assets to fund its current pension obligations, it is very questionable the benefit of treating the pension obligation as if it needed to be debt financed. Recording the pension obligation assuming the government will need to borrow to fund the obligation will result in reporting an obligation and an unfunded balance not reflective of the current needs of government. It does not accurately reflect the future financial needs of the government; it does not accurately reflect how well the government has been in funding its long-term obligations.

- For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government can obtain for its debt. It reflects the amount the government would need to borrow to finance its current pension obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3250, PS 3270 and PS 3310. A consideration of using the cost of borrowing as the discount rate, as noted in the ITC, is it inappropriately results in an improvement in the financial position of the government from a deterioration in its credit rating (and therefore an increase in the cost of borrowing). This does not seem appropriate and would not be easily understood by financial statement users.

- Therefore the Province supports the status quo regarding guidance in PS 3250 on the discount rate. PSAB should continue to allow public sector entities to use either the expected return on plan assets or the entities cost of borrowing. PSAB should be more explicit in its guidance that the expected return on plan assets is appropriate for funded plans and the cost of borrowing for unfunded plans, with a blended rate for partially funded plans.

- The objective and users of government financial statements are different from those in the private sector. In the private sector, going concern of the entity is more of an issue. Pension plans are often not sufficiently funded. The ability to generate additional revenues to meet future pension obligations is limited relative to the public sector. Users of financial statements in the private sector are significantly investors and creditors. Reporting a conservative obligation calculated based on a lower discount rate is therefore more appropriate in the private sector to demonstrate the potential exposure of the entity. Therefore independent

conservative rates such as the market yield of high-quality debt instruments and market yield of risk-free debt instruments are more appropriate for consistency purposes in the private sector.

- Volatility resulting from the different discount rates is not considered a factor as all alternatives can result in fluctuations on the statement of operation as a result of a change in the discount rate. Under all alternatives, the discount rate will be reviewed on an annual basis.

Other Questions in the ITC

- How is the discount rate calculated – who calculates the discount rate and how
- Challenges in calculating the expected return on plan assets – Consistency with assumptions made with respect to other financial statement components – difficulty in projecting future conditions / events – determining the best estimate in a range – assessing the reasonability of the projection?
- Applicable for non-pension benefit obligations – Are assets set aside to fund these obligations? Do other standard setters have a different discount rate for these obligations? Have we historically discounted these amounts at a different rate than the pension benefits?

Additional matters to communicate to PSAB

PSAB requested in the prior Invitation to Comment whether there were additional issues the Employment Benefits Task Force should address in this project. As Ontario did not respond to the prior Invitation to Comment, the following additional issues for PSAB to consider will be communicated. These issues were raised by the Independent Pension Asset Expert Advisory Panel:

- Inconsistencies between the employment benefit standards and other standards in the PSA Handbook. For example, the deferral mechanisms in Section PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in Section PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when Section PS 3250 is not clear on a particular issue or different interpretations could be made.
- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.
- Significant differences that can exist between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. Significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are

made publicly available sometimes in the same document. PSAB's Employment Benefits Task Force should consider whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

- A review should be performed of the valuation allowance guidance in the standards to ensure the guidance is clear and complete.
- A review should be performed of the guidance on accounting for multi-employer plans in the standards to ensure the guidance is clear and complete.

Prepared by:
Reviewed by:
Approved by:
Date:

Appendix 1: Discount rates used by pension plans and governments in Canada

Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
  - the Ontario Teachers' Pension Plan (OTPP) is the only plan were the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
  - OTPP stand-alone financial statements use the market rate of Provincial bonds.

- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.

2

Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	ON 1	3.25%	Market rate of Provincial Bonds

4

Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	ON 2	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	ON 3	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	ON 4	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	ON 5	5.95%	LT return on plan assets
Alberta					
Teachers' Post-1992 Pension Plan	6.80%	LT return on plan assets	AB 1	7.00%	LT return on plan assets
Universities Academic Pension Plan	6.00%	LT return on plan assets	AB 2	5.95%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)					
Local Authorities Pension Plan	5.60%	LT return on plan assets	AB 3	5.60%	LT return on plan assets
Public Service Pension Plan	6.00%	LT return on plan assets	AB 4	6.00%	LT return on plan assets
Management Employees Pension Plan	6.10%	LT return on plan assets	AB 5	6.10%	LT return on plan assets
Provincial Judges and Master in Chambers Pension Plan	5.40%	LT return on plan assets	AB 6	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.00%	LT return on plan assets	AB 7	6.00%	LT return on plan assets
Special Forces Pension Plan	5.90%	LT return on plan assets	AB 8	5.90%	LT return on plan assets

8

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan					
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.50%	LT return on plan assets	SK 1	6.50%	LT return on plan assets
British Columbia					
Public Service Pension Plan	6.50%	LT return on plan assets	BC 1	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	BC 2	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	BC 3	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	BC 4	6.50%	LT return on plan assets

10

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec					
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	QC 1	6.40%	LT return on plan assets less inflation
Newfoundland					
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	NF 1	5.80%	LT return on plan assets
Nova Scotia					
Nova Scotia Public Service Superannuation Plan (PSSP)	6.70%	LT return on plan assets	NS 1	6.15%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TPP)	6.75%	LT return on plan assets	NS 2	6.25%	LT return on plan assets

12

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba					
Civil Service Superannuation Plan	6.00%	LT return on plan assets	MB 1	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.25%	LT return on plan assets	MB 2	6.00%	LT return on plan assets
New Brunswick					
Provincial Court Act and Provincial Court Judges Pension Act (JUDGE)	6.15%	LT return on plan assets		No individual financial statements	
Pension Plan for Management Employees of New Brunswick School Districts (Sch-Mgt)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (GLTS)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for Full-Time CUPE 2745 Employees fo New Brunswick School Districts (CUPE 2745)	6.05%	LT return on plan assets		No individual financial statements	

14

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
New Brunswick					
NH-Mgt, NH-G&S, NH-N&P (i.e NH Nursing Home)	6.20%	LT return on plan assets		No individual financial statements	
CUPE Employees of New Brunswick Hospital (shared risk)	5.45%	LT return on plan assets		No individual financial statements	
Certain Bargaining Employees of New Brunswick (shared risk)	5.70%	LT return on plan assets		No individual financial statements	
Public Service Shared Risk Pension Plan	6.00%	LT return on plan assets		No individual financial statements	
New Brunswick Teachers' Pension Plan (shared risk)	6.15%	LT return on plan assets		No individual financial statements	

16

1. **Do you agree that PSAB needs to consider whether the discount rate guidance in RETIREMENT BENEFITS, Section PS 3250, is appropriate and sufficient?**

   Yes. Ontario supports PSAB's efforts to review Sections PS 3250 and PS 3255 considering these standards have been in effect for over 15 years and it is important to ensure that Canadian public sector pension plans remain current and reflect additional experience gained since original implementation.

   It is however a challenge to review and comment on elements of Sections PS 3250 and PS 3255 in isolation without consideration as to the overall direction being taken by PSAB. Responding to this Invitation to Comment while PSAB continues to review the reporting model through its Concepts Underlying Financial Performance is also challenging.

   It will therefore be important for PSAB after issuance of Invitation to Comments on specific matters and after the conceptual framework project is complete to allow the public sector community an opportunity to comment on the matters being covered collectively to ensure consistency between recommendations and with the underlying concepts in the Handbook.

2. **What challenges do you have, if any, in applying the discount rate guidance in Section PS 3250?**

   There is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates. Specific to the discount rate guidance in PS 3250, challenges in calculating the expected return on plan assets include:
   - Ensuring consistency between assumptions made in calculating the discount rate with assumptions made with respect to other financial statement components;
   - Difficulty in projecting future conditions / events;
   - Determining the best estimate in a range; and
   - Assessing the reasonability of the projection.

3. **What discount rate bases do you use in estimating accrued benefit obligation? If different discount rate bases are used for fully funded, partially funded and unfunded benefit plans, please identify them separately.**

   All of Ontario's pension plans are substantially funded therefore the expected return on plan assets is used.

4. **If you use the expected return on plan assets as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?**

   a. How is the discount rate calculated – who calculates the discount rate and how
   b. As mentioned, there is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates.
   c. Additional guidance should be provided on:

   - Accounting for funded versus unfunded versus partially funded plans; and
   - Determining the best estimate in a range of possible discount rates.

5. **If you use the entity's cost of borrowing as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?**

   Not applicable. Ontario uses the expected return on plan assets as the discount rate as plans are substantially funded.

6. **Which of the discount rate bases identified in paragraphs .052-.092 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.**

   Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. PSAB should be more explicit in its guidance that the expected return on plan assets is appropriate for funded plans, the cost of borrowing for unfunded plans, with a blended rate for partially funded plans.

   A primary objective of government financial statements is to demonstrate accountability by the government to the public and its legislature. Financial statements are a vehicle by which governments demonstrate whether they did or did not do what they intended and why or why not. Government financial statements should therefore be clear and understandable to the public. Pension plans are long-term in nature. Because of the long-term nature of pension plans, government's long-term accountability should be demonstrated to the public with respect to pension plans. Standards on retirement benefits in

the PSA Handbook should consider the long-term accountability of government to the public.

For public sector pension plans, the public is interested in knowing whether the assets segregated for pension purposes are sufficient to meet the government's current pension obligations. If not, how much of a pension shortfall exists.

Most of Ontario's pension plans are at least 100% funded. The Province does not need to borrow or raise additional funds to pay for their current pension obligations. The pension assets set aside by government are expected to earn a certain rate of return over future years, as the pension obligations come due.

Discounting the future pension payments to be made by the expected return on plan assets (projected over the period of the pension plan) represents the plan assets required to be held by the government to fully fund the pension plan. The expected return on plan assets represents the cost of funding the pension obligation and best reflect the current obligation of the Province.

If a government has set aside sufficient assets to fund its current pension obligations, it is very questionable the benefit of treating the pension obligation as if it needed to be debt financed. Recording the pension obligation assuming the government will need to borrow to fund the obligation will result in reporting an obligation and an unfunded balance not reflective of the current needs of government. It does not accurately reflect the future financial needs of the government; it does not accurately reflect how well the government has been in funding its long-term obligations.

For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government can obtain for its debt. It reflects the amount the government would need to borrow to finance its current pension obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3250, PS 3270 and PS 3310.

The objective and users of government financial statements are different from those in the private sector. In the private sector, going concern of the entity is more of an issue. Pension plans are often not sufficiently funded. The ability to generate additional revenues to meet future pension obligations is limited relative to the public sector. Users of financial statements in the private sector are significantly investors and creditors. Reporting a conservative obligation calculated based on a lower discount rate is therefore more appropriate in the private sector to demonstrate the potential exposure of the entity. Therefore independent conservative rates such as the market yield of high-quality debt

instruments and market yield of risk-free debt instruments are more appropriate for consistency purposes in the private sector.

7. **Which of the discount rate views identified in paragraphs .093-.106 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.**

   As pension plans are long term in nature and to be funded through assets set aside to generate returns, projected rates of return on plan assets are most appropriate for funded plans. The current borrowing rate is most appropriate for unfunded plans, the current rate being the best estimate of future borrowing costs.

8. **Are there any discount rate bases that may be used to estimate accrued benefit obligation that have not been identified in paragraphs .052-.092?**

   None noted.

9. **If you support a discount rate basis that includes adjustments for risks, which risks should be included in determining the discount rate (paragraphs .040-.046 and .080-.082)?**

   Not applicable. Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans.

10. **Are there any practical issues related to determining discount rates for which further guidance may need to be considered that have not been identified in the Invitation to Comment (specifically in paragraphs .065, .070, .076, .101, .105 and .107-.110)?**

    See the response to question 4c.

11. **Do you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans? If yes, should it be based on: (a) the entity's funding policy as described in paragraph .116; or (b) the benefit plan's funding level as described in paragraph .121?**

    Yes. Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. The

discount rate should be based on the funding level of the plan which best demonstrates the funding source of the pension obligation.

12. **If you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans, which of the discount rate basis/view (paragraphs .050-.106) is most appropriate for estimating the fulfillment value of the accrued benefit obligation of: (a) a fully funded benefit plan; (b) a partially funded benefit plan; and (c) an unfunded benefit plan?**

    Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. Additionally see the response to question 7.

13. **Are there any reasons that a discount rate approach taken for estimating accrued pension benefit obligation would not be appropriate for estimating accrued non-pension benefit obligation?**

    Applicable for non-pension benefit obligations – Are assets set aside to fund these obligations? Are there differences that warrant a different accounting? Do other standard setters have a different discount rate for these obligations? Have we historically discounted these amounts at a different rate than the pension benefits?

14. **As shown in Chart 2, market yields of high-quality debt instruments at the reporting date is a discount rate used in most other equivalent standards reviewed by PSAB. Are there any reasons that can justify that the public sector in Canada is different from the others?**

    Yes. See response to question 6.

15. **ADDED QUESTION (Include response in opening comment section on the online response form): Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?**

    Ontario would additionally like to highlight the follow areas which should be addressed by PSAB's Employment Benefits Task Force:

- Inconsistencies between the employment benefit standards and other standards in the PSA Handbook. For example, the deferral mechanisms in Section PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in Section PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when Section PS 3250 is not clear on a particular issue or different interpretations could be made.
- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.
- Significant differences that can exist between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. Significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. PSAB's Employment Benefits Task Force should consider whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.
- A review should be performed of the valuation allowance guidance in the standards to ensure the guidance is clear and complete.
- A review should be performed of the guidance on accounting for multi-employer plans in the standards to ensure the guidance is clear and complete.

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Pension Asset -- Communications
Date: Thursday, October 20, 2016 09:51:08
Attachment 1: Top Media Qs - 06OCT2016 305pm.docx

From: Morris, David (TBS)
Sent: October 13, 2016 3:46 PM
To: Leaning, Murray (MET); DiMuzio, Sofie (TBS); Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS); Luk, Derek (EDU); Gaudreau, Murray (MET)
Subject: RE: Pension Asset -- Communications

Hi there,

Questions 26, 30, and 31 in the attached document may be of assistance to you.

David Morris

Executive Communications Coordinator

(416) 326-2582

From: Leaning, Murray (MET)
Sent: October-13-16 3:37 PM
To: DiMuzio, Sofie (TBS); Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS); Morris, David (TBS); Luk, Derek (EDU); Gaudreau, Murray (MET)
Subject: RE: Pension Asset -- Communications

Thanks, Sofie.

I’m including Derek and Murray G.

Please send to all.

From: DiMuzio, Sofie (TBS)
Sent: October-13-16 3:18 PM
To: Veinot, Cindy (TBS); Leaning, Murray (MET)
Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS); Morris, David (TBS)
Subject: RE: Pension Asset -- Communications

For sure

Murray we’ll send something over your way shortly

From: Veinot, Cindy (TBS)
Sent: October-13-16 11:57 AM
To: DiMuzio, Sofie (TBS); Leaning, Murray (MET)
Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS)
Subject: Pension Asset -- Communications

Hi Sofie,

Josh Paul and I had a conversation re: Education being called to the Standing Committee on Estimates and that the impact of OTPP pension accounting on estimates may be a topic of discussion.

Could you connect with Murray re: the coms Q&As that have been produced on the topic as some of those may be useful for EDU.

Let me know if you have any questions.

Thanks,

Cindy

Top Media Qs&As

Releasing Public Accounts with a qualified audit opinion

1. **Why did you hold off tabling public accounts?**

   Timeliness of release of the Public Accounts is important to serve transparency and accountability to the public, the Legislature and other users.

   The Province was unable to meet the statutory tabling deadline of September 27th because it did not have the Auditor General's audit opinion.

   We received the Auditor's opinion on October 5, and were able to table Public Accounts on October 6.

2. **What is the difference between the Financial Statements that were released earlier this week, and the Public Accounts?**

   From a content perspective, the results presented in the Annual Report released earlier this week are the same as those in the Public Accounts.

   The only difference between what was released earlier this week and today is that the Auditor's qualified opinion is now included in the Annual Report. The financial results for 2015/16 are exactly the same as presented in Monday's release.

3. **What's the difference between a "qualified" and "unqualified" audit opinion?**

   We are disappointed that the Auditor General has chosen to issue a qualified opinion, but we point out that her qualification does not relate to the 2015-16 financial results which she says are fairly stated.

   Rather, her qualification is in relation to the 2014-15 results which she would have liked to see restated. Since the Province does not agree that the adjustment to 2015/16 is an error correction, the prior year's results have not been restated. Furthermore, the Province's accounting is in compliance with the Regulation.

   .

4. **Did you delay tabling because you didn't like the Auditor's opinion?**

   No. We were waiting to receive the Auditor's opinion, and that is why we were not able to table in time.

5. **Why has the auditor general given a qualified opinion?**

   The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment.
   The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

   In preparing the Public Account, the Province's professional accounting staff and the Auditor General's Office debated the appropriate application of the Public Sector Accounting Board's standards (PSAB) in relation to pension accounting.

   After careful consideration, the government adopted the Auditor General's fiscal interpretation for the treatment of jointly-held pension assets. In order to comply with the interpretation, a regulatory amendment was required to change its accounting policies for the 2015-16 Public Accounts. The impact of the change resulted added $10.7 billion to the net debt and accumulated deficit.

   The Auditor General's qualified opinion is based on the government's decision to report the liability in 2015-16 without restating previous years. The Province's accounting treatment for 2015/16 and 2014/15 are consistent with the regulation filed on September 30th .

   It would be inappropriate to restate the previous year's as the Province does not agree with the Auditor's position that the prior year's reported results reflected an error.

   The government is forming an expert panel to deliver advice and recommendations on the best practices for the accounting treatment of pension assets.

6. **Why is every page in Volumes 1 and 3 marked "unaudited"?**

   The Auditor General does not audit these volumes. Starting this year, she has asked that a footer on each page indicate it is 'unaudited'. We have complied with her request as it is factually accurate and supports transparency and accountability.

Financial Implications of Public Accounts results

7. **If the government had not accepted the Auditor General's approach, what would the differences have been in the deficit or net debt?**

   According to the Province's interpretation of Public Sector Accounting Board, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

8. **This looks like a $1.5 billion shortfall. How is the government going to make up the difference?**

   When the Budget was tabled in 2015, we projected that the 2015-16 year would result in a deficit of 8.5 billion. In the 2016 Budget, we said the interim projection for a deficit would be 5.5 billion. The Public Accounts show that we achieved a deficit of 5 billion. We beat the budget targets using the auditor general's numbers by $3.5 billion.

9. **The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion. How did this happen and what are you doing to address it?**

   This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

   After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its annual deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

10. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

11. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

12. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

13. What does this mean for the Fall Economic Statement?

Looking forward, as we prepare the 2016 Fall Economic Statement, the Auditor's revised interpretation of the accounting standard and the subsequent ongoing review of this will need to be taken into consideration, along with other emerging economic and fiscal information.

This is particularly important as we continue to track toward our commitment to balance the budget in 2017-18.

Difference of interpretation between the Province and AG

14. It sounds like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. Let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. In this case, for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

15. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU,

who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

16. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario’s jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

17. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General’s responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion

on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

18. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

19. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet

approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

20. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards, which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the consolidated financial statements.

21. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

22. The Auditor General has implied your Provincial Controller is in a position of conflict because she used to work for Deloitte. How do you respond?

All employees that are hired into the Ontario Public Service swear two oaths, an Oath of Allegiance and an Oath of Office. These oaths affirm that public servants will faithfully discharge their duties, and comply with all laws and confidentiality obligations.

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Ontario has a strong track record of producing high-quality financial reports on a timely basis, and meeting its statutory tabling requirements. Ontario has had clean audit opinions for the past 22 years.

That said, differences of opinion between preparers and auditors do occasionally occur, and have occurred in other jurisdictions in Canada.

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To clarify, the 2015-16 results are based on legislation and PSAB. Although they reflect the same fiscal results, which would be presented according to the Auditor General's proposed interpretation of the standards, the results as presented do not represent our professional

staff's interpretation of PSAB standards for jointly sponsored pension plans.

By adopting the Auditor General's interpretation, the financial statements could be finalized and signed off in order to complete the financial reporting process and enable Public Accounts to be completed. Unfortunately, the Auditor General's audit opinion remains outstanding at this time so the Public Accounts have yet to be finalized**.**

25. Was there something wrong with the accounting rules that the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It has also been accepted by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

26. Does the change in accounting regarding the assets of the Teachers' or OPSEU pensions plans mean those plans might be financially threatened?

Absolutely not. This issue relates solely to the Province's reported financial results and the Province's historical practices of reporting pension assets.

The two pension plans in the Ontario Public Service – which are of the defined benefit type – are healthy and well-funded.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers' Pension Plan has a funding surplus of $13.2 billion.

27. How different are the Auditor General's numbers from the Government's?

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28. The Auditor General claims you have been using creative accounting to overstate your numbers – how do you respond to that?

That is simply not true. The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General.

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There has been no change to the relevant accounting standards over the past 14 years.

That said, given the particularly complex area of pension accounting, further analysis of the impact of PSAB standards on the Province's books will be undertaken over the coming months.

29. So at the end of the day if your numbers are the same as the Auditor General's what's the issue?

Professional accounting staff and the Auditor General have a difference of interpretation as it relates to the application of public sector accounting standards to pension assets resulting from jointly-sponsored pension plans.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the fiscal outcome proposed by the Auditor General.

The Auditor General has declined to issue an opinion on the financial statements. In the absence of the Auditor's opinion, the Province is not able to table the Public Accounts as required by law.

30. What is a jointly-sponsored pension plan?

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

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Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve concerns, the Province and the Auditor General continue to have differences of opinion.

31. How does the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards, which would impact the accounting for pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the Auditor General believes that the pension asset should be removed from the Province's balance sheet.

The government passed a regulation to allow us to amend our accounting policies in order to be consistent with the Auditor's assessment of our numbers. We believe that this reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension assets in question.

Our officials continue to work with the Auditor General's office to resolve this accounting issue. In the meantime, we felt it was in the public interest to release our unaudited financial statements.

Expert Panel

32. What will the expert panel do?

The Expert Panel's mandate is to deliver advice and recommendations to the government on determine the best practices for government regarding the accounting treatment of pension assets. The Expert Panel's advice and recommendations to the government will consider:

- Under what circumstances the government can pension assets from jointly sponsored and other pension plans,
- How to value pension assets in a way that takes into consideration future decisions made by the plan's sponsor or sponsors, and
- Recommendations the government could take to the Public Sector Accounting Board for consideration in its review of public sector retirement and post-employment benefits standards.

The final report will be submitted to the President of the Treasury Board and provided to the Auditor General of Ontario.

33. When will the Panel's report be ready? Will this report be made public? What happens after that?

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34. Who will be on the Panel? How much are they going to be paid?

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Response about pay is in development.

35. How much is this panel going to cost?

The Province will be responsible only for the costs of the appointed members to attend the meetings and any people supporting the work of panel.

Once the number of members, the frequency and location of meetings are established, we will be able to provide an estimate for the cost of obtaining the panel's recommendations.

34. The panel won’t have the authority to overrule the AG – what’s the point?

Response in development.

35. Has the AG endorsed this panel? Will she be a part of it?

Response in development.

36. Isn’t the Public Sector Accounting Board looking into this issue? Why create a panel?

Response in development.

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Pension Asset -- Communications
Date: Thursday, October 20, 2016 17:03:40
Attachment 1: Top Media Qs - 06OCT2016 305pm.docx

See page 7 regarding NB

They ignore the N decision not to take on assets

From: Paul, Joshua (EDU)
Sent: Thursday, October 20, 2016 9:51 AM
To: Killoch, Alex (MOF)
Subject: FW: Pension Asset -- Communications

Top Media Qs&As

Releasing Public Accounts with a qualified audit opinion

1. **Why did you hold off tabling public accounts?**

   Timeliness of release of the Public Accounts is important to serve transparency and accountability to the public, the Legislature and other users.

   The Province was unable to meet the statutory tabling deadline of September 27th because it did not have the Auditor General's audit opinion.

   We received the Auditor's opinion on October 5, and were able to table Public Accounts on October 6.

2. **What is the difference between the Financial Statements that were released earlier this week, and the Public Accounts?**

   From a content perspective, the results presented in the Annual Report released earlier this week are the same as those in the Public Accounts.

   The only difference between what was released earlier this week and today is that the Auditor's qualified opinion is now included in the Annual Report. The financial results for 2015/16 are exactly the same as presented in Monday's release.

3. **What's the difference between a "qualified" and "unqualified" audit opinion?**

   We are disappointed that the Auditor General has chosen to issue a qualified opinion, but we point out that her qualification does not relate to the 2015-16 financial results which she says are fairly stated.

   Rather, her qualification is in relation to the 2014-15 results which she would have liked to see restated. Since the Province does not agree that the adjustment to 2015/16 is an error correction, the prior year's results have not been restated. Furthermore, the Province's accounting is in compliance with the Regulation.

   .

4. **Did you delay tabling because you didn't like the Auditor's opinion?**

   No. We were waiting to receive the Auditor's opinion, and that is why we were not able to table in time.

5. **Why has the auditor general given a qualified opinion?**

   The Auditor General's responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment.
   The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General.

   In preparing the Public Account, the Province's professional accounting staff and the Auditor General's Office debated the appropriate application of the Public Sector Accounting Board's standards (PSAB) in relation to pension accounting.

   After careful consideration, the government adopted the Auditor General's fiscal interpretation for the treatment of jointly-held pension assets. In order to comply with the interpretation, a regulatory amendment was required to change its accounting policies for the 2015-16 Public Accounts. The impact of the change resulted added $10.7 billion to the net debt and accumulated deficit.

   The Auditor General's qualified opinion is based on the government's decision to report the liability in 2015-16 without restating previous years. The Province's accounting treatment for 2015/16 and 2014/15 are consistent with the regulation filed on September 30th .

   It would be inappropriate to restate the previous year's as the Province does not agree with the Auditor's position that the prior year's reported results reflected an error.

   The government is forming an expert panel to deliver advice and recommendations on the best practices for the accounting treatment of pension assets.

6. **Why is every page in Volumes 1 and 3 marked "unaudited"?**

   The Auditor General does not audit these volumes. Starting this year, she has asked that a footer on each page indicate it is 'unaudited'. We have complied with her request as it is factually accurate and supports transparency and accountability.

Financial Implications of Public Accounts results

7. **If the government had not accepted the Auditor General's approach, what would the differences have been in the deficit or net debt?**

   According to the Province's interpretation of Public Sector Accounting Board, the annual deficit would be $1.5 billion lower (at $3.5 billion), and net debt would be $10.7 billion lower.

8. **This looks like a $1.5 billion shortfall. How is the government going to make up the difference?**

   When the Budget was tabled in 2015, we projected that the 2015-16 year would result in a deficit of 8.5 billion. In the 2016 Budget, we said the interim projection for a deficit would be 5.5 billion. The Public Accounts show that we achieved a deficit of 5 billion. We beat the budget targets using the auditor general's numbers by $3.5 billion.

9. **The financial results show that the net debt and accumulated deficit has ballooned by $10.7 billion. How did this happen and what are you doing to address it?**

   This year, the Auditor General presented the province with a new fiscal interpretation of public sector accounting standards as it relates to the treatment of pension assets.

   After careful consideration, the Province agreed to adopt the Auditor General's fiscal interpretation. The government made a regulatory amendment to allow us to amend our accounting policies for the 2015-16 Public Accounts in order to comply with the Auditor's fiscal interpretation. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit.

Despite this change, and as our results show, the government has once again beaten its annual deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Total debt remains unchanged by the pension adjustment.

The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.

10. How can the accumulated deficit and net debt increase by $10.7 billion without causing an increase in total debt?

Total debt is cash based – it is how much money we've borrowed and is owed to our creditors.

Net debt takes into account the difference between our financial assets and liabilities, whether they are cash or not.

The province has changed the valuation of the net pension liability by reducing the pension assets by $10.7 billion, but because there is no cash involved in that valuation, the total debt does not change.

11. Should taxpayers be concerned about the rise in net debt and accumulated deficit?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

The treatment of pension assets is an accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. PSAB will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will participate in this national discussion.

Ontario will also be engaging the expert accounting community to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

12. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget. Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

13. What does this mean for the Fall Economic Statement?

Looking forward, as we prepare the 2016 Fall Economic Statement, the Auditor's revised interpretation of the accounting standard and the subsequent ongoing review of this will need to be taken into consideration, along with other emerging economic and fiscal information.

This is particularly important as we continue to track toward our commitment to balance the budget in 2017-18.

Difference of interpretation between the Province and AG

14. It sounds like the government is yet again fighting with the Auditor General. What do you say to this?

This is not true from the government's perspective. Let me explain why: The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. In this case, for this set of final accounts, while one specific issue is being sorted through, we actually are agreeing with the Auditor General's numbers.

Given these differences of opinion, the Province filed a time-limited regulation, which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. The government believes this is consistent with the fiscal outcome proposed by the Auditor General.

We believe that this accounting matter would benefit from additional discussions, information and consideration.

The Public Sector Accounting Board has set up a task force to review the current accounting standards for retirement benefits. The Province will ensure that the task force is made aware of this area of difference in interpretation.

In addition, Ontario will also be engaging an expert panel to support a full understanding of the basis and nature of the differences. The Province will consult individuals with a range of backgrounds and experience, including preparers, joint sponsors and auditors of public sector financial reports.

15. If the Public Sector Accounting Board is studying this issue, are other Canadian jurisdictions dealing with this as well?

No other province has similar governance frameworks for their jointly-sponsored pension plans that are in a surplus position.

British Columbia

Pension assets for BC's jointly sponsored pension plans are not reported on British Columbia's consolidated financial statements. The governance framework in BC is different than Ontario's and would appear to justify different accounting treatment under PSAB standards.

Specifically, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to use ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules:

- Does not result in an increased contribution rate for employees or employers
- Does not create or increase an unfunded liability in the Plan, and
- Is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

In contrast, the governance arrangements with respect to the Ontario Teachers' Pension (OTPP) provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may use ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act.* The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses.

The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU,

who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses.

New Brunswick

As we understand it, New Brunswick converted four of its pension plans into what it refers to as target plans.

In the prior year, New Brunswick accounted for these plans as defined contribution plans, meaning it expensed the contributions to the plan and did not reflect its share of the net asset or net liability of the plan in its financial statements. The Auditor General of New Brunswick issued a qualified opinion on those financial statements.

In the 2015-16 fiscal year, New Brunswick changed its accounting for those plans to account for them as defined benefit plans and the Auditor General of New Brunswick issued a clean opinion.

Ontario has always accounted for its share of its jointly sponsored plans as defined benefit plans.

16. What is the professional judgment that exists out there to interpreting jointly-sponsored pensions?

A key consideration in exercising professional judgment is if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction.

This area of pension accounting is particularly complex, and it is important to consider the facts and circumstances when assessing the appropriate accounting treatment.

In this regard, the Province has assessed the appropriate accounting treatments based on the governance frameworks applicable to Ontario’s jointly-sponsored pension plans. It would be inappropriate to assume that the governance frameworks of plans in other jurisdictions would necessarily result in the same accounting treatment.

17. Are you saying the Auditor General is misinterpreting Public Sector Accounting Board standards?

The Auditor General’s responsibility is to conduct an independent audit and provide her audit opinion based on her own professional judgment. A difference of opinion

on the interpretation of accounting standards is not unique to this situation. Other jurisdictions have also experienced differences of opinion between preparers and auditors on complex accounting matters.

Over the coming months we will undertake activities to further assess the application of PSAB standards to Ontario's accounting for jointly-sponsored pension plans. In the meantime, it remains the professional judgment of the professional staff that the accounting treatment in place since 2001 continues to be appropriate.

18. When did the Auditor General tell you about this new accounting treatment?

We only learned that the Auditor General was challenging the accounting treatment of the past 14 years very late in the audit. On September 13th the Auditor General communicated her position that the Province should write off the entire pension asset amount of $10.7 billion from the balance sheet.

19. The Auditor General says she raised this issue with you months ago. Why haven't you fixed this problem by now?

Until June, the Auditor General's audit plan for the 2015-16 Public Accounts only included a planned review of economic assumptions for pension plans. There were no significant issues raised by the Auditor's staff following their work on the assumptions.

The Province responded upon receiving the Auditor General's request for an actuarials valuation by procuring resources to complete the AG's request. The results were shared with the Auditor General's staff and only after several discussions did it become apparent that the Auditor General was challenging the accounting treatment that the Province had been following for the past 14 years.

On September 13th, the Auditor General communicated her position that the entire balance of pension assets ($10.7 billion) should be written off the Province's books. Despite our best efforts, the Province's professional accounting staff have not yet been able to reach a common interpretation of PSAB standards for the Province's jointly sponsored pension plans.

In light of the ongoing disagreement on interpretation of accounting standards, and the need to release the Province's financial results on a timely basis, Cabinet

approved a regulation to allow for the results of the Province to be reported on a basis which reflects the fiscal outcome proposed by the Auditor General with respect to the treatment of the pension asset in question.

20. On what exactly do you disagree with the Auditor?

Both the Auditor General and the Province agree that the Province's results should reflect PSAB's standard on pension accounting. It is just a difference in interpretation of those standards, which is at the heart of the issue.

The nature of the difference in interpretation is disclosed in Note 18 of the consolidated financial statements.

21. Why hasn't the Auditor General raised this with you in the past two years?

I cannot speak for the Auditor General. Please refer your questions to the Auditor General's Office.

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That said, the Province believes that this complex accounting area would benefit from additional discussion and analysis. Over the coming months, efforts will be made to engage experts to assist with further analysis of the application of PSAB to accounting for jointly-sponsored pension plans on the Province's books.

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Response in development.

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Response in development.

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Response in development.

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Thursday, November 17, 2016 11:01:10

From: Kaufman, Paul (TBS)
Sent: Thursday, November 17, 2016 9:46 AM
To: Veinot, Cindy (TBS); Duffy, Paul (EDU); Hughes, Karen (TBS); Hatzis, Len (TBS); Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Paul, Joshua (EDU)
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)

Cindy, on the legal side we don't see him as having an actual conflict at this point, based on the conversations yesterday.

Depending on the information that the panel is given there is some risk that an actual or perceived conflict could arise in the future, but as long as everyone is comfortable knowing that a potential conflict may need to be managed in the future I don't think it's necessary to remove him at this point.

Paul

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Veinot, Cindy (TBS)
Sent: November-17-16 9:36 AM
To: Duffy, Paul (EDU); Hughes, Karen (TBS); Hatzis, Len (TBS); Kaufman, Paul (TBS); Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Paul, Joshua (EDU)
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)

Paul – thanks for connecting with your MO so quickly.

Can others respond if they have concerns with Murray continuing to be on the panel ASAP. I'd like to close the loop with Murray this morning if possible, given he is currently holding tomorrow for us.

Thanks,

Cindy

From: Duffy, Paul (EDU)
Sent: November-17-16 9:29 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS); Kaufman, Paul (TBS)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Paul, Joshua (EDU)
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)

I've touched base with our MO and they do not have any concerns with Murray Gold's participation on the panel.

Paul

From: Hughes, Karen (TBS)
Sent: November 16, 2016 8:48 PM
To: Veinot, Cindy (TBS); Hatzis, Len (TBS); Duffy, Paul (EDU); Kaufman, Paul (TBS)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)

Thanks - might be worth finding a moment to talk on this tomorrow.

Karen

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, November 16, 2016 6:45 PM

To: Hughes, Karen (TBS); Hatzis, Len (TBS); Duffy, Paul (EDU); Kaufman, Paul (TBS)

Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)

Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

We (Paul Duffy, Paul Kaufman and I) had a discussion with Ross Peebles this afternoon to ascertain his views re: whether Murray Gold is conflicted from being on the Panel. A brief summary of his comments are as follows:

n He does not believe Murray is in a conflict by being appointed to the Panel, but does acknowledge some may perceive this as a conflict

n He has had a discussion with Ronda Kimberley-Young at OTF re: Murray being appointed to the Panel and noted she did not perceive this to be a conflict

n He holds Murray in very high regard re: his ethical standards in evaluating whether he would be in a conflict

n He believes Murray would be a huge resource to the Panel in connection with his knowledge of the governance structures of jointly sponsored pension plans

n He believes that in connection with any future negotiation between the Province and OTF that Murray would at the table as he sees OTF as very reliant on Murray

It was also raised that Minister Sandals, as the previous Minister of Education, would likely be very familiar with Murray's role with OTF and so may have already considered his role in signing the appointments.

As a final step before concluding, we thought it prudent for Paul Duffy to have a conversation with his MO in Education given Education will be at the table negotiating with OTF in the future. My current leaning is if that if Education does not view this as a conflict then we should be fine with Murray on the Panel.

Paul and Paul – please add any additional considerations from our conversation earlier today.

Thanks,

Cindy

From: Veinot, Cindy (TBS)
Sent: November-16-16 3:49 PM

To: Hughes, Karen (TBS)
Cc: Laughton, Patrick (TBS)
Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

fyi

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: November-16-16 2:13 PM
To: Hatzis, Len (TBS)
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Pension Asset Expert Advisory Panel (Expert Panel)

Hi Len,

You asked me on our call this morning for some additional information on my work for the Ontario Teachers Federation (OTF), as disclosed in my conflict of interest form with respect to the Expert Panel.

I have worked on a number of files for the OTF since the Ontario Teachers Pension Plan was formed as a jointly sponsored pension plan in 1990. For the most part, and especially in the last decade or so, the OTF and the Crown have had a similar view, as sponsors of the OTPP, concerning the Plan. OTF and the Crown have been of similar views for example, in regard to the OTPP's Funding Management Policy (FMP), while the OTPP Board has sometimes taken a different view of that agreement. In human rights litigation, another area in which I have worked for the OTF in regard to the OTPP, all of the Crown, the OTF and the OTPP Board have typically been named as co-defendants, and all three parties have historically cooperated and mounted similar or complementary defenses. In the most recent of these cases (2015), we worked with the Crown to amend the Teachers Pension Act with respect to the status of retired teachers who return to active employment. I have also given advice to the OTF about OTPP Plan terms and about other compliance issues. Future engagements by the OTF are unpredictable. They may of course include FMP issues, as they have in the past, which may, in turn, be affected by or affect pension accounting issues. Once again, however, there is every possibility that the OTF and the Crown will be aligned in their views of FMP changes, as they have been for the past many years.

The relationship between the OTF and the Crown has been, for a decade or more, quite collegial and cooperative, and we would expect (and want) it to continue in this way.

We discussed my OTF relationship at the time of the retainer to provide advice

concerning the OTPP, the OPTrust and the BC Plans. At that time, we agreed that the engagement presented no conflict of interest.

In regard to the Expert Panel, I expect that its mandate is as a non-partisan expert board. This is not a client retainer, but is rather an expert inquiry into the way or ways forward within technical constraints. In principle, I don't believe that expert panel work engages conflict of interest considerations with OTF or other clients, precisely because it is expert and non-partisan.

I also assume that all non-public materials before the Expert Panel are strictly confidential. I would not disclose them to OTF or to any other client or person.

I hope this helps, but if you have additional questions, please don't hesitate to ask.

Regards,

Murray

 Original Message
From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:50 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject:

Murray,

We've been working with our clients to prepare for the Pension Asset Panel's upcoming work and wanted to follow up with you on a disclosure that you made in the conflict of interest section of your application form. We were hoping to talk to you about the work with the OTF that you referred to in section 2 of your COI disclosure and how that might intersect with information that you could have access to as part of the panel. Would you have time to discuss this with myself and Cindy Veinot tomorrow?

Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Pension Asset note - risks
Date: Wednesday, September 14, 2016 09:15:54
Attachment 1: Treatment of Pension Asset v.06 14-09-2016.docx

---

From: Sekaly, Gabriel (EDU)
Sent: Wednesday, September 14, 2016 9:15 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Pension Asset note - risks
Importance: High

Please find attached the note we discussed yesterday on stakeholder and reputational risks

At some point, once we land the plan of action, we need to discuss how to engage the OTPP to provide them a head's up

gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

Ministry of Education
BACKGROUND NOTE

Treatment of Ontario Teachers' Pension Plan (OTTP) Asset

Confidential Advice to Cabinet

ISSUE: Outline the stakeholder and potential reputational risks associated with a public disagreement between the Province and the Auditor General relating to the value of the OTPP Pension Asset.

Broadly speaking, a public disagreement over the value of the pension asset creates two minimal risks for the OTPP and the plan partners, the Ministry of Education and the Ontario Teachers' Federation (OTF) – stakeholder risk and reputational risk.

1) Stakeholder risk

- The OTF has not traditionally concerned itself with the results of the annual accounting valuation of the OTPP, as a separate funding valuation is used to determine whether the Plan has sufficient assets to meet its obligation to pay pensions to members.
- A public disagreement over the accounting valuation will highlight that the assumptions underpinning the accounting valuation (used solely for reporting in the Province's financial statements) include a much higher discount rate than what is set by the OTPP Board for the funding valuation.
- By highlighting this difference, there is risk that the government will be subject to increased pressure from stakeholders (possibly including the OTF itself) to change the discount rate used for the funding valuation to allow for costly benefit improvements. Although difficult to quantify, note that a change of 10 basis points in the discount rate can have an impact of greater than $3 billion.
    i. The discount rate used by the OTPP in determining the funding valuation is determined each year by the OTPP board. The plan partners, the Ministry of Education and the OTF are not involved in the determination of the discount rate. The determination of the discount rate has been reviewed by both international and national experts three times in the past 10 years – each review concluded that the discount rate selected by the OTPP board was appropriate.

2) Reputational Risk

- The OTPP has an excellent reputation both nationally and internationally. At times, the OTPP leverages this reputation in discussions with ratings agencies and potential investment partners. A public dispute over the value of the pension asset could bring into question the ability of OTPP to properly value its assets.
- This could mean that as part of the due diligence process, potential investment partners may be less inclined to enter agreements with the OTPP. Additionally, ratings agencies, who have sought clarity on the OTPP's governance structure in the past, may express concern if the OTPP's ability to properly value its assets is being publicly disputed.

Background on OTPP Assets

OTPP is a globally active investor with holdings in more than 50 countries across diversified sectors and asset classes. Since Ontario Teachers' inception in 1990, more than three-quarters of the plan's income has come from investment returns, with the remainder from member and government contributions. In 2015, the plan earned a 13.0% rate of return and its portfolio generated $19.6 billion of investment income. Net assets increased to a record $171.4 billion, and the plan outperformed its composite benchmark by $4.2 billion. As of 2015, Boston Consulting Group included OTPP in the list of 20 largest pension plans in the world.

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: FW: Pension Asset note - risks
Date: Wednesday, September 14, 2016 09:16:08
Attachment 1: Treatment of Pension Asset v.06 14-09-2016.docx

---

fyi

From: Sekaly, Gabriel (EDU)
Sent: Wednesday, September 14, 2016 9:15 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Pension Asset note - risks
Importance: High

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At some point, once we land the plan of action, we need to discuss how to engage the OTPP to provide them a head's up

gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

Ministry of Education
BACKGROUND NOTE

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From: Veinot, Cindy (TBS) []
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Pension Assets
Date: Wednesday, March 15, 2017 19:08:56
Attachment 1: image002.png

Hi everyone -- We have a meeting with the FAO on Friday re: pension accounting.

Re the questions in the email below:

Alex/Rob – do you have the data that shows the percentage of the OTPP contributions as a percentage of salary on a historical basis – there is a comment below that it has never gone down – not sure I've seen that data.

Nelson/Jim – we have all the data re: past uses of surpluses for OTPP and OPSEU – can you pull together what we need to show the FAO how past surpluses have been used (e.g. may not have reduced future contributions, but has been used to eliminate extra payments, etc.)

Sarah – see the request re: updated pension information – can you check with Patrick re: whether this is something we will share at this point? If so, we'll need slide – expect there may be one in the pension deck that Pauline had prepared that was shared upstairs while I was away.

Thanks all,

Cindy

From: Hughes, Karen (TBS)
Sent: March-13-17 3:03 PM
To: Veinot, Cindy (TBS)
Cc: Laughton, Patrick (TBS)
Subject: Fw: Pension Assets

Further to our conversation.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: David West <dwest@fao-on.org>

Sent: Monday, March 13, 2017 2:25 PM

To: Hughes, Karen (TBS)

Cc: Laughton, Patrick (TBS); Peter Harrison; Schuurman, Tim (MOF)

Subject: Pension Assets

Hello Karen,

Following our telephone call last week and your offer of assistance (I think you offered! J), there are two areas that we are hoping your staff could provide some assistance.

Specifically,

- Are there any precedents (perhaps with OPSEUPP) where the government benefited from a contribution holiday? If so, what agreement existed in these circumstances?

Our understanding is that the government has never taken a contribution holiday with the OTPP and in fact the government's OTPP contribution rates have only ever increased.

- Can the FAO obtain updated values for the impact of the pension adjustment on expense and net debt over the next four years – as was provided on page 141 of the 2016 FES?

We haven't determined (yet) how we will reflect the debate on the appropriate accounting treatment of net pension assets in the budget projections included in the FAO's next Economic and Fiscal Outlook report. However, it seems likely that we will want to present the budget balance both with and without the valuation allowance that was used in the 2016 FES presentation – which would require this updated information. (By the way, we plan to release our next EFO post Budget.)

As always, we greatly appreciate your assistance.

Cheers,

David

----------David West

Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

t.416.579.1465 | dwest@fao-on.org

www.fao-on.org

Financial
Accountability
Office of Ontario

From: Killoch, Alex (MOF) []
To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Pension Expense and Retirement Benefits 2017-18 PRRTv15.xlsx
Date: Monday, October 02, 2017 11:11:53
Attachment 1: Pension Expense and Retirement Benefits 2017-18 PRRTv15.xlsx
Attachment 2: Picture (Device Independent Bitmap)

From: Killoch, Alex (MOF)
Sent: March 3, 2017 9:19 AM
To: Pomykacz, Rob (MOF)
Subject: FW: Pension Expense and Retirement Benefits 2017-18 PRRTv15.xlsx

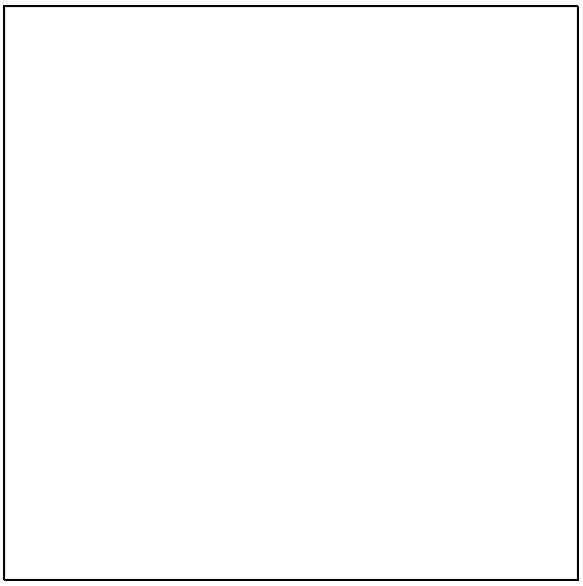
Not sure I know why the numbers went down either.

From: Schuurman, Tim (MOF)
Sent: March 2, 2017 7:08 PM
To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Young, Gwendolynne (MOF); Killoch, Alex (MOF); Esmail, Selena (MOF)
Subject: FW: Pension Expense and Retirement Benefits 2017-18 PRRTv15.xlsx

Just wanted to let you know we got a revised pension expense forecast from TBS late today, and it's about $100M lower in 17-18 than what we were carrying before, and $50-60M lower in the other two years (I'm not sure why this happened).

We'll add these new updated numbers to our list of potential changes not yet factored in as part of our placemat.

Tim Schuurman
Assistant Deputy Minister
Office of the Budget, Ministry of Finance
7 Queen's Park Cres.
Toronto ON M7A 1Z1
Tel: 416-327-0173



From: Ma, Patricia (TBS)
Sent: March-02-17 5:00 PM
To: Hosick, Sarah (TBS)
Cc: Fong, Pauline (TBS); Li, Wendy (TBS); Sun, Alicia (TBS); Petsche, Nadine (TBS); Patel, Bharat (TBS)
Subject: Pension Expense and Retirement Benefits 2017-18 PRRTv15.xlsx

Hi Sarah,

Note the updated V15 of the pension summary.

Thanks,

Patricia

Summary of Pension and Other Retirement Benefit Expense

PRRT 2017-18 - Preliminary Pension Expense Forecast For Discussion Purposes Only

	2014-15 Actual	2015-16 Actual	2016-17 Interim	2017-18 Plan	2018-19 outlook	2019-20[1] outlook	2020-21[1] outlook
Forecast for 2017 Budget *(updated: February 23rd, 2017)*							
Teachers' Pension Plan	**564**	***110***	**-502**	**-531**	**-778**	**-995**	**-995**
Public Service Pension Plan	641	*535*	518	594	543	538	538
Public Service Supplementary Plan (PSSP)	-27	*31*	57	17	17	17	17
OPSEU Pension Plan	219	*177*	131	146	138	156	156
Consolidation Adjustment - Enterprises Pension Expense	-46	*-47*	-30	-30	-30	-30	-30
OPS - Other Retirement Benefits	319	*393*	283	312	323	333	361
Sub-Total OPS Pension & Retirement Benefits Plans	**1,106**	**1,089**	**959**	**1,039**	**991**	**1,014**	**1,042**
Healthcare of Ontario Pension Plan	843	*747*	628	554	1,124	1,197	1,197
Colleges of Applied Arts and Technology Pension Plan	209	*190*	202	232	246	260	260
Total Pension and Other Retirement Benefits	**2,722**	**2,136**	**1,287**	**1,294**	**1,583**	**1,476**	**1,504**

2016 Pension and Other Retirement Benefit Expense Forecast/ORBIT Allocations					
Teachers' Pension Plan	**-452**	**-820**	**-1,110**	**-1,110**	**-1,110**
Public Service Pension Plan	524	447	403	403	403
Public Service Supplementary Plan (PSSP)	23	23	23	23	23
OPSEU Pension Plan	135	98	89	89	89
Consolidation Adjustment - Enterprises Pension Expense	-30	-30	-30	-30	-30
OPS - Other Retirement Benefits	350	358	370	382	411
Sub-Total OPS Pension & Retirement Benefits Plans	**1,002**	**896**	**855**	**867**	**896**
Healthcare of Ontario Pension Plan	631	548	537	537	537
Colleges of Applied Arts and Technology Pension Plan	187	172	166	166	166
Total Pension and Other Retirement Benefits	**1,368**	**796**	**448**	**460**	**489**

REVISED 2016 Pension and Other Retirement Benefit Expense Forecast (including Valuation Allowance for HOOP and CAATPP)					
Teachers' Pension Plan	**-452**	**-820**	**-1,110**	**-1,110**	**-1,110**
Public Service Pension Plan	524	447	403	403	403
Public Service Supplementary Plan (PSSP)	23	23	23	23	23
OPSEU Pension Plan	135	98	89	89	89
Consolidation Adjustment - Enterprises Pension Expense	-30	-30	-30	-30	-30
OPS - Other Retirement Benefits	350	358	370	382	411
Sub-Total OPS Pension & Retirement Benefits Plans	**1,002**	**896**	**855**	**867**	**896**
Healthcare of Ontario Pension Plan (includes valuation allowance)	631	556	1,120	1,186	1,186
Colleges of Applied Arts and Technology Pension Plan (includes valuation allowance)	209	245	264	286	286
Total Pension and Other Retirement Benefits	**1,390**	**877**	**1,129**	**1,229**	**1,258**

Increase/(Decrease) from 2016 Pension and Other Retirement Benefit Expense Forecast					
Teachers' Pension Plan	**-50**	**289**	**332**	**115**	**115**
Public Service Pension Plan	-6	147	140	135	135
Public Service Supplementary Plan (PSSP)	34	-6	-6	-6	-6
OPSEU Pension Plan	-4	48	49	67	67
Consolidation Adjustment - Enterprises Pension Expense	0	0	0	0	0
OPS - Other Retirement Benefits	-67	-46	-47	-49	-50
Sub-Total OPS Pension & Retirement Benefits Plans	**-43**	**143**	**136**	**147**	**146**
Healthcare of Ontario Pension Plan[2]	**-3**	**6**	**587**	**660**	**660**
Colleges of Applied Arts and Technology Pension Plan	**15**	**60**	**80**	**94**	**94**
Total Net Increase/(Decrease) from 2016 Pension and Other Retirement Benefits Forecast	**-81**	**498**	**1,135**	**1,016**	**1,015**

Change in HOOPP contributions - Increase/(Decrease) to Hospitals' Other Expenses [2]	**2**	**3**	**-4**	**-77**	**-77**

(2) An increase/(decrease) in the hospital sector's other expenses is made to off-set the pre-consolidated impact of the updated forecast to HOOPP contributions. Therefore, the combined fiscal impact of the HOOPP forecast update and change to hospitals' other expenses for 2017-18 PRRT is 2016-17: ($1M); 2017-18: $9M; 2018-19: $583M; 2019-20: $583M; 2020-21 $583M.

Increase/(Decrease) from REVISED 2016 Pension and Other Retirement Benefit Expense Forecast (including Valuation Allowance for HOOPP and CAATPP)					
Teachers' Pension Plan	**-50**	**289**	**332**	**115**	**115**
Public Service Pension Plan	-6	147	140	135	135
Public Service Supplementary Plan (PSSP)	34	-6	-6	-6	-6
OPSEU Pension Plan	-4	48	49	67	67
Consolidation Adjustment - Enterprises Pension Expense	0	0	0	0	0
OPS - Other Retirement Benefits	-67	-46	-47	-49	-50
Sub-Total OPS Pension & Retirement Benefits Plans	**-43**	**143**	**136**	**147**	**146**
Healthcare of Ontario Pension Plan	**-3**	**-2**	**4**	**11**	**11**
Colleges of Applied Arts and Technology Pension Plan	**-7**	**-13**	**-18**	**-26**	**-26**
Total Net Increase/(Decrease) from 2016 Pension and Other Retirement Benefit Expense Forecast (with Valuation allowance already built in Plan for HOOPP & CAATPP)	**-103**	**417**	**454**	**247**	**246**

(1) 2020-21 and beyond is flat-lined from 2019-20 for Pension

Outstanding Items:

- HOOPP & CAATPP - Expert panel decision on valuation allowance

Future considerations (i.e. not for 2017 Budget forecast):

- PSPP, OPSEU - E&Y further review of adjustment for other employers' contribution within/outside the GRE
- HOOPP, CAATPP, OPSEU - E&Y further review of amortization of difference in employer and employee contributions
- PSSP - PSAB valuation (future consideraton, not for 2017 Budget forecast)
- OTPP - E&Y to review model on how to apply the "share the pain" payments on foregone inflation. Amounts are immaterial for 2017 Budget forecast.

- E&Yis currently reviewing MOF Pension Policy Management's Best estimate of Economic Assumptions.

Note: no review of other OEFB and Other Retirement benefits from E&Y at this time.

OPCD Contacts:

Pauline Fong (416) 212-4007 - Teachers' Pension Plan, Other Retirement Benefits, Consolidated Adjustments, and OEFB, Judges Pension Plan

Wendy Li (416) 325-5480 - OPSEU Pension Plan

Patricia Ma (416) 327-1408 - Healthcare of Ontario Pension Plan, Public Service Pension Plan, Public Service Supplementary Plan

Alicia Sun (416) 325-8155 - Colleges of Applied Arts and Technology Pension Plan

---

From: []
To:
CC:
Subject:
Sent:

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: FW: Pension Expense
Date: Wednesday, October 12, 2016 10:39:06

FYI

From: Veinot, Cindy (TBS)
Sent: Wednesday, October 12, 2016 10:28 AM
To: Killoch, Alex (MOF); Scott Simpson
Subject: RE: Pension Expense

Thanks Alex

Hi Scott – As Alex mentioned, we are in the process of forming an expert panel to review a specific pension accounting issue. Any chance you have time for a quick conversation either at the end of the day today (say 5 pm) or first thing tomorrow?

Thanks,

Cindy

From: Killoch, Alex (MOF)
Sent: October-12-16 10:16 AM
To: Scott Simpson
Cc: Veinot, Cindy (TBS)
Subject: Pension Expense

Hi Scott,

By way of this email I would like to introduce you to Cindy Veinot, who is the Provincial Controller responsible for Ontario's public accounts.

As I mentioned, Cindy is assembling an expert panel to work on issues raised by the Provincial Auditor regarding the treatment of jointly sponsored pension plans for purposes of consolidation. Issues were raised by the Provincial Auditor as part of the 2015/16 Public Accounts, specifically with respect to the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.

The work will be conducted by external experts and is expected to be conducted this fall. We are expecting that they will require some actuarial assistance. Given your extensive knowledge of the OTTP, I thought you would be well placed to help.

I will leave it to Cindy to contact you regarding the next steps in the review.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Pension Update
Date: Thursday, March 02, 2017 15:28:42
Attachment 1: Pension Expense and Retirement Benefits 2017-18 PRRTv14.xlsx
Attachment 2: Pension Assets Market-Related Value_V6.pptx

FYI

From: Hosick, Sarah (TBS)
Sent: March 2, 2017 1:45 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Law, Rex (TBS); Birks, Ryan (MOF)
Cc: Petsche, Nadine (TBS); Patel, Bharat (TBS); Fong, Pauline (TBS); Sun, Alicia (TBS)
Subject: Pension Update

Hi all,

Please see attached for a revised pension expense worksheet and related deck on the MRVA adjustment. Please share this revised forecast with the relevant folks on your teams.

Let us know if there are any questions.

Thanks

Sarah

Summary of Pension and Other Retirement Benefit Expense

PRRT 2017-18 - Preliminary Pension Expense Forecast For Discussion Purposes Only

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20[1]	2020-21[1]
	Actual	Actual	Interim	Plan	outlook	outlook	outlook
Forecast for 2017 Budget *(updated: February 23rd, 2017)*							
Teachers' Pension Plan	**564**	***110***	**-502**	**-531**	**-778**	**-995**	**-995**
Public Service Pension Plan	641	*535*	518	594	543	538	538
Public Service Supplementary Plan (PSSP)	-27	*31*	57	17	17	17	17
OPSEU Pension Plan	219	*177*	131	146	138	156	156
Consolidation Adjustment - Enterprises Pension Expense	-46	*-47*	-30	-30	-30	-30	-30
OPS - Other Retirement Benefits	319	*393*	283	312	323	333	361
Sub-Total OPS Pension & Retirement Benefits Plans	**1,106**	**1,089**	**959**	**1,039**	**991**	**1,014**	**1,042**
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Colleges of Applied Arts and Technology Pension Plan	209	*190*	202	232	246	260	260
Total Pension and Other Retirement Benefits	**2,722**	**2,136**	**1,287**	**1,294**	**1,583**	**1,476**	**1,504**

2016 Pension and Other Retirement Benefit Expense Forecast/ORBIT Allocations					
Teachers' Pension Plan	**-452**	**-820**	**-1,110**	**-1,110**	**-1,110**
Public Service Pension Plan	524	447	403	403	403
Public Service Supplementary Plan (PSSP)	23	23	23	23	23
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Consolidation Adjustment - Enterprises Pension Expense	-30	-30	-30	-30	-30
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Sub-Total OPS Pension & Retirement Benefits Plans	**1,002**	**896**	**855**	**867**	**896**
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Total Pension and Other Retirement Benefits	**1,368**	**796**	**448**	**460**	**489**

REVISED 2016 Pension and Other Retirement Benefit Expense Forecast (including Valuation Allowance for HOOP and CAATPP)					
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OPSEU Pension Plan	-4	48	49	67	67
Consolidation Adjustment - Enterprises Pension Expense	0	0	0	0	0
OPS - Other Retirement Benefits	-67	-46	-47	-49	-50
Sub-Total OPS Pension & Retirement Benefits Plans	**-43**	**143**	**136**	**147**	**146**
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Total Net Increase/(Decrease) from 2016 Pension and Other Retirement Benefit Expense Forecast (with Valuation allowance already built in Plan for HOOPP & CAATPP)	**-103**	**417**	**454**	**247**	**246**

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Outstanding Items:

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Note: no review of other OEFB and Other Retirement benefits from E&Y at this time.

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Alicia Sun (416) 325-8155 - Colleges of Applied Arts and Technology Pension Plan

Office of the Provincial Controller Division

Impact of Change in Calculation of Market-Related Value for Pension Plan Assets

February 2017

Purpose

- To provide an overview on the impact of refining the estimates used to calculate the market-related value of pension plan assets (MRVA)

Market-Related Value and Smoothing

- Market-related values are adjusted market values reflecting differences between expected and actual rates of return.
- PSAB allows the differences between market value and market-related value to be deferred and amortized over a period of up to 5 years (smoothing method).
- The experience gains/losses on the smoothed value of pension plan assets will be amortized over the Estimated Average Remaining Service Life (EARSL, between 11 – 13 years across plans)
- Therefore, the timing difference as a result of smoothing will be fully amortized over a 16 – 18 years period.
- Market-related value in the PSAS:
  - *When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently. [PSAB 3250.35]*
  - *For a defined benefit plan, plan assets should be valued at market-related values. [PSAB 3250.37]*

OPCD's Current Approach

- OPCD has been using the following approach to arrive at a the market-related values for each plan

Plan	Current Approach
Ontario Teachers' Pension Plan (OTPP)	Province's economic assumption
Public Service Pension Plan (PSPP)	Plan's economic assumption
OPSEU Pension Plan (OPSEU)	Plan's economic assumption
Healthcare of Ontario Pension Plan (HOOPP)	Plan's economic assumption
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	Plan's economic assumption

- E&Y indicated that the rate of return used for this calculation should be the Province's economic assumptions, i.e. the Province's expected rate of return rather than the Plan providers' assumptions.

Current Approach vs. E&Y Recommended Approach

Plan	Expected Rate of Return (EROR)			Market-Related Value for 2016 ($M)		
	Current Approach	Recom'd Approach	Change increase/ (decrease)	Current Approach	Recom'd Approach	Change increase/ (decrease)
Ontario Teachers' Pension Plan	6.25%	6.25%	-	169,797	169,797	-
Public Service Pension Plan	N/A*	6.00%	N/A*	23,122	23,661	539
OPSEU Pension Plan	5.75%	6.25%	0.50%	18,415	18,505	90
Healthcare of Ontario Pension Plan	6.27%	5.75%	(0.52%)	66,422	66,228	(194)
Colleges of Applied Arts and Technology Pension Plan	5.70%	6.00%	0.3%	8,902	8,908	6

- A smaller difference in expected rate of return (EROR) will yield a smaller relative difference in the impact on the MRVA calculated under both approaches.

*Under the current approach, the OPB provides the total net realized and unrealized gain/loss on the market value of plan assets which is amortized over four years to arrive at the Province's MRVA.

Fiscal Impact if Change is Implemented for 2016-17 Pension Forecast

- No change to OTPP since the current approach aligns with the recommended approach

- Impact to the PSPP/OPSEU 2017 Budget forecast expenses:

Plan	Approach	Interim 2016-17	Plan 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook* 2020-21
PSPP	Current Approach	518	675	593	579	579
	Recom'd Approach	518	594	543	538	538
	Change Deficit/(Surplus)	**(0)**	**(81)**	**(50)**	**(41)**	**(41)**
OPSEU	Current Approach	131	152	142	157	157
	Recom'd Approach	131	146	138	156	156
	Change Deficit/(Surplus)	**0**	**(6)**	**(4)**	**(1)**	**(1)**
TOTAL	**Change Deficit/(Surplus)**	**0**	**(87)**	**(54)**	**(42)**	**(42)**

**Flat-lined from 2019-20.*

Fiscal Impact if Change is Implemented for 2016-17 Pension Forecast (con't)

- No fiscal impact for HOOPP and CAATPP.
- Changes in expenses due to a change in approach for calculating the MRVA is off-set by the change in valuation allowance for HOOPP and CAATPP.

Plan	Approach	Plan Expense	Interim 2016-17	Plan 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook* 2020-21
HOOPP	Current Approach	Expense	628	439	393	352	352
		Change in VA	0	144	731	845	845
		Total Expense	**628**	**553**	**1,124**	**1,197**	**1,197**
	Recom'd Approach	Expense	628	452	402	359	359
		Change in VA	0	102	722	838	838
		Total Expense	**628**	**554**	**1124**	**1,197**	**1,197**
		Change in Total Expense	**0**	**(1)****	**0**	**0**	**0**

**Flat-lined from 2019-20.*

*** Due to rounding.*

Fiscal Impact if Change is Implemented for 2016-17 Pension Forecast (con't)

- Changes to MRVA in CAATPP are small therefore the expense and the change in valuation allowance are approximately the same under both approaches.

Plan	Approach	Plan Expense	Interim 2016-17	Plan 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook* 2020-21
CAATPP	Current Approach	Expense	188	208	203	185	185
		Change in VA	14	25	43	76	76
		Total Expense	**202**	**233**	**246**	**261**	**261**
	Recom'd Approach	Expense	188	208	203	185	185
		Change in VA	14	25	43	76	76
		Total Expense	**202**	**233**	**246**	**261**	**261**
		Change in Total Expense	**0**	**0**	**0**	**0**	**0**

**Flat-lined from 2019-20.*

Implementation Considerations

- Fiscal impact analysis
  - External advisors completed an analysis on the fiscal impact of the recommended method on a prospective basis (beginning in 2016-17)
  - Prospective application is appropriate for such a change in estimate.

- Implementation considerations for a prospective approach
  - The differences between the approach used by OPCD and the advisor's recommended approach reflect a change in estimate. The net timing differences are immaterial and will be fully amortized over time.
  - A prospective approach is appropriate under PSAS for a change in estimate.
  - The differences will e essentially offset by the valuation allowance for HOOPP and CAATPP which will effectively neutralize the fiscal impact.

Recommendation

- Adopt the recommended method prospectively in calculating the 2016-17 pension forecast which is also appropriate for a change in estimate.

  Rationale:

  - The change will ensure consistency in approach in calculating MRVA and pension expense among the pension plans.

- Other considerations
  - A change in expense (reduction in this case) would possibly invite more questions from the Auditor General on the reason for the change in approach

Questions?

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]
Subject: FW: Pension Update
Date: Thursday, March 02, 2017 15:44:07
Attachment 1: Pension Expense and Retirement Benefits 2017-18 PRRTv14.xlsx
Attachment 2: Pension Assets Market-Related Value_V6.pptx

From: Petsche, Nadine (TBS)
Sent: March 2, 2017 2:29 PM
To: Killoch, Alex (MOF)
Subject: FW: Pension Update

FYI

From: Hosick, Sarah (TBS)
Sent: March 2, 2017 1:45 PM
To: Laughton, Patrick (TBS); Arbabzadeh, Nina (TBS); Law, Rex (TBS); Birks, Ryan (MOF)
Cc: Petsche, Nadine (TBS); Patel, Bharat (TBS); Fong, Pauline (TBS); Sun, Alicia (TBS)
Subject: Pension Update

Hi all,

Please see attached for a revised pension expense worksheet and related deck on the MRVA adjustment. Please share this revised forecast with the relevant folks on your teams.

Let us know if there are any questions.

Thanks

Sarah

Summary of Pension and Other Retirement Benefit Expense

PRRT 2017-18 - Preliminary Pension Expense Forecast For Discussion Purposes Only

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20[1]	2020-21[1]
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TOTAL	**Change Deficit/(Surplus)**	**0**	**(87)**	**(54)**	**(42)**	**(42)**

**Flat-lined from 2019-20.*

Fiscal Impact if Change is Implemented for 2016-17 Pension Forecast (con't)

- No fiscal impact for HOOPP and CAATPP.
- Changes in expenses due to a change in approach for calculating the MRVA is off-set by the change in valuation allowance for HOOPP and CAATPP.

Plan	Approach	Plan Expense	Interim 2016-17	Plan 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook* 2020-21
HOOPP	Current Approach	Expense	628	439	393	352	352
		Change in VA	0	144	731	845	845
		Total Expense	**628**	**553**	**1,124**	**1,197**	**1,197**
	Recom'd Approach	Expense	628	452	402	359	359
		Change in VA	0	102	722	838	838
		Total Expense	**628**	**554**	**1124**	**1,197**	**1,197**
		Change in Total Expense	**0**	**(1)****	**0**	**0**	**0**

**Flat-lined from 2019-20.*

*** Due to rounding.*

Fiscal Impact if Change is Implemented for 2016-17 Pension Forecast (con't)

- Changes to MRVA in CAATPP are small therefore the expense and the change in valuation allowance are approximately the same under both approaches.

Plan	Approach	Plan Expense	Interim 2016-17	Plan 2017-18	Outlook 2018-19	Outlook 2019-20	Outlook* 2020-21
CAATPP	Current Approach	Expense	188	208	203	185	185
		Change in VA	14	25	43	76	76
		Total Expense	**202**	**233**	**246**	**261**	**261**
	Recom'd Approach	Expense	188	208	203	185	185
		Change in VA	14	25	43	76	76
		Total Expense	**202**	**233**	**246**	**261**	**261**
		Change in Total Expense	**0**	**0**	**0**	**0**	**0**

**Flat-lined from 2019-20.*

Implementation Considerations

- Fiscal impact analysis
  - External advisors completed an analysis on the fiscal impact of the recommended method on a prospective basis (beginning in 2016-17)
  - Prospective application is appropriate for such a change in estimate.

- Implementation considerations for a prospective approach
  - The differences between the approach used by OPCD and the advisor's recommended approach reflect a change in estimate. The net timing differences are immaterial and will be fully amortized over time.
  - A prospective approach is appropriate under PSAS for a change in estimate.
  - The differences will e essentially offset by the valuation allowance for HOOPP and CAATPP which will effectively neutralize the fiscal impact.

Recommendation

- Adopt the recommended method prospectively in calculating the 2016-17 pension forecast which is also appropriate for a change in estimate.

  Rationale:

  - The change will ensure consistency in approach in calculating MRVA and pension expense among the pension plans.

- Other considerations
  - A change in expense (reduction in this case) would possibly invite more questions from the Auditor General on the reason for the change in approach

Questions?

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: FW: Pension accounting TB-MBC submission.pptx
Date: Tuesday, September 27, 2016 11:51:41
Attachment 1: Pension accounting TB-MBC submission.pptx

Fyi

Seems like the regulation of accounting might be moving to the front in the horserace.

I am struggling with timing for all of this and next steps

From: Provis, Ian (TBS)
Sent: Tuesday, September 27, 2016 11:49 AM
To: Sawosch, Mercedes (TBS); Arbabzadeh, Nina (TBS); Petsche, Nadine (TBS); Kaufman, Paul (TBS); Luk, Sandy (TBS); Bagheri, Denise (TBS); Parker, Bryan (TBS); Stajduhar, Greg (TBS); Dutton, Andrea (TBS); Schlaepfer, Martin (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS); Wichenko, Lenna (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Kaufman, Paul (TBS); Smook, Nick (TBS); Duffy, Stephen (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Patel, Bharat (TBS); Sun, Alicia (TBS); Li, Wendy (TBS)
Subject: Pension accounting TB-MBC submission.pptx

Everyone is still in Minister briefings, AG briefings or other, so I share this deck with everyone for information purposes only to support getting ready for TB/MBC. It is draft and subject to change

Please let me know if you think any other information should be included.

Thanks

Ian

Update to Regulation 395/11 under the FAA and impacts to the financial results for the 2015-16 Public Accounts

Treasury Board Secretariat

Presentation to Treasury Board/ Management Board of Cabinet

September 27, 2016

President of Treasury Board

Deputy Minister of Treasury Board

Context

- Under the Financial Administration Act the government has the power to make regulations with regarding to the accounting policies and practices used to prepare the Consolidated Financial Statements

- The government has used regulatory powers under the FAA in the past to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately the regulation confirmed accounting that was acceptable under Public Sector Accounting Standards.

-

- Our current situation is similar. In applying principled based accounting standards there is a degree of professional judgement required. In the current situation, in accounting for the joint sponsored pension plans included in the Consolidated Financial Statements of the Province, the Province and the Auditor General have a different opinion on the application of the standards.

- The Province's position is that the asset balance (or "plan surplus for accounting purposes") in Teachers Pension Plan (TPP) and the Ontario Public Service Employees Union Pension Plan) (OPSEUPP) are an asset to the province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.

Recommendation

- In order to meet produce the Public Accounts with the accounting that supports the Auditor General's view for the accounting for joint sponsored pension plans, it is recommended to clarify the accounting through a regulation.

- The regulation will define the accounting for the consolidated financial statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the province and the Auditor by legislating the treatment.

- The regulation is applicable for fiscal year 2015-16 and will align with the Auditor's interpretation of PSAB without the Province needing to agree with interpretation but still achieving the auditor's desired treatment.

- The Province will work with external consultants and the office of the Auditor general to determine if an agreement can be reached on the appropriate accounting treatment going forward without regulatory direction.

Proposed Minute

- Recommend the approval of a regulation under the Financial Administration Act (reg. 395/11) to define the accounting treatment of pension surpluses in joint sponsored pension plans (namely TPP and OPSEUPP) to take a valuation allowance equivalent to the plan surplus for the 2015-16 audit.
- Approve/Note the impact on opening accumulated deficit and net debt for 2015-16 will increase by approximately $10,668 M
- Approve/Note the increase in the statutory account “Teachers' Pension Plan” of $1,479,914,043 for the Ministry of Education for an increase in Elementary and Secondary Education Program - Vote 1002
- Approve/Note the increase in the statutory account “Prior Period Obligations and Actuarial Adjustments, the Financial Administration Act” of $33,716,990 for Treasury Board Secretariat for an increase in Employee and Pensioner Benefits (Employer Share) Program - Vote 3403

Appendix 1: Draft Regulation

FINANCIAL ADMINISTRATION ACT

Amending O. Reg. 395/11

(ACCOUNTING POLICIES AND PRACTICES)

Update anticipated

1. Ontario Regulation 395/11 is amended by adding the following section:

Accounting policies and practices for the 2015-2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared in accordance with the following rules:

1. In determining a valuation allowance for a jointly sponsored pension plan with a surplus calculated for accounting purposes, the Province shall assume an expected future benefit of zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

(2) For greater certainty, any change to the comparative financial results required by subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for the fiscal year ending March 31, 2015.

(3) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

From: Killoch, Alex (MOF) []
To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Pension information re: OTPP
Date: Wednesday, October 26, 2016 10:32:17

From: Killoch, Alex (MOF)
Sent: Tuesday, October 25, 2016 7:24 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: Re: Pension information re: OTPP

Hi Cindy

We have some of that work off the shelf, including work that was done as part of the Leech review of the electricity sector (which contains the most generous plans). We will need to ensure that it is still current.

If I recall, the comparisons get a bit tricky sometimes, such as whether 100 % conditional indexation is as good as 75 % guaranteed.

From: Veinot, Cindy (TBS)

Sent: Tuesday, October 25, 2016 7:14 PM

To: Killoch, Alex (MOF)

Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)

Subject: Pension information re: OTPP

Hi Alex,

A few weeks ago we had a hallway conversation re: the benefits provided under the OTPP – they issue being how those benefits compare to other plans, as we were trying to understand whether there would be a push to improve benefits in the future re: reducing contributions.

We need that analysis in connection with the pension work we are doing. Is that something you can take care of? I think a comparison to other plans offered in the OPS/BPS would be an appropriate starting point.

This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Pension information re: OTPP
Date: Tuesday, November 01, 2016 17:41:30

How is our table doing? It needs to go to Leah first

From: Veinot, Cindy (TBS)
Sent: Tuesday, November 01, 2016 5:40 PM
To: Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: RE: Pension information re: OTPP

Hi Alex – any update on this?

Thanks,

From: Killoch, Alex (MOF)
Sent: October-25-16 7:24 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: Re: Pension information re: OTPP

Hi Cindy

We have some of that work off the shelf, including work that was done as part of the Leech review of the electricity sector (which contains the most generous plans). We will need to ensure that it is still current.

If I recall, the comparisons get a bit tricky sometimes, such as whether 100 %

conditional indexation is as good as 75 % guaranteed.

From: Veinot, Cindy (TBS)

Sent: Tuesday, October 25, 2016 7:14 PM

To: Killoch, Alex (MOF)

Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)

Subject: Pension information re: OTPP

Hi Alex,

A few weeks ago we had a hallway conversation re: the benefits provided under the OTPP – they issue being how those benefits compare to other plans, as we were trying to understand whether there would be a push to improve benefits in the future re: reducing contributions.

We need that analysis in connection with the pension work we are doing. Is that something you can take care of? I think a comparison to other plans offered in the OPS/BPS would be an appropriate starting point.

This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Killoch, Alex (MOF) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Di Pasquale, Romina (EDU) [Romina.DiPasquale@ontario.ca]
Subject: FW: Pensions and AGO accounting debate - message for the minister EDU
Date: Wednesday, February 28, 2018 15:28:24
Attachment 1: image001.jpg

Hi Mark

This might be helpful context for the earlier emails regarding the AG

From: Di Pasquale, Romina (EDU)
Sent: February 28, 2018 12:27 PM
To: Killoch, Alex (MOF)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

It's for the Public Accounts Standing Committee. The AG raised this as a concern that they want to talk about. We are perfectly fine ducking out of this conversation, as long as one of the ministers is prepared to answer it when it comes up. Do you want to relay this to TBS?

From: Killoch, Alex (MOF)
Sent: February-28-18 12:21 PM
To: Di Pasquale, Romina (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

One question, what is the event that your minister is attending that they want to say something at? Just wondering what the audience is?

I forgot to ask the purpose of the request. That might also help Mark

From: Di Pasquale, Romina (EDU)
Sent: February 28, 2018 11:24 AM

To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: Pensions and AGO accounting debate - message for the minister EDU
Importance: High

Hi Mark,

Our minister is looking for some for messaging for tomorrow with respect to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple as that".

We don't want to get pulled into the accounting debate as I believe this is TBS' area of expertise, however, we are still being tasked with providing language for the minister. Could you please assist us with this matter.

We have attempted to draft language below. Please let me know if you think different messaging is required and what you prefer the message to be. Thanks for your assistance on this matter.

The Ontario government and the Ontario Teachers' Federation (OTF) jointly sponsor the Ontario Teachers' Pension Plan. This co-sponsorship arrangement was established through a partnership agreement whereby both the government and OTF agreed to jointly design, administer and manage the OTPP.

This partnership agreement is based on the principle of reaching consensus between the sponsors as no individual sponsor can unilaterally make a decision with regards to the pension plan itself or its surplus.

Requesting a letter from the OTF that half of any pension surplus belongs to the Province would undermine the established relationship with the OTF.

The government and the OTF are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations and one of the means to measure long-term sustainability is current pension fund surpluses. Surplus funds exist to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs and its related accounting treatment should be based on decisions made by the sponsors.

The government is not interested in potentially giving away rights associated with, nor stepping away from potential liabilities associated with the current surplus position.

The government remains committed to ongoing dialogue with our partner on how best to use pension plan surpluses in the best interest of its beneficiaries and the taxpayers of Ontario.

Romina.

Romina Di Pasquale, CPA, CA

A/Director, Labour, Finance and Implementation Branch

Ministry of Education

2 Carlton St. Suite 710

Toronto ON M5B 1J3

romina.dipasquale@ontario.ca

(416) 325-2057

From: Davis, Andrew (EDU)
Sent: February-27-18 11:22 AM
To: Di Pasquale, Romina (EDU); Lamarche, Doreen (EDU)

Cc: Ngira-Batware, Douglas (EDU)
Subject: FW: Pensions

Please see Chris' q's below. Basically, we're being pulled into the accounting debate. My thought is something along the lines of:

· Plan changes require agreement of the parties.

· An agreement could be to not use any of the surplus, half of it, or more than half of it. In the absence of an agreement, the plan stays as is.

· We believe the accounting should reflect the decisions regarding the surplus at the current time.

· Requesting a letter from the OTF that half of the surplus is the Province's would be a change in the established relationship which we are not considering at this point.

· We are not interested in unilaterally giving away half of the surplus without a discussion of all the parties.

That said, I am not sure who the audience is. Is it the AG or unions. If the latter, than the last bullet needs to be changed. Comments welcomed.

From: Martin, Chris (EDU)
Sent: February 27, 2018 9:51 AM
To: Davis, Andrew (EDU) <Andrew.Davis@ontario.ca>
Cc: Li, Sharon (EDU) <Sharon.Li@ontario.ca>
Subject: Pensions

Hey Andrew,

So for the AG Committee meeting on Thursday – if we wanted to respond to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple as that"

What would your advice be on responding to this statement?

If we were to say that there is no authority for the province or OTF to bind the OTPP alone. That this requires agreement between the parties, and that such an agreement is in place (the partnership agreement, which speaks to how surpluses can be used depending on the position of the plan).

Also using the elimination of the special payments as a proof point for how savings can be realized based on plan surpluses, guided by the agreement, cab be used to illustrate how the government can, guided by the agreement, realize benefit from plan surpluses?

Chris Martin

Senior Policy Advisor

Office of the Hon. Indira Naidoo-Harris

Minister of Education & Minister Responsible for Early Years and Child Care

P: 416-212-3758 | C: 416-303 4878

https://www.ontario.ca/page/ontario150

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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Preliminary pension and other retirement benefit expenses
Date: Wednesday, February 22, 2017 11:05:02
Attachment 1: Pension Expense and Retirement Benefits 2017-18 PRRTv7.xlsx

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From: Schuurman, Tim (MOF)
Sent: February 22, 2017 9:41 AM
To: Killoch, Alex (MOF)
Subject: Fw: Preliminary pension and other retirement benefit expenses

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Friday, February 17, 2017 4:45 PM

To: Hughes, Karen (TBS); Petsche, Nadine (TBS); Dutton, Andrea (TBS); Cook, Tim (TBS); Schuurman, Tim (MOF); Dodbiba, Teuta (TBS)

Cc: Hosick, Sarah (TBS); Laughton, Patrick (TBS); Fong, Pauline (TBS); Li, Wendy (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS)

Subject: Preliminary pension and other retirement benefit expenses

Attached is a preliminary estimate of the pension expense for 2016-17 and beyond.

There are two tables of numbers – the first is the full expense/income for each plan, the second (shaded in blue) is the change from the numbers being tracked for MMMP that has no valuation allowance for OPSEUPP or OTPP and full valuation allowances for HOOPP and CAATPP. The current working assumption is a full valuation allowance for HOOPP and CAATPP, although the Panel has not completed its work on these plans and so that assumption is subject to change.

Also, in light of the spotlight that pensions are currently under, we engaged an advisor (EY) to review OPCD's work. The box at the bottom of this table includes a list of outstanding items that OPCD is working through with EY. Should there be changes resulting from these items, we'll let you know.

Have a good weekend,

Cindy

Summary of Pension and Other Retirement Benefit Expense

PRRT 2017-18 - Preliminary Pension Expense Forecast For Discussion Purposes Only

	2014-15 Actual	2015-16 Actual	2016-17 Interim	2017-18 Plan	2018-19 outlook	2019-20[(1)] outlook	2020-21[(1)] outlook
Forecast for 2017 Budget *(updated: February 17th, 2017)*							
Teachers' Pension Plan	**564**	***110***	**-502**	**-531**	**-778**	**-995**	**-995**
Public Service Pension Plan	641	*535*	518	675	593	579	579
Public Service Supplementary Plan (PSSP)	-27	*31*	56	26	25	25	25
OPSEU Pension Plan	219	*177*	131	152	142	157	157
Consolidation Adjustment - Enterprises Pension Expense	-46	*-47*	-30	-30	-30	-30	-30
OPS - Other Retirement Benefits	319	*393*	283	312	323	333	361
Sub-Total OPS Pension & Retirement Benefits Plans	**1,106**	**1,089**	**958**	**1,135**	**1,053**	**1,064**	**1,092**
Healthcare of Ontario Pension Plan	843	*747*	628	553	1,124	1,197	1,197
Colleges of Applied Arts and Technology Pension Plan	209	*190*	202	233	246	261	261
Total Pension and Other Retirement Benefits	**2,722**	**2,136**	**1,286**	**1,390**	**1,645**	**1,527**	**1,555**

Increase/(Decrease) from REVISED 2016 Pension and Other Retirement Benefit Expense Forecast (including Valuation Allowance for HOOPP and CAATPP)					
Teachers' Pension Plan	**-50**	**289**	**332**	**115**	**115**
Public Service Pension Plan	-6	228	190	176	176
Public Service Supplementary Plan (PSSP)	33	3	2	2	2
OPSEU Pension Plan	-4	54	53	68	68
Consolidation Adjustment - Enterprises Pension Expense	0	0	0	0	0
OPS - Other Retirement Benefits	-67	-46	-47	-49	-50
Sub-Total OPS Pension & Retirement Benefits Plans	**-44**	**239**	**198**	**197**	**196**
Healthcare of Ontario Pension Plan	**-3**	**-3**	**4**	**11**	**11**
Colleges of Applied Arts and Technology Pension Plan	**-7**	**-12**	**-18**	**-25**	**-25**
Total Net Increase/(Decrease) from 2016 Pension and Other Retirement Benefit Expense Forecast (with Valuation allowance already built in Plan for HOOPP & CAATPP)	**-104**	**513**	**516**	**298**	**297**
Impact of Change in HOOPP contributions - Increase/(Decrease)	**9**	**3**	**-4**	**-77**	**-77**

(1) 2020-21 and beyond is flat-lined from 2019-20 for Pension

Outstanding Items:

- PSPP, HOOPP & CAATPP - Potential impact of changing the method of calculating MRVA
- HOOPP & CAATPP - E&Y review of valuation allowance calculation
- CAATPP - E&Y further review of forecasting model
- PSSP - further review of forecasting model after suggested changes from E&Y
- CMM - further review of forecasting model from E&Y (lower priority as amounts will be small)

- OPSEU - impact of changing the method of calculating MRVA
- OPSEU - E&Y further review of adjustment for other employers' contribution within GRE (future consideraton)
- OPSEU - E&Y further review of amortization of difference in employer and employee contributions (immaterial; future consideration)

Note: no review of other OEFB and Other Retirement benefits from E&Y at this time

OPCD Contacts:
Pauline Fong (416) 212-4007 - Teachers' Pension Plan, Other Retirement Benefits, Consolidated Adjustments, and OEFB, Judges Pension Plan
Wendy Li (416) 325-5480 - OPSEU Pension Plan
Patricia Ma (416) 327-1408 - Healthcare of Ontario Pension Plan, Public Service Pension Plan, Public Service Supplementary Plan
Alicia Sun (416) 325-8155 - Colleges of Applied Arts and Technology Pension Plan

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Public Accounts Related Q's
Date: Wednesday, July 05, 2017 09:06:46

From: Manji, Shemin (MOF)
Sent: July 5, 2017 9:06 AM
To: Killoch, Alex (MOF)
Subject: RE: Public Accounts Related Q's
Importance: High

Hi Alex,

This is in response to your e-mail below.

Re funding risks to the Crown:

I am sure you have good reasons for your view that there are no funding risks to the Crown. However, you do not say on what basis you have concluded that there are no risks. Based on your e-mail, I am not sure I agree with you. I have some questions/concerns. I have raised these concerns with TBS on a number of occasions relating to the participation of non-OPS employers in the PSPP and I have kept you informed of those concerns. These are not new questions/concerns.

Do OTPP and OPSEUPP enter into participation agreements with non-OPS employers before permitting those employers to join the pension plans to ensure that the Crown is protected or any risk to the Crown is mitigated when such employers do not meet their contribution requirements or if they become insolvent or stop participating in the pension plan?

In the case of the OTPP, I am not sure that delisting a private school if it fails to meet its funding obligations is sufficient to eliminate any funding risk to the Crown. Who is responsible for the benefits that have accrued in the pension plan of employees of the private school that are participating or have participated in the OTPP (members, deferred vested members and retired members of the OTPP) prior to the delisting? The delisted employer? The Crown? If it is the delisted employer, on what basis? Depending on whether these pension plans have entered into participation agreements with non-OPS employers, unless the delisted employer continues making payments to the OTPP, wouldn't the Crown be responsible? Alternately, is it contemplated that the assets of plan that relate to the affected members would be transferred out of the plan (this would be the only way to eliminate funding risk to the Crown)? If so where would the assets be transferred? To another pension plan? To locked in retirement arrangements? On what basis?

What happens to the portion of the unfunded liability (assuming the plan has an unfunded liability) relating to the private school at the time the private school is delisted? Do the OTPP and OPSEUPP include a formula for apportioning liability between employers? If not and there is no participation agreement, wouldn't the Province be responsible under the TPA?

Unless these concerns are addressed, I would be reluctant to conclude that there is no risk to the Crown.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Killoch, Alex (MOF)
Sent: Tuesday, July 04, 2017 3:37 PM
To: Kaufman, Paul (TBS)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

Hi Paul,

With respect to the OTPP, if the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan.

Therefore, we do not think there is any risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

Let me know if you have any quesitons

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

Nadine Petsche asked me to contact your team to see if they have any input on the below (very high level) opinion re: funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The below was prepared to support the preparation of Public Accounts and reflects input from EDU re: the OTPP and TBS legal/pension policy re: the OPSEUPP, but Nadine thought your team might have insights into how this works in practice re: the OTPP that might be relevant.

If you have any thoughts or questions, please let us know.

Thanks,

Paul

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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Schools Authority).

· However, the Minister is not required to make employer contributions under the Plan Text in respect of some other employers whose employees may participate in the OTPP, including participating private schools.

· Nothing in the Plan Text (or any other applicable OTPP document or statute) expressly requires the Minister of Education to make contributions in place of private schools and other 'excluded' employers who have failed to make their own required contributions to the OTPP.

· The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MoF has participated in meetings to have schools delisted.

~~· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:~~

~~o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year~~

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· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Public Accounts Related Q's
Date: Friday, June 30, 2017 11:00:46

Hi Alex,

Please see our draft response to Paul below.

Rob

Hi Paul,

With respect to the OTPP, if the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan. Therefore, there is no risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

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To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Public Accounts Related Q's
Date: Monday, June 26, 2017 09:42:45

Did we make suggestions to this already?

We need to add that OTPP “delists” employers that fail to pay their bills

Alex

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
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To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Public Accounts Related Q's
Date: Monday, June 26, 2017 09:41:18

Good morning Rob and Alex.

As background, Cindy had asked that the legal advice provided below be formalized so that it can be shared with the OAG as part of the Public Accounts audit. When it comes to pension-related matters, we want to make sure that our facts are complete. In that regard, it would be helpful if you could suggested necessary edits to ensure that the additional processes referenced last week (for delinquent member-employers) are also included.

Thanks in advance.

Nadine

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Sent: June 26, 2017 9:34 AM
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· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

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Paul Kaufman

Counsel

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From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Public Accounts Related Q's
Date: Tuesday, June 13, 2017 14:42:10

Hi Alex and Rob,

Further email from Pauline. OPCD also consulted the legal conclusion with their consultant E&Y. Essentially, E&Y disagrees with the conclusion. E&Y is of the opinion that accounting is on a going concern basis and should not assume wind up situation.

It is our understanding that in the situation of OTPP, any private school becomes financially unviable, they will be delisted.

Ingrid

From: Petsche, Nadine (TBS)
Sent: June-13-17 8:46 AM
To: Fong, Pauline (TBS); Ma, Patricia (TBS); Sun, Alicia (TBS); Li, Wendy (TBS); Patel, Bharat (TBS)
Cc: Veinot, Cindy (TBS)
Subject: FW: Public Accounts Related Q's

All,

I think that E&Y's approach makes sense. Any other thoughts? n

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: June 12, 2017 6:27 PM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS); Shayan Jafrani; Fong, Pauline (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS)
Subject: RE: Public Accounts Related Q's

Hi Nadine,

We believe our current proposed approach remains appropriate (i.e. reducing the province's portion from 50% to 49%/ 47.7% to reflect non-consolidated participating employers). Generally, we would consider the plans on a going-concern basis for accounting purposes. On such basis, we do not have any reason to assume any of these non-op employers would not make good on their required contributions. Certainly, should any of these employers become insolvent, we would have to revisit and reconsider the percentage adjustments assumed. However, there is no reason to assume these employers would become insolvent on a going concern basis either.

Let us know if you have a different reaction. We can further discuss during our call tomorrow.

Have a great evening.

Regards,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, June 12, 2017 3:16 PM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>; Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>
Subject: RE: Public Accounts Related Q's

Thanks Christina.

Shyrose will help to set up a call. If you can share your preliminary feedback in the meantime, it would be appreciated.

Thanks in advance.

Nadine

From: Christina Chan [mailto:Christina.Chan@ca.ey.com]
Sent: June 12, 2017 3:09 PM
To: Petsche, Nadine (TBS)
Cc: Virani, Shyrose (TBS); Shayan Jafrani
Subject: RE: Public Accounts Related Q's

Hi Nadine,

Shayan is traveling for work to St. John's and his availability is limited for the next couple days. Would a call for tomorrow at 3:30pm work for you? Shayan may be able to dial-in.

Let us know.

Thanks,

Christina

Christina Chan, ASA | People Advisory Services | Manager

Ernst & Young LLP

Office: +1 416 943 3121 | Christina.Chan@ca.ey.com

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, June 12, 2017 11:30 AM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Virani, Shyrose (TBS) <Shyrose.Virani@ontario.ca>
Subject: FW: Public Accounts Related Q's

Hi Christina.

I received an out of office assistant message from Shayan. Please let us know if we shall plan to set up a call with you as we will want to bring closure to the pension analysis as soon as possible.

Thanks.

Nadine

From: Petsche, Nadine (TBS)
Sent: June 12, 2017 11:26 AM
To: Shayan Jafrani
Cc: Fong, Pauline (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS); Virani, Shyrose (TBS); Patel, Bharat (TBS); Uros Karadzic; Christina Chan
Subject: Fw: Public Accounts Related Q's

Shayan,

Below is the advice that we received from our legal services branch regarding liabilities for non-OPS employers. I think we should discuss implications to the analysis.

Nadine

From: Kaufman, Paul (TBS) <Paul.Kaufman@ontario.ca>

Sent: Thursday, June 8, 2017 4:09 PM

To: Petsche, Nadine (TBS)

Cc: Hatzis, Len (TBS); Compagnone, Lisa (TBS)

Subject: RE: Public Accounts Related Q's

Nadine, here is an analysis of the potential funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The discussion of the OTPP reflects input from EDU legal and staff who are familiar with the OTPP.

I have kept this high level given the urgency but can elaborate on specific areas as necessary. I haven't included a discussion of the general obligations of employers and members to contribute to Jointly Sponsored Pension Plans under the *Pension Benefits Act* (PBA), or discussed the implications of the exemption from solvency funding requirements under the PBA that I understand both of these plans enjoy, as I understood the focus of your question to be specific to the relationship between the Crown and other employers.

If you require anything further please let us know.

Paul

OTPP:

· The OTPP is governed by the *Teachers' Pension Act* (TPA), the Plan text for the OTPP (the "Plan Text"), a Partners' Agreement between the Minister of Education and the Ontario Teachers' Federation, and a Funding Management Policy ("FMP") that is an appendix to the Partners' Agreement.

· The OTPP is also subject to the *Pension Benefits Act* ("PBA"), under which the OTPP is a Jointly Sponsored Pension Plan (JSPP)

· Under Section 24(1) of the Plan Text, the Minister of Education is required to pay employer contributions in respect of certain active employees. These types of active employees include teachers at school boards and teachers at provincial schools (run by

the Ministry of Education and where teachers are the employees of the Provincial Schools Authority).

· However, the Minister is not required to make employer contributions under the Plan Text in respect of some other employers whose employees may participate in the OTPP, including participating private schools.

· Nothing in the Plan Text (or any other applicable OTPP document or statute) expressly requires the Minister of Education to make contributions in place of private schools and other 'excluded' employers who have failed to make their own required contributions to the OTPP.

· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:

o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year

o Private schools and other 'excluded employers' not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP

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· A list of participating employers for the OPSEUPP is set out below (this information is derived from the OPSEUPP's most recent audited financial statements, but you may wish to verify it with the TBS Employee Relations Division). A number of the participating employers that are not part of the Province itself are nevertheless provincial agencies (AGCO, LCBO, OLGC, Public Health Ontario, etc.). The majority of the remaining employers are either public hospitals (that the Province funds) or public sector pension plan administrators. Therefore, the practical risk of a non-OPS employer failing to provide required contributions to the OPSEUPP seems quite low.

· However, in the event that such an employer did fail to make its contributions, and

that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Public Accounts Related Q's
Date: Wednesday, July 05, 2017 14:38:11

Hi Alex,

Here's our draft reply to Shemin:

Hi Shemin,

Thanks for your message. We agree with your analysis from a legal prospective that there is a risk for the Crown.

However, from a financial and accounting perspective, the impact, if any, would be immaterial. As well, as a jointly sponsored pension plan, the government would account for only half any such liability. I should also note that if the plan is in a surplus position at the time of de-listing, the plan would retain the surplus or gain attributable to that school. Again, we are talking about an amount that is immaterial.

We should also note that, as an ongoing plan, the province's obligation is to match the contributions from public school teachers. The government has no financial obligation with respect to the private schools.

From: Manji, Shemin (MOF)
Sent: July 5, 2017 9:06 AM
To: Killoch, Alex (MOF)
Subject: RE: Public Accounts Related Q's
Importance: High

Hi Alex,

This is in response to your e-mail below.

Re funding risks to the Crown:

I am sure you have good reasons for your view that there are no funding risks to the Crown. However, you do not say on what basis you have concluded that there are no risks. Based on your e-mail, I am not sure I agree with you. I have some questions/concerns. I have raised these concerns with TBS on a number of occasions relating to the participation of non-OPS employers in the PSPP and I have kept you informed of those concerns. These are not new questions/concerns.

Do OTPP and OPSEUPP enter into participation agreements with non-OPS employers before permitting those employers to join the pension plans to ensure that the Crown is protected or any risk to the Crown is mitigated when such employers do not meet their contribution requirements or if they become insolvent or stop participating in the pension plan?

In the case of the OTPP, I am not sure that delisting a private school if it fails to meet its funding obligations is sufficient to eliminate any funding risk to the Crown. Who is responsible for the benefits that have accrued in the pension plan of employees of the private school that are participating or have participated in the OTPP (members, deferred vested members and retired members of the OTPP) prior to the delisting? The delisted employer? The Crown? If it is the delisted employer, on what basis?

Depending on whether these pension plans have entered into participation agreements with non-OPS employers, unless the delisted employer continues making payments to the OTPP, wouldn't the Crown be responsible? Alternately, is it contemplated that the assets of plan that relate to the affected members would be transferred out of the plan (this would be the only way to eliminate funding risk to the Crown)? If so where would the assets be transferred? To another pension plan? To locked in retirement arrangements? On what basis?

What happens to the portion of the unfunded liability (assuming the plan has an unfunded liability) relating to the private school at the time the private school is delisted? Do the OTPP and OPSEUPP include a formula for apportioning liability between employers? If not and there is no participation agreement, wouldn't the Province be responsible under the TPA?

Unless these concerns are addressed, I would be reluctant to conclude that there is no risk to the Crown.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Killoch, Alex (MOF)
Sent: Tuesday, July 04, 2017 3:37 PM
To: Kaufman, Paul (TBS)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

Hi Paul,

With respect to the OTPP, if the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan.

Therefore, we do not think there is any risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

Let me know if you have any quesitons

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

Nadine Petsche asked me to contact your team to see if they have any input on the below (very high level) opinion re: funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The below was prepared to support the preparation of Public Accounts and reflects input from EDU re: the OTPP and TBS legal/pension policy re: the OPSEUPP, but Nadine thought your team might have insights into how this works in practice re: the OTPP that might be relevant.

If you have any thoughts or questions, please let us know.

Thanks,

Paul

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

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I have kept this high level given the urgency but can elaborate on specific areas as necessary. I haven't included a discussion of the general obligations of employers and members to contribute to Jointly Sponsored Pension Plans under the *Pension Benefits Act* (PBA), or discussed the implications of the exemption from solvency funding requirements under the PBA that I understand both of these plans enjoy, as I understood the focus of your question to be specific to the relationship between the Crown and other employers.

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Paul

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· The OTPP is also subject to the *Pension Benefits Act* ("PBA"), under which the OTPP is a Jointly Sponsored Pension Plan (JSPP)

· Under Section 24(1) of the Plan Text, the Minister of Education is required to pay employer contributions in respect of certain active employees. These types of active employees include teachers at school boards and teachers at provincial schools (run by the Ministry of Education and where teachers are the employees of the Provincial Schools Authority).

· However, the Minister is not required to make employer contributions under the Plan Text in respect of some other employers whose employees may participate in the OTPP, including participating private schools.

· Nothing in the Plan Text (or any other applicable OTPP document or statute) expressly requires the Minister of Education to make contributions in place of private schools and other 'excluded' employers who have failed to make their own required contributions to the OTPP.

· The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MoF has participated in meetings to have schools delisted.

~~· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:~~

~~o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year~~

o ~~Private schools and other 'excluded employers' not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP~~

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· Like the OTPP, the OPSEUPP is also a JSPP under the PBA.

· A list of participating employers for the OPSEUPP is set out below (this information is derived from the OPSEUPP's most recent audited financial statements, but you may wish to verify it with the TBS Employee Relations Division). A number of the participating employers that are not part of the Province itself are nevertheless provincial agencies (AGCO, LCBO, OLGC, Public Health Ontario, etc.). The majority of the remaining employers are either public hospitals (that the Province funds) or public sector pension plan administrators. Therefore, the practical risk of a non-OPS employer

failing to provide required contributions to the OPSEUPP seems quite low.

· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

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Counsel

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From: Pomykacz, Rob (MOF) []
To: allan.shapira@aonhewitt.com [allan.shapira@aonhewitt.com]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Request: Review Valuation Allowance
Date: Wednesday, September 21, 2016 11:26:12
Attachment 1: image001.png
Attachment 2: OTPP (incl RCA) Calculations 2015-16 PAv3 (Basis 3) with Valuation Allowance.xlsx

---

Hi Allan,

Please find attached the model for your review.

Thanks!

Rob

From: Fong, Pauline (TBS)
Sent: September 21, 2016 11:23 AM
To: Pomykacz, Rob (MOF)
Cc: Killoch, Alex (MOF); Patel, Bharat (TBS); Tsang, Ingrid (MOF); Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: RE: Request: Review Valuation Allowance

Hi Rob,

Attached is the file. Thanks.

Pauline

From: Pomykacz, Rob (MOF)

Sent: September-21-16 11:12 AM
To: Fong, Pauline (TBS)
Cc: Killoch, Alex (MOF); Patel, Bharat (TBS); Tsang, Ingrid (MOF); Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: RE: Request: Review Valuation Allowance

Hi Pauline,

We've spoken to Allan and he's willing to review the model. As you know, he's currently out of town, but noted that he would be able to go through the model later this week.

Please forward the file to me and I'll forward it to Allan.

Thanks,

Rob

From: Fong, Pauline (TBS)
Sent: September 21, 2016 10:49 AM
To: Pomykacz, Rob (MOF)
Cc: Killoch, Alex (MOF); Patel, Bharat (TBS); Tsang, Ingrid (MOF); Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: Request: Review Valuation Allowance

Hi Rob,

As discussed, I have modelled how to calculate the valuation allowance in the OTPP calculation sheet back to 2001, with the *assumption* of expected future benefit being zero. We would like AON Hewitt to review our model to see if is consistent to their understanding in how the valuation allowance and adjusted benefit asset is arrived. In particular bringing the unamortized gains/losses from market related values to

unamortized gains/losses on a market value.

Please let me know if AON Hewitt is available to review. Thank you in advance.

Pauline Fong, CPA, CA

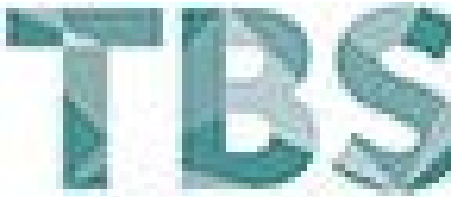
Senior Analyst, External Reporting

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 212-4007

Pauline.fong@ontario.ca


TBS

Ontario Teachers' Pension Plan - PSAB Calculations

Pension Liability

Calendar Year	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013-14 2013	2014-15 2014	2015-16 2015
Market Value of Assets (MVA)																							
Accrued Benefit Obligation (100%)	Data input	36,848	39,007	41,833	46,470	48,635	50,346	55,087	64,369	67,319	71,009	74,089	80,371	83,120	88,356	92,022	96,608	99,117	103,693	105,954	109,524	113,801	116,367
Market Value of Assets (100%)	Data input	34,494	40,137	47,429	54,479	59,170	68,303	73,121	69,456	66,213	75,677	84,326	96,128	106,014	108,546	87,433	96,408	107,590	117,099	129,524	140,764	154,476	171,440
(Asset)/Liability or (Surplus)/Deficit (100%)	*formula*	2,354	(1,130)	(5,596)	(8,009)	(10,535)	(17,957)	(18,034)	(5,087)	1,106	(4,668)	(10,237)	(15,757)	(22,894)	(20,190)	4,589	200	(8,473)	(13,406)	(23,570)	(31,240)	(40,675)	(55,073)
Accrued Benefit Obligation (50%)	*formula*	18,424	19,504	20,917	23,235	24,318	25,173	27,544	32,185	33,660	35,505	37,045	40,186	41,560	44,178	46,011	48,304	49,559	51,847	52,977	54,762	56,901	58,184
Market Value of Assets (50%)	*formula*	17,247	20,069	23,715	27,240	29,585	34,152	36,561	34,728	33,107	37,839	42,163	48,064	53,007	54,273	43,717	48,204	53,795	58,550	64,762	70,382	77,238	85,720
(Asset)/Liability or (Surplus)/Deficit (50%)	*formula*	1,177	(565)	(2,798)	(4,005)	(5,268)	(8,979)	(9,017)	(2,544)	553	(2,334)	(5,119)	(7,879)	(11,447)	(10,095)	2,295	100	(4,237)	(6,703)	(11,785)	(15,620)	(20,338)	(27,537)
Market Related Value of Assets (MRVA)																							
Accrued Benefit Obligation (100%)	Data input	36,848	39,007	41,833	46,470	48,635	50,346	55,087	64,369	67,319	71,009	74,089	80,371	83,120	88,356	92,022	96,608	99,117	103,693	105,954	109,524	113,801	116,367
Market Related Value of Assets (100%)	Data input	34,242	38,092	43,013	48,901	54,382	61,039	68,780	72,429	75,857	79,157	82,791	88,694	94,850	104,917	106,957	109,112	114,246	115,685	119,864	130,867	143,076	156,998
(Asset)/Liability or (Surplus)/Deficit (100%)	*formula*	2,606	915	(1,180)	(2,431)	(5,747)	(10,693)	(13,693)	(8,060)	(8,538)	(8,148)	(8,702)	(8,323)	(11,730)	(16,561)	(14,935)	(12,504)	(15,129)	(11,992)	(13,910)	(21,343)	(29,275)	(40,631)
Accrued Benefit Obligation (50%)	*formula*	18,424	19,504	20,917	23,235	24,318	25,173	27,544	32,185	33,660	35,505	37,045	40,186	41,560	44,178	46,011	48,304	49,559	51,847	52,977	54,762	56,901	58,184
Market Related Value of Assets (50%)	*formula*	17,121	19,046	21,507	24,451	27,191	30,520	34,390	36,215	37,929	39,579	41,396	44,347	47,425	52,459	53,479	54,556	57,123	57,843	59,932	65,434	71,538	78,499
(Asset)/Liability or (Surplus)/Deficit (50%)	*formula*	1,303	458	(590)	(1,216)	(2,874)	(5,347)	(6,847)	(4,030)	(4,269)	(4,074)	(4,351)	(4,162)	(5,865)	(8,281)	(7,468)	(6,252)	(7,565)	(5,996)	(6,955)	(10,672)	(14,638)	(20,316)
Province's 50% Share																							
Unamortized gains/(losses) on **Market Related Value of Assets (MRVA)**	"liability" sheet	747	1,618	2,252	2,676	3,727	5,476	6,066	2,750	2,646	2,112	2,028	1,493	2,888	4,560	2,617	277	772	(1,648)	(1,237)	1,851	4,816	9,001
Add: Difference between MVA vs. MRVA	*formula*	126	1,023	2,208	2,789	2,394	3,632	2,171	(1,487)	(4,822)	(1,740)	768	3,717	5,582	1,815	(9,762)	(6,352)	(3,328)	707	4,830	4,949	5,700	7,221
Unamortized gains/(losses) determined by Market Value of Assets (MVA)	*formula*	**873**	**2,641**	**4,460**	**5,465**	**6,121**	**9,108**	**8,236**	**1,264**	**(2,176)**	**372**	**2,795**	**5,210**	**8,470**	**6,375**	**(7,145)**	**(6,075)**	**(2,556)**	**(941)**	**3,593**	**6,800**	**10,516**	**16,222**
Accrued Benefit Liability (Asset) before any valuation allowance (50% share)	"Liability" Sheet	4,758	4,569	4,018	3,130	2,147	1,322	282	(336)	(791)	(1,233)	(1,691)	(2,126)	(2,562)	(3,016)	(4,027)	(5,005)	(5,799)	(6,623)	(7,124)	(7,711)	(8,667)	(10,147)
Less: Unamortized losses of MVA if any	*above*	-	-	-	-	-	-	-	-	(2,176)	-	-	-	-	-	(7,145)	(6,075)	(2,556)	(941)	-	-	-	-
Adjusted Accrued Benefit Liability (Asset)		4,758	4,569	4,018	3,130	2,147	1,322	282	(336)	1,385	(1,233)	(1,691)	(2,126)	(2,562)	(3,016)	3,118	1,070	(3,243)	(5,682)	(7,124)	(7,711)	(8,667)	(10,147)
Expected Future Benefit	if assumed zero								-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation Allowance		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**336**	**-**	**1,233**	**1,691**	**2,126**	**2,562**	**3,016**	**-**	**-**	**3,243**	**5,682**	**7,124**	**7,711**	**8,667**	**10,147**
Expense as result of Increase (reduction) in valuation Allowance		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**336**	**(336)**	**1,233**	**458**	**435**	**436**	**454**	**(3,016)**	**-**	**3,243**	**2,439**	**1,442**	**587**	**956**	**1,480**
Accrued Benefit Liability (Asset) before any valuation allowance (50% share)		4,758	4,569	4,018	3,130	2,147	1,322	282	(336)	(791)	(1,233)	(1,691)	(2,126)	(2,562)	(3,016)	(4,027)	(5,005)	(5,799)	(6,623)	(7,124)	(7,711)	(8,667)	(10,147)
Less: Valuation Allowance		-	-	-	-	-	-	-	336	-	1,233	1,691	2,126	2,562	3,016	-	-	3,243	5,682	7,124	7,711	8,667	10,147
Accrued Benefit (Asset) Liability after valuation Allowance		**4,758**	**4,569**	**4,018**	**3,130**	**2,147**	**1,322**	**282**	**-**	**(791)**	**-**	**-**	**-**	**-**	**-**	**(4,027)**	**(5,005)**	**(2,556)**	**(941)**	**-**	**-**	**-**	**-**
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

-

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Review: Valuation Allowance
Date: Thursday, September 22, 2016 17:03:34

From: Killoch, Alex (MOF)
Sent: Thursday, September 22, 2016 5:02 PM
To: Petsche, Nadine (TBS)
Subject: RE: Review: Valuation Allowance

I would think that I have to ask the OTPP if they have the analysis.

This would assume that the partners did not spend the surplus as it arose. Now that I have thought more about it, the partners are unlikely to leave enough surplus in the plan to get to the cap. They will want to spend it as it arrives. As you can see in the temporary funding zone deck, we are very unlikely to get to the permanent improvement zone due to the creation of the temporary zone.

Do you want me to pursue the question with OTPP?

From: Petsche, Nadine (TBS)
Sent: Thursday, September 22, 2016 4:49 PM
To: Killoch, Alex (MOF)
Subject: Fw: Review: Valuation Allowance

On meetings for the rest of the day. Are you able to belp? N

From: lucy.durocher@ca.pwc.com

Sent: Thursday, September 22, 2016 4:30 PM

To: Veinot, Cindy (TBS)

Cc: Petsche, Nadine (TBS)

Subject: Re: FW: Review: Valuation Allowance

Thanks for sending that through Cindy. I will take a look at it.

I forgot to ask on the call whether you and Nadine had given any consideration to the impact of scheduling out anticipated (funding) surplus growth assuming that current service cost remains the same in perpetuity and minimum funding requirements are greater than current service cost under the current Schedule 1 contributions. It might take a long time, but eventually there would be a significant build up of surplus such that the cap on contributions in Schedule 1 section 19 (2a) would kick in (i.e. when the income tax act would not cap contributions). As soon as the minimum contributions under the Schedule 1 drops below the current service cost then you can start to recognize a benefit under paragraph 056 (a) calculations. The only question is, depending on the expectations of surplus growth and when the ITA caps kick in, is when does this occur, and how big is the effect. You have until perpetuity to reach the caps, but obviously the further away the cap is reached, then the lower the benefit when discounted back.

I have reached out to find the right contact in the Netherlands. Given the time difference, I am not sure I will know by tomorrow morning, but I will keep you posted on that avenue.

Regards,
Lucy

Lucy Durocher
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Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
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http://www.pwc.com/ca

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>

To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Date: 09/22/2016 03:48 PM
Subject: FW: Review: Valuation Allowance

See line 41 of the first tab -- Cindy

From: Fong, Pauline (TBS)
Sent: September-21-16 4:37 PM
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS)
Subject: FW: Review: Valuation Allowance

Thank you.

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-21-16 4:10 PM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: Review: Valuation Allowance

Pauline

I did look into your file and seems reasonable vs the previous illustrations that we have exchanged, just one adjustment
You will see in liability sheet I have a line 29 adjustment for other unamortized (this is the transitional asset amortization that goes back to the initial application which is to be included in the test of unamortized losses) this likely affects your 2002 / 2003 valuation allowance.

Also to note is the flaw of the PS3250 that I have highlighted in previous communication :

- In 2008 we did have very bad asset returns and this creates a significant income through reduction of valuation allowance
- In opposite, the years 2010 and 2011 had good returns but you have significant expense through increase of valuation allowance

Martin Raymond, FSA, FCIA

Partner – Audit – Actuarial services
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Fax : 514-390-4104
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De : Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Envoyé : 21 septembre 2016 10:36
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Objet : Review: Valuation Allowance

Hi Martin,

I mocked up the annual valuation allowance based on our discussion yesterday. We went through it with Cindy this morning and she would like you to take a look at the mock-up to confirm that it is consistent to your understanding. In particular bringing the unamortized gain/loss from market related values to market values. Thank you in advance.

Regards,

Pauline Fong, CPA, CA
Senior Analyst, External Reporting
Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat
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Pauline.fong@ontario.ca

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From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: FW: Review: Valuation Allowance
Date: Thursday, September 22, 2016 19:20:25

Cindy,

We've been sending a variety of requests to OTPP. If they are going to be asked about this item, are there other items we might want to enquire about based on today's discussions?

Nadine

From: Killoch, Alex (MOF)
Sent: September 22, 2016 5:02 PM
To: Petsche, Nadine (TBS)
Subject: RE: Review: Valuation Allowance

I would think that I have to ask the OTPP if they have the analysis.

This would assume that the partners did not spend the surplus as it arose. Now that I have thought more about it, the partners are unlikely to leave enough surplus in the plan to get to the cap. They will want to spend it as it arrives. As you can see in the temporary funding zone deck, we are very unlikely to get to the permanent improvement zone due to the creation of the temporary zone.

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To: Killoch, Alex (MOF)
Subject: Fw: Review: Valuation Allowance

On meetings for the rest of the day. Are you able to belp? N

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Cc: Petsche, Nadine (TBS)

Subject: Re: FW: Review: Valuation Allowance

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I forgot to ask on the call whether you and Nadine had given any consideration to the impact of scheduling out anticipated (funding) surplus growth assuming that current service cost remains the same in perpetuity and minimum funding requirements are greater than current service cost under the current Schedule 1 contributions. It might take a long time, but eventually there would be a significant build up of surplus such that the cap on contributions in Schedule 1 section 19 (2a) would kick in (i.e. when the income tax act would not cap contributions). As soon as the minimum contributions under the Schedule 1 drops below the current service cost then you can start to recognize a benefit under paragraph 056 (a) calculations. The only question is, depending on the expectations of surplus growth and when the ITA caps kick in, is when does this occur, and how big is the effect. You have until perpetuity to reach the caps, but obviously the further away the cap is reached, then the lower the benefit when discounted back.

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Regards,
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Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223

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PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

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Date: 09/22/2016 03:48 PM
Subject: FW: Review: Valuation Allowance

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Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS)
Subject: FW: Review: Valuation Allowance

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Sent: September-21-16 4:10 PM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: Review: Valuation Allowance

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Partner – Audit – Actuarial services
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De : Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Envoyé : 21 septembre 2016 10:36
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Objet : Review: Valuation Allowance

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Pauline Fong, CPA, CA
Senior Analyst, External Reporting
Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat
7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7
Phone: (416) 212-4007

Pauline.fong@ontario.ca

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From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: FW: Share the Pain
Date: Wednesday, September 21, 2016 11:20:12

Fyi

I talked to Nadine

She does not want the AG poking around the OTPP. She prefers that the plan just provide a note. There is concern that they will start asking more questions. She also does not think the $4.3 billion is relevant to the asset on our balance sheet.

Alex

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 11:17 AM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: Re: Share the Pain

Hi Alex. I'm offsite this morning at a conference. I'll give you a call this afternoon. Do you have a preferred time? Thx-m.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 11:13 AM

To: Mary Cover

Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); robert.pomykacz@ontario.ca

Subject: Share the Pain

Hi Mary

We are looking for a note that describes the calculation for the $4.3 billion change in the pv of the share the pain payment owed by the government when inflation is less than 100%.

My understanding is that, basically, OTPP recalculates the contribution based on the level of indexation, so when it moved from 70% to 90%, the PV of the payments alters, and the difference is the $4.3 billion. For now, we are dealing with the January 1, 2016 values, but I expect that we could be asked for the explanation of last year's change.

Feel free to give me a call and I can clarify.

Once again, thanks for the help.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

CONFIDENTIALITY WARNING This e-mail message, including any attachment(s), is confidential. If we sent this communication to you in error, please do not disclose it to anyone else or use the information in it. Please notify the sender of the transmission error and then delete our communication from your system without printing, copying or forwarding it. Thank you for your co-operation. AVERTISSEMENT CONCERNANT LE CARACTERE CONFIDENTIEL DE L'INFORMATION Le present courriel, y compris toute piece qui y est jointe, est confidentiel. Si nous vous avons envoye cette communication par erreur, nous vous prions de ne la divulguer a personne ni a utiliser l'information qu'elle contient. Veuillez informer l'expediteur de l'erreur de transmission et effacer ensuite notre communication de votre systeme sans l'imprimer, ni la copier ni la retransmettre. Nous vous remercions de votre cooperation.

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: FW: Share the Pain
Date: Wednesday, September 21, 2016 19:25:06
Attachment 1: image001.png
Attachment 2: image002.png

Fyi, it is a very long email trail involving the calculation for our payments that we make to the plan

From: Veinot, Cindy (TBS)
Sent: Wednesday, September 21, 2016 7:18 PM
To: Petsche, Nadine (TBS); Paul, Joshua (EDU)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

I can't say that I'm totally following the email below, but will read it again in the morning.

Is there a way to provide the funding valuations – preliminary and final for each of the years that a change in the indexation was made, provided that the difference in those valuations can isolate the impact on the reduction in payments that are due from the Province to the plan?

Cindy

From: Petsche, Nadine (TBS)
Sent: September-21-16 6:58 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

Understood. I defer to Cindy. I don't get the impression that she is going to consider the $4.3 B as an asset anyway given her position on 'unilateral' right to access and

mandatory requirement for agreements to be in place as at year-end. Since it isn't our position that the $4.3B is what we would put forward as the asset value, there may not be much value in trying to push for the detailed calc, especially given the relationship implications.

Cindy will provide her perspective shortly.

Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 6:52 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Just to be clear, i'm not advocating for contacting the OTPP.

If we can deliver what she needs and we feel comfortable giving her without involving the plan, great.

But if you feel this is required, we'd facilitate and make sure people here at our DMO and MO know what is happening when.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 6:45 PM

To: Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU)

Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 4:52 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

So, as discussed, they want the actuarial analysis that is conducted or directed by the OTPP.

Presumably, she will need to go to OTPP to make sense of the actuarial stuff.

We need to let people know up the line here if we're going to support that direction for the AG's efforts.

Let us know,

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 4:43 PM

To: Killoch, Alex (MOF)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: Re: Share the Pain

I get the impression is is the details behind the specific amounts that have been communicated (add to 8.6?)

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:41 PM

To: Petsche, Nadine (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: RE: Share the Pain

You mean all the assumptions that the OTPP external actuary would use to calculate this PV or the underlying model that is used to calculate the value of conditional indexation out indefinitely?

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking for all of the numbers behind the numbers to understand how they

were calculated. N

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:18 PM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)

Subject: Share the Pain

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the $4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use $8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

As requested and further to our conversation this afternoon, the purpose of this email is to outline the change in the present value of the future "share the pain" contributions from the January 1, 2016 preliminary valuation results of $6.6B to the January 1, 2016 filed results of $2.3B – i.e., a reduction of $4.3B.

Conditional Inflation Protection (CIP) is a key funding lever for the Ontario Teachers' Pension Plan (OTPP). When CIP is invoked, benefits earned subsequent to December 31, 2009 are subject to inflation protection levels below 100%. CIP levels are established when a funding valuation report is filed with the regulators. The level remains unchanged until a subsequent valuation is filed at which time the plan sponsors may decide to increase or decrease the percentage. This decision is informed by the funded status of the plan as at the valuation date.

In the January 1, 2016 preliminary valuation, CIP levels were 70% (in accordance with the most recently filed valuation report). The reduction in liabilities due to providing less than 100% inflation protection was $6.6B. The vast majority of this amount was in respect of active plan members. As a reminder, the OTPP utilizes an aggregate valuation funding method where the liabilities include future pension benefits in respect of both service accrued to date and service that is projected to be earned in the future. This valuation method recognizes the potential impact of reducing CIP levels

below 100% on not just service from December 31, 2009 to the valuation date but also on service projected to be earned in the future for current plan members. As an example, the valuation results assume that a member who joined the plan in 2015 will receive 70% inflation protection on the full pension entitlement they will eventually earn over their future career and that this reduction will apply each and every year for the remainder of their lifetime.

For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

The plan sponsors chose to file the January 1, 2016 valuation using some of the preliminary surplus to increase the level of inflation protection from 70% to 90%. As a result, the reduction in liabilities due to providing less than 100% inflation protection decreased to $2.3B as did the present value of future share the pain contributions. Overall, the effect was an increase in liabilities of $4.3B and a corresponding decrease in the present value of future projected share the pain contributions of $4.3B.

It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

Regards, Mary

Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk

mary_cover@otpp.com
Direct 416-730-2976
www.otpp.com

Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada

http://www.otpp.com/

ONTARIO
TEACHERS'
PENSION PLAN

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Slide Deck
Date: Thursday, December 08, 2016 12:51:31
Attachment 1: OTPP Options Note - Asset Policy Considerations v14 12-08-2016.docx

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Revised version…

From: Di Renzo, Stephen (EDU)
Sent: December 8, 2016 11:38 AM
To: Pomykacz, Rob (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached an updated note reflecting Ross' comments. Please share with your group and provide edits/feedback to this document. We are still awaiting Josh's approval.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:23 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Sounds good!

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 10:16 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

I can populate the deck once its complete and approved.

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:07 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Thanks very much, Steve. We'll let you know of any comments.

Once the note has been approved, are you planning on inputting the information into the slide deck template that OPCD forwarded to us? I actually wouldn't want to leave it to them to do.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 9:48 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached draft note. It's based on direction from Josh but not yet approved by him. You will notice a few placeholders within the note that require input.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 6, 2016 2:03 PM
To: Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Hi Paul/Steve,

Just wondering how the note is going. Would you guys have anything to share with us at this point?

Thanks,

Rob

From: Duffy, Paul (EDU)
Sent: December 5, 2016 9:33 AM
To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Rob, we're meeting with Josh today to go over our note (which I think OPCD will put into a deck). We'll let you know how that goes, and how much time we'll need before we meet.

From: Pomykacz, Rob (MOF)
Sent: December 2, 2016 4:58 PM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Subject: Slide Deck

Hi guys,

Alex asked if we could get together early next week to discuss the OPCD deck you're working on. Let me know when might be a good time.

Thanks and have a great weekend!

Rob

Ontario Teachers' Pension Plan (OTPP) Asset – Brainstorming Options

Considerations

- The co-sponsorship of the OTPP, between the Ontario government and the Ontario Teachers' Federation (OTF), was established in legislation. The underlying principle of the statute is that there should be an equal sharing by the sponsors of the obligations and the risks of operating the Plan.
- As set out in Schedule 1 (c. 25(1)) of the Teachers' Pension Act (TPA) the government has a statutory obligation to match contributions to the Plan made by the OTF members. Any changes made to the government's contributions would therefore need to be applied equally to those made by the members.
- In the event of disagreement between the sponsors, the Act makes provision for third part arbitration.
- The Plan's Funding Management Policy (FMP) which forms part of the Partners' Agreement under the Act was designed to establish the circumstances under which the Plan would be deemed to be in surplus and how that surplus might be used.
- the FMP contribution reductions and/or access to the surplus is only negotiated if and when the funded status of the Plan has reached a specific funding zone. (See Appendix A for FMP Framework Description). It is important to note that the Plan's recent surplus position from 2013-2016 was primarily due to steps the sponsors previously took to adjust provisions (i.e. introducing inflation protection and special contributions). Without these measures, the Plan would be in deficit.
- Each of the following options has considerable operational and implementation issues, which include potentially lengthy negotiations with the OTF.

Potential Options

1) <u>Leverage and/or clarify existing FMP side agreement provision to give the government automatic right to 50 percent of the OTPP surplus.</u>

- Currently, the FMP requires surplus to be applied in a specific order, first restoring Conditional Inflation Protection (CIP) for post-2009 and post-2013 service, then eliminating special contributions, followed by the option to provide temporary benefit increases, surplus distribution or contribution rate reductions.
- Sections 4.06 and 5.05 of the FMP (re: side agreements in the Temporary and Permanent Improvement Zones) provide the government with the opportunity to adjust contribution levels when surplus is being distributed if there is a written agreement in place between both parties.
- The government could enter into negotiations with the OTF to amend these existing provisions in the FMP and explicitly reference the government's automatic right to 50 percent of the surplus should the Plan experience positive gains.

Ontario Teachers' Pension Plan (OTPP) Asset – Brainstorming Options

- Until the OTF is approached with potential negotiation options, it is unclear whether they would be opposed to make changes to the FMP. The following assessment outlines the likelihood, impact, and mitigation strategy of each potential risk.

Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	**High Likelihood.** The current change in pension accounting has impacted the government's considerations with regard to potential surplus. Under the current framework, the government would have to consider the short-term health of the fiscal plan in addition to the long-term health of the pension plan. The OTF and the OTPP are solely focused on the long-term health of the pension plan.	Amending the FMP could satisfy the AG's concerns regarding unilateral access to surplus and would align both sponsors' interests as the sole focus would be the long-term health of the pension plan.
Financial implications to government	**Medium Likelihood.** The OTF is unlikely to accommodate any change without requesting something in return (ie. benefit improvement) given the government's need to make the change.	If the government chose to negotiate a quid pro quo with the OTF it could focus negotiations on temporary improvements as opposed to permanent changes that could have a lasting financial impact.
	PLACEHOLDER MOF Unclear how liabilities will be treated (ie. would the government be automatically be liable for 50%). Unclear whether surplus distribution or contribution reductions would have largest/smallest impact on fiscal plan.	PLACEHOLDER MOF
Risk of negotiating pensions as part of labour negotiations	**High likelihood**. Currently pension issues are negotiated between the government and the OTF (with affiliate representation). Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.	Emphasize the benefits of de-linking these processes (ie. partners are different, timing of the valuations and collective agreements are different, etc.).
Timing risk	**High likelihood**. The most recent review of the FMP lasted almost three years (2012-2015). If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.	Expedite or eliminate the process to assemble a committee consisting of representatives from each sponsor and the Plan. Engage the OTF and the Plan to ensure each party is privy to

Ontario Teachers' Pension Plan (OTPP) Asset – Brainstorming Options

Risk	Likelihood and Impact	Mitigation Strategy
		any and all potential changes.

2) Legislative changes

- The government could amend its legislation to guarantee its right to the pension asset through the following options:

  NOTE: these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

  a) An amendment to the TPA to clearly articulate the government's right to access 50 percent of the surplus.

  b) Ending the jointly sponsored arrangement, making the government solely responsible for the Plan, as existed prior to 1990.

  - This option would require the government to fundamentally change the basis on which the OTPP and the FMP has been built, namely an equal partnership with the teachers.

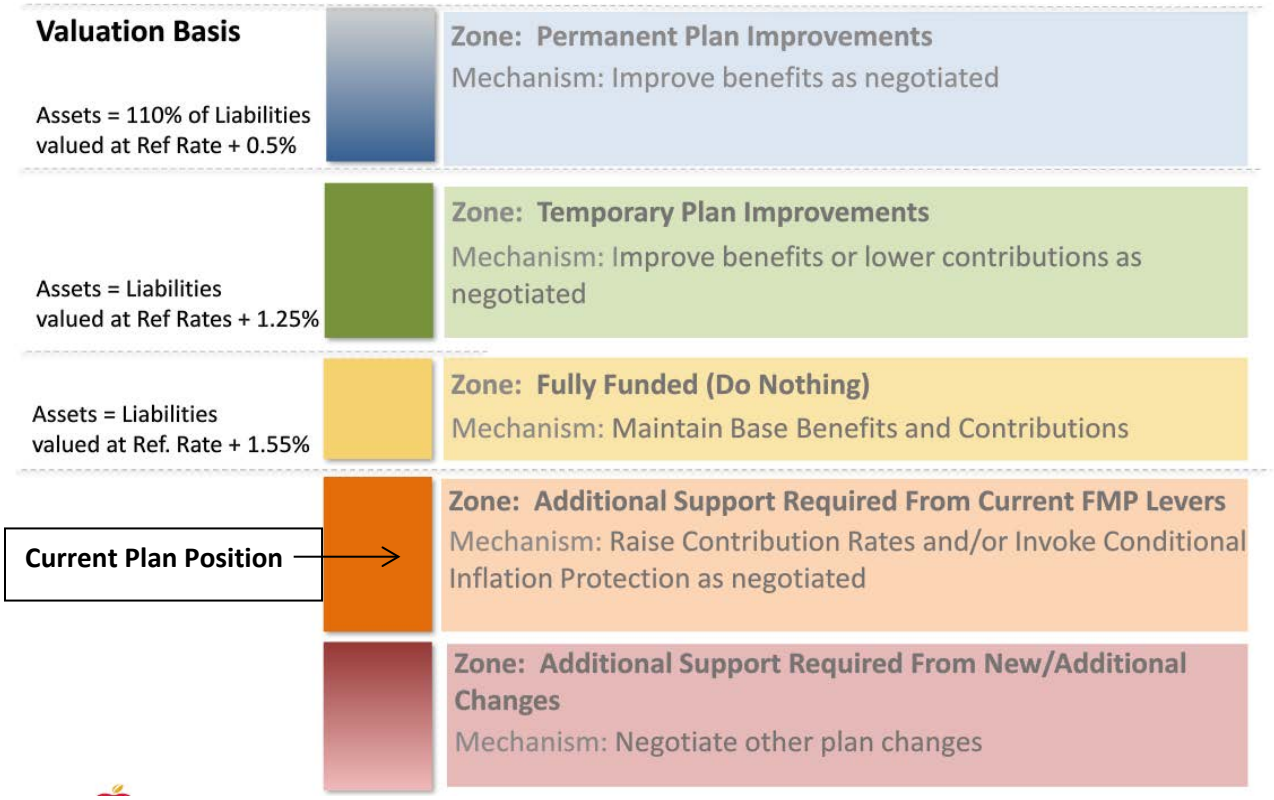
  c) Implementing a shared asset model (MOF Lead)

  - Amending the Plan terms to adopt a model similar to that of the Ontario Public Service Employees Union (OPSEU).
  - Under the Sponsorship Agreement between Ontario and OPSEU, emerging actuarial gains or losses are shared equally between the employer and the members.
  - Under the Jointly Sponsored Pension Plan (JSPP) Agreement and the Plan text, the Employer has the option to apply their share of the gains to reduce employer costs (special payments, reduce contributions, contribution holiday, etc.), or allocate the gains to an employer reserve fund. This is not considered payment of surplus out of the fund – which is prohibited by the plan terms.

Ontario Teachers' Pension Plan (OTPP) Asset – Brainstorming Options

Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	**High likelihood**. Should the government choose to pursue any of these unilateral options, the OTF and its affiliate members would likely be opposed. Such action may place considerable strain on the relationship between government and the Teachers' Federations.	Should the government decide to legislate the arrangement, a robust communication strategy would be essential as contributing taxpayer dollars into a well-funded plan could be deemed unnecessary by the public.
Reputational risk	**Medium likelihood**. The OTPP is one of Canada's largest institutional investors and has an excellent track record for investment performance. It attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan. Enabling unilateral decision making by either sponsor, effectively ending the equal partnership with teachers, could result in changes to the Plan's existing governance structure and may impact the long term sustainability of the Plans recruitment and retention strategy.	Communication between the government and the Plan to establish new legislative and funding framework (if any) to ensure changes made will not impact the ability to recruit and retain staff and board members.
Constitutional Risk	**High Likelihood.** Imposing employment terms through the existing legislation could be considered a constitutional risk and could be met with litigation.	PLACEHOLDER Legal opinion required.

APPENDIX A: Funding Management Policy Framework Description



From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Slide Deck
Date: Wednesday, December 07, 2016 11:07:06
Attachment 1: Options Note - OTPP Asset Policy Considerations v12 12-06-2016.docx

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fyi

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 9:48 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

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Considerations

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- In addition to the legislation, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship of the Plan and to avoid contentious unilateral funding decisions (even in disagreement, Plan terms state a third party arbitrator must be used).
- Under the current governance framework for the use of surplus (the FMP), contribution reductions and/or access to the surplus is only negotiated if and when the funded status of the Plan has reached a specific funding zone. (See Appendix A for FMP Framework Description).It is important to note that the Plan's recent surplus position from 2013-2016 was primarily due to steps the sponsors previously took to adjust provisions (i.e. introducing inflation protection and special contributions). Without these measures the Plan's funded status would be in deficit.
- Each of the following options has considerable operational and implementation issues, which include potentially lengthy negotiations with the OTF and its affiliate members.

Potential Options

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- Sections 4.06 and 5.05 of the FMP (re: side agreements in the Temporary and Permanent Improvement Zones) provide the government with the opportunity to adjust contribution levels when surplus is being distributed if there is a written agreement in place between both parties.
- The government could enter into negotiations with the OTF to strengthen these existing provisions in the FMP and explicitly reference the government's automatic right to 50 percent of the surplus should the Plan experience positive gains.
- Until the OTF is approached with potential negotiation options, it is unclear whether they would be opposed to make changes to the FMP. The following assessment outlines the likelihood, impact, and mitigation strategy of each potential risk.

Ontario Teachers' Pension Plan (OTPP) Asset – Brainstorming Options

Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	**High Likelihood.** The current change in pension accounting has impacted the government's considerations with regard to potential surplus. Under the current framework, the government would have to consider the short-term health of the fiscal plan in addition to the long-term health of the pension plan. The OTF and the OTPP are solely focused on the long-term health of the pension plan.	Strengthening the FMP could satisfy the AG's concerns regarding unilateral access to surplus and would align both sponsors' interests as the sole focus would be the long-term health of the pension plan.
Financial implications to government	**Medium Likelihood.** The OTF is unlikely to accommodate any change without requesting something in return (ie. benefit improvement) given the government's need to make the change.	If the government chose to negotiate a quid pro quo with the OTF it could focus negotiations on temporary improvements as opposed to permanent changes that could have a lasting financial impact.
	PLACEHOLDER MOF Unclear how liabilities will be treated (ie. would the government be automatically be liable for 50%). Unclear whether surplus distribution or contribution reductions would have largest/smallest impact on fiscal plan.	PLACEHOLDER MOF
Risk of negotiating pensions as part of labour negotiations	**High likelihood**. Currently pension issues are negotiated between the government and the OTF (with affiliate representation). Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.	Emphasize the benefits of de-linking these processes (ie. partners are different, timing of the valuations and collective agreements are different, etc.).
Timing risk	**High likelihood**. The most recent review of the FMP lasted almost three years (2012-2015). If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.	Expedite or eliminate the process to assemble a committee consisting of representatives from each sponsor and the Plan. Engage the OTF and the Plan to ensure each party is privy to any and all potential changes.

Ontario Teachers' Pension Plan (OTPP) Asset – Brainstorming Options

2) Legislative changes

- The government could amend its legislation to guarantee its right to the pension asset through the following options:

  NOTE: these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

  a) An amendment to the TPA to clearly articulate the government's right to access 50 percent of the surplus.

  b) Ending the jointly sponsored arrangement, making the government solely responsible for the Plan, as existed prior to 1990.

  - This option would require the government to fundamentally change the basis on which the OTPP and the FMP has been built, namely an equal partnership with the teachers.

  c) Implementing a shared asset model (MOF Lead)

  - Amending the Plan terms to adopt a model similar to that of the Ontario Public Service Employees Union (OPSEU).
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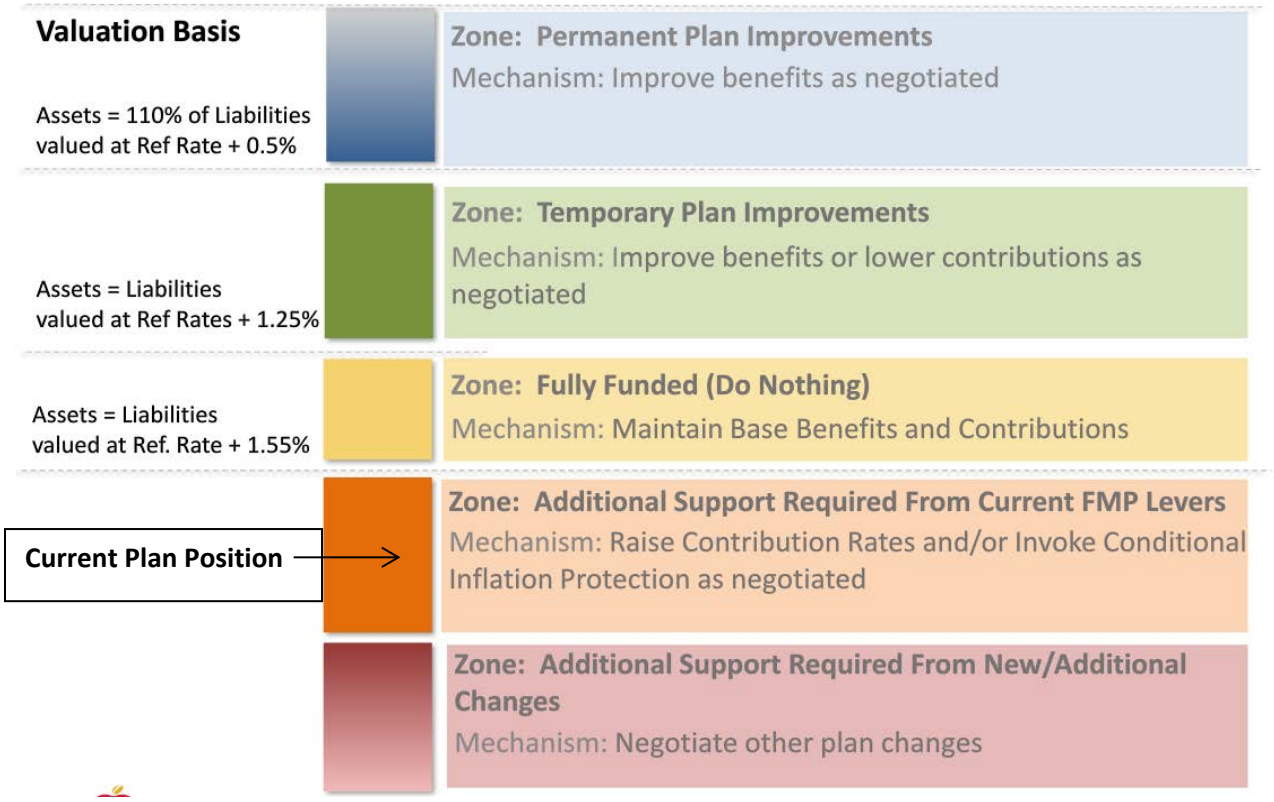
Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	**High likelihood**. Should the government choose to pursue any of these unilateral options, the OTF and its affiliate members would likely be opposed. Such action may place considerable strain on the relationship between government and the Teachers' Federations.	Should the government decide to legislate the arrangement, a robust communication strategy would be essential as contributing taxpayer dollars into a well-funded plan could be deemed unnecessary by the public.
Reputational risk	**Medium likelihood**. The OTPP is one of Canada's largest institutional investors and has an excellent track record for investment performance. It attracts and retains high performing executives, staff and Board members with extensive experience in a wide	Communication between the government and the Plan to establish new legislative and funding framework (if any) to ensure changes made will not impact the ability to recruit and

Ontario Teachers' Pension Plan (OTPP) Asset – Brainstorming Options

Risk	Likelihood and Impact	Mitigation Strategy
	range of disciplines required to oversee a complex pension plan. Enabling unilateral decision making by either sponsor, effectively ending the equal partnership with teachers, could result in changes to the Plan's existing governance structure and may impact the long term sustainability of the Plans recruitment and retention strategy.	retain staff and board members.
Constitutional Risk	**High Likelihood.** Imposing employment terms through the existing legislation could be considered a constitutional risk and could be met with litigation.	PLACEHOLDER Legal opinion required.

APPENDIX A: Funding Management Policy Framework Description



From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: Slide Deck
Date: Tuesday, January 23, 2018 11:46:33
Attachment 1: OTPP Asset Options v3.pptx

There's this deck, which provides some information that you are looking for…

From: Di Renzo, Stephen (EDU)
Sent: December 8, 2016 2:50 PM
To: Pomykacz, Rob (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob, attached is the approved deck with our information (it's based on the note I provided earlier).

From: Pomykacz, Rob (MOF)
Sent: December 8, 2016 11:51 AM
To: Di Renzo, Stephen (EDU)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Thanks Steve. We're hoping to give you comments by tomorrow.

Thanks for sharing the revised version!

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 8, 2016 11:38 AM
To: Pomykacz, Rob (MOF)

Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached an updated note reflecting Ross' comments. Please share with your group and provide edits/feedback to this document. We are still awaiting Josh's approval.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:23 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Sounds good!

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 10:16 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

I can populate the deck once its complete and approved.

From: Pomykacz, Rob (MOF)

Sent: December 7, 2016 10:07 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Thanks very much, Steve. We'll let you know of any comments.

Once the note has been approved, are you planning on inputting the information into the slide deck template that OPCD forwarded to us? I actually wouldn't want to leave it to them to do.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 9:48 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached draft note. It's based on direction from Josh but not yet approved by him. You will notice a few placeholders within the note that require input.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 6, 2016 2:03 PM
To: Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Hi Paul/Steve,

Just wondering how the note is going. Would you guys have anything to share with us at this point?

Thanks,

Rob

From: Duffy, Paul (EDU)
Sent: December 5, 2016 9:33 AM
To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Rob, we're meeting with Josh today to go over our note (which I think OPCD will put into a deck). We'll let you know how that goes, and how much time we'll need before we meet.

From: Pomykacz, Rob (MOF)
Sent: December 2, 2016 4:58 PM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Subject: Slide Deck

Hi guys,

Alex asked if we could get together early next week to discuss the OPCD deck you're working on. Let me know when might be a good time.

Thanks and have a great weekend!

Rob

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- To provide potential options, related risks and mitigations strategies, relating to the Province's access to the Ontario Teachers' Pension Plan (OTPP) surplus.

Background

- OTPP is a co-sponsorship plan, established in legislation, between the Ontario government (government) and the Ontario Teachers' Federation (OTF). The government has a statutory obligation to match contributions and any changes made would need to be applied equally by the plan members.
- In addition, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship and to avoid contentious unilateral funding decisions.
- Contribution reductions and/or access to the surplus is negotiated if and when the funded status of the Plan has reached a specific funding zone in the FMP.

Options

- The following options are potential strategies to access the OTPP pension surplus:
  - Leverage and/or clarify the existing Funding Management Policy (FMP); or
  - Legislative changes
- Each option and related risk will be discussed in more detail in the following slides

Note: Each of the following options has considerable operational and implementation issues, and until the OTF is approached, it is unclear whether they would be opposed. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Leverage and/or clarify existing FMP side agreement provision

- Currently, the FMP requires surplus to be applied in a specific order, first restoring Conditional Inflation Protection (CIP) for post-2009 and post-2013 service, then eliminating special contributions, followed by the option to provide temporary benefit increases, surplus distribution or contribution rate reductions.
- Sections 4.06 and 5.05 of the FMP (re: side agreements in the Temporary and Permanent Improvement Zones) provide the government with the opportunity to adjust contribution levels when surplus is being distributed if there is a written agreement in place between both parties. **(See Appendix A for FMP Framework Description)**
- The government could enter into negotiations with the OTF to strengthen these existing provisions in the FMP and explicitly reference the government's automatic right to 50 percent of the surplus should the Plan experience positive gains.

Leverage and/or clarify existing FMP side agreement provision

Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	**High Likelihood.** The current change in pension accounting has impacted the government's considerations with regard to potential surplus. Under the current framework, the government would have to consider the short-term health of the fiscal plan in addition to the long-term health of the pension plan. The OTF and the OTPP are solely focused on the long-term health of the pension plan.	Amending the FMP could satisfy the AG's concerns regarding unilateral access to surplus and would align both sponsors' interests as the sole focus would be the long-term health of the pension plan.
Financial implications to government	**Medium Likelihood.** The OTF is unlikely to accommodate any change without requesting something in return (ie. benefit improvement) given the government's need to make the change.	If the government chose to negotiate a quid pro quo with the OTF it could focus negotiations on temporary improvements as opposed to permanent changes that could have a lasting financial impact.
	PLACEHOLDER MOF Unclear how liabilities will be treated (ie. would the government be automatically be liable for 50%). Unclear whether surplus distribution or contribution reductions would have largest/smallest impact on fiscal plan.	PLACEHOLDER MOF

Leverage and/or clarify existing FMP side agreement provision

Risk	Likelihood and Impact	Mitigation Strategy
Risk of negotiating pensions as part of labour negotiations	**High likelihood**. Currently pension issues are negotiated between the government and the OTF (with affiliate representation). Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.	Emphasize the benefits of de-linking these processes (ie. partners are different, timing of the valuations and collective agreements are different, etc.).
Timing risk	**High likelihood**. The most recent review of the FMP lasted almost three years (2012-2015). If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.	Expedite or eliminate the process to assemble a committee consisting of representatives from each sponsor and the Plan. Engage the OTF and the Plan to ensure each party is privy to any and all potential changes.

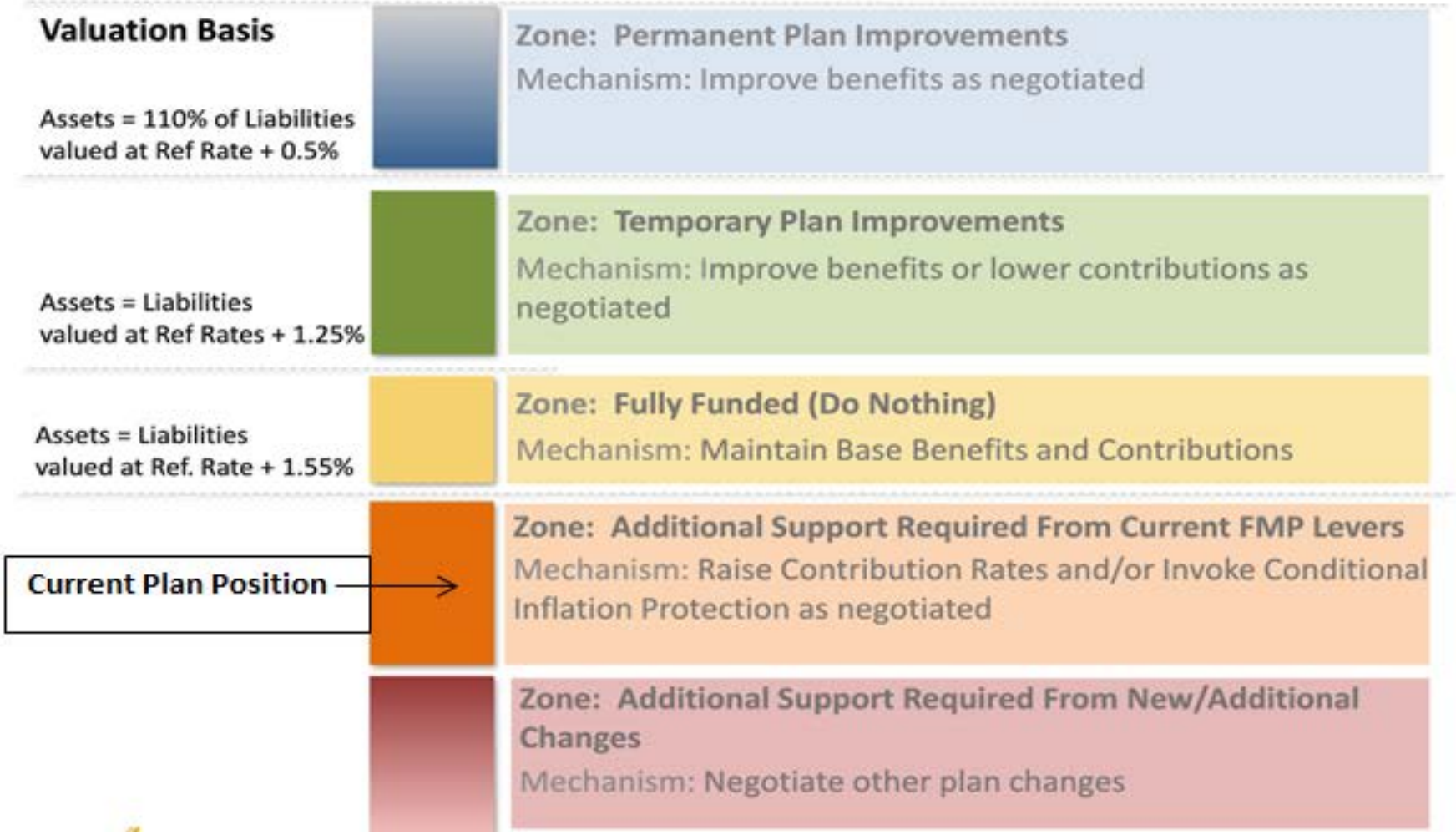
Legislative Changes

- The government could amend its legislation to guarantee its right to the pension asset through the following options:
  a) An amendment to the TPA to clearly articulate the government's right to access 50 percent of the surplus;
  b) Ending the jointly sponsored arrangement, making the government solely responsible for the Plan, as existed prior to 1990; or
  c) Implementing a shared asset model (MOF Lead).

Legislative Changes

Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	High likelihood. Should the government choose to pursue any of these unilateral options, the OTF and its affiliate members would likely be opposed. Such action may place considerable strain on the relationship between government and the Teachers' Federations.	Should the government decide to legislate the arrangement, a robust communication strategy would be essential as contributing taxpayer dollars into a well-funded plan could be deemed unnecessary by the public.
Reputational risk	Medium likelihood. The OTPP is one of Canada's largest institutional investors and has an excellent track record for investment performance. It attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan. Enabling unilateral decision making by either sponsor, effectively ending the equal partnership with teachers, could result in changes to the Plan's existing governance structure and may impact the long term sustainability of the Plans recruitment and retention strategy.	Communication between the government and the Plan to establish new legislative and funding framework (if any) to ensure changes made will not impact the ability to recruit and retain staff and board members.
Constitutional Risk	High Likelihood. Imposing employment terms through the existing legislation could be considered a constitutional risk and could be met with litigation.	PLACEHOLDER Legal opinion required.

Appendix A: FMP Framework



From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Date: Tuesday, February 07, 2017 14:45:32
Attachment 1: PAEAP Report NR_v11_csb.doc

From: Patel, Lesley (MOF)
Sent: February 7, 2017 1:32 PM
To: Birks, Ryan (MOF); Buckland Foster, Jamie (MOF); Wynberg, Lynsey (OFA)
Cc: Killoch, Alex (MOF)
Subject: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Importance: High

Hi all,

Please find attached a news release with regards to the Pension Asset Expert Advisory Panel report for fact check.

Please send any edits back before 3pm.

Thanks,

Lesley

p.s. Also please let me know the status of the Q&A document if you have not send your edits as yet.

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February XX, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans. The government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The panel's report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized in Ontario's financial statements.

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly-sponsored pension plans.

The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets. The panel members have expertise in the areas of jointly-sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

The Province remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow the economy and help people in their everyday lives.

QUOTES

"I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how to account for current jointly-sponsored pension assets. This advice will help us continue to present the province's finances fairly and accurately, as we work toward balancing the budget in 2017-18."
— Charles Sousa, Minister of Finance (TBC MOF)

QUICK FACTS

DRAFT

- By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.
- For 2015-16, this means the province's deficit has been lowered by $1.5 billion.
- For 2016-17, the province's fiscal position will improve by $2.2 billion.
- In its report, the panel supports the accounting treatment that Ontario has used consistently since 2001.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [EKO1]: MOF Fact check

Commented [LT2]: Language on these will need to be refined

Field Code Changed

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: Teachers - questions from SoC
Date: Wednesday, September 14, 2016 11:02:24

From: Killoch, Alex (MOF)
Sent: Wednesday, September 14, 2016 11:01 AM
To: Thompson, Scott (MOF)
Cc: McLean, David (MOF); Talwar, Garima (MOF) (Garima.Talwar@ontario.ca)
Subject: RE: Teachers - questions from SoC

They are using a discount rate to manage contributions.

The low discount rate maintains the current level of contribution, and allows the plan to better manage risk without relying on investment income. A higher discount rate would introduce more risk and an increased likelihood that contributions or benefits would need to be adjusted.

They are not trying to determine the actual cost of the plan with their discount rate, so much as manage risk to the plan.

It was 1998/99 when the government used surplus to extinguish a liability that the government owed to the plan. The surplus was not removed from the plan, and we did not take a contribution holiday, but we were able to extinguish our 40 year debt to the plan that dated from 1975.

The unfunded liability was in respect of indexation benefits that were granted to teachers in 1975 without any prior funding. On day one, there was a large unfunded liability. The unfunded liability grew until the TPP was reformed in 1989. The government accepted responsibility for the shortfall at that time and decided to fund it over 40 years. The JSPP agreement was signed in 1992. When the Plan revealed a massive surplus in 1998, there was an agreement that the government would use its

share of pay it off. Teachers bought themselves some benefit improvements, including temporary Factor 85. That provision was made permanent in 2001.

I wouldn't characterize the payoff as a reduction in contributions, although the Province was making special payments of about $500 million annually at that time if I recall correctly.

Alex

From: Thompson, Scott (MOF)
Sent: Wednesday, September 14, 2016 10:45 AM
To: Killoch, Alex (MOF)
Cc: McLean, David (MOF); Helfand, Norman (MOF)
Subject: Teachers - questions from SoC

Why does Teachers use such a low discount rate compared to the historic performance.

What year did govt (prev govt I assume) 'go after' the Teachers Pension Plan?

Thanks

Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: rate comparison format
Date: Friday, September 23, 2016 09:30:55

Another request…

From: Fong, Pauline (TBS)
Sent: September 23, 2016 9:15 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF)
Subject: RE: rate comparison format

Hi Rob,

Nadine has asked the following below. Would your shop have this information for the respective plans?

Pauline

From: Petsche, Nadine (TBS)
Sent: September-22-16 7:35 PM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS)
Subject: rate comparison format

Hi Pauline.

Cindy has asked for a specific presentation format for our rate analysis that would help to segregate the rates between sole sponsored and jointly sponsored pension plans and compare them with the respective rates of the plans themselves.

My understanding is that she envisions a page summarizing the rates as follows:

Sole Sponsored PP

Jointly Sponsored PP

Sponsor Rate

Plan Rate

Sponsor Rate

Plan Rate

Can you please provide the details to Cindy when they are available. If you need any assistance due to workload, perhaps Ian can ask one of his team to help out.

Thanks.

Nadine

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: FW: rate comparison format
Date: Friday, September 23, 2016 09:36:00

I don't think this request makes sense.

For SEPPs, the "plan" and the "sponsor" are one and the same. For the JSPPs, there is no "sponsor" rate as sponsors aren't responsible for the setting the rates.

From: Fong, Pauline (TBS)
Sent: September 23, 2016 9:15 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF)
Subject: RE: rate comparison format

Hi Rob,

Nadine has asked the following below. Would your shop have this information for the respective plans?

Pauline

From: Petsche, Nadine (TBS)
Sent: September-22-16 7:35 PM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS)
Subject: rate comparison format

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My understanding is that she envisions a page summarizing the rates as follows:

Sole Sponsored PP

Jointly Sponsored PP

Sponsor Rate

Plan Rate

Sponsor Rate

Plan Rate

Can you please provide the details to Cindy when they are available. If you need any assistance due to workload, perhaps Ian can ask one of his team to help out.

Thanks.

Nadine

From: Killoch, Alex (MOF) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]
Subject: FW: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 14:19:51

Ian ,

Can you call me please

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Manji, Shemin (MOF)
Sent: Thursday, September 15, 2016 12:40 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs
Importance: High

Hi Alex and Rob,

See e-mail from Paul Kaufman (counsel at TBS) below. I have reviewed the proposed text and am not comfortable with all the wording proposed. I have suggested different wording. See my proposed changes below (and reasons for them). I don't think it is necessary to say that the Province is a joint sponsor (as well as a participating employer).

Please let me know if you are okay with my proposed changes ASAP.

Thank you

Shemin

Hi Paul,

I suggest amending the proposed text as follows:

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit where the Province is a participating employer in relation to a jointly sponsored pension plan that has a surplus. ~~in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.~~

"jointly sponsored pension plan" and "surplus" have ~~has~~ the same meaning as in the *Pension Benefits Act*.

The PBA does not use the word “co-sponsor” or “joint-sponsor” to describe an employer participating in a jointly sponsored pension plan. The PBA defines a “participating employer” in relation to a jointly sponsored pension plan as meaning “an employer required to make contributions to the pension fund”. The only way the Province would be entitled to surplus in the first place is if the Province is a participating employer in a JSPP. My proposed changes reflect this.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Kaufman, Paul (TBS)
Sent: Thursday, September 15, 2016 10:56 AM
To: Manji, Shemin (MOF)
Subject: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Shemin,

As discussed, I would appreciate it if you could review the highlighted text below and let me know if you have any concerns. The TBS clients have reviewed this text with Alex Killloch and Rob Pomykacz, fyi. Also, the unhighlighted text is likely going to be expanded upon to provide more detail. We'll share the complete text of the reg with you once we have a draft from leg counsel.

Thanks,

Paul

****

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Manji, Shemin (MOF) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: FW: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 14:42:36

Hi Paul,

I suggest amending the proposed text as follows:

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit where the Province is a participating employer in relation to a jointly sponsored pension plan that has a surplus. ~~in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.~~

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Reason my proposed changes:

The PBA does not use the word "co-sponsor" or "joint-sponsor" to describe an employer participating in a jointly sponsored pension plan. The PBA defines a "participating employer" in relation to a jointly sponsored pension plan as meaning "an employer required to make contributions to the pension fund" (see ss. 1(1)). The only way the Province would be entitled to its share of the surplus in a jointly sponsored pension plan is if the Province is a participating employer in a JSPP. My proposed changes reflect this.

I would suggest that you define what you mean by "surplus" so the intended meaning is clear. I assume, because you have not defined "surplus" as being "surplus within the meaning of the PBA", that the intent is the PBA definition does not apply (i.e., the definition of surplus for plan funding purposes does not apply). However, if the definition

in the PBA is not applicable what does “surplus” mean in this context?

Alex Killoch has had an opportunity to review my suggested changes and is okay with them.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Kaufman, Paul (TBS)
Sent: Thursday, September 15, 2016 10:56 AM
To: Manji, Shemin (MOF)
Subject: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Shemin,

As discussed, I would appreciate it if you could review the highlighted text below and let me know if you have any concerns. The TBS clients have reviewed this text with Alex Killloch and Rob Pomykacz, fyi. Also, the unhighlighted text is likely going to be expanded upon to provide more detail. We'll share the complete text of the reg with you once we have a draft from leg counsel.

Thanks,

Paul

****

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit in connection with surpluses

in jointly sponsored pension plans that are co-sponsored by the Province.

“jointly sponsored pension plan” has the same meaning as in the *Pension Benefits Act*.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Keates, James (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Funding Valuation Discount Rates
Date: Monday, November 14, 2016 11:40:16
Attachment 1: image001.jpg

Alex, could you help us with completing the below table. We would like to compare the most recent discount rates used by certain pension plans across the country, comparing the discount rate for financial statement purposes with the discount rate used for funding valuation purposes. Would you be able to provide the most recent discount rates used for funding valuation purposes for the following pension plans?

Thanks,

Jim

Pension Plan

Discount rate for Funding Purposes

Discount rate for financial statement purposes

Ontario

Ontario Teachers' Pension Plan

4.85%

3.25%

Alberta

Teachers' Post-1992 Pension Plan

7.00%

Saskatchewan

Saskatchewan Healthcare Employees' Pension Plan

6.50%

British Columbia

Teachers’ Pension Plan

6.50%

Quebec

Commission administrative des regimes de retraite et d'assurances

6.40%

Nfld

Memorial University of Newfoundland Pension Plan

5.80%

Nova Scotia

Nova Scotia Teachers' Pension Plan

6.25%

Manitoba

Teachers Pension Plan

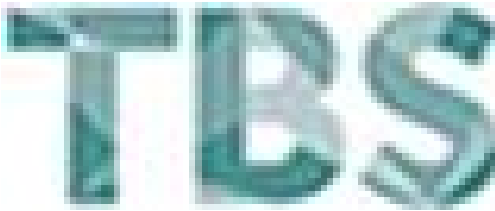
6.00%

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721


TBS

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Fw: Additional Documentation
Date: Sunday, September 18, 2016 15:32:16
Attachment 1: image001.jpg

Consistent?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Paul, Joshua (EDU) <Joshua.Paul@ontario.ca>
Sent: Sunday, September 18, 2016 3:24 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Additional Documentation

Ok, are they looking for a public document or will an email suffice?

When CIP was introduced, the government agreed to make 'share the pain' contributions above its normal contributions equivalent to the 'pain' felt by teachers related to reduced inflation protection (as long as that stayed within the 100 to 50 percent range).

When the partners started to restore inflation protection, the 'share the pain' extra contributions from govt go down proportionally.

So that's why 13.2B in surplus was reduced by 8.6 because 4.3 is the estimated future value of extra indexation (70 to 90) and 4.3 is the estimated future value of the extra govt contributions now foregone.

Does this work?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS)
Sent: Sunday, September 18, 2016 3:09 PM
To: Paul, Joshua (EDU); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: RE: Additional Documentation

Yesterday

From: Paul, Joshua (EDU)

Sent: September-18-16 3:09 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Additional Documentation

We'll see what we can up.

Timing?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Sunday, September 18, 2016 2:55 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Cc: Petsche, Nadine (TBS)

Subject: FW: Additional Documentation

Alex and Josh – see below re: Deloitte's question that is highlighted. Are you aware of a good summary of how the indexation of inflation works.

Thanks,

Thanks,

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September-18-16 2:48 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Additional Documentation

Hi Nadine,

After our call with the lawyers there are a couple of items that we were wondering if we could see:

1. The announcement that was made this week on the indexation of inflation to 90% is a tough concept to understand in how this reduces future funding requirements (I think the share the pain payment was specifically mentioned). Could someone on your team do a write up on what this means? Additionally, I believe that this indexation was increased in the past – would the write up be able to talk how future contributions were reduced in those instances as well.

2. Osler's has made reference to a 2012 term sheet. Could you get us a copy of this?

3. There was a memo from Lise Houlse (at Mercer's) to Mary Cover (Ontario Teachers' Pension Plan) dated June 17, 2016. Could we obtain this as well?

Kind regards,

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

D: 416-643-8428

mcolley@deloitte.ca | deloitte.ca

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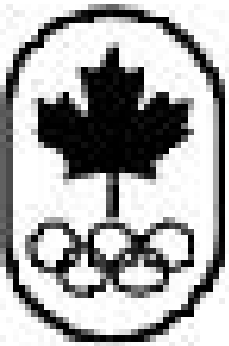

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From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Fw: Additional Documentation
Date: Sunday, September 18, 2016 21:09:10
Attachment 1: image001.jpg
Attachment 2: 2016 Valuation - Minister Approval DN 2016-08-04.pdf
Attachment 3: Key Funding Decisions.pdf

Keeping you in the loop re info I sent to Matt. Cindy

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Sunday, September 18, 2016 16:43
To: Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Cc: Petsche, Nadine (TBS)
Subject: RE: Additional Documentation

You have a message from Nadine that has the two requested documents. Re: conditional indexation, I've asked if there is a summary of how this works, but in the meantime here is some information:

A. Link and content from the OTPP website re: conditional inflation. The summary speaks to when conditional inflation was introduced and how it has changed. As noted, the concept was introduced in 2008, but used for the first time in 2010. I've highlighted #7 at the bottom which is important as when the decision was made to move from 100% inflation protection to something less than that, there was an impact to the employers (e.g. government) such that the agreement was if the teachers were going to get a reduced pension, then employers (e.g. government) would make additional contributions to the plan equal to the reduction in the pension amount paid to the teachers – hence the name "share the pain." The province has had to make additional cash payments to the plan in the recent years. The cash payments to the plan are made as the teachers receive a reduced pension.

https://www.otpp.com/members/cms/en/news/archive/2011/seven-things-you-should-know-about-conditional-inflation-protect.html

Seven things you should know about conditional inflation protection

December 21, 2011

Although conditional inflation protection was introduced in 2008, this will be the first year that some pensioners will see its effects. Here's a recap of some of the key points you should know.

1. Your Teachers' pension includes annual cost-of-living increases to help you maintain your purchasing power in retirement.

2. Conditional inflation protection means that:

a. The portion of your pension credit earned until the end of 2009 is 100% protected against increases in the cost of living, as measured by the Consumer Price Index (CPI).

b. The level of inflation protection provided for the portion of your pension credit earned after 2009 will depend on the funded status of the plan. Annual cost-of-living increases for pension credit earned after 2009 will be between 50% and 100% of the change in Consumer Price Index, depending on the plan's funding position.

3. The Ontario Teachers' Federation (OTF) and Ontario government, which jointly sponsor the pension plan, introduced the concept of conditional inflation protection in response to the 2008 funding shortfall.

4. Last year, the plan sponsors invoked conditional inflation protection at 60% to address the 2011 funding shortfall.

5. The 60% conditional inflation level will remain in effect until a new level is set, or the existing level confirmed, when the next funding valuation is filed with the provincial pension regulator. This must happen no later than 2014.

6. Conditional inflation protection only affects you when you retire. If you are a working teacher, you do not accumulate a specific percentage of conditional inflation protection on your pension credit. The act of invoking 60% conditional inflation protection for three years has no effect on the future cost-of-living increases that working teachers will receive.

7. The Ontario government and other employers that participate in the Teachers' pension plan will make extra contributions to the pension plan equal to the total cost of annual inflation increases that retirees forgo.

B. The restoration of the indexation has been implemented in steps – most recently the announcement was made on September 14, 2016 to move the inflation indexation from 70% to 90%. The impact of that on the funding surplus is articulated in the Briefing Note to the Minister of Education – I've attached it so you don't have to look at it. Essentially the impact of that surplus costed at $8.6 B -- $4.3 B is the PV of the additional payments that will be made to the teachers as a result of moving from 70% to 90% and $4.3 billion is the PV of the contributions that the employer will not have to make. The split is in the email I forwarded yesterday at 10:32 am from the Ministry of

Education. That email also speaks to the split in the prior year when the level of protection was moved from 60% to 70%. The funding history document (also attached) summarizes the changes in funding inflation protection since 2014.

C. The funding valuation takes into account the anticipated additional payments from the employers – Martin Raymond compared the funding valuation to the Province's valuation to show how the conditional indexation is taken into account – if you haven't seen that reconciliation it may be useful to have him/Trevor walk you through it.

D. The province records the obligation assuming 100% indexation. Either the amounts paid to the pensioners will be at 100% or the amounts will be less than 100%, but the amounts the province has to pay to the plan makes up the difference between the level of indexation protection paid to the pensioners and 100%. (Note that the agreement relates to payments when inflation protection is between 50% and 100%).

Let me know if you have further questions.

Cindy

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September-18-16 2:48 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Additional Documentation

Hi Nadine,

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Kind regards,

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

D: 416-643-8428

mcolley@deloitte.ca | deloitte.ca

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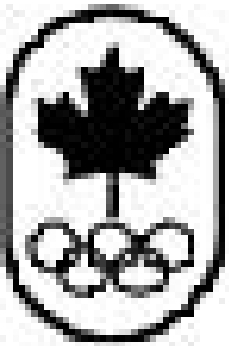

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Submissions and Documents Review/Approvals Form

Ministry of Education

Title: OTPP 2016 Funding Valuation	Log # 2016 064576	Date Prepared: July 12, 2016	Date Due:
Originated by: Stephen Di Renzo	Tel No. 6-9922	Lead Branch: Education Finance	
Once signed return to: Wendy Samuel	Tel No. 2-1818	Division: FPBD	

Submission Type:	New	Revised	Final
( ) Cabinet Specify Committee: _____	❑	❑	❑
( ) MB20	❑	❑	❑
( ) Legislation/Regulation	❑	❑	❑
(✓) Decision Note	✓	❑	❑
( ) Briefing/Info Note	❑	❑	❑

Document Type:	New	Revised
( ) Letter - Minister's Signature	❑	❑
( ) Letter - Deputy's Signature	❑	❑
( ) Deputy Information Item	❑	❑
( ) Other: _____	❑	❑

Note:

This note seeks approval to file the 2016 funding valuation of the OTPP with the Financial Services Commission of Ontario.

MO Staff were consulted on this item? X Yes No	If yes, who? Sam Andrey and Christopher Humphries
Briefing scheduled? Date: _____ ❑ Minister ❑ Deputy	To be posted on website? ❑ Yes X No

Review/Approval requirements

	R ✓	A ✓	Approving Official	Name	Signature	Date In	Date Out
As Required		✓	Lead Author	S. Di Renzo	S Di Renzo	07-12-16	07-12-16
		✓	Lead Manager	N. Roberto	N. Roberto	07-12-16	07-12-16
			Lead Director	A. Bright	N. Roberto for A. Bright w.d.t	"	"
		✓	Executive Director	J. Paul		July 15	July 15
			CMSD				
			CSIIT				
			ELRD				
			EYD				
			FLALRD				
			FPBD				
			LCD				
			LLED				
			SAD				
Corporate sign-off as required			Director – Comms	M. Leaning			
			Director – Legal	P. Rajan			
			Director – HR	S. Henderson			
Req'd		✓	Lead ADM	G. Sékaly	D. Stewart for G. Sékaly	July 17/16	
		✓	Deputy Minister	N. Matthews	D. Stewart July 17 NM	July 17/16	
As required		✓	Minister's Office Staff	C. Humphries			
		✓	Minister	M. Hunter	MH		

EDU-DMO

Ministry of Education

Mowat Block
Queen's Park
Toronto ON M7A 1L2

Ministère de l'Éducation

Édifice Mowat
Queen's Park
Toronto ON M7A 1L2

Ontario

MEMORANDUM TO: The Honourable Mitzie Hunter
Minister of Education

THROUGH: Nancy Matthews
Deputy Minister

FROM: Gabriel F. Sékaly
Assistant Deputy Minister
Financial Policy and Business

DATE: July 14, 2016

SUBJECT: Funding Valuation of the Ontario Teachers' Pension Plan

---

Attached is a decision note seeking direction to file the 2016 funding valuation of the Ontario Teachers' Pension Plan (OTPP) with the Financial Services Commission of Ontario (FSCO), the Provincial pension plan regulator.

The funding valuation is an assessment of the long-term financial health of the pension plan. The valuation uses a number of assumptions to compare the value of pension plan assets (such as stocks and bonds, as well as future contributions) to the value of pension plan liabilities (the amount required to pay accrued and future pension benefits). Pension plans in Ontario are required under the *Pension Benefits Act* to undertake a valuation annually and file a balanced valuation with FSCO once every three years. A balanced valuation must show that the plan has enough assets to pay out the projected cost of future pension benefits.

It is the responsibility of the OTPP sponsors, the Ontario Teachers' Federation and the Ontario government, to determine when to file the annual valuation with FSCO. The sponsors are also responsible for negotiating the use of any surplus funds and, when there is a funding shortfall, implementing a strategy to eliminate it.

The preliminary valuation of the OTPP as of January 1, 2016 indicates a surplus of about $13.2 billion. This means the pension plan has 107% of the assets it needs to pay future pensions to all members, based on current contribution and benefit levels. The surplus is primarily the result of strong returns on plan investments in 2015. Because the Plan is financially balanced, it is recommended that this valuation be filed with FSCO and that a portion of the surplus be used to continue to restore member benefits. This is consistent with the past two valuation filings, where the sponsors agreed to use surplus to partially restore inflation protection for members in accordance with the Plan's Funding Management Policy.

My staff and I are available to provide you or your staff with further information as required.

Gabriel F. Sékaly,
Assistant Deputy Minister

Attachments (1): Minister's Decision Note

Ministry of Education
MINISTER'S DECISION NOTE

2016 Preliminary Funding Valuation of the
Ontario Teachers' Pension Plan (OTPP)

Confidential Advice to Minister

PURPOSE:

To provide an overview of the OTPP's preliminary valuation as at January 1, 2016 and seek direction to pursue the filing of the valuation, with partially restored inflation protection measures.

KEY INFORMATION:

Valuation of the OTPP

- Each year, the OTPP is required to undergo a funding valuation to determine the status of the plan. The OTPP retains Mercer, a third party actuary, to perform the valuation.
- The funding valuation looks ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities. Assets are what the pension plan owns (stocks, bonds, real estate, future contributions) while liabilities are the present value of members' and retirees' pension benefits.
    - If the assets are equal to or exceed the liabilities, the plan is financially balanced. An excess of assets represents a surplus, while an excess of liabilities represents a deficit.
- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan has a surplus of about $13.2B with a discount rate of 2.75%. This surplus means the Plan has about 107% of the funds required to meet its long-term pension obligations.
    - The surplus is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures the Plan's funded status would be in deficit.
- The discount rate plays a key role in projecting whether the pension plan has enough assets to meet its future pension obligations by assessing how much the plan's assets can reasonably be expected to earn over the long term. The higher the discount rate, the lower the projected cost of future pensions and vice versa (eg. a 0.25% decrease in the discount rate would increase the projected future pension obligation by about $7B).
    - For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the aforementioned steps taken by the sponsors, which improved the sustainability of the Plan. This discount rate was maintained in 2015.
    - For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.

Restoring Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 as a lever to give the sponsors the ability to manage deficits by decreasing inflation protection on pension payments for future service. Under these provisions:

    - Service accrued prior to 2010 fully inflation protected; and
    - Service accrued after 2009 is subject to conditional inflation protection:
        - Inflation protection for service accrued during 2010-2013 is guaranteed at 50% and can be adjusted upwards to 100% depending on the financial status of the plan; and
        - Inflation protection for service accrued after 2013 is not guaranteed. CIP can be adjusted upwards to 100% or downwards to 0% depending on the financial status of the plan.
- It is the stated intention of the sponsors that inflation protection will be reinstated as the funded status of the OTPP improves. Consistent with this commitment, last year's preliminary surplus was used to restore inflation protection from 60% to 70% beginning in 2016.
    - The sponsors also decided to restore the level of base pensions, for the purposes of future CIP calculations, to what would have been payable if full inflation protection had been provided since retirement (known as restoring the run-rate).
- The sponsors propose to use a portion of this year's surplus to partially restore inflation protection to 90% and restore the run rate. This change would begin in 2017 and would remain in place until the next funding valuation is filed.
    - The OTF have indicated that they are not willing to file the valuation with CIP at 85% or lower. The OTPP is supportive of filing the valuation with the CIP increase to 90%, but cautioned the sponsors that should the plan experience future deficits, they would be forced to make changes (invoke further CIP again and/or increase contributions).

<u>Filing the January 1, 2016 Valuation</u>

- The *Pension Benefits Act* (PBA) requires a valuation to be filed with the Financial Services Commission of Ontario (FSCO), the government regulator responsible for overseeing the insurance and pension industries, at least once every 3 years.
- The OTPP last filed a valuation with the FSCO as of January 1, 2015. This means that the OTPP could either:
    - voluntarily file the valuation as of January 1, 2016 or 2017; or
    - file a mandatory valuation as of January 1, 2018.
- As co-sponsors of the OTPP, the government and the Ontario Teachers' Federation (OTF) must jointly decide on whether or not to file.
    - The OTF have indicated that they support filing the January 1, 2016 valuation and using part of the surplus to provide inflation protection at 90% for the period starting January 1, 2017 until the next valuation is filed.
    - Should the decision be made to file this year, the sponsors have until September 30, 2016 to officially file the valuation. To meet that legislated deadline, OTPP would need a decision in writing by September 1, 2016 to give Mercer sufficient time to prepare the formal valuation report.
- Filing this year's valuation would ensure that there is adequate time to continue to monitor the funded status of the OTPP, develop plans to address any potential shortfalls that arise over the next three years, and consult with OTPP members about their preferences before changes to pension benefits are made.

RISK SUMMARY:

- **Medium.** Filing the January 1, 2016 valuation and partially restoring inflation protection will likely be positively received by teachers and federations. However, should 2016 and beyond result in lower investment returns, the CIP lever could be reduced again to maintain the Plan's financial health and may be met with objection from teachers and federations.

RISK ANALYSIS:

Risk Factor	Context	Level of Risk	Mitigating Factor
Increase in benefits may have to be clawed back if there is a shortfall in the next filing.	When filed with FSCO, the valuation must show that the pension plan is balanced. If there is a deficit, the filing must outline actions that will be taken to address the shortfall and balance the plan, through increasing contribution rates or adjusting the accrual of pension benefits for future years. If there is a shortfall in the next filing, OTPP may have to reduce CIP again to balance the plan.	Medium	CIP is an established Plan provision that has been consistently invoked by the sponsors to keep the plan viable and affordable in the long-term. The sponsors have also honoured their commitment to restore inflation protection as the funded status of the Plan has improved.

FINANCIAL IMPLICATIONS:

- Providing inflation protection at 90% from 70% would cost approximately $8.6B of the Plan's identified surplus.
- OTPP contributions will continue to be frozen at the current rate until December 30, 2017, the end of the contribution freeze period in the Jointly Sponsored Pension Plans (JSPP) agreement.
- Providing inflation protection at 90% will mean the government will continue to make "sharing the pain" payments to OTPP.
    - As part of the 2008 agreement to introduce CIP, the government agreed to a "sharing the pain" provision. The provision states that for years where members receive less than 100% inflation protection, the government is required to make additional contributions to the Plan equal to the amount forgone by members. Contributions are made up to 50% for CIP on service accrued after 2013 (e.g. if CIP for this period was 40% the government is required to make additional contributions at 50%, not 60%).

COMMUNICATIONS STRATEGY:

- An OTPP Communications Working Group (CWG) made up of members of OTF, the Government and the OTPP is responsible for drafting the joint announcement of the valuation results.
- Once developed, the announcement will go through the appropriate approvals.
- The approach will follow the practices used for most filing announcements since the formation of CWG in 2009.

NEXT STEPS:

- Sponsors meet to confirm agreement on valuation terms as detailed above.
- If the sponsors decide to file the 2016 valuation, they will send a joint letter to the OTPP directing them to have the actuaries prepare a revised valuation based on the terms detailed above (i.e. partially restore inflation protection measures, and restore the run rate). The Plan would then file the revised valuation with FSCO.
    - Ministry staff will seek Ministerial approval of this letter once the valuation terms have been confirmed.

OPTIONS:

- Option 1: Direct the OTPP to file the January 1, 2016 valuation and restore inflation protection measures as described above. **(Recommended)**
- Option 2: Do not file the January 1, 2016 valuation of the OTPP.

PREPARED BY: Stephen Di Renzo
Senior Policy Coordinator
Education Finance Branch
(416) 326-9922

APPROVED BY: Joshua Paul
Executive Director
Fiscal & Financial Planning
(416) 327-9060

OPTION 1: Direct the OTPP to file the January 1, 2016 valuation and restore inflation protection measures as described above. (Recommended)

☑ Agree/Approve ☐ Do Not Agree/Approve

OPTION 2: Do not file the January 1, 2016 valuation of the OTPP.

☐ Agree/Approve ☐ Do Not Agree/Approve

The Honourable Mitzie Hunter

Aug. 2, 2016
Date

Key Funding Decisions Since 1990

Plan Funding

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the provincial pension regulator at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Teachers' pension plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

Year	Valuation status and key decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

Year	Valuation status and key decisions
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.

Year	Valuation status and key decisions
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	$6.8 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes go into effect in January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

ment of the Province’s Economic Assumptions for the 2018 Budget - November 16 2017 415pm.pptx (0 Bytes) cannot be conv

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Fw: Draft FSD&A
Date: Tuesday, September 27, 2016 10:14:23

We are reviewing now

Comments can go straight to Nadine I assume.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: Tuesday, September 27, 2016 10:04 AM
To: Killoch, Alex (MOF); Myers, Leah (MOF)
Cc: Veinot, Cindy (TBS)
Subject: Draft FSD&A

Alex/Leah,

Just letting you know that copies of the draft FSD&A are being delivered to you shortly. Two alternative versions have been prepared at this time:
1) Status Quo – reflecting consistent treatment with the Pension Assets for OTPP and OPSEUPP as used in the past

2) Legislated Accounting version which reflects the AG's view that the Pension Assets for OTPP and OPSEUPP are impaired under PSAB (write-off of $10.6B of assets, $1.5B increase in 2015-16 deficit).

Discussions with the AG continue. Many thanks to Alex and team for their ongoing support and patience as we work to finalize the numbers for this year's Public Accounts.

Regards,

Nadine

From: Killoch, Alex (MOF) []
To: Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]
Subject: Fw: Draft FSD&A
Date: Tuesday, September 27, 2016 11:12:31

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>
Sent: Tuesday, September 27, 2016 11:04 AM
To: Petsche, Nadine (TBS); Myers, Leah (MOF)
Cc: Veinot, Cindy (TBS); Talwar, Garima (MOF) (Garima.Talwar@ontario.ca)
Subject: RE: Draft FSD&A

Hi Nadine

If I understand correctly, the legislated option is for 2015/16 only, meaning there is no need to refer more generally to consolidated JSPPs (which may in the future be an issue).

Currently, the legislated option draft makes multiple references to the “Province’s jointly sponsored pension plans”. I would prefer “pension plans jointly sponsored by the Province”, which then makes it clear that HOOPP and CAATPP are not involved.

In the legislated version there is a reference to “joint sponsored” that should be “jointly sponsored”.

We have some minor wording edits which we have made to the two paper copies.

We will walk up the edits now. Can we also take a look at note 18, which was in circulation yesterday.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Petsche, Nadine (TBS)
Sent: Tuesday, September 27, 2016 10:05 AM
To: Killoch, Alex (MOF); Myers, Leah (MOF)
Cc: Veinot, Cindy (TBS)
Subject: Draft FSD&A

Alex/Leah,

Just letting you know that copies of the draft FSD&A are being delivered to you shortly. Two alternative versions have been prepared at this time:
1) Status Quo – reflecting consistent treatment with the Pension Assets for OTPP and OPSEUPP as used in the past

2) Legislated Accounting version which reflects the AG's view that the Pension Assets for OTPP and OPSEUPP are impaired under PSAB (write-off of $10.6B of assets, $1.5B increase in 2015-16 deficit).

Discussions with the AG continue. Many thanks to Alex and team for their ongoing support and patience as we work to finalize the numbers for this year's Public Accounts.

Regards,

Nadine

From: Paul, Joshua (EDU) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: Fw: Extracts from Pension Asset Position Paper
Date: Tuesday, November 15, 2016 00:31:36
Attachment 1: BPS Comments Final.docx

See below for comments from Paul and his team.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Duffy, Paul (EDU) <Paul.Duffy@ontario.ca>
Sent: Monday, November 14, 2016 9:09 PM
To: Paul, Joshua (EDU)
Subject: FW: Extracts from Pension Asset Position Paper

Only one small comment on page 4 where they outline the special contributions, wondering if it would be helpful to add the avg special contribution made by government since 2011 – roughly $1.5B per year. We'll add in the morning and share again. Other than that, no comments. Rob was pretty thorough.

From: Duffy, Paul (EDU)
Sent: November 14, 2016 1:44 PM
To: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: FW: Extracts from Pension Asset Position Paper

Steve and Nicole, I'd like you to both review the attached (and the extract). Ideally for end of day.

Paul

From: Paul, Joshua (EDU)
Sent: November 14, 2016 1:40 PM
To: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

Comments?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Monday, November 14, 2016 1:38 PM

To: Petsche, Nadine (TBS)

Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)

Subject: RE: Extracts from Pension Asset Position Paper

Hi Josh

Attached are our comments on the extracts

Alex

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 1:23 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)
Subject: RE: Extracts from Pension Asset Position Paper

Hi Alex. Thanks for getting back to me. I had not shared the email with EDU, so I am copying Josh on this response. I'll look forward to hearing back from both of you on any comments/edits (if possible by end of day today, that would be much appreciated).

Thanks.

Nadine

From: Killoch, Alex (MOF)
Sent: November 14, 2016 9:35 AM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Re: Extracts from Pension Asset Position Paper

Hi Nadine

Has this gone to EDU? They should see it as they are the signatory to the FMP.

We will look at it asap

From: Petsche, Nadine (TBS)

Sent: Sunday, November 13, 2016 5:18 AM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: Extracts from Pension Asset Position Paper

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

There are a couple of items that we need your help with. Rather than forwarding you the

entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash

and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province’s contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners’ Agreement). If the sponsors do not accept the report of the mediator,

an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to

develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed “minimum contribution” in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3)] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.

$41.2

The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB[KJ(4] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1)]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2)]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[KJ(3)]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4)]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5)]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) ~~to~~from exceeding the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the

[1] TPA, subsection 5(1.1)

Commented [p1]: This seems to suggest that a surplus must be eliminated through negotiation, which is not correct. The Partners could decide to do nothing with the surplus and park it in the contingency reserve.

Commented [KJ(2]: Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)) ISPPD has provided benefit provisions for other BPS plans. No further analysis is possible.

time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of "good faith" negotiations between the Province and the OTF.

   This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, ~~a decrease in benefits by the employees~~reduced indexation for current retirees w~~ere~~as ~~offset~~ matched by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this ~~increase in benefits~~ restoration of indexation resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their

Commented [KJ(3]: Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

Commented [t4]: It is not material. To date, no credit has been accrued for OTF as there have been no benefit reductions to date during the freeze period. The freeze will end on December 30, 2017. As the plan has filed the 2016 actuarial valuation report, the next required filing will be in 2019 which is outside of the freeze period. It is unlikely any credit will be accrued before the expiration of the freeze period.

Commented [p5]: Mediation precedes arbitration.

Commented [p6]: For only the first 50% of indexation reduction.

Commented [p7]: A reduction in indexation is not a reduction in benefits, and likewise, an increase in indexation is not a benefit improvement.

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.
[3] FMP, section 6.03

substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

Commented [t8]: There is no minimum contributions stipulated in the plan text or legislation or partners' agreement.

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to partially restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Commented [KJ(9]: Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

Commented [p10]: Special payments scheduled to end December 2026.

Commented [t11]: Every valuation will review the funded status and if there is a new deficit, a new special contribution may be established to liquidate the new deficit. If the plan is well funded, the existing special contributions may end sooner than 2026.

Table 1: Summary of Asset Ceiling Models performed for OTPP

Commented [t12]: We are unsure about the accuracy of the table.

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB is reduced for 2 years by $1.7B at March 31, 2016.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.	$12.9	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

Commented [KJ(13]: I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

Commented [KJ(14]: Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting) date is 2026, unless conditions warrant an earlier change.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plan~~s~~ to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Commented [p15]: We suggest reversing the 3rd and 4th columns, as it is easier to read when it was the government that initiated changes.

Commented [p16]: The OTPP became a JSPP in 1992, not 1990.

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	~~Increased~~ ~~c~~Contributions by teachers increased ~~by 1%~~ percentage point (from 7.9% to 8.9%) effective January 1, 1990 per legislation.	Legislated an increase in matching contributions (from 7.9% to 8.9%) effective January 1, 1990 and responsibility to ~~Aagreed to~~ finance the initial unfunded liability through ~~make~~ a series of special payments ~~to eliminate the unfunded liability and match increased contributions~~	Special payments considered an asset bringing the plan to a $0 surplus

1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining special payments	$0
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion	$9.3 Billion	

Commented [NP17]: Check if anything more recent? The TPP has been in a deficit position since 2005 until recently. All uses of "surplus" in recent years have been used to restore indexation.

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Fw: Extracts from Pension Asset Position Paper
Date: Monday, November 14, 2016 10:35:22

Fyi
From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: Sunday, November 13, 2016 5:18 AM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: Extracts from Pension Asset Position Paper

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

There are a couple of items that we need your help with. Rather than forwarding you the entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept

an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2)] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal

weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province’s contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners’ Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners’ Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.

$41.2

The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB[KJ(4] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of

March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

---

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can

you follow up with Len and perhaps Alex as well.

[KJ(3]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: Funding Valuation Discount Rates
Date: Monday, November 14, 2016 12:24:19
Attachment 1: image001.jpg

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>
Sent: Monday, November 14, 2016 11:06 AM
To: Petsche, Nadine (TBS); Keates, James (TBS)
Cc: Tsang, Ingrid (MOF)
Subject: RE: Funding Valuation Discount Rates

In Ontario, the regulator would have the funding valuations, but funding valuations are not public. I don't know the practice of other provinces.

It would be a matter of using google and hoping to find information from public sources. Financial statements are public, but I have no idea what funding valuations are available elsewhere.

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 11:02 AM
To: Killoch, Alex (MOF); Keates, James (TBS)
Cc: Tsang, Ingrid (MOF)
Subject: Re: Funding Valuation Discount Rates

Hi Alex.

We were hoping you might be able to help populate the table. Any ideas how to get the details? N

From: Killoch, Alex (MOF)

Sent: Monday, November 14, 2016 10:54 AM

To: Keates, James (TBS)

Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)

Subject: RE: Funding Valuation Discount Rates

Hi James

We don't track these plans and don't have discount rate information available. Are they available publicly somewhere?

From: Keates, James (TBS)
Sent: Monday, November 14, 2016 10:40 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)
Subject: Funding Valuation Discount Rates

Alex, could you help us with completing the below table. We would like to compare the most recent discount rates used by certain pension plans across the country, comparing the discount rate for financial statement purposes with the discount rate used for funding valuation purposes. Would you be able to provide the most recent discount rates used for funding valuation purposes for the following pension plans?

Thanks,

Jim

Pension Plan

Discount rate for Funding Purposes

Discount rate for financial statement purposes

Ontario

Ontario Teachers’ Pension Plan

4.85%

3.25%

Alberta

Teachers’ Post-1992 Pension Plan

7.00%

Saskatchewan

Saskatchewan Healthcare Employees' Pension Plan

6.50%

British Columbia

Teachers’ Pension Plan

6.50%

Quebec

Commission administrative des regimes de retraite et d'assurances

6.40%

Nfld

Memorial University of Newfoundland Pension Plan

5.80%

Nova Scotia

Nova Scotia Teachers' Pension Plan

6.25%

Manitoba

Teachers Pension Plan

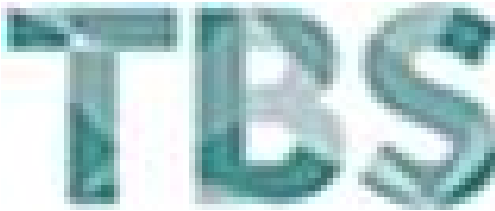
6.00%

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721


TBS

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: ITC
Date: Monday, March 19, 2018 09:36:49
Attachment 1: image001.png

Can you take a stab at this.

Note the short timeline

Alex

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Sent: Monday, March 19, 2018 9:19 AM
To: Killoch, Alex (MOF)
Subject: RE: ITC

Hi Alex,

I have back to back meeting until 12 today and our meeting to discuss Cindy's points is scheduled for 11:45.

Question below is based on question #9 of the ITC.

9. If you support a discount rate basis that includes adjustments for risks, which risks should be included in determining the discount rate (paragraphs .040-.046 and .080-.082)?

Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans.

That's the answer provided. Can we expand on this answer to include a discussion on what risks (if any) we consider for the discount rates used?

Thanks

Khal

From: Killoch, Alex (MOF)
Sent: March 19, 2018 9:12 AM
To: Noor, Khalida (TBS)
Subject: RE: ITC

Can we discuss a bit later this morning? Any time after 10:30

At little context might be helpful for me.

From: Noor, Khalida (TBS)
Sent: March 19, 2018 9:07 AM
To: Killoch, Alex (MOF)
Subject: ITC

Hi Alex,

Hope you had a good weekend. Cindy has reviewed the document and she had some follow-up questions. Can you please help me address below?

What risks do we / should we consider in determining the following discount rates?

- Expected return on plan assets for funded plans; and
- Government's cost of borrowing for unfunded plans

Thanks

Khal

Khalida Noor, CPA, CA

Director, Controllership Policy & Accounting Consultation

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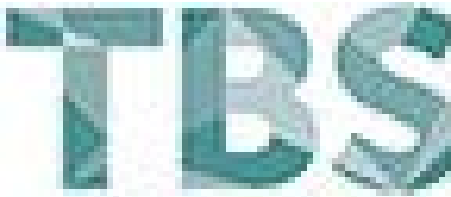
7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 325-2631

Khalida.noor@ontario.ca


TBS

From: Paul, Joshua (EDU) []
To: Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]
Subject: Fw: Need an off the shelf summary
Date: Monday, September 12, 2016 14:04:02

Here is some follow up from our call this morning.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Roberto, Nicole (EDU) <Nicole.Roberto@ontario.ca>
Sent: Monday, September 12, 2016 2:00 PM
To: Paul, Joshua (EDU)
Cc: Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: RE: Need an off the shelf summary

Was on the communications working group call and Mary Cover (OTPP's Director of Actuarial Services) confirmed that the government's share the pain provision once we move to 90% CIP is approximately $2.3B. At 70% CIP the payment was approximately $6.6B – so the quantum is approximately $4.3B.

Also FYI – we are on track for an OTPP release of the funding announcement for Wednesday September 14th at 10 a.m. and Mary thinks they will be filing the valuation with FSCO sometime over the next week (deadline is September 30).

From: Duffy, Paul (EDU)
Sent: September-12-16 10:46 AM
To: Paul, Joshua (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Need an off the shelf summary

Here's the off the shelf description:

As part of the 2008 agreement to introduce Conditional Inflation Protection (CIP), the government agreed to a "sharing the pain" provision. The provision states that for years where members receive less than 100% inflation protection, the government is required to make additional contributions to the Plan equal to the amount forgone by members. Contributions are made up to 50% for CIP on service accrued after 2013 (e.g. if CIP for

this period was 40% the government is required to make additional contributions at 50%, not 60%).

From: Paul, Joshua (EDU)
Sent: September 12, 2016 10:43 AM
To: Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: Re: Need an off the shelf summary
Importance: High

Need quantum of reduction in share the pain as a result of recent CIP restore

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Joshua.Paul@ontario.ca

Sent: Monday, September 12, 2016 10:41 AM

To: Duffy, Paul (EDU)

Cc: Roberto, Nicole (EDU)

Subject: Re: Need an off the shelf summary

In Gabe's office

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Duffy, Paul (EDU)

Sent: Monday, September 12, 2016 10:38 AM

To: Paul, Joshua (EDU)

Cc: Roberto, Nicole (EDU)

Subject: RE: Need an off the shelf summary

Working on it.

From: Paul, Joshua (EDU)
Sent: September 12, 2016 10:36 AM
To: Duffy, Paul (EDU)
Subject: Need an off the shelf summary

Of the share the pain arrangements.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Fw: New Model Output
Date: Monday, September 26, 2016 07:05:22

Fyi

From: Allan Shapira <allan.shapira@aonhewitt.com>
Sent: Sunday, September 25, 2016 8:08 PM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

Hi Cindy.

Sorry to take a little longer to get back to you on this. I have been trying to get some additional information from the OTPP on how they would actually do the 25% test given the actuarial cost method they use for the funding valuation and how this might actually work if we reach the 25%. We have been going back and forth on this issue over the weekend. As I expected, the first response I got was that we would not get to 25% since there would be 50/50 sharing in the temporary zone before we ever reached the 25%. I know that I keep harping on that point but do so because in my view the AG's position is fundamentally flawed.

Not sure where the 15 years comes from since it looks like the spreadsheet starts reducing the member and government contributions in 2025. Having said that, whether it is 10 years or 15 years, the mathematics will get us to the 25% limit using the funding accrued liabilities, as shown in the spreadsheet. If you look at the fair value of assets/ accounting liabilities at the start of the spreadsheet, the starting ratio is at 35%. So that tells me that if we project this out under the actuarial assumptions being used, we will get to the 25% using the funding accrued liabilities within a foreseeable time frame.

Please let me know if you need anything else.

Allan

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: September-24-16 2:00 PM
To: Allan Shapira
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

Thanks Allan – re: the first statement, I don't think we need to know whether it would be in the temporary or permanent.

With respect to the modelling that Martin has done re: when the plan would be expected to hit the CRA limit, have you had a chance to review and are you in agreement with the output (e.g. that based on the assumptions used, the plan would be expected to hit the CRA limit in 15 years)?

Thanks again,

Cindy

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September-24-16 10:15 AM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: Re: New Model Output

It would definitely be in the temporary zone and may even be in the permanent zone. I would have to take some time today to figure that out if that is important.

It seems like the AG is hung up on the fact that the government needs agreement of another party, the other joint sponsor to use surplus. That is the essence of a joint plan and it plays out in both increasing contributions when necessary and reducing then when there is an opportunity to do so. I should remind everyone that the temporary zone was introduced in response to the concerns of the member sponsor that with what they view as conservative funding the surplus would grow very large with only a permanent zone and they would not get access to it early enough. Clearly that reflects their desire to use the surplus and they can only do so if the government gets its 50% share.

Allan

Sent from my iPhone

On Sep 24, 2016, at 9:01 AM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

> Thanks everyone for looking at this so quickly.
>
> One question on #3 [illegible] does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued expected returns, one model suggests that the plan would be in the permanent zone in 15 years?
>
> **From:** Killoch, Alex (MOF)
> **Sent:** September-24-16 8:57 AM
> **To:** Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
> **Cc:** allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
> **Subject:** Re: New Model Output
>
> I talked to Allan last night.
>
> The answer to number 1 is that the rule applies[illegible] to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The otf would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)

Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

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3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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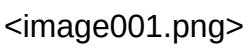

De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA

Partner – Audit – Actuarial services

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maraymond@deloitte.ca | www.deloitte.ca

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<image001.png>

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Fw: New Model Output
Date: Sunday, September 25, 2016 15:05:41

Cindy is looking for you on this question.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Sunday, September 25, 2016 10:48 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS)
Subject: FW: New Model Output

Alex – have you heard back from Allan? Could you follow up with him?

From: Veinot, Cindy (TBS)
Sent: September-24-16 2:00 PM
To: Allan Shapira
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

Thanks Allan – re: the first statement, I don't think we need to know whether it would be in the temporary or permanent.

With respect to the modelling that Martin has done re: when the plan would be expected to hit the CRA limit, have you had a chance to review and are you in agreement with the output (e.g. that based on the assumptions used, the plan would be expected to hit the CRA limit in 15 years)?

Thanks again,

Cindy

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September-24-16 10:15 AM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: Re: New Model Output

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Allan

Sent from my iPhone

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>
> One question on #3 – does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued

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Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: Re: New Model Output

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Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

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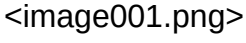

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Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Objet : RE: New Model Output

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To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: New Model Output
Date: Friday, September 23, 2016 16:47:40
Attachment 1: image001.png

Anyone know answer to #3?

I am assuming someone at Delloitte knows about the ITA questions in 1 and 2

From: Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Sent: Friday, September 23, 2016 4:43 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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Partner – Audit – Actuarial services

Deloitte

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13

À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA
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Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

Confidentiality Warning:

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TEAM·ÉQUIPE
OFFICIAL SUPPLIER
FOURNISSEUR OFFICIEL

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: OPCD Pension Asset Ceiling_Sept 12v2.ppt
Date: Tuesday, September 13, 2016 12:16:00
Attachment 1: OPCD Pension Asset Ceiling_Sept 12v2.ppt

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Tuesday, September 13, 2016 12:13 PM
To: Schuurman, Tim (MOF); Mayman, Gadi (OFA); Thompson, Scott (MOF); Killoch, Alex (MOF)
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Office of the Provincial Controller Division

Accounting for Pension Assets – OTPP and OPSEUPP

September 12, 2016

Draft – for discussion purposes

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(in billions)	March 31, 2016 (preliminary)	March 31, 2015 (audited)
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- On September 12, 2016, TBS shared a draft legal opinion with the AG which supported the Province's ability to access the benefits associated with the surplus
- As of September 12, 2016, despite the legal opinion, the AG remains convinced that the measurement of the surplus should be based on the OTPP's funding valuation as a starting point which is more conservative and compiled for different purposes which are not PSAB related. She feels that this alternate pension asset value is relevant and has requested information on the government's plans to access the pension asset in the current year

- Given the relative size of the asset values in question, the balance of the deck will focus on OTPP.

Versions to consider based on AG's methodology

- **Version 1** - based on Province's share of surplus based on OTPP funding valuation

- **Version 2** – based on share of surplus for which a decision to use has been made

- In both versions, the impact is a decrease in 2015-16 deficit because the surplus in the funding valuation has increased significantly during the year.

Version 1: Estimated impact to based on AG's methodology

- The following table compares the Province's respective asset values currently reported in the Public Accounts to 50% of the surplus based on the funding valuation as disclosed on the OTPP website

(in billions)	2016	2015
100% of surplus per funding valuation (OTPP Website)	13.2	6.8
50% of surplus per funding valuation	6.6	3.4
Vs.		
Asset value recorded by the Province	10.1	8.7
Excess of asset over 50% of surplus per funding valuation	(3.5)	(5.3)

- Impact of adopting the AG's methodology would require:
  1. Increase opening accumulated deficit for the March 31, 2016 year by $5.3 billion
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  3. Increase total liabilities as at March 31, 2016 (impacts debt and net debt) by $3.5 billion

Version 1: 2015-16 Public Accounts -- Potential Impact

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	(1.7)	130.5
Annual Deficit	(3.8)	1.7	(2.1)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	3.5	381.9
Net debt	(294.9)	(3.5)	(298.4)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(3.5)	(195.9)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.5%		39.9%

Version 2: Estimated impact to based on AG's methodology

- The following table compares the Province's respective asset values currently reported in the Public Accounts to 50% of the surplus for which a decision to use has been made:

(in billions)	2016	2015
100% of surplus for which a decision to use has been made	8.6	3.7
50% of surplus for which a decision to use has been made	4.3	1.85
Vs.		
Asset value recorded by the Province	10.1	8.7
Excess of asset over 50% of surplus per funding valuation	(5.8)	(6.85)

- Impact of adopting the AG's methodology would require:
  1. Increase opening accumulated deficit for the March 31, 2016 year by $6.85 billion
  2. Reduce the annual deficit for the 2015-16 year by $1.05 billion ($6.85 – $5.8)
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Version 2: 2015-16 Public Accounts -- Potential Impact

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	(1.05)	131.15
Annual Deficit	(3.8)	1.05	(2.75)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	5.8	384.2
Net debt	(294.9)	(5.8)	(300.7)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(5.8)	(198.2)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.5%		40.2%

Next steps in process

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    - We are not aware of the facts provided or the questions asked
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Potential outcomes of next steps

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   - Issues summary from AG will provide additional insight into their views; to the extent we disagree with their views, we may be able to provide additional analysis to support the Province's view

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Potential outcomes of next steps

2. AG does not change her view

a) Province agrees to reduce asset value to Province's share of surplus based on funding valuation

- Impact on financial results for 2016 and beyond
- Risks of accepting the AG's position on following slides

b) Province accepts a qualified audit opinion

- Communication of reason for qualification
  - AG could suggest that the Province has been understating liabilities and making the results appear more favourable

c) Province delays issuance of public accounts

- Does the basis for the delay due to disagreement on the application of PSAB be considered an extraordinary circumstance?
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CC: Chen, Raymond (TBS) [SOM.5Raymond.Chen@ontario.ca]
Subject: Fw: OPCD Pension Asset Ceiling_Sept 12v2.ppt
Date: Tuesday, September 13, 2016 12:13:28
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Subject: Fw: OPCD Pension Asset Ceiling_Sept 12v2.ppt
Date: Tuesday, September 13, 2016 14:38:20
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- In both versions, the impact is a decrease in 2015-16 deficit because the surplus in the funding valuation has increased significantly during the year.

Version 1: Estimated impact to based on AG's methodology

- The following table compares the Province's respective asset values currently reported in the Public Accounts to 50% of the surplus based on the funding valuation as disclosed on the OTPP website

(in billions)	2016	2015
100% of surplus per funding valuation (OTPP Website)	13.2	6.8
50% of surplus per funding valuation	6.6	3.4
Vs.		
Asset value recorded by the Province	10.1	8.7
Excess of asset over 50% of surplus per funding valuation	(3.5)	(5.3)

- Impact of adopting the AG's methodology would require:
  1. Increase opening accumulated deficit for the March 31, 2016 year by $5.3 billion
  2. Reduce the annual deficit for the 2015-16 year by $1.7 billion ($5.3 – 3.5)
  3. Increase total liabilities as at March 31, 2016 (impacts debt and net debt) by $3.5 billion

Version 1: 2015-16 Public Accounts -- Potential Impact

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	(1.7)	130.5
Annual Deficit	(3.8)	1.7	(2.1)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	3.5	381.9
Net debt	(294.9)	(3.5)	(298.4)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(3.5)	(195.9)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.5%		39.9%

Version 2: Estimated impact to based on AG's methodology

- The following table compares the Province's respective asset values currently reported in the Public Accounts to 50% of the surplus for which a decision to use has been made:

(in billions)	2016	2015
100% of surplus for which a decision to use has been made	8.6	3.7
50% of surplus for which a decision to use has been made	4.3	1.85
Vs.		
Asset value recorded by the Province	10.1	8.7
Excess of asset over 50% of surplus per funding valuation	(5.8)	(6.85)

- Impact of adopting the AG's methodology would require:
  1. Increase opening accumulated deficit for the March 31, 2016 year by $6.85 billion
  2. Reduce the annual deficit for the 2015-16 year by $1.05 billion ($6.85 – $5.8)
  3. Increase total liabilities as at March 31, 2016 (impacts debt and net debt) by $5.8 billion

Version 2: 2015-16 Public Accounts -- Potential Impact

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	(1.05)	131.15
Annual Deficit	(3.8)	1.05	(2.75)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	5.8	384.2
Net debt	(294.9)	(5.8)	(300.7)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(5.8)	(198.2)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.5%		40.2%

Next steps in process

- AG to share issues summary with OPCD when available (may be September 13)
  - AG will not share written opinions she has sought (from CCOLA and national accounting firm)
    - We are not aware of the facts provided or the questions asked
  - AG will not permit us to speak to her advisors

- AG did agree to have a discussion with the Province's advisors
    - We have requested a discussion at 6:30 pm on September 13, but have not heard back from the AG

Potential outcomes of next steps

1. **AG changes her view to align with Province's view**
   - Issues summary from AG will provide additional insight into their views; to the extent we disagree with their views, we may be able to provide additional analysis to support the Province's view

   - If discussion between AG and the Province's external advisors (Deloitte) provides convincing arguments to help change the AG's interpretation of PSAB, this could be bolstered by a formal accounting opinion by Deloitte.

Potential outcomes of next steps

2. AG does not change her view

a) Province agrees to reduce asset value to Province's share of surplus based on funding valuation

- Impact on financial results for 2016 and beyond
- Risks of accepting the AG's position on following slides

b) Province accepts a qualified audit opinion

- Communication of reason for qualification
  - AG could suggest that the Province has been understating liabilities and making the results appear more favourable

c) Province delays issuance of public accounts

- Does the basis for the delay due to disagreement on the application of PSAB be considered an extraordinary circumstance?
  - TBS legal is reviewing
- Impact of delay; public perception
- Will the AG agree to involve another party for purposes of resolving the issue?
- Can the Province approach CCOLA for an opinion?

Risks to accepting AG's methodology

- Not based on PSAB Standards
- The use of a funding valuation to value a pension asset is not consistent with any other accounting framework
  - Canadian GAAP prior to the adoption of IFRS was consistent with PSAB standards
  - IFRS has a specific methodology that is similar to PSAB Standards
  - US GAAP does not have the concept of a valuation allowance

- In the current year, the AG has also noted that there needs to be a plan in place that is agreed to between the parties to use the asset; in the current year, the timing of the public accounts coincides with an announcement regarding use of the funding surplus
  - It is unclear what the AG's position would be if the surplus was left in the plan for a period of years as has been done in the past – would the asset be required to be reduced to NIL?

Risks to accepting the AG's methodology

- Because we do not understand how the AG is getting to her current position based on PSAB standards, we would have no ability to predict the accounting implications of future transactions – we would be subject accounting standards as interpreted by the AG at the time of her interpretation

- OTPP is not required to obtain a funding valuation each year (only required every 3 years).
  - If OTPP does not obtain a valuation, what is the value of the asset based on?
  - Can the Province require OTPP to obtain a funding valuation?

Risks to accepting the AG's methodology

- Increase volatility between future interim forecasts versus future actual results
  - Assuming OTPP will provide an annual funding valuation, information on funding will likely not be available by time of Budget and can not be incorporated as part of the interim forecast.
  - OTPP in the past have announced their preliminary funding status on their website late March or early April.
  - Adjustments to asset valuation allowance is made in each year of assessment and no deferral of the impact is currently allowed under PSAB standards.
  - We currently do not have models that can predict the future funding status of the plan.

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Fw: OTF Financial Statements
Date: Friday, September 16, 2016 11:19:11

From: Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>
Sent: Friday, September 16, 2016 11:15 AM
To: Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF)
Subject: RE: OTF Financial Statements

Hi Nadine,

If I understand correctly what is being asked, the OTF would not have audited financial statements relating to the OTPP. The OTF is merely an umbrella organization whose mandate it is to represent all teachers in pension discussions/negotiations.

Please let me know if you have any questions.

Thanks,

Rob

From: Petsche, Nadine (TBS)
Sent: September 16, 2016 10:01 AM
To: Pomykacz, Rob (MOF)
Subject: FW: OTF Financial Statements

Hi Rob.

Just wondering if we might have these f/s? n

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September 16, 2016 9:57 AM
To: Petsche, Nadine (TBS)
Subject: OTF Financial Statements

Does the Province have financial statements that are audited for OTF?

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: OTPP
Date: Wednesday, September 21, 2016 12:44:18

Fyi

Original Message
From: Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>
Sent: Wednesday, September 21, 2016 11:57 AM
To: Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF)
Subject: FW: OTPP

Hi Nadine,

As requested, please find information below from Allan Shapira on the "Call Right" provision under the term sheet.

Thanks,
Rob

-----Original Message-----
From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September 21, 2016 10:27 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

I am responding to the questions on the surplus credits under the term sheet.

It is important to understand the purpose of the term sheet. The OTF and the government entered into this agreement to freeze any increase in contribution rates for a specified period. That meant that if the plan funding deteriorated during this perIod such that an actuarial report identified a funding shortfall that had to be addressed by the sponsors, this shortfall would have to be addressed by benefit reductions for future service.

If there were benefit reductions, the term sheet created a corresponding surplus credit that could be used by the OTF if and when the plan was in surplus. There have been no material benefit reductions to date nor are any anticipated now that the next required filing is after the expiration of the term sheet. Any credit that exists would be a negligible amount.

Allan

Sent from my iPhone

****
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communication (and any attachments) without making a copy. Thank you.

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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 14:09:22
Attachment 1: OTPP Asset Options v9.pptx

Can you check with edu regarding sharing with opcd in advance.

From: Di Renzo, Stephen (EDU) <Stephen.DiRenzo@ontario.ca>
Sent: Thursday, December 15, 2016 12:45 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: FW: OTPP Asset Options (BPS Comments).pptx

Thanks all for the edits. Attached is the clean version for the meeting today.

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 10:35 AM
To: Roberto, Nicole (EDU)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Moadel, Maryam (MOF); Tsang, Ingrid (MOF); Franks, Sebastian (EDU); Ryan, Kate (EDU); Paul, Joshua (EDU)
Subject: OTPP Asset Options (BPS Comments).pptx

Hi Nicole,

Please find attached some additional edits to the version we sent you last night. Today's changes are indicated in blue font.

Please let us know if you have any questions.

Thanks,

Rob

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with approaching the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms in order to meet the Auditor General's (AG) interpretation of the standard to recognize a pension asset.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts. [OPCD to confirm that this is a part of the test]

Context

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change. [in accounting treatment or to pension plan?]
      - [OPCD PLACEHOLDER]

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists once a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.
   - Any change to the plan governance should contemplate change to accounting standards.

     [PLACEHOLDER OPCD]

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - [OPCD Placeholder] What would be required to satisfy the AG's concerns? How extensive an amendment?
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector. For example:
    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
    - The Board determines the discount rate that is used to establish the funding level.

Considerations

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This would change how the two Partners interact with each other and could affect each Partner's decision making with respect to the plan overall.
  - If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.
- This would also impact the way the Board interacts with the Partners.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.
- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, a constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Board and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

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Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.
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     [PLACEHOLDER OPCD]

Potential Options

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    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
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Considerations

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
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- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
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- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
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Risks

- Timing risk
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  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.
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  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: OTPP Asset Policy Considerations
Date: Tuesday, November 22, 2016 11:46:35
Attachment 1: OTPP Aset Policy Considerations v 05 22-11-2016.docx

---

Can you print and bring to meeting.

Wrapping up here shortly

From: Duffy, Paul (EDU) <Paul.Duffy@ontario.ca>
Sent: Tuesday, November 22, 2016 10:10 AM
To: Killoch, Alex (MOF)
Subject: OTPP Asset Policy Considerations

Alex, I'm attaching a note that we're working on re: Policy Considerations for the OTPP asset. Depending on where this goes, we may need your help with some of it (you'll see that we've got tentative placeholders for MOF for now). We can discuss if this is needed at our 11AM.

Thanks

Paul

Ministry of Education

DECISION NOTE

Ontario Teachers' Pension Plan Asset

Purpose

Explore options to guarantee the government's ability to reduce contributions and/or access surplus funds available as a result of the annual Ontario Teachers' Pension Plan (OTPP) funding valuation should the plan experience strong financial health in the future.

Key Information

- In March 2016, the Auditor General of Ontario (AG) conducted a review of the Province's Statement of Financial position with an emphasis on the accounting treatment of pension assets.
- The AG reached the conclusion that the Province did not have the legally enforceable right to unilaterally access a pension asset of $10.6 billion from the OTPP and Ontario Public Service Employees Union Pension Plan (OPSEUPP).
    - A net pension asset arises when the government's total contributions to a plan, including interest earned, are greater than the pension expense recognized since the start of the plan.
- Given the differences in interpretation of the application of the OTPP and OPSEUPP pension asset, a time-limited regulation was approved to legislate the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts.
    - The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.
    - In addition, the Province's pension expense for 2016-17 increased by $2.2 billion to reflect the pension adjustment.
- Ontario has engaged an expert panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- In addition, the government is exploring what other options may exist to clarify the right to access the asset in the future.

Considerations

- The co-sponsorship of the OTPP was established in legislation and the government has a statutory obligation to make matching contributions to the Plan.
- In addition to the legislation, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship of the Plan and to avoid

contentious unilateral funding decisions (even in disagreement, Plan terms state a third party arbitrator must be used).

- Under the current governance framework for the use of surplus (the FMP) contribution reductions and/or access to the surplus is only negotiated if and when the funded status of the Plan has reached a specific 'zone' (See appendix A for a description of the FMP zones).
    - The Plan is currently in the Restoration/Underfunded Zone, which means additional contributions rates and Conditional Inflation Protection (CIP) have been invoked. Without these additional levers, the Plan would be in a deficit position.
- Efforts to establish the government's unilateral access to its share of future surplus prior to the improvement of the Plan's funded status would represent a significant departure from the Plan's existing governance policy.

Potential Options

- **Status Quo** – await the recommendations of the Expert Advisory Panel
    - Should the Pension Asset Expert Advisory Panel concur with the AG's accounting interpretation, it could negatively impact the Province's net debt and accumulated deficit on a multi-year basis.
    - The impact of the 2015-16 pension adjustment resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase of $1.5 billion to the annual deficit for 2015–16.
    - Consistent with the accounting treatment adopted in the 2015-16 Public Accounts, the fiscal outlook provided in the Fall Economic Statement projected future pension expense of $1.7 billion (roughly equal to the Plan's annual cash contributions).

- **Shared Asset Model** (ie OMERS)
    - **Placeholder for MOF feedback**

- **Other JSPP options/ structures that could be considered**
    - **Placeholder for MOF feedback**

- **Negotiate <u>now</u> with the OTF**
    - To formally acknowledge the government's ability to reduce its contributions and/or access the surplus if and when the Plan is in strong financial health in the future.
    - This option represents a significant departure from the long-standing and mutually agreed to governance framework (established in 2003) and would likely result in lengthy negotiations with the OTF.

- Do we want to reference the current labour dynamic?
- The last time the government attempted to negotiate unilateral access to the Plan's surplus was in 1998 (prior to the existence of the FMP) when the government wanted to eliminate the contributions it was required to make for the initial unfunded liability (about $8 billion of the surplus that had accumulated or was expected to accumulate in the Plan over the next year or two).
- At the time, the OTF was reluctant to agree to such an arrangement. The Plan Administrator also argued that eliminating the surplus would be prejudicial to the Plan's long-term health and stability.
- The government persisted and threatened to legislate the arrangement if an agreement could not be reached. After much negotiation, the government promised the OTF future benefit enhancements that would also equal $8 billion (primarily due to a reduced retirement factor of 85).

- **Unilaterally legislate**
  - This option would require the government to fundamentally change the basis on which the OTPP has been built, namely an equal partnership with the teachers.
    - Unilateral action would be inconsistent with the Partners' Agreement which establishes that the Plan is to be operated as a partnership in which decisions are arrived at through negotiation. There are provisions for mediation and arbitration in the event of disagreements.
  - As per Schedule 1 (c. 25(1)) of the TPA, the Minister's contributions must equal those made by the members so any changes would have to apply to both parties.
  - If the government chose to pursue this option it could end the jointly sponsored arrangement and make the government solely responsible for the Plan, as existed prior to 1990. PLACEHODLER – need to explore further with LSB
  - The OTF and its affiliate members would be severely opposed to this legislative option. Such action would likely place considerable strain on the relationship between government and the OTF, which has made great strides since a similar situation occurred in 1998.

Background

- The OTPP is Canada's largest single-profession pension plan, with $171 billion in net assets at December 31, 2015.
- It holds a diverse global portfolio of assets, 80% of which is managed in-house, and has earned an annualized rate of return of 10.3% since the plan's founding in 1990.

- Ontario Teachers' is an independent organization headquartered in Toronto with the Asia-Pacific region office located in Hong Kong and the Europe, Middle East & Africa region office in London.
- The defined-benefit plan, which is fully funded, invests and administers the pensions of the province of Ontario's 316,000 active and retired teachers.

Current Funding Framework

- The FMP is a long-term agreement that forms part of the OTPP Partners' Agreement (See Appendix A for FMP Framework Description)
- The Plan sponsors, the Ontario government and the Ontario Teachers' Federation (OTF), adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
    - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
    - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
    - Temporary Improvement Zone – Improve benefits or lower contributions as negotiated.
    - Permanent Plan Improvement Zone – Improve benefits or lower contributions as negotiated.
- The FMP also builds in a level of conservatism with respect the discount rate which the sponsors use to determine what zone the plan is in. This determination is distinct from discount rate process used by the Board which informs the annual funding valuation.

OTPP Funding Valuation

- Each year, the OTPP is required to undergo a funding valuation to determine the status of the plan. The OTPP retains Mercer, a third party actuary, to perform the valuation.
- The funding valuation looks ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities. Assets are what the pension plan owns (stocks, bonds, real estate, future contributions) while liabilities are the present value of members' and retirees' pension benefits.
    - If the assets are equal to or exceed the liabilities, the plan is financially balanced. An excess of assets represents a surplus, while an excess of liabilities represents a deficit.
- It is the responsibility of the OTPP sponsors to determine when to file the annual valuation with the FSCO.
- The sponsors are also responsible for negotiating the use of any surplus funds and, when there is a funding shortfall, implementing a strategy to eliminate it.

- The 2016 OTPP funding valuation revealed a preliminary surplus of over $13 billion, the third surplus in as many years.
    - The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
    - The CIP was at 70% as of January 2016 – up from 60% in 2015.
- The OTPP provided a funding update in July 2016 which is tracking a preliminary surplus of about $8 billion.

PREPARED BY: Stephen Di Renzo
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(416) 326-9922

APPROVED BY: Joshua Paul
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Fiscal & Financial Planning
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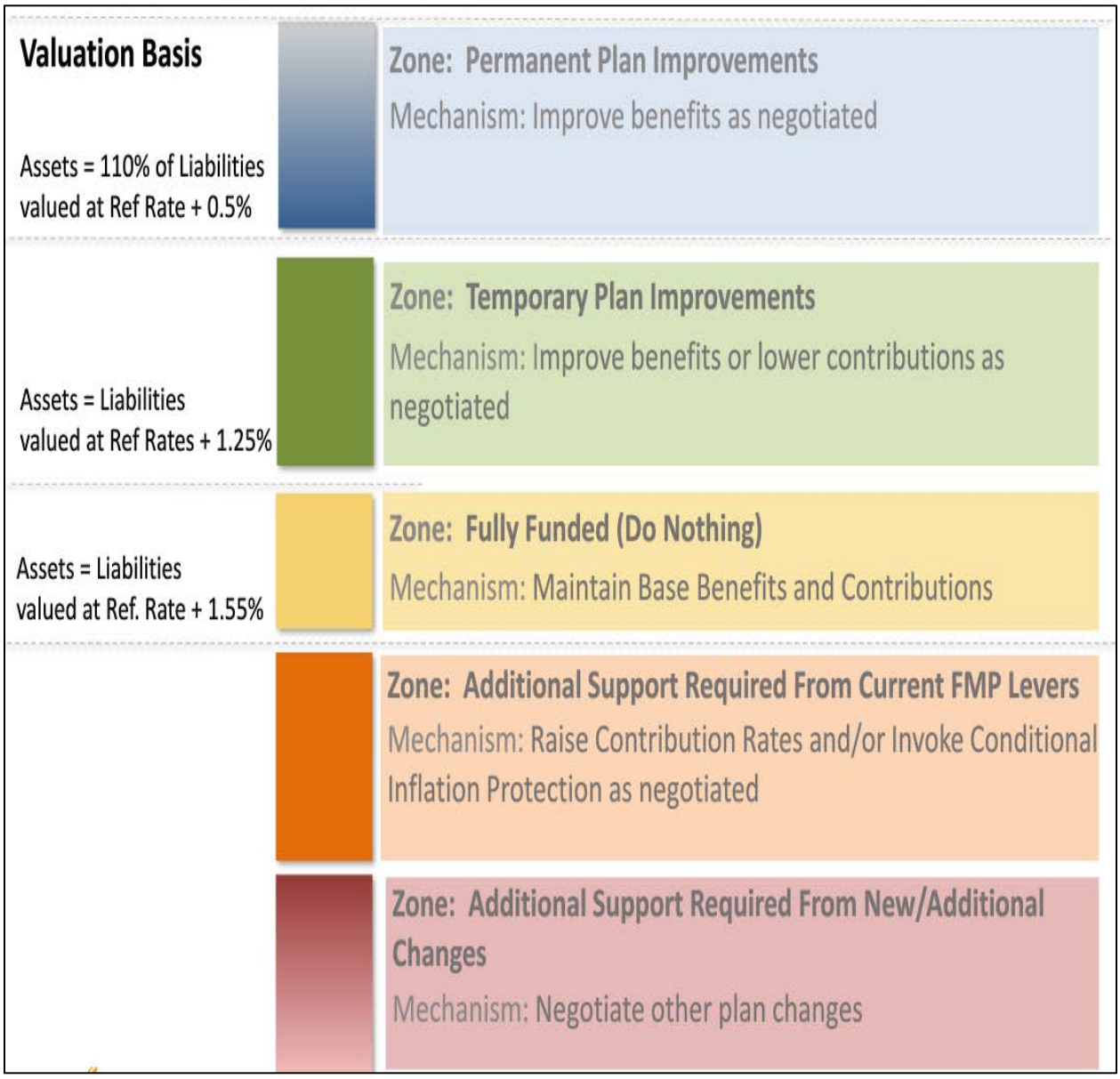
APPENDIX A: FMP Framework Description



From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Fw: OTPP Funding Valuation
Date: Saturday, November 05, 2016 13:39:38
Attachment 1: image001.jpg
Attachment 2: Assumption comparisons for OPCD.docx

From: Tsang, Ingrid (MOF) <Ingrid.Tsang@ontario.ca>
Sent: Friday, November 4, 2016 3:13 PM
To: Keates, James (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: OTPP Funding Valuation

Hi Jim,

It was very nice talking to you today. Attached are our comments. We would appreciate the opportunity to see the next version once you've had the opportunity to incorporate our suggested changes.

Many thanks,
Ingrid

From: Keates, James (TBS) <James.Keates@ontario.ca>

Sent: Friday, October 28, 2016 2:10 PM

To: Killoch, Alex (MOF)

Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS)

Subject: OTPP Funding Valuation

Alex, I am working on a paper for the Pension Asset Expert Advisory Panel.

We have prepared a summary of the similarities and differences in valuation

assumptions and methodologies for OTPP under their funding valuation relative to their Part IV and PSAS valuations. Could you confirm the descriptions below are correct?

Thanks

Jim

Appendix I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology

Funding valuation

(Going concern basis)

Accounting Part IV –

(OTPP Financial statements)

Accounting PSAS –

(Province Financial statements)

Purpose

To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits

Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.

Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.

Actuarial cost method

[To confirm – not clear from the valuation report]

Projected benefit method prorated on services

Asset valuation

The actuary should select an asset valuation method that is consistent with the circumstances of the work.

The value of assets may be, subject to specific requirements for different types of valuation, any of:

• Their market value;

• Their market value adjusted to moderate volatility in investment returns;

• The present value of their cash flows after the calculation date; and

• Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values

[To confirm the approach taken in OTPP funding valuation][NP1]

Fair value for all plan assets.

Fair value is determined in accordance with IFRS 13, *Fair value measurement*.

Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently.

The Province uses adjusted market values for some classes of assets in certain plans.

Discount rate

Best estimate less Margins for adverse deviations and expenses where appropriate.

For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work

To confirm the approach taken in OTPP funding valuation][NP2]

In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.

Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists.

Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.

Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[1]

The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.

Underlying population data

All valuation methodologies should use consistent underlying data of the population covered by the plan

Inflation rate

All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate).

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Demographic assumptions

All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Other economic assumptions

All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?][NP3]

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

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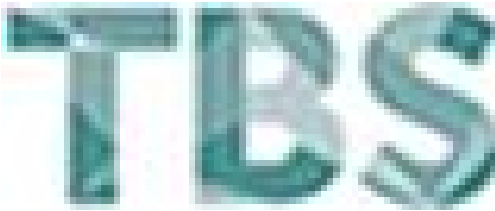
[1] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

[NP1]Opcd to confirm with Alex Killoch

[NP2]OPCD to confirm with Alex Killoch

[NP3]Opcd to confirm with Alex Killoch


TBS

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits and to provide information on financial position of the plan as of the valuation date on a funding basis.	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations and the financial position of the plan as of the valuation date on an IFRS basis. ***[Note: we can't confirm if the OTPP Board reports under IFRS. The wording here is just based on the description below on the asset valuation section]***	Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered and to provide information on financial position of the plan on a PSAB basis.
Actuarial cost method	*[To confirm – not clear from the valuation report]*Modified aggregate method (one of the level cost methods).	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date;	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. ~~The Province uses adjusted market values for some classes of assets in certain plans.~~ Market value of assets adjusted with investment

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	and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation] Market value of assets adjusted with investment gains/losses smoothed over a period of 3 years		gains/losses over a period of 5 years.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation] [Market related rates averaged over 36 months]	~~In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.~~ *[Note: Suggest taking out as this dese not appear to be applicable. OTPP is a JSPP. The OTPP Board is the administrator and its financial statement is not the sponsor's financial statement.]* *[Additional Note: as per statement on page 37 of the 2015 annual report, the Board is reporting based on section 3460 of the CPA Handbook. Not sure if this is the same as IFRS 13 or Section 3462 or IAS 19]* Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE	Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing. The Province of Ontario uses a discount rate for OTPP determined by reference to the expected long-term return on plan assets ~~earnings~~.

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		BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	
Underlying population data	All valuations ~~methodologies should~~ use consistent underlying data of the population covered by the plan [membership data based on August 30 of previous year and projected to the valuation date].		
Inflation rate	All valuations ~~methodologies should~~ treat inflation in a consistent manner ~~and use a consistent inflation assumption~~ (best estimate). [Note: best estimate assumption means that the assumption is derived based on best estimate of future events. The final outcome of any best estimate may not be the same, ie, the best estimate of inflation assumption from the province may be different from that of the Board, even though they are both best estimate assumptions]. [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board].		
Demographic assumptions	All valuations ~~methodologies should~~ use ~~a~~ consistent demographic assumptions (best estimate by the OTPP Board) ~~in similar ways~~ [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Based on PSAB, the Province is not required to prescribe demographic assumptions. It is our understanding the Board applies the same demographic assumption for the funding valuation and financial statement valuations].		
Other economic assumptions	~~All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways~~		

	[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Another economic assumption the Province prescribes is the future salary escalation rates. The Province develops this assumption by referencing to the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted. It is our understanding that the OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation]. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. It is our understanding that they are the same for funding valuation and the Board's financial statement valuation.

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Fw: OTPP Meeting - December 9th
Date: Wednesday, November 30, 2016 18:17:59
Attachment 1: OTPP Asset Options.pptx

Alex, here what we have from opcd. We haven't incorporated any of our information into the attached yet.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>
Sent: Tuesday, November 29, 2016 4:18 PM
To: Duffy, Paul (EDU)
Subject: RE: OTPP Meeting - December 9th

Paul

As mentioned below, I attached the draft slide deck. Cindy will review after your inputs are incorporated.

Please let me know if you need anything.

Thanks

Nelson

X20514

From: Tam, Nelson (TBS)
Sent: November-29-16 9:27 AM
To: Duffy, Paul (EDU)
Subject: OTPP Meeting - December 9th

Paul

As discussed on Thursday, November 24th on the potential options relating to access to the pension plan assets. TBS committed to creating a slide deck and sending it to your team to populate the potential risks and related mitigation strategies.

I drafted a slide deck (for TBS and MOF DM briefing) by incorporating the word document you provided at the meeting and sent to Sarah yesterday. I will send to you to populate and validate once Cindy has a quick look.

I just wanted to let you know.

Thanks

Nelson

X20514

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- To provide potential options, and related risks and mitigations strategies, relating to the Province's access to the Ontario Teachers' Pension Plan (OTPP) pension asset

Background

- OTPP is a co-sponsorship plan, established in legislation, between the Ontario government (government) and the Ontario Teachers' Federation (OTF). The government has a statutory obligation to match contributions and any changes made would need to be applied equally by the plan members.
- In addition, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship and to avoid contentious unilateral funding decisions
- Contribution reductions and/or access to the surplus is negotiated if and when the funded status of the Plan has reached a specific funding zone (FMP)

Options

- The following options are potential strategies, low to high risk, to access the OTPP pension asset:
  - Leverage and/or clarify the existing Funding Management Policy (FMP) side agreement provision
  - Legislative changes
  - Implement a shared asset model
- Each option and related risk will be discussed in more detail in the following slides
- Each option has operational and implementation issues which includes potential lengthy negotiations

Leverage and/or clarify existing FMP side agreement provision

- FMP side agreement (4.06 & 5.05) provide the government with the opportunity to adjust contribution levels when a surplus is distributed if there is written agreement between both sponsors.
- The following options may require legislative amendments to the TPA to clarify that the government can reduced contributions and the OTF improve benefits of equal value.

Leverage and/or clarify existing FMP side agreement provision

- The government could:
  - Negotiate with OTF to strengthen the existing FMP language and explicitly reference the government's right to 50% of the surplus; or
  - Amend the TPA to explicitly reference the government's right to 50% of the surplus.

Leverage and/or clarify existing FMP side agreement provision

Legislative Changes

- Amend legislation to guarantee the government's right to the pension asset
- Fundamentally change the basis on which the OTPP and FMP was built (equal partnership)
- This could end the jointly sponsored arrangement and make the government solely responsible for the Plan as existed prior to 1990.

Legislative Changes

Implement a shared asset model

- Similar to the Ontario Public Service Employees Union (OPSEU), actuarial gains or losses are shared equally between the employer and the members.
- Under the current plan, the government has the option to apply their share of the gains to reduce employer costs (for example, special payments, reduce contributions, contribution holiday) or allocate the gains to the employer reserve fund). This is not considered a payment of the surplus out of the fund which is prohibited by the plan terms.

Implement a shared asset model

Risks

- Legal Risk – the legislative changes may meet resistance from stakeholders who prefer the current plan structure and create a legal issue for the province
- Stakeholder Risk – negotiation is required and any change in the plan may result in resistance by the key stakeholders (employees) and make any future adjustments more difficult
- Accounting Risk (OAGO) – the changes may still not meet the Auditor General's interpretation of the accounting requirements and result in the same current treatment

Risks

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
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I drafted a slide deck (for TBS and MOF DM briefing) by incorporating the word document you provided at the meeting and sent to Sarah yesterday. I will send to you to populate and validate once Cindy has a quick look.

I just wanted to let you know.

Thanks

Nelson

X20514

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- To provide potential options, and related risks and mitigations strategies, relating to the Province's access to the Ontario Teachers' Pension Plan (OTPP) pension asset

Background

- OTPP is a co-sponsorship plan, established in legislation, between the Ontario government (government) and the Ontario Teachers' Federation (OTF). The government has a statutory obligation to match contributions and any changes made would need to be applied equally by the plan members.
- In addition, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship and to avoid contentious unilateral funding decisions
- Contribution reductions and/or access to the surplus is negotiated if and when the funded status of the Plan has reached a specific funding zone (FMP)

Options

- The following options are potential strategies, low to high risk, to access the OTPP pension asset:
  - Leverage and/or clarify the existing Funding Management Policy (FMP) side agreement provision
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  - Implement a shared asset model
- Each option and related risk will be discussed in more detail in the following slides
- Each option has operational and implementation issues which includes potential lengthy negotiations

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- FMP side agreement (4.06 & 5.05) provide the government with the opportunity to adjust contribution levels when a surplus is distributed if there is written agreement between both sponsors.
- The following options may require legislative amendments to the TPA to clarify that the government can reduced contributions and the OTF improve benefits of equal value.

Leverage and/or clarify existing FMP side agreement provision

- The government could:
  - Negotiate with OTF to strengthen the existing FMP language and explicitly reference the government's right to 50% of the surplus; or
  - Amend the TPA to explicitly reference the government's right to 50% of the surplus.

Leverage and/or clarify existing FMP side agreement provision

Legislative Changes

- Amend legislation to guarantee the government's right to the pension asset
- Fundamentally change the basis on which the OTPP and FMP was built (equal partnership)
- This could end the jointly sponsored arrangement and make the government solely responsible for the Plan as existed prior to 1990.

Legislative Changes

Implement a shared asset model

- Similar to the Ontario Public Service Employees Union (OPSEU), actuarial gains or losses are shared equally between the employer and the members.
- Under the current plan, the government has the option to apply their share of the gains to reduce employer costs (for example, special payments, reduce contributions, contribution holiday) or allocate the gains to the employer reserve fund). This is not considered a payment of the surplus out of the fund which is prohibited by the plan terms.

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Risks

- Legal Risk – the legislative changes may meet resistance from stakeholders who prefer the current plan structure and create a legal issue for the province
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Risks

From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Fw: OTPP documents
Date: Friday, September 09, 2016 23:05:54
Attachment 1: Schedule 1 - 20140721.pdf
Attachment 2: 20150928 amendment.pdf
Attachment 3: 20150922 amendment.pdf
Attachment 4: 20151128 amendment.pdf
Attachment 5: Current - Partners' Agreement - 03-06-15.pdf
Attachment 6: 20150521 amendment.pdf

Looks like EDU legal has provided the materials.

From: Morton, Sarah (EDU) <Sarah.Morton@ontario.ca>
Sent: Friday, September 9, 2016 10:15 PM
To: Hatzis, Len (TBS); Manji, Shemin (MOF); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS); Inselsbacher, Karen (MET); Petsche, Nadine (TBS)
Subject: OTPP documents

Confidential

Hi all,

Apologies for missing the call I was driving to the cottage. The documents that I am aware of that could be relevant to this analysis are:
-Schedule 1 to the Teachers' Pension Act which is the text of the pension plan, (plus the amendments made in 2015. I do not have a consolidated electronic version) (attached)
-The Partners' Agreement + one amendment (again no consolidated version) (attached)
-The Funding Management Plan which is an appendix to the Partners Agreement. I will send that by way of another email.

Sincerely,
Sarah Morton

ONTARIO TEACHERS' PENSION PLAN

SCHEDULE 1 to the *TEACHERS' PENSION ACT*

PART I
INTERPRETATION

Definitions

1. (1) In this Schedule,

“active member” means a person employed in education who is making contributions under the plan and includes a person receiving payments under a long term income protection agreement and by whom or on whose behalf contributions are being made in accordance with subsection 21 (1); (Last amended August 4, 2011 – Effective September 1, 2011)

"active member on LTIP" means an active member as described in section 6;

"administrator" means the Ontario Teachers' Pension Plan Board; (Last amended June 28, 1990 - Effective June 28, 1990)

"average salary", of a member, means the average salary determined in accordance with section 15;

“benefit” means an amount payable under the pension plan, including a pension, a commuted value or a lump-sum payment; (Last amended May 5, 2010 – Effective September 1, 2002)

"board of education" has the same meaning as "board" in subsection 1 (1) of the *Education Act*;

"child" has the same meaning as in subsection 1 (1) of the *Family Law Act*;

"date of disability", of an active member on LTIP, means the date on which the member ceases to be employed in education as a result of the disability;

"dependent child" means a child of a deceased member who was dependent on the member for support at the time of the member’s death, and who,

(a) is less than eighteen years of age, or

(b) is eighteen or more years of age but less than twenty-five years of age and is in full-time attendance at a school or university, having been in such attendance substantially without interruption since the child reached eighteen years of age or since the member died, whichever occurred later, or

(c) is disabled, having been disabled without interruption since the member died;

(Last amended May 5, 2010 – Effective January 1, 1992)

"designated organization" means an organization designated under subsection 119 (2);

"designated private school" means a school designated under subsection 119 (1);

"employed in education" means employed as described in section 2, 6, 7, 8 or 9; (Last amended October 10, 1995 - Effective January 1, 1990)

“employer-approved leave” means a leave of absence, with or without pay, to which the member’s employer consents; (Last amended July 21, 2014 – Effective September 1, 2014)

“long term income protection agreement” means an agreement to provide long term income protection in the event of a member’s long term disability that is entered into by an insurer within the meaning of section 1 of the *Insurance Act* and,

(a) the Minister of Education;

(b) a board of education;

(c) the Ontario Teachers’ Federation established under the *Teaching Profession Act*;

(d) an affiliated body described in the *Teaching Profession Act*; or

(e) an authority approved by the administrator.

(Last amended August 4, 2011 – Effective September 1, 2011)

"member" means a person who, as a result of his or her employment in education, is entitled to benefits or to a refund of contributions under the pension plan;

"re-employed pensioner" means a member who, after

(a) ceasing to be employed in education before, on or after September 1, 2012, and

(b) the beginning of the month in which the member’s retirement pension under the plan begins,

is employed by or otherwise engaged, directly or indirectly, to provide services for compensation for an employer who participates in the pension plan; (Last amended June 20, 2012 – Effective September 1, 2012)

“school day” has the same meaning as “school day” in subsection 1 (1) of the *Education Act* as amended from time to time; (Last amended July 21, 2014 – Effective September 1, 2014)

"school year" means the twelve-month period that normally begins on the 1st day of September, however, for a member whose school year commences prior to September 1st, the administrator may determine the days that the member is required to work prior to September 1st to be in the subsequent school year; (Last amended September 8, 2006 – Effective September 1, 2006)

“short absence” means an employer-approved leave of five or fewer consecutive school days; (Last amended July 21, 2014 – Effective September 1, 2014)

"spouse" means either of two persons who,

(a) are married to each other, or

(b) are not married to each other and are living together in a conjugal relationship,

(i) continuously for a period of not less than three years, or

(ii) in a relationship of some permanence, if they are the natural or adoptive parents of a child, both as defined in the *Family Law Act;*

(Last amended September 8, 2006 – Effective June 10, 2003)

"standard interest rate" means the interest rate determined under section 89;

"statutory leave" means any leave of absence within the meaning of the *Employment Standards Act, 2000* as amended from time to time; (Last amended September 8, 2006 – Effective September 4, 2001)

"Year's Maximum Pensionable Earnings", in relation to a year, means the Year's Maximum Pensionable Earnings prescribed under the *Canada Pension Plan.*

Qualification as a teacher

(2) A person is considered to be qualified as a teacher for the purposes of membership in the pension plan,

(a) if the person has obtained teacher certification from one of the Ministry of Education or the Ontario College of Teachers; or

(b) if a board of education holds a letter of permission granted by the Minister of Education in respect of the person.

(Last amended November 27, 2000 – Effective May 20, 1997)

Employment

(3) A person is considered to be employed,

(a) full-time, if the person is required to work throughout each work day of a year or of a session; and

(b) part-time, if the person is required to work on a regular but not full-time basis.

Idem

(4) A person is considered to be employed on an occasional basis as a teacher and not part-time if the person is an occasional teacher within the meaning of section 1 of the *Education Act*.

PART II
PARTICIPATION

A. Membership in the Plan

Eligibility for membership

2. (1) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is employed,

(a) as a teacher, as determined by the administrator, in a school within the meaning of subsection 1 (1) of the *Education Act*;

(b) as a teacher in a school outside Ontario under an approved teacher exchange system;

(c) as a teacher by the minister of a ministry of the Government of Ontario;

(d) as a teacher in a school or a class operated by the Toronto and Region Conservation Authority; or

(e) by a board of education.

(Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(2) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is employed in a designated private school or a designated organization. (Last amended December 21, 2007 – Effective September 1, 2008)

Idem

(2a) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and has taken a statutory leave from employment in education which leave began prior to the 1st day of September, 2010. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(2b) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is receiving payments for loss of earnings in respect of employment in education under the *Workplace Safety and Insurance Act*. (Last amended September 8, 2006 – Effective September 1, 2006)

Exception

(3) No person is eligible to be an active member of the pension plan,

(a) if the person is regularly employed outside Ontario and is performing services in Ontario under an approved teacher exchange system; or

(b) beyond November 30th of the calendar year in which the person attains seventy-one years of age, or beyond such other time as is permitted under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Commencement of membership

3. (1) Every person employed as described in subsection 2 (1) full-time or part-time becomes an active member of the plan on the later of,

(a) the 1st day of January, 1990;

(b) the date the employment contract begins; or

(c) the date on which the person becomes qualified as a teacher.

(Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(2) Subject to subsection 5 (1), every person employed as described in subsection 2 (2) full-time or part-time becomes an active member of the plan on the day that is the latest of,

(a) the 1st day of January, 1990;

(b) the date the employment contract begins; or

(c) the date the designation of the private school or the organization is effective.

Idem

(3) Every person employed in education on an occasional basis becomes an active member of the plan on the person's first day of employment in a school year. (Last amended February 20, 1997 - Effective January 1, 1997)

(3a) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

Commencement of membership, re-employed pensioner

(4) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(4a) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(5) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(6) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Election re occasional employee

4. (1) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

Obligations

(2) Revoked. (Last amended October 10, 1995 - Effective September 1, 1996)

Election re designated private schools, etc.

5. (1) A person employed at a designated private school or a designated organization on the date the designation becomes effective may elect not to become an active member of the plan.

Time for election

(2) An election under this section is not effective unless delivered in writing to the governing body of the designated private school or designated organization and to the administrator,

(a) not later than three months after the effective date of designation for the private school or organization, if the person is qualified as a teacher when the designation takes effect; or

(b) not later than three months after the date the person becomes qualified as a teacher, if the person is not so qualified on the effective date of designation for the private school or organization.

Not applicable

(3) This section does not apply to a person who is an active member of the plan or to a person who is receiving a pension under the plan on the date the designation becomes effective. (Last amended September 8, 2006 – Effective September 1, 2002)

Further election

(4) This section applies with necessary modifications to a person employed at a designated private school or a designated organization on September 1, 2008, who becomes eligible for active plan membership on that date in accordance with subsection 2 (2). The required election must be delivered by December 1, 2008. (Last amended December 21, 2007 – Effective September 1, 2008)

Active member on LTIP

6. (1) An active member who begins to receive payments under a long term income protection agreement continues as an active member of the plan until the earlier of:

(a) the date the member ceases to receive payments under the long term income protection agreement;

(b) the date the member begins receiving a benefit under the pension plan; or

(c) the end of the calendar year in which the member attains seventy-one years of age, or such other time as is permitted under the *Income Tax Act* (Canada).

(Last amended August 4, 2011 – Effective September 1, 2011)

Idem

(1a) For the purposes of subsection (1), an active member who has been approved for payments under a long term income protection agreement but is not receiving payments by reason of the application of offset or all-source maximum provisions of the long term income protection agreement shall be deemed to receive payments under a long term income protection agreement. (Last amended August 4, 2011 – Effective September 1, 2001)

Idem

(1b) For the purposes of subsection (1) and subject to the limits set forth therein, an active member who receives payment in the form of a lump sum under a long term income protection agreement shall be deemed to receive payments under a long term income protection agreement for the period determined by the administrator. (Last amended August 4, 2011 – Effective September 1, 2011)

Evidence of medical condition

(1c) The administrator may at any time require a member described in subsection (1b) to furnish evidence, in such form as the administrator directs, that the member is disabled as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada) throughout the period of active membership on LTIP. The period of active membership on LTIP of a member described in subsection (1b) shall terminate at the end of the month in which the administrator notifies the member that the administrator is not satisfied that the member is disabled. (Last amended August 4, 2011 – Effective September 1, 2011)

Return to employment

(1d) If a member described in subsection (1b) becomes employed in education, other than as an active member on LTIP, and the percentage of full-time basis of that employment is equal to or greater than the percentage of full-time basis upon which the member was employed immediately prior to becoming disabled, the member shall be deemed to have ceased to receive payments under a long term income protection agreement on the date that the member commences that period of employment in education. (Last amended August 4, 2011 – Effective September 1, 2011)

Eligibility

(2) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(3) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Definition

(4) Revoked. (Last amended August 4, 2011 – Effective September 1, 2011)

Active membership, university faculty

7. (1) A member who, during an employer-approved leave, becomes employed on the staff of a faculty of education of an Ontario university on or after the 1st day of January, 1990 is an active member of the plan. (Last amended July 21, 2014 – Effective September 1, 2014)

Limitation

(2) A person is eligible for active membership under this section for a maximum of five school years.

Not applicable

(3) This section does not apply to a person who is employed on the staff of a faculty of education of an Ontario university that is designated under section 119. (Last amended September 8, 2006 – Effective September 1, 2002)

Transitional re universities

8. (1) A person who, on the 1st day of January, 1990, is qualified as a teacher and is employed full-time on the staff of a faculty of education of an Ontario university is an active member of the plan as long as the person continues in full-time or part-time employment at such a faculty.

Idem, part-time employee

(2) A person who, on the 1st day of January, 1990, is qualified as a teacher and is employed part-time on the staff of a faculty of education of an Ontario university is an active member of the plan as long as the person continues either part-time or full-time employment at such a faculty.

Not applicable

(3) This section does not apply to a person who is employed on the staff of a faculty of education of an Ontario university that is designated under section 119. (Last amended September 8, 2006 – Effective September 1, 2002)

Transitional re Ryerson, CAATs

9. (1) This section applies with respect to a person who,

(a) is qualified as a teacher and is employed by Ryerson University; or

(b) was deemed, under a predecessor of this Act, to be employed in education by a college of applied arts and technology. (Last amended May 5, 2010 – Effective July 1, 2002)

Idem, full-time employee

(2) A person who, on the 1st day of January, 1990, has been employed full-time by Ryerson University or a college of applied arts and technology continuously since the 1st day of September, 1984 is an active member of the pension plan as long as the person continues in full-time employment either at Ryerson or at such a college. (Last amended May 5, 2010 – Effective July 1, 2002)

Idem, part-time employee

(3) A person who, on the 1st day of January, 1990, has been employed part-time by Ryerson University or a college of applied arts and technology continuously since the 1st day of September, 1984 is an active member of the pension plan as long as the person continues in part-time or full-time employment either at Ryerson or at such a college. (Last amended May 5, 2010 – Effective July 1, 2002)

B. Credit for Service

Credited service

10. (1) An active member receives one year of credited service for working a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

(1a) For the purpose of determining credited service of an active member under this section, for the period to August 31, 2001, the administrator may use one or more standard calendars. (Last amended April 15, 1998 - Effective January 1, 1990)

Idem, partial year

(2) An active member receives credited service for part of a year in the proportion that the number of hours or days worked by the member during the school year bears to the number of hours or days in a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Credited service during statutory leave

(2a) Despite subsections (1) and (2) an active member who makes contributions during a statutory leave which began prior to the 1st day of September, 2010 receives credited service for the number of days which the member would have worked during that leave to earn the amount of pensionable salary attributed to the member in calculating the member's contributions during the leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Credited service during LTIP

(2b) (a) Despite subsections (1) and (2), an active member who is receiving payments under a long term income protection agreement and in respect of whom required contributions are being made in accordance with subsection 21 (1) shall receive credited service for the period that the member's employer reports the member would have worked if the member had worked throughout the school year. (Last amended August 4, 2011 – Effective September 1, 2011)

(b) Despite subsections (1) and (2), an active member who receives payment in the form of a lump sum under a long term income protection agreement and in respect of whom required contributions are being made in accordance with subsection 21 (1) shall receive credited service for the period to which the lump sum payment relates, as determined by the administrator in accordance with subsection 6 (1b). (Last amended August 4, 2011 – Effective September 1, 2011)

Credited service during WSIB

(2c) Despite subsections (1) and (2), an active member who is receiving payments for loss of earnings under the *Workplace Safety and Insurance Act* and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if the member had worked throughout the school year. (Last amended September 8, 2006 – Effective September 1, 2006)

Idem

(2d) Despite subsection (2b), for the period of September 1, 2001 to August 31, 2006, where the credited service of an active member as described in subsection 6 (1a) is subject to the certification of a Past Service Pension Adjustment under the *Income Tax Act* (Canada), an active member shall receive credited service only once the administrator has obtained a certificate from the Minister of National Revenue. (Last amended August 4, 2011 – Effective September 1, 2011)

Credited service during sick leave

(2e) Despite subsections (1) and (2), an active member who is receiving sick leave payments, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the sick leave. (Last amended December 19, 2012 – Effective September 1, 2012)

Credited service during unpaid professional activity days

(2f) Despite subsections (1) and (2), an active member who is subject to unpaid professional activity days, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the unpaid professional activity days. (Last amended April 2, 2013 – Effective September 1, 2012)

Credited service during a short absence

(2g) Despite subsections (1) and (2), an active member who is on a short absence, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the short absence. (Last amended July 21, 2014 – Effective September 1, 2014)

Idem, more than full-time school year

(3) Where an active member works more than a full-time school year he or she is not entitled to credited service for hours or days worked which are in excess of a full-time school year if he or she is entitled to a refund of contributions under s. 28, whether or not the refund is paid. (Last amended June 28, 1990 - Effective June 28, 1990)

Limitation

(4) Except for periods of lockout or legal strike a person shall not receive credited service for employment unless contributions in respect of the employment are made by or on behalf of that person. (Last amended June 29, 1994 - Effective January 1, 1990)

Idem

(5) No person is entitled to receive more than one year of credited service in respect of the person's employment during one school year.

Idem

(6) Subject to subsection (7), no person is entitled to accumulate more than thirty-five years of credited service under the plan in respect of a period prior to the 1st day of January, 1992. (Last amended February 28, 1992 - Effective January 1, 1992)

Exception

(7) A member who accumulates thirty-five years of credited service may continue to accumulate credited service until the month in which he or she reaches the age which, when added to the member's credited service equals ninety. (Last amended February 28, 1992 - Effective January 1, 1992)

Idem

(8) Despite subsection (7) a member may accumulate credited service greater than the limit set out therein with respect to a period after the 31st day of December, 1991. (Last amended June 1, 1995 - Effective June 1, 1995)

Partial year

11. (1) The length of a member's qualifying service determined under this section applies for the purpose of determining the member's entitlement to a benefit but does not apply for the purpose of calculating the amount of the benefit. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(2) If a member accumulates more than ten days but less than or equal to one year of credited service as determined under sections 10, 96, 97 or 97a during one school year, the member's qualifying service shall be considered to equal one year. (Last amended May 5, 2010 - Effective September 1, 2001)

Idem

(2a) If the administrator is unable to determine in which of two successive school years the credited service of a member described in subsection (2) took place, it shall be deemed to have taken place in the earlier year. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(3) If a member described in subsection (2), or a survivor of a member, receives a pension during the school year, the member shall receive qualifying service only for those months which the member, or survivor of the member, as the case may be, does not receive a pension. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(4) If a member described in subsection (2) becomes employed in education for the first time on or after the 1st day of January, 1990, the member shall receive qualifying service only for that portion of the school year during which the member is an active member. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(5) Revoked. (Last amended October 10, 1995 - Effective September 1, 1995)

Purchases of credit

(6) Subsection (2) shall include credited service accumulated by a member for a school year under section 94 or 95 in respect of periods on or after the 1st day of September, 2010, provided that the member has completed a purchase of the entire eligible absence period in respect of that school year. (Last amended August 4, 2011 – Effective September 1, 2010)

Partial purchases of credit

(7) If a member referred to in subsection (6) does not complete a purchase of the entire eligible absence period for a school year, the member shall only receive qualifying service in respect of the purchase equal to the member's credited service in respect of the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Limitation

(8) A member is not entitled to accumulate more than one year of qualifying service under this section in respect of a school year. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(9) If a member accumulates ten days or less of credited service in respect of a school year, the member shall receive qualifying service for that school year equal to the member's credited service for that school year. (Last amended December 30, 2009 - Effective September 1, 2010)

C. Calculation of Pensionable Salary

Pensionable salary

12. (1) A member's pensionable salary for a school year is the remuneration paid to the member respecting employment in education and excludes,

(a) remuneration for services other than for employment in education;

(b) perquisites related to employment;

(c) payments related to accumulated sick leave or other employment benefit credits;

(d) payments related to retirement or termination of employment;

(e) payments to reimburse the member for expenses incurred during the course of employment;

(f) payments related to employment or for loss of earnings under the *Workplace Safety and Insurance Act* during a period in which the member is already an active member under section 6; (Last amended May 5, 2010 – Effective September 1, 2006)

(g) payments related to employment during a period in which the member is already an active member by virtue of receiving payments for loss of earnings under the *Workplace Safety and Insurance Act*; and (Last amended September 8, 2006 – Effective September 1, 2006)

(h) any remuneration paid to the member respecting employment in education that exceeds an annual rate of pay of six times the Year's Maximum Pensionable Earnings in effect each year. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(2) Pensionable salary excludes the amounts described in clauses (1) (a) to (h) whether paid under a contract or gratuitously by an employer. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(3) The pensionable salary of a member who receives board or lodging related to employment in education shall be deemed to be such amount, having regard for the value of the board or lodging, as is determined by the administrator.

Idem

(4) The pensionable salary of a member who is entitled to a refund under s. 28 (overpayment) shall be reduced by the amount of remuneration for which the contributions could have been refunded, whether or not the refund is paid. (Last amended June 28, 1990 - Effective June 28, 1990)

Pensionable salary during statutory leave

(5) The pensionable salary of an active member who makes contributions for a statutory leave which began prior to the 1st day of September, 2010 is the remuneration that the member's employer reports that the member would have earned if the member had not taken a statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Pensionable salary during WSIB

(5a) The pensionable salary of an active member who is receiving payments for loss of earnings under the *Workplace Safety and Insurance Act* is the remuneration that the member's employer reports that the member would have earned if the member had not been receiving such payments under the *Workplace Safety and Insurance Act*. (Last amended September 8, 2006 – Effective September 1, 2006)

Pensionable salary during sick leave

(5b) For the purposes of subsection 10 (2e), the pensionable salary of an active member who is receiving sick leave payments is the remuneration that the member's employer reports that the member would have earned if not for the sick leave. (Last amended December 19, 2012 – Effective September 1, 2012)

Pensionable salary during unpaid professional activity days

(5c) For the purposes of subsection 10 (2f), the pensionable salary of an active member who is subject to unpaid professional activity days is the remuneration that the member's employer reports that the member would have earned if not for the unpaid professional activity days. (Last amended April 2, 2013 – Effective September 1, 2012)

Pensionable salary during a short absence

(5d) For the purposes of subsection 10 (2g), the pensionable salary of an active member who is on a short absence is the remuneration that the member's employer reports that the member would have earned if not for the short absence. (Last amended July 21, 2014 – Effective September 1, 2014)

Pensionable salary

(6) Revoked. (Last amended June 29, 1994 - Effective January 1, 1992)

Deferred salary leave plans

12a. (1) This section applies to a member who participates in a deferred salary leave plan entered into in writing between the member and his or her employer. (Last amended April 2, 2001- Effective September 1, 2001)

Deemed pensionable salary

(2) Despite subsection 12 (1) the pensionable salary of a member referred to in subsection (1) is the amount that the member's employer advises the administrator would have been paid to the member but for the member's participation in a deferred salary leave plan. (Last amended June 29, 1994 - Effective January 1, 1992)

Coming into force

(3) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Pensionable salary re active member on LTIP

13. (1) The pensionable salary of an active member on LTIP is the remuneration that the member's employer reports the member would have earned if the member had worked throughout the school year in which the member began receiving LTIP benefits. (Last amended April 2, 2001- Effective September 1, 2001)

Idem

(2) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Idem

(3) Despite subsection (1), for the period of September 1, 2001 to August 31, 2011, the pensionable salary of an active member as described in subsection 6 (1a) shall be the greater of:

(a) the pensionable salary determined in accordance with subsection (1) and increased in accordance with subsections 15 (4) to (4c); and

(b) the pensionable salary determined in accordance with subsection 12 (5a).

(Last amended August 4, 2011 – Effective September 1, 2011)

Pensionable salary re purchases of credit prior to September 1, 2010

14. (1) The pensionable salary of a member who purchases credited service under section 94, 95 or 96 for an absence is the amount of remuneration that, in the opinion of the member's employer, the member would have earned had he or she not taken the absence. (Last amended April 2, 2001 - Effective September 1, 2001)

Idem re pensionable salary for purchases on or after September 1, 2010

(1a) Despite subsection (1), the pensionable salary for a purchase of credited service under section 94, 95 or 96, where the member has not completed payment prior to the 1st day of September, 2010 for the entire eligible absence period, is an amount based upon the annual pensionable salary that, in the opinion of the administrator, the member earned prior to the start of the absence as adjusted in accordance with this section. (Last amended October 19, 2012 – Effective September 1, 2010)

Adjusted pensionable salary

(1b) For the purposes of subsection (1a), a member’s pensionable salary for an absence is adjusted after the school year in which the member began the absence by multiplying the pensionable salary for that year by the accumulated adjustment ratio determined in the manner set out in subsection (1d). (Last amended June 20, 2012 – Effective September 1, 2010)

Exception

(1c) Despite subsection (1b), where an absence begins on the first day of the member’s school year, the pensionable salary is adjusted in the manner set out in subsection (1b) beginning with the school year in which the member began the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Accumulated adjustment ratio

(1d) A member's accumulated adjustment ratio for purposes of subsection (1b) is the product of the basic ratio for each school year beginning with the school year following the school year in which the member began the absence and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended December 30, 2009 - Effective September 1, 2010)

Exception

(1e) Despite subsection (1d), where an absence begins on the first day of the member’s school year, the member's accumulated adjustment ratio for purposes of subsection (1b) is the product of the basic ratio for each school year beginning with the school year in which the member began the absence and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended December 30, 2009 - Effective September 1, 2010)

Basic ratio

(1f) The basic ratio for a school year referred to in subsections (1d) and (1e) is a factor provided by the Minister. (Last amended December 30, 2009 - Effective September 1, 2010)

Alternative basic ratio

(1g) In the event that the basic ratio described in subsection (1f) is not provided by the Minister before the date that the cost for the purchase of credited service is calculated, the basic ratio for a school year referred to in subsections (1d) and (1e) is the ratio expressed to three decimal places that the average for the consumer price index over the last twelve months of the twenty-four month period ending with the 31st day of July in the preceding school year bears to the average for the consumer price index over the first twelve months of that period. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(1h) For the purposes of subsection (1g), "consumer price index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada). (Last amended December 30, 2009 - Effective September 1, 2010)

Transition

(1i) Revoked. (Last amended October 19, 2012 - Effective September 1, 2010)

Grandfathering the portion of an absence previously considered complete

(1j) Despite subsection (1a), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the pensionable salary for that portion of the absence is determined in accordance with subsection 14(1). (Last amended October 19, 2012 - Effective September 1, 2010)

Idem re pensionable salary for the remaining portion of an employer approved leave

(1k) Despite subsection (1a), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the pensionable salary for any remaining subsequent portion of the entire eligible absence period that is an employer-approved leave is determined in accordance with subsection (1j), and adjusted, with necessary modifications, in accordance with subsections (1b) to (1h). (Last amended October 19, 2012 - Effective September 1, 2010)

Idem

(2) The pensionable salary of a member who purchases credited service under section 103 is the amount of the member's remuneration for employment during the applicable period.

(3) The pensionable salary described in subsection 14(2) shall not be used in the calculation of the average salary of the member. (Last amended June 29, 1994-Effective January 1, 1992)

Average salary

15. (1) The average salary of a member,

(a) with more than five years' qualifying service is the average of the member's annual pensionable salary for the five school years during which it was highest; and

(b) with five years' or less qualifying service is the average of the member's annual pensionable salary. (Last amended October 10, 1995 - Effective September 1, 1995)

Part-time or occasional employee

(2) For the purpose of determining the average salary of a member employed more than ten days but less than a full-time school year or an active member on LTIP whose LTIP payments are based upon a less than full-time salary, the annual pensionable salary of the member is calculated using the formula,

$$(A/B) \times C$$

in which,

"A" is the amount of the member's pensionable salary for the school year,

"B" is the lesser of,

(a) the number of days of credited service accumulated by the member during the school year, and

(b) the number of days in a full-time school year, and

"C" is the number of days in a full-time school year except,

(a) in the first year of the member's employment in education when it is the number of days between the first day worked by the member and the end of the school year, or

(b) in the final year of active membership when it is the number of days in a full-time school year between the beginning of the school year and the date the member's pension or the pension of a survivor of the member begins. (Last amended February 20, 1997 - Effective January 1, 1997)

Employee working less than full final year

(2a) For the purpose of determining the average salary of a member employed more than ten days but less than a full-time school year during his or her final year of active membership, the pensionable salary of the member as determined under subsection (2) for that final year shall be increased by an amount calculated using the formula,

$$A \times B/C$$

in which,

"A" is the member's pensionable salary for the school year in which it was sixth highest,

"B" is the number of days in a full-time school year between the date the member's pension or the pension of a survivor of the member begins and the end of the school year, and

"C" is the number of days in a full-time school year. (Last amended February 20, 1997 - Effective January 1, 1997)

Purchases of credit

(2b) Subsections (2) and (2a) shall apply, with necessary modifications, to credited service accumulated by a member for a school year under section 94 or 95 in respect of periods on or after the 1st day of September, 2010, provided that the member has completed a purchase of the entire eligible absence period in respect of that school year. (Last amended August 4, 2011 – Effective September 1, 2010)

Restriction

(3) Revoked.

(a) Revoked.

(b) Revoked. (Last amended October 10, 1995 - Effective September 1, 1995)

Inflation adjusted pensionable salary

(4) For the purposes of this section, the pensionable salary for an active member on LTIP is increased after the school year in which the member began receiving LTIP benefits by multiplying the pensionable salary for that year, as determined under section 13, by the accumulated adjustment ratio determined in the manner set out in subsection (4a). (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4a) A member's accumulated adjustment ratio for purposes of subsection (4) is the product by multiplication of the basic ratio for each school year beginning with the school year following the school year in which the member began receiving LTIP benefits and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4b) The basic ratio for a school year referred to in subsection (4a) is the ratio expressed to three decimal places that the average for the consumer price index over the last twelve months of the twenty-four month period ending with the 30th day of September in that school year bears to the average for the consumer price index over the first twelve months of that period. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4c) For the purposes of subsection (4b), "consumer price index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada). (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4d) Subsections (4) to (4c) do not apply for the period of September 1, 2001 to August 31, 2011 in respect of a member who is an active member as described in subsection 6 (1a) and whose pensionable salary is determined in accordance with subsection 12 (5a). (Last amended August 4, 2011 – Effective September 1, 2011)

D. Transitional

Transitional re membership

16. (1) Every person who has credit in the Teachers' Superannuation Fund on the 31st day of December, 1989 and who is not entitled to an allowance under a predecessor of this Act becomes an active member of the pension plan upon completing one day of employment in education on or after the 1st day of January, 1990.

Idem, active member on LTIP

(2) Every person who was making contributions or on whose behalf contributions were being made on the 31st day of December, 1989 under an agreement referred to in section 4 of the *Teachers' Superannuation Act, 1983* or under a predecessor of that section is considered to be an active member on LTIP.

Transitional re credited service

17. Every active member shall be considered to have accumulated credited or qualifying service under the pension plan in an amount equal to the credited or qualifying service that he or she had accumulated under a predecessor of this Act. (Last amended October 10, 1995 - Effective September 1, 1995)

Re-employed pensioners

18. A re-employed pensioner making contributions under the pension plan or a predecessor of this Act on or after the 1st day of September, 1989 up to the 1st day of January, 1990 is entitled to a refund of contributions, if any, made in respect of the first ninety-five days or less of employment during that period.

PART III
CONTRIBUTIONS

A. Member Contributions

Amount of member's contributions

19. (1) Every active member who is required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan* shall contribute for a year, for salary paid after 2011,

(a) 10.4 per cent of that portion of the member's pensionable salary up to and including the amount of the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*; and

(b) 12 per cent of that portion of the member's pensionable salary that exceeds the amount of the Year's Maximum Pensionable Earnings. (Last amended August 4, 2011 – Effective January 1, 2012)

Idem

(2) Every active member who is not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan* shall contribute 12 per cent of the member's pensionable salary for the year, for salary paid after 2011. (Last amended August 4, 2011 – Effective January 1, 2012)

Maximum amount of contributions, R.S.C. 1952, C. 148

(2a) If a member's contributions calculated under this section for a period after the 31st day of December, 1991 exceeds the lesser of the maximum contribution permitted under the *Income Tax Act* (Canada) and the maximum contribution determined by the actuary, it shall be reduced to an amount equal to the lesser maximum. (Last amended December 21, 2006 – Effective January 1, 2007)

Deemed required to contribute to CPP

(2b) An active member who at any time after the end of the month in which he or she attains the age of 65 years and before the end of the month in which he or she attains the age of 70 years receives a Canada Pension Plan retirement pension shall contribute for salary paid after 2011 the contributions set out in paragraphs (1) (a) and (b) if an election under paragraph 12 (1) (c) of the *Canada Pension Plan* is not in effect at the time of the salary payment. (Last amended June 20, 2012 – Effective January 1, 2012)

Pensionable salary

(3) Revoked. (Last amended October 23, 1991 - Effective October 23, 1991)

Additional contributions

(4) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.0 per cent of the member’s pensionable salary for the year, for salary paid during the year 2007. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(5) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.3 per cent of the member's pensionable salary for the year, for salary paid during the year 2008. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(6) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.1 per cent of the member's pensionable salary for the year, for salary paid after 2008 but before 2012. (Last amended August 4, 2011 – Effective January 1, 2012)

Idem

(7) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 0.4 per cent of the member's pensionable salary for the year, for salary paid during the year 2012. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(8) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 0.75 per cent of the member's pensionable salary for the year, for salary paid during the year 2013. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(9) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 1.1 per cent of the member's pensionable salary for the year, for salary paid after 2013 but before 2027. (Last amended June 20, 2012 – Effective January 1, 2012)

Contributions by members working more than full-time

19a. An active member who is employed on a full-time basis to work a full-time school year is not required to make a contribution for any employment during that school year in excess of a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Member contributions during statutory leaves

19b. An active member shall, during a statutory leave which began prior to the 1st day of September, 2010, contribute the applicable amount set out in section 19 unless the member has notified the employer in writing that she or he elects not to participate in the pension plan during the statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Member contributions during statutory leaves on or after September 1, 2010

19c. A member shall, during a statutory leave which begins on or after the 1st day of September, 2010, contribute the applicable amount set out in section 94 unless the member has notified the employer in writing that she or he elects not to participate in the pension plan during the statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Collection of member contributions

20. (1) The employer of an active member shall deduct the amount the member is required to contribute under section 19 from the salary paid to the member.

Transfer of amount deducted

(2) An employer shall deliver to the administrator or deposit to the account of the pension fund on or before the last day of each month in which a member's salary is paid the amount deducted for the member's contribution.

Interest payable

(3) An employer shall pay interest on amounts in arrears from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended September 8, 2006 - Effective January 1, 2003)

Idem

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended September 8, 2006 – Effective January 1, 2003)

Report to administrator

(4) An employer shall make such reports to the administrator as the administrator requires in respect of member contributions.

Member contributions not to be collected

(5) An employer shall not deduct from the salary paid to an active member employed on a full-time basis for a full-time school year an amount greater than the contributions payable under section 19 by an employee who works a full-time school year unless the member directs the employer to do so. (Last amended June 28, 1990 - Effective June 28, 1990)

Idem

(6) An employer who is provided with evidence that an active member is employed on a full-time basis for a full-time school year by another employer shall not make any deduction from the salary paid to that member for contributions under section 19 unless the member directs the employer to do so. (Last amended June 28, 1990 - Effective June 28, 1990)

Status of contributions

(7) A contribution which an active member directs his or her employer to deduct under subsection (5) or (6) is considered to be a required contribution for the purpose of sections 25 and 26. (Last amended June 28, 1990 - Effective June 28, 1990)

Underpayment of contributions

20a. (1) A member who has for any year contributed an amount less than that calculated under section 19 shall, upon being notified of the amount of the undercontribution, pay as a lump sum an amount equal to the undercontribution. (Last amended February 28, 1992 - Effective January 1, 1992)

Interest

(2) A member referred to in subsection (1) shall pay interest calculated at the standard rate on the amount of the undercontribution from the day the member is notified to the day before the undercontribution is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Contributions re active members on LTIP

21. (1) The amount of the required contribution for an active member on LTIP is,

(a) 6.9 per cent of the pensionable salary of a member who becomes disabled before the 1st day of January, 1991, and

(b) 8.9 per cent of the pensionable salary of a member who becomes disabled after the 31st day of December, 1990,

except that payment of the required contribution is waived for a member who becomes disabled after the 31st day of August, 2001. (Last amended April 2, 2001 – Effective September 1, 2001)

Inflation adjusted pensionable salary

(2) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(2a) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(2b) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem S.C. 1970 - 1971 - 1972 c. 15

(2c) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

(2d) If a member's contribution calculated under subsection (1) for a period after the 31st day of December, 1991 exceeds the lesser of the maximum contribution to a registered pension plan permitted under the *Income Tax Act* (Canada) and the maximum contribution determined by the actuary, it shall be reduced to an amount equal to the lesser maximum. (Last amended June 1, 1995 - Effective June 1, 1995)

Restriction re election

(3) Revoked. (Last amended October 23, 1991 - Effective October 23, 1991)

Notice of status

(4) An active member on LTIP shall give notice on the first day of each school year to his or her employer or former employer that the member continues to be an active member on LTIP.

Minister's payments re active member on LTIP

22. The contributions required under subsection 21 (1) from an active member on LTIP who is receiving benefits under a long term income protection plan established under the *Public Service Act* shall be paid on behalf of the member by the Minister.

Collection re active member on LTIP

23. (1) The required contribution for an active member on LTIP shall be paid to the person who was his or her employer on the date of disability.

Idem

(2) Payments under subsection (1) must be made on or before the fifteenth day of the month following the month in which each payment under the long term income protection agreement is made to the member.

Increased contributions

(3) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Transfer of contribution

(4) An employer to whom a payment in respect of an active member on LTIP is to be made under this section shall, whether or not the payment is made, deliver to the administrator on or before the last day of each month in which the member's LTIP payment is required the amount of the member's required contribution. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(5) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Interest payable

(6) Interest is payable on payments in arrears made to the employer or by the employer from the date the payment is due to the day before it is made, calculated at the standard interest rate plus 4 per cent. (Last amended February 28, 1992 - Effective January 1, 1992)

Cause of action

(7) An employer may maintain an action for the recovery of an amount paid to the administrator under subsection (4) if the employer has not received the corresponding payment of required contributions for an active member on LTIP.

Collection re member on statutory leave

23a. (1) An active member who has taken a statutory leave which began prior to the 1st day of September, 2010 and has not notified his or her employer in writing that she or he elects not to participate in the pension plan during the leave, shall pay the member's contribution to the member's employer on or before the normal pay day of the employer. (Last amended December 30, 2009 - Effective September 1, 2010)

(2) An employer to whom a payment in respect of an active member referred to in subsection (1) is to be made shall, whether or not the payment is made, deliver to the administrator on or before the last day of each month of the member's statutory leave the amount of the member's required contribution. (Last amended October 23, 1991 - Effective October 23, 1991)

(3) Interest is payable on payments due from the employer which are in arrears from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended May 5, 2010 – Effective January 1, 2003)

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended May 5, 2010 – Effective January 1, 2003)

(4) An employer may maintain an action for the recovery of an amount paid to the administrator together with interest thereon at the standard interest rate under this section if the employer has not received the corresponding payment of required contributions from the active member who has taken a statutory leave. (Last amended October 23, 1991 - Effective October 23, 1991)

B. Employer Contributions

Liability for contributions

24. (1) Employer contributions in respect of an active member employed as described in subsection 2 (1) shall be paid by the Minister.

Idem

(2) Subsection (1) does not apply with respect to any contribution in relation to which the member is required under this pension plan to make the contribution that would otherwise be made by the Minister.

Idem

(3) Employer contributions in respect of an active member employed as described in subsection 2 (2) or section 7, 8 or 9 shall be paid by the employer of the member.

Idem

(4) Employer contributions in respect of an active member on LTIP shall be paid by the person making the employer contributions in respect of the member immediately before the date of disability.

(5) No employer contribution, other than an eligible contribution under the *Income Tax Act* (Canada), shall be made to the plan. (Last amended June 29, 1994 - Effective January 1, 1992)

Contributions by the Minister

25. (1) The Minister shall contribute in each year an amount equal to the required contributions made during the year before the preceding year by or on behalf of those members for whom the Minister is required to make employer contributions.

Idem, active members on LTIP

(2) In addition to the amount required under subsection (1), the Minister shall contribute in each year, in respect of the year before the preceding year, 4 per cent of the pensionable salaries of active members on LTIP who become disabled before the 1st day of January, 1991. (Last amended June 3, 2009 – Effective January 1, 2010)

Idem

(2a) In addition to the amounts required under subsections (1) and (2), the Minister shall contribute in each year, in respect of the year before the preceding year:

(a) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP who became disabled after the 31st day of August, 2001, but for the waiver in subsection 21(1); and

(b) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP to increase the member's pensionable salary under section 15, if contributions were required on such increase in pensionable salary. (Last amended June 3, 2009 – Effective January 1, 2010)

Additional contributions

(2b) In respect of the year 2008, the Minister shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of active members in respect of whom required contributions were made during that year in accordance with section 19 and for whom the Minister is required to make employer contributions. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(2c) In respect of the year 2008, the Minister shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of members who purchase credit under the pension plan in respect of that year and for whom the Minister is required to make employer contributions. (Last amended December 21, 2007 – Effective January 1, 2007)

Idem

(2d) In addition to the amounts required under this section, the Minister shall contribute in each year a proportional amount of the difference, as calculated by the administrator, between the inflation adjustments that were included in pensions, commuted values and lump sum payments (other than reciprocal transfers) that were paid in the year before the preceding year and the inflation adjustments that would have been included in such benefits but for the combined application of subsections 80(3a) and (3b). The Minister's proportional amount shall be based on the pensionable salaries of active members for whom the Minister is required to make employer contributions, in respect of the year before the preceding year, as a percentage of the pensionable salaries of all active members for that year. (Last amended September 17, 2013 - Effective January 1, 2014)

Idem

(2e) For greater certainty, if inflation adjustments have ever been made in accordance with subsection 80(3d), the Minister's contributions pursuant to subsection 25(2d) shall be determined as if inflation adjustments had never been made in accordance with subsection 80(3d). (Last amended September 17, 2013 - Effective January 1, 2014)

Due date

(3) The Minister's contribution is due on the first business day following the 1st day of January in each year and not as required under the *Pension Benefits Act*. (Last amended June 28, 1990 - Effective June 28, 1990)

Interest payable

(4) Interest on the Minister's contribution is payable for the period beginning on the 1st day of June of the year that was two years before the date on which a payment is due and ending on the day before the payment is made, calculated at the standard interest rate in effect on that 1st day of June.

(4a) Despite subsections (3) and (4), $500,000,000 of the Minister's contribution due on January 4, 1993 shall be made on April 1, 1993 with interest at the rate of 11.25% per annum applied from January 4, 1993 to March 31, 1993. (Last amended May 29, 1992 - Effective May 29, 1992)

Idem, transitional

(5) Interest payable in respect of a period before the 1st day of January, 1990 shall be calculated,

(a) up to that date, in accordance with the *Teachers' Superannuation Act, 1983;*

(b) on and after that date, at the standard interest rate in effect on the 1st day of January, 1990.

Delivery

(6) The Minister shall deliver contributions to the administrator or deposit them to the account of the pension fund.

Order of Lieutenant Governor in Council

(7) To reduce the time between the date of payment mentioned in subsection (3) and the payment of contributions by or on behalf of those members for whom the Minister is required to make employer contributions, the Lieutenant Governor in Council may, despite subsections (1) and (4), by order require the Minister to make payments for such number of months in the preceding year as are specified in the order in respect of contributions in those months by or on behalf of those members for whom the Minister is required to make employer contributions.

Idem

(8) An order made under subsection (7) shall revise the period of time mentioned in subsection (1) in respect of which contributions by the Minister are computed so that it reflects the additional contributions required to be made by the Minister.

Idem

(9) An order under subsection (7) shall adjust the date from which interest is to be calculated under subsection (4) to reflect the reduced time between the last month in which contributions are made by or on behalf of those members for whom the Minister is required to make employer contributions and the month when the Minister pays an amount equal to those contributions.

Contributions by employers

26. (1) An employer shall contribute in each month an amount equal to the required contributions made during the month by or on behalf of those members for whom the employer is required to make employer contributions.

Idem, active members on LTIP

(1a) In addition to the amount required under subsection (1), an employer shall contribute:

(a) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP who became disabled after the 31st day of August, 2001, but for the waiver in subsection 21(1); and

(b) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP to increase the member's pensionable salary under section 15, if contributions were required on such increase in pensionable salary. (Last amended April 2, 2001 – Effective September 1, 2001)

Additional contributions

(1b) In respect of the year 2008, an employer shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of active members in respect of whom required contributions are made during that year in accordance with section 19 and for whom the employer is required to make employer contributions. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(1c) In respect of the year 2008, an employer shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of members who purchase credit under the pension plan in respect of that year and for whom the employer is required to make employer contributions. (Last amended December 21, 2007 – Effective January 1, 2007)

Idem

(1d) In addition to the amounts required under this section, an employer shall contribute in each year a proportional amount of the difference, as calculated by the administrator, between the inflation adjustments that were included in pensions, commuted values and lump sum payments (other than reciprocal transfers) that were paid in the year before the preceding year and the inflation adjustments that would have been included in such benefits but for the combined application of subsections 80(3a) and (3b). The employer's proportional amount shall be based on the pensionable salaries of active members for whom the employer was required to make employer contributions, in respect of the year before the preceding year, as a percentage of the pensionable salaries of all active members for that year. (Last amended September 17, 2013 – Effective January 1, 2014)

Idem

(1e) For greater certainty, if inflation adjustments have ever been made in accordance with subsection 80(3d), an employer's contributions pursuant to subsection 26(1d) shall be determined as if inflation adjustments had never been made in accordance with subsection 80(3d). (Last amended September 17, 2013 - Effective January 1, 2014)

Due date

(2) An employer's contribution is due on the last day of the month.

Idem

(2a) Notwithstanding subsection (2), an employer's contribution under subsection (1d) is due on the first business day following the 1st day of January in each year. (Last amended June 3, 2009 – Effective January 1, 2010)

Interest payable

(3) Interest on an employer's contribution is payable from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended September 8, 2006 - Effective January 1, 2003)

Idem

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended September 8, 2006 – Effective January 1, 2003)

Idem

(3b) Notwithstanding subsection (3), interest on an employer's contribution under subsection (1d) is payable from June 1st of the year before the preceding year to the day before the payment is made, calculated at the standard interest rate in effect on that June 1st. (Last amended June 3, 2009 - Effective January 1, 2010)

Delivery

(4) An employer shall deliver contributions to the administrator or deposit them to the account of the pension fund.

C. Refund of Overpayments

Refund error

27. The administrator shall refund contributions or other payments made in error or not permitted under the pension plan, together with interest, if the administrator received the contributions or other payments.

Overpayment of contributions

28. (1) This section applies to an active member who,

(a) (i) works more than a full-time school year during the school year, or

(ii) was employed on an occasional basis in addition to an absence purchased on a contributions plus interest basis in accordance with section 94; and (Last amended April 2, 2001 – Effective September 1, 2001)

(b) has made contributions greater than those required under s. 19 of a member working a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Idem

(2) An active member described in subsection (1) is entitled to a refund of contributions calculated in accordance with subsection (4). (Last amended June 28, 1990 - Effective June 28, 1990)

Refund to employer

(3) Despite section 78 of the *Pension Benefits Act*, a person who has made employer contributions in respect of a member described in subsection (1) is entitled to a refund of employer contributions equal to the amount of the refund to which the member is entitled. (Last amended June 28, 1990 - Effective June 28, 1990)

Amount of refund

(4) The refund of contributions is calculated using the formula,

$$\mathbf{(A + B + C \ldots) \times N}$$

in which, "A", "B", "C" … is the series in which each variable is the amount of salary paid to the member at each different rate of salary earned by the member during the school year and/or the amount of salary attributable to the credit purchase in accordance with section 94, beginning with the lowest rate of salary and ending with the highest provided that the number of days for which salary is accumulated by the addition of variables does not exceed the number of days in excess of a full-time school year for which the member makes contributions, and

"N" is the per cent referred to in clause 19 (1) (b), plus any additional per cent of salary that was paid by the member in accordance with section 19 in respect of the salary being refunded, expressed as a decimal fraction. (Last amended December 21, 2006 – Effective January 1, 2007)

(4a) For the purposes of subsection (4), credit purchased on an actuarial cost basis, or transferred into the plan in accordance with section 104, will be deemed to be the highest rate of salary. (Last amended December 20, 1999 - Effective September 1, 1998)

Interest payable

(5) Interest is payable on a refund of contributions from the last day of the school year until the day before it is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Lump sum

(6) A refund of contributions shall be paid as a lump sum. (Last amended June 28, 1990 - Effective June 28, 1990)

Refund, re-employed pensioners

29. Despite subsection 63 (4) of the *Pension Benefits Act*, a person described in subsection 46 (3) of the *Teachers' Superannuation Act, 1983* who became re-employed in education for less than twenty days between the 1st day of September, 1986 and the 31st day of August, 1989 is entitled to the refund described in that section.

PART IV
PAYMENTS UPON TERMINATION OF MEMBERSHIP

A. Vesting

Vesting of benefits

30. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Payment of deferred pension

(3) A member who terminates membership in the pension plan on or after July 1, 2012 is entitled to a deferred pension calculated and paid in accordance with Part V. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of benefits upon death of member

(3a) Benefits payable in respect of a member who terminates membership in the pension plan as a result of the member's death on or after July 1, 2012, and before the commencement of payment of the deferred pension to which the member was entitled on the date of death, shall be calculated and paid in accordance with Part VII. (Last amended December 13, 2012 – Effective July 1, 2012)

Limit

(4) No person is entitled to more than one deferred pension in respect of the same period of employment.

Entitlement on termination of membership

31. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Limitation

(3) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem, transitional

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Rights of former members

32. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

B. Refunds and Transfers

Refund re post-1986 contributions

33. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund re pre-1987 contributions

34. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund at or after sixty-five years of age

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund re pre-1987 deferred pension

35. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Before reaching forty-five years of age

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

On or after forty-five years of age

(3) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Reduction in deferred pension

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

50 per cent rule

36. (1) A member entitled to a deferred pension relating to employment after the 31st day of December, 1986 is entitled to a refund, paid in a lump sum, upon ceasing to be employed in education, of the amount by which the member's required contributions plus interest for the period after that date exceeds one half of the commuted value of the deferred pension for that period. (Last amended June 19, 2012 – Effective July 1, 2012)

Exclusion

(2) Subsection (1) does not apply with respect to a member's contributions and credited service for which no corresponding employer contribution is required under section 25 or 26. (Last amended June 1, 1995 - Effective June 1, 1995)

(3) A member who receives a refund under subsection (1), who elects to receive a deferred pension and who subsequently becomes re-employed in education or completes a purchase of credited service, must repay the refund together with interest thereon before the pension commences. (Last amended September 8, 2006 - Effective September 1, 2001)

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(5) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(6) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(7) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (3) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2002)

Transfer re deferred pension

37. (1) A member entitled to a deferred pension who ceases to be employed in education is entitled to a transfer of the commuted value of the deferred pension, paid in a lump sum, to another retirement savings arrangement in accordance with section 42 of the *Pension Benefits Act* and to a refund or transfer of excess contributions, calculated under section 36, subject to the limitations of the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

(2) A member who is entitled to an immediate payment of a pension benefit is not entitled to a refund or transfer under this section. (Last amended September 8, 2006 – Effective June 1, 1995)

(3) A member who is entitled to a transfer under this section shall deliver a completed termination options application, including all supporting documentation, to the administrator within six months of the member’s termination of membership in the plan. (Last amended September 8, 2006 – Effective January 1, 1995)

(4) A termination options application completed after the deadline specified in subsection (3) shall be considered a new notification of intention to terminate membership in the plan and the member's entitlement to a transfer under this section shall be determined as of the new termination of membership date. (Last amended September 8, 2006 – Effective January 1, 1995)

Application for refund, etc.

38. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of refund

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

PART V
RETIREMENT PENSIONS

A. Entitlement to Pension

One pension only

39. (1) No member is entitled to more than one retirement pension under the pension plan in respect of the same period of credited service.

Idem

(2) A member receiving a disability pension under the pension plan is not eligible to receive a retirement pension.

Retirement

(3) No member is entitled to begin to receive a retirement pension or a disability pension while the member is employed in education until the end of the calendar year in which the member attains seventy-one years of age, or until such other time as is required under the *Income Tax Act* (Canada). (Last amended June 20, 2012 – Effective January 1, 2012)

Normal retirement date

40. The normal retirement date of a member is the first day of the month following the date on which the member reaches sixty-five years of age.

Entitlement to pension (2 year rule)

41. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension (2 year rule)

(3) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(3a) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment, pre-1987 service

(4) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation on pensions less than $2,400

(5) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (10 year rule), transitional

42. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension (10 year rule)

(3) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(3a) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (immediate vesting)

42a. (1) A member who terminates membership in the pension plan on or after July 1, 2012 is entitled to receive a retirement pension for the member's lifetime calculated under subsection (3). (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) A retirement pension under this section begins as of the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension

(3) Subject to subsection (4), the amount of the retirement pension, before adjustment for inflation, is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction). (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of pensions, predecessor Acts

(4) The retirement pension of a member who ceased to be employed in education prior to January 1, 1990 shall be calculated, with necessary modifications, in accordance with the terms of the *Teachers' Superannuation Act, 1983*, or a predecessor Act, and shall be paid out of the pension fund in accordance with the Act under which the member ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(5) If the amount of the retirement pension calculated under subsection (3) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation on pensions less than $2,400

(6) Subject to section 84, where the annual amount of the retirement pension calculated under subsection (3) or (4) is less than $2,400 the member is entitled to a pension in that lesser amount and not to a pension in the amount of $2,400 as provided for by Order in Council 1453/74. (Last amended June 19, 2012 – Effective July 1, 2012)

Exception

(7) Subsection (6) shall not apply to a member who has at least ten years of credited service in whole or in part before the 1st day of January, 1987 on the date he or she ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation

(8) For greater certainty, subsection 76 (2) of the *Teachers' Superannuation Act, 1983* shall not apply to the retirement pension of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (special early retirement)

43. (1) A member who has accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals ninety years is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended October 10, 1995 - Effective September 1, 1995)

(1a) A member who ceases to be employed in education on or after June 1, 1998, and who has accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals eighty-five years is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended April 2, 2001 – Effective April 1, 2001)

Idem (35 year rule)

(2) A member who ceases to be employed in education after the 31st day of May, 1987 and before the 1st day of September, 1990 and who has thirty-five years of qualifying service is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended October 10, 1995 - Effective September 1, 1995)

(2a) A member who has accumulated thirty-five or more years of credited service is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended February 20, 1997 - Effective January 1, 1997)

Commencement

(3) A retirement pension under this section begins as of the beginning of the month following the date the member ceases to be employed in education or, at the election of the member, of any month thereafter that is not later than:

(a) the end of the calendar year in which the member attains seventy-one years of age, or

(b) such other time as is required under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Amount of pension

(4) The amount of the retirement pension, before adjustment for inflation, is calculated using the formula,

$$(A \times B) - C$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

Maximum pension payable, R.S.C. 1952, c. 148

(4a) If the amount of the retirement pension calculated under subsection (4) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended February 28, 1992 - Effective January 1, 1992)

Early retirement option

44. (1) A member entitled to a deferred pension under section 42a may elect to begin to receive a retirement pension on the first day of any month that is ten years before the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Idem

(1a) A member who ceases to be employed in education on or after June 30, 2001 and who is entitled to a deferred pension under section 42a may elect to begin to receive a retirement pension on the first day of any month that is within fifteen years of the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of early retirement pension

(2) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects early retirement under subsection (1) and who elects to begin to receive the pension on the first day of the month following the later of: the cessation of employment in education; or the last day of credited service in the plan, shall be calculated using the formula,

$$[A \times B \times (1 - C)] - D$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service,

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.025 times the difference between ninety and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(2a) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

(2b) The amount of the annual retirement pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, where the member elects early retirement under subsection (1) or (1a) and elects to begin to receive the pension on the first day of the month following the later of: the cessation of employment in education; or the last day of credited service in the plan, shall be calculated using the formula set out in subsection (2) except that:

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.025 times the difference between eighty-five and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

(3) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects early retirement under subsection (1) on a deferred pension shall be calculated using the formula,

$$[A \times B \times (1 - C)] - D$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service,

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.05 times the difference between ninety and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

(3a) The amount of the annual retirement pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, where the member elects early retirement under subsection (1) or (1a) on a deferred pension shall be calculated using the formula set out in subsection (3) except that:

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.05 times the difference between eighty-five and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

Maximum pension payable, R.S.C. 1952, c. 148

(4) If the amount of the retirement pension determined under subsection (2), (2b), (3), (3a) or (5), in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada) after taking into account the reduction (if any) on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada) it shall be reduced to an amount equal to such maximum. (Last amended May 27, 1998 - Effective June 1, 1998)

Commuted value

(5) Despite subsections (3) and (3a), the commuted value of the retirement pension received on early retirement shall be not less than the commuted value of the retirement pension to which the member would be entitled on the normal retirement date based upon the member's credited service up to the early retirement date. (Last amended May 27, 1998 - Effective June 1, 1998)

Postponed pension option

45. (1) A member may elect to begin to receive his or her retirement pension in any month after the member's normal retirement date, but not later than:

(a) the end of the calendar year in which the member attains seventy-one years of age, or

(b) such other time as is required under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Amount of late retirement pension

(2) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects late retirement as described in subsection (1) is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

(2a) If the amount of the retirement pension calculated under subsection (2) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended June 29, 1994 - Effective January 1, 1992)

Re-employed pensioner election

46. (1) Prior to commencing re-employment for the first time after commencement of pension, a pensioner may elect to become an active member for the purpose of a pension recalculation in accordance with subsection (2), in which case the pension is suspended immediately upon the re-employment. (Last amended October 23, 2008 – Effective January 1, 2009)

Recalculation of pension

(2) If a re-employed pensioner accumulates one year or more of credited service after becoming an active member, other than by means of a purchase of credited service or by the annualization of a partial year of credited service under section 11, and, if the re-employed pensioner makes an application to the administrator, the amount of the pensioner's retirement pension shall be recalculated in accordance with the terms of the pension plan in force on the date of the application.

(2a) A re-employed pensioner making application under subsection (2) shall repay any refund previously made under section 36 together with interest thereon before the pension commences. (Last amended April 15, 1998 - Effective June 1, 1995)

(2b) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2c) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2d) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2e) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (2a) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2002)

Exception

(3) A re-employed pensioner who does not accumulate one year of credited service after becoming an active member is entitled when the re-employment ceases,

(a) to the resumption of the retirement pension to which the pensioner was entitled immediately before becoming re-employed; and

(b) to the refund of the member's required contributions, together with interest thereon, made during the re-employment.

Pension suspension

(3a) Except for a pensioner whose pension is suspended immediately under subsection (1), no retirement pension is payable to a re-employed pensioner as of the month following the member's fifty-first day of re-employment in a school year. (Last amended May 6, 2010 – Effective September 1, 2012)

Pension resumption

(3b) A re-employed pensioner whose pension is suspended in accordance with subsection (3a) is entitled, when the re-employment ceases, to the resumption of the retirement pension to which the pensioner was entitled immediately before becoming re-employed. (Last amended October 23, 2008 – Effective January 1, 2009)

Notice of re-employment

(3c) A re-employed pensioner shall notify the administrator promptly upon exceeding the limits under subsection (3a). (Last amended October 23, 2008 – Effective January 1, 2009)

Reporting of re-employment

(3d) An employer shall report to the administrator any service provided to the employer by a re-employed pensioner. (Last amended May 6, 2010 – Effective September 1, 2012)

Idem

(3e) At the request of the administrator, a re-employed pensioner shall report to the administrator the number of days, if any, that the member provides services to an employer as a re-employed pensioner. If the member does not report within a reasonable time after the request, the administrator shall cease to pay the pension until the report is given. (Last amended May 6, 2010 – Effective September 1, 2012)

Repayment

(4) A re-employed pensioner who receives pension payments to which the pensioner is not entitled shall repay the amount so received, together with interest thereon, before becoming entitled to further payments under the pension plan.

"Re-employed pensioner" not applicable

(5) The term "re-employed pensioner" shall not include a member who provides services, other than as a teacher, to a ministry of the Government of Ontario other than the Ministry of Education. (Last amended May 6, 2010 – Effective September 1, 2010)

Idem

(6) The term "re-employed pensioner" shall not include a member who has been providing services, other than as a teacher, under contract to the Ministry of Education since before September 1, 2010, until the earlier of:

(a) the renewal of such contract, if applicable, or

(b) September 1, 2015.

(Last amended May 6, 2010 – Effective September 1, 2010)

B. Payment of Retirement Pensions

Application for retirement pension

47. (1) A member who wishes to begin receiving a retirement pension shall apply to the administrator.

Deemed application

(2) A member who does not apply to begin receiving a retirement pension shall be deemed to do so on November 30th of the calendar year in which the member attains seventy-one years of age, or at such other time as is required under the *Income Tax Act* (Canada). (Last amended June 20, 2012 – Effective January 1, 2012)

Payment of pension

48. (1) The administrator shall begin payment of a member's retirement pension not later than the later of,

(a) the month following the month in which the member ceases to be employed in education; or

(b) the month following the month in which application for the pension is complete.

Monthly instalments

(2) The administrator shall pay a retirement pension in monthly instalments on the last day of the month.

Interest payable

(3) The administrator shall pay interest on late payments, from the first day of the month following the month in which the member's pension begins. (Last amended June 20, 2012 – Effective January 1, 2012)

Notice of re-employment

49. (1) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Failure to give notice

(2) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Repayment of pension

(3) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

PART VI
DISABILITY PENSIONS

A. Entitlement to Disability Pension

Entitlement to disability pension

50. (1) This section applies to a member with at least ten years of qualifying service who becomes disabled while employed in education and who, as a result of the disability, ceases before the normal retirement date to be employed in education. (Last amended October 10, 1995 - Effective September 1, 1995)

Full disability pension

(2) If the administrator finds that a member described in subsection (1) is incapable of further employment, the member is entitled to a full disability pension for the member's lifetime.

Partial disability pension

(3) If the administrator finds that a member described in subsection (1) is incapable of further employment in education, the member is entitled to a partial disability pension for the member's lifetime.

Eligibility

(4) A member who has previously terminated his or her membership and who returns to membership and purchases credited service for previous employment in education is not eligible to receive a disability pension until the member accumulates two additional years of credited service.

Idem

(5) Subsection 11 (2) (partial year) does not apply for the purpose of determining a member's accumulation of the two additional years of credited service under subsection (4).

Effect of re-employment

51. (1) A member receiving a full disability pension who becomes employed ceases to be entitled to a full disability pension.

Idem

(2) A member receiving a disability pension who becomes employed in education ceases to be entitled to a disability pension. (Last amended June 1, 1995 - Effective June 1, 1995)

Reduced partial disability pension

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Application

(4) This section applies with respect to a member who is receiving a disability pension on or after the 1st day of January, 1990.

Amount of full disability pension

52. (1) The amount of the annual full disability pension, before adjustment for inflation, for a member is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service under the plan, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

Amount of partial disability pension

(2) The amount of a partial disability pension, before adjustment for inflation, for a member is calculated using the formula,

$$\mathbf{[(A \times B)\ (1 - C)] - D}$$

in which,

"A" and "B" have the same meaning as in the formula for calculating the amount of a full disability pension,

"C" is an amount equal to 0.025 times the lesser of,

(a) the number of years by which the member's age on the date the pension begins is less than 65, and

(b) ninety minus the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension begins, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 15, 1998 - Effective January 1, 1992)

(2a) The amount of a partial disability pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, is calculated using the formula set out in subsection (2), except that:

"C" is an amount equal to 0.025 times the lesser of,

(a) the number of years by which the member's age on the date the pension begins is less than sixty-five, and

(b) eighty-five minus the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension begins,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

Maximum pension payable, R.S.C. 1952, c. 148

(2b) If the amount of the full or partial disability pension determined under either subsection (1), (2), or (2a), as applicable, in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada) after taking into account the reduction (if any) on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to such maximum. (Last amended May 27, 1998 - Effective June 1, 1998)

Limitation

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of reduced partial disability pension

(4) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Resumption of disability pension

53. (1) Subject to subsection (2), if a member becomes re-employed in education and ceases to receive a disability pension under the pension plan or a predecessor Act, the member is entitled upon ceasing the re-employment to the resumption of the original disability pension without adjustment of the amount of the pension and to a refund of the member's contributions made during the period of re-employment, together with interest thereon. (Last amended June 1, 1995 - Effective June 1, 1995)

Idem

(2) A member described in subsection (1) who completes the equivalent of two years of full-time employment in education after becoming re-employed and then ceases to be so employed shall make a fresh application for a pension, and the terms of the pension plan on the date the application is made shall apply with respect to the member's entitlement to a pension.

(3) A member making application under subsection (2) shall repay any refund previously made under section 36 together with interest thereon before the pension commences. (Last amended September 8, 2006 – Effective September 1, 2006)

(4) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (3) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2006)

Change of disability status re survivor pension

54. (1) This section applies if a member receiving a partial disability pension dies while the administrator is considering whether the member is entitled to a full disability pension based upon fresh medical evidence concerning the member's disability. (Last amended February 28, 1992 - Effective January 1, 1992)

Determination by the administrator

(2) Having regard to the facts established at the date of the member's death, the administrator shall determine whether the member would have been entitled, immediately before the date of death, to a full disability pension.

Deemed receipt

(3) For the purpose of calculating the amount of a survivor pension, child's pension or beneficiary's pension, if the administrator determines that the member would have been entitled to a full disability pension, the member shall be deemed to have been receiving it on the date of death.

(4) Despite subsection 3, where the benefit otherwise payable to a survivor exceeds the maximum payable under the regulations of the *Income Tax Act* (Canada), the amount in excess shall not be paid. (Last amended June 29, 1994 - Effective January 1, 1992)

B. Payment of Disability Pension

Application for disability pension

55. (1) A member shall apply for a disability pension within two years after the date when the member ceases, as a result of the disability, to be employed in education.

Idem

(2) The administrator shall accept an application for a disability pension that is made after the time described in subsection (1) if the administrator is satisfied,

(a) that the delay in making the application resulted from a delay in diagnosing the disability; or

(b) that the member was unable, because of the effects of the disability, to make the application within the time described in subsection (1).

Proof of disability

(3) No application for a disability pension shall be considered by the administrator until the administrator has received,

(a) the certificate of a medical doctor licensed in Ontario designated by the administrator, certifying that the applicant became mentally or physically disabled while employed in education and indicating the nature and degree of the disability; and

(b) a report of the medical referee of the administrator containing such recommendations as the medical referee considers proper with regard to the granting of a disability pension to the applicant. (Last amended April 15, 1998 - Effective January 1, 1992)

Disability pension, predecessor Acts

56. (1) This section applies with respect to a person who ceased to be employed in education before the 1st day of January, 1990 as a result of a mental or physical incapacity and who did not apply for a disability allowance under a predecessor of this Act.

Application

(2) Section 55 applies with necessary modifications to an application by a person described in subsection (1).

Entitlement

(3) The person is entitled to a disability allowance determined in accordance with the *Teachers' Superannuation Act, 1983.*

Idem

(4) Clause 17 (1) (d) or 18 (1) (d) of the *Teachers' Superannuation Act, 1983* does not apply if the administrator accepts an application under subsection 55 (2).

Commencement of disability pension

57. (1) Subject to subsection (2), a member's disability pension shall begin as of the first day of the month following the month in which the member ceases to be employed in education.

Idem

(2) No disability pension shall begin as of a date earlier than one year before the date the administrator receives the completed application for the pension.

Reduced partial disability pension

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Monthly instalments

(4) The administrator shall pay a disability pension in monthly instalments.

Due date

(5) Disability pension payments are due on the last day of the month.

Interest payable

(6) Interest shall be paid on overdue pension payments if the administrator does not begin paying a pension by the end of the month in which the member becomes entitled to receive it.

Interest payable

(7) Interest on each overdue monthly pension payment, calculated at the standard rate, shall be paid from the date the payment was due to the day before it was made. (Last amended February 28, 1992 - Effective January 1, 1992)

Evidence of medical condition

58. (1) The administrator may at any time require a member who is receiving a disability pension to furnish evidence, in such form as the administrator directs, of the member's mental or physical condition.

Failure to furnish evidence

(2) If the member fails to furnish evidence within a reasonable time that his or her condition continues to be of a nature that entitles the member to receive the disability pension, the administrator shall terminate payment of the pension.

Review by administrator

(3) If the administrator terminates payment of a full disability pension, the member may request the administrator to review the decision to terminate payment.

Idem

(4) If the administrator is satisfied upon reviewing a decision to terminate payment that the member is entitled to a disability pension under section 50 or 51, the administrator shall pay the disability pension.

Application

(5) This section does not apply with respect to a member who has reached normal retirement age.

Notice of re-employment

59. (1) A member receiving a disability pension shall notify the administrator in writing promptly upon becoming employed or changing employment.

Failure to give notice

(2) A member who fails to comply with subsection (1) is not entitled to receive a disability pension payment during a period when notice should have been given under that subsection.

Repayment of pension

(3) A member who receives pension payments to which the member is not entitled shall repay the amount so received, together with interest thereon, before becoming entitled to further payments under the pension plan.

PART VII
BENEFITS UPON DEATH

A. Upon the Death of a Member not Entitled to a Pension

Refund of contributions

60. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of post-1986 contributions

60a. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Application

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of pre-1987 contributions

60b. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Application

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

B. Upon the Death of a Member Entitled to a Deferred Pension

Pre-retirement (spousal) death benefit

61. (1) If a member who is entitled to a deferred pension dies before commencement of payment of the deferred pension, the person who is the spouse of the member on the date of death is entitled to receive,

(a) the benefit described in section 62, in respect of the member's employment, if any, before the 1st day of January, 1987; and

(b) the benefit described in section 63, in respect of the member's employment, if any, on or after the 1st day of January, 1987.

(Last amended May 5, 2010 – Effective June 1, 1995)

Application

(2) Subsection (1) does not apply if the member and the spouse are living separate and apart on the date of death of the member.

Further application

(3) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(4) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(5) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(6) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Pre-1987 (spousal) death benefit

62. (1) This section applies with respect to that portion of the death benefit that relates to a member's employment before the 1st day of January, 1987.

Survivor pension

(2) The spouse of a member with ten years or more qualifying service is entitled to the survivor pension described in subsection (3) for the lifetime of the spouse. (Last amended October 10, 1995 - Effective September 1, 1995)

Pre-1987 survivor pension

(3) The amount of the survivor pension, before adjustment for inflation, shall be based upon the member's credited service for employment before the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(a) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on the date of death; or

(b) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

Commutation of pension

(3a) If the spouse of a member elects to receive payment of the benefit described under clause 63 (4) (a), then the spouse of the member shall receive a lump sum payment equal to the commuted value of the survivor pension calculated in accordance with subsection (3), and not the survivor pension calculated in accordance with subsection (3). (Last amended December 13, 2012 - Effective July 1, 2012)

Refund of contributions (10 year rule)

(3b) If the commuted value of the survivor pension calculated in accordance with subsection (3) is less than the amount of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon, then the spouse of the member is entitled to a refund, paid in a lump sum, of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon, and not to the benefit described in either subsection (3) or (3a). (Last amended December 13, 2012 - Effective July 1, 2012)

Refund of contributions

(4) The spouse of a member who dies with less than ten years of qualifying service is entitled to a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon. (Last amended June 19, 2012 - Effective July 1, 2012)

Post-1986 (spousal) death benefit

63. (1) This section applies with respect to that portion of the death benefit that relates to a member's employment on or after the 1st day of January, 1987.

Benefit

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of contributions

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 1995)

Idem

(4) The spouse of a member is entitled to receive,

(a) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987; or

(b) a survivor pension for the lifetime of the spouse, the commuted value of which is at least equal to the commuted value of a pension for credited service for the member's employment on or after the 1st day of January, 1987, calculated as if the member had become entitled to a retirement pension on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Election

(5) The spouse may elect the form of benefit to be paid under subsection (4) and a spouse who does not do so within twelve months after the death of the member shall be deemed to have elected to receive a survivor pension. (Last amended May 5, 2010 – Effective January 1, 2008)

Deemed election

(5a) The spouse of a member who dies within twelve months after the death of the member without electing the form of benefit to be paid under subsection (4) shall be deemed to have elected to receive payment of the benefit described under clause (4) (a). (Last amended December 13, 2012 - Effective July 1, 2012)

Survivor pension

(6) A spouse who elects to receive a survivor pension may elect to begin to receive the pension at any time up to the end of the calendar year in which the spouse attains seventy-one years of age, or up to such other time as is required under the *Income Tax Act* (Canada), provided that the pension shall not begin before the month following the month in which the administrator has received all supporting documentation required to pay the pension. (Last amended June 20, 2012 – Effective January 1, 2012)

Pre-retirement child's pension

64. (1) This section applies with respect to the dependent children of a member entitled to a deferred pension who died before commencement of payment of the deferred pension and,

(a) who had a spouse who became entitled to a survivor pension who subsequently died; or

(b) who did not have a spouse entitled to a survivor pension.

(Last amended May 5, 2010 – Effective June 1, 1995)

Entitlement to child's pension

(2) Subject to subsections (3), (3a) and (3b), each dependent child of a member is entitled upon the death of the spouse or the member, as the case may be, to receive a child's pension calculated under subsections (4a) and (4b) while the child remains a dependent child. (Last amended December 13, 2012 - Effective July 1, 2012)

Exception re: post-1986 spousal death benefit

(3) No child's pension is payable in respect of the credited service of a deceased member for which the spouse of the member received the lump sum payment described in clause 63 (4) (a).

Exception re: post-1986 benefit to spouse's estate

(3a) No child's pension is payable in respect of the credited service of a deceased member for which the spouse's estate is entitled to payment of the benefit described under clause 63 (4) (a). (Last amended December 13, 2012 - Effective July 1, 2012)

Exception re: pre-1987 spousal death benefit

(3b) No child's pension is payable in respect of the credited service of a deceased member for which the spouse of the member is entitled to payment of the benefit described under either subsection 62 (3), 62 (3a) or 62 (3b). (Last amended December 13, 2012 - Effective July 1, 2012)

Amount of child's pension

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Pre-1987 (child) death benefit

(4a) (a) This subsection applies with respect to that portion of the death benefit that relates to a member's employment before the 1st day of January, 1987. (Last amended June 19, 2012 - Effective July 1, 2012)

Survivor pension

(b) The dependent child of a member with ten years or more qualifying service is entitled to the child's pension described in subsection (4a) (c) while the child remains a dependent child. (Last amended June 19, 2012 – Effective July 1, 2012)

Pre-1987 child's pension

(c) The amount of the child's pension, before adjustment for inflation, shall be based upon the member's credited service for employment before the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(i) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(ii) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Post-1986 (child) death benefit

(4b) (a) This subsection applies with respect to that portion of the death benefit that relates to a member's employment on or after the 1st day of January, 1987. (Last amended June 19, 2012 - Effective July 1, 2012)

Benefit

(b) The amount of the child's pension, before adjustment for inflation, shall be based upon the member's credited service for employment on or after the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(i) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(ii) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(5) The child's pension shall be shared equally among the member's dependent children.

Share accrues to others

(6) The share of the child's pension of each of the children who ceases to be a dependent child accrues to the remaining dependent children, if any.

Benefit to beneficiary

65. (1) A beneficiary designated by a member entitled to a deferred pension is entitled to the benefit described in subsection (2),

(a) if the member dies before commencement of payment of the deferred pension; and

(b) if, on the date of death, the member does not have a spouse entitled to a benefit payable on his or her death.

(Last amended December 13, 2012 - Effective July 1, 2012)

Amount of benefit

(2) Subject to subsection (3), a beneficiary designated by a member is entitled to receive,

(a) a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon; and

(b) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987.

(Last amended December 13, 2012 - Effective July 1, 2012)

Residual entitlement

(3) If a person is entitled to a child's pension under section 64 on the death of the member, the beneficiary is entitled to a refund of the amount by which the amount calculated under clause (2) (a) exceeds the commuted value of the amount payable under subsection 64 (4a), together with interest thereon, and a refund of the amount by which the amount calculated under clause (2) (b) exceeds the commuted value of the amount payable under subsection 64 (4b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

Benefit to member's estate

66. (1) The estate of a member entitled to a deferred pension who dies before commencement of payment of the deferred pension is entitled to the payments described in this section. (Last amended May 5, 2010 – Effective June 1, 1995)

Idem, no others entitled

(2) Subject to subsection (3), if no spouse or designated beneficiary is entitled to a benefit on the death of the member, the estate is entitled to,

(a) a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon; and

(b) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987.

(Last amended December 13, 2012 - Effective July 1, 2012)

Residual entitlement

(3) If a person is entitled to a child's pension under section 64 on the death of the member, the estate is entitled to a refund of the amount by which the amount calculated under clause (2) (a) exceeds the commuted value of the amount payable under subsection 64 (4a), together with interest thereon, and a refund of the amount by which the amount calculated under clause (2) (b) exceeds the commuted value of the amount payable under subsection 64 (4b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(4) Revoked. (Last amended December 13, 2012 - Effective July 1, 2012)

(5) Revoked. (Last amended December 13, 2012 - Effective July 1, 2012)

Benefit to spouse's estate

66a. (1) Where the member had a spouse who elected to receive the benefit described under clause 63 (4) (b), and who subsequently dies after the payments described under clause 63 (4) (b) have commenced, the spouse's estate is entitled to a refund of the amount by which the member's contributions made in respect of credited service on or after January 1, 1987, together with interest thereon, minus any payments made under section 36, together with interest thereon, and minus the commuted value of the amount payable under subsection 64 (4b), together with interest thereon, exceed the amount paid to the spouse under clause 63 (4) (b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(2) Where the member had a spouse who elected to receive the benefit described under clause 63 (4) (b), and who subsequently dies before the payments described under clause 63 (4) (b) have commenced, the spouse's estate is entitled to the amount determined under clause 63 (4) (a), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(3) Where the member had a spouse who died after becoming entitled to a survivor pension under subsection 62 (3), the spouse's estate is entitled to a refund of the amount by which the member's contributions for employment before the 1st day of January, 1987, together with interest thereon, exceed the amount paid to the spouse under subsection 62 (3), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

Payment of benefits, predecessor Acts

66b. (1) Benefits paid upon the death of a member who ceased to be employed in education prior to January 1, 1990 and who is entitled to a deferred pension on the date of death shall be calculated, with necessary modifications, in accordance with the terms of the *Teachers' Superannuation Act, 1983*, or a predecessor Act, and shall be paid out of the pension fund in accordance with the Act under which the member ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

Limitation on survivor pensions less than $1,200

(2) Subject to section 84, where the annual amount of the survivor pension calculated under sections 62 and 63 is less than $1,200 the spouse of a member is entitled to a pension in that lesser amount and not to a pension in the amount of $1,200 as provided for by Order in Council 1453/74. (Last amended December 13, 2012 - Effective July 1, 2012)

Exception

(3) Subsection (2) shall not apply to the spouse of a member who has at least ten years of credited service in whole or in part before the 1st day of January, 1987 on the date he or she ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

Limitation

(4) For greater certainty, subsection 76 (2) of the *Teachers' Superannuation Act, 1983* shall not apply to any survivor pension payable in respect of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

C. Upon the Death of a Pensioner

Survivor pension, spouse

67. (1) If a member dies on or after commencement of payment of a pension, the person who was the spouse on the date that the payment of the first instalment of the pension was due is entitled to the survivor pension described in subsection (3) for the spouse's lifetime. (Last amended May 5, 2010 – Effective June 1, 1995)

Application

(2) Subsection (1) does not apply if the member and the spouse were living separate and apart on the date that the payment of the first instalment of the member's pension was due. (Last amended May 5, 2010 – Effective June 1, 1995)

Amount of survivor pension

(3) Subject to sections 68, 69, and 84a, the amount of the annual survivor pension, before adjustment for inflation, payable to the surviving spouse shall be not less than 50 per cent of the pension, before adjustment for inflation,

(a) that was being paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(b) that would have been paid to the member as of the first day of the month next following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 20, 2012 – Effective March 3, 2000)

Exception for low pensions

(4) Despite subsection (3) the survivor of a person who died while receiving an annual pension that had been adjusted under Order in Council 1453/74, is entitled to a pension that is 50 per cent of the pension being paid to the person at the date of death, or such greater percentage as the deceased person had elected prior to death. (Last amended October 23, 1991 - Effective October 23, 1991)

Spousal election re survivor pension

68. (1) In the absence of a joint waiver by a member and the member's spouse of the spouse's entitlement under subsection 44 (3) of the *Pension Benefits Act* (amount of survivor benefit), the amount of the survivor pension payable on the death of the member shall be 60 per cent of the amount of the member's pension that would be payable if the amount of the pension were calculated without regard to this section. (Last amended October 23, 1991 - Effective October 23, 1991)

Waiver void

(2) A waiver referred to in subsection (1) is void if it is dated, signed, or delivered to the administrator more than twelve months before the commencement of payment of the member’s pension or after the commencement of payment of the member’s pension. (Last amended August 4, 2011 – Effective May 18, 2010)

Adjustment of member's pension

(3) In the absence of a waiver referred to in subsection (1), the amount of the pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the increased survivor pension in accordance with subsection (1). (Last amended October 10, 1995 - Effective January 1, 1992)

(3a) Prior to calculating the payment described in subsection (1), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Application

(4) This section does not apply with respect to a member who, before the 1st day of January, 1988, began to receive a pension under a predecessor Act.

Idem

(5) This section does not apply with respect to a member who dies before commencement of payment of the member’s pension. (Last amended May 5, 2010 – Effective June 1, 1995)

Increase of survivor pension

69. (1) A member may direct the administrator to increase the amount of a survivor pension that may become payable under section 67 in respect of the member to an amount equal to 55, 65, 70 or 75 per cent of the member's pension that would be payable if the amount of the pension were calculated without regard to this section.

Time limit

(2) A direction must be given in writing and must be delivered to the administrator at least two years before the earlier of,

(a) the member's normal retirement date; or

(b) the beginning of the month in which the member's pension begins.

Idem

(3) The administrator shall act on a direction delivered after the deadline specified in subsection (2) and before the member applies for a retirement pension if the administrator is satisfied that the member is in good health having regard to the member's age.

Adjustment of member's pension

(4) The amount of the pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the increased survivor pension in accordance with the direction. (Last amended October 10, 1995 - Effective January 1, 1992)

(4a) Prior to calculating the payment described in subsection (1), the pension the member was receiving shall be reduced immediately upon the member's death to reflect any reduction described in section 81 that was not applicable immediately prior to the member's death. (Last amended June 20, 2012 – Effective January 1, 1990)

Commuted value

(5) The commuted value of pension paid to the member including the commuted value of the increased survivor benefit shall not be less than the commuted value of the pension, including survivor benefit, that would otherwise be payable.

Revocation of direction

(6) A member may revoke a direction given under this section by a written revocation delivered to the administrator before the member begins receiving a pension.

Direction void

(7) A direction given under this section by a member is void if the member dies before beginning to receive a pension.

Restriction

(8) A person whose pension would be reduced from an amount greater than $2,400 to an amount less than $2,400 upon making an election under this section is not entitled to an increase in his or her pension under Order in Council 1453/74. (Last amended October 23, 1991 - Effective October 23, 1991)

Survivor pension, new spouse

70. (1) In this section and section 84a, "new spouse", in relation to a member, means a person who becomes the spouse of the member after the commencement of payment of the member's retirement or disability pension. (Last amended June 20, 2012 – Effective March 3, 2000)

Idem

(2) A member who does not have a spouse eligible to receive a survivor pension under section 67 may, after the commencement of payment of the member's retirement or disability pension, direct the administrator to provide a survivor pension to a new spouse. (Last amended May 5, 2010 – Effective June 1, 1995)

Time limit

(3) A direction must be given in writing and must be delivered to the administrator on or before the later of,

(a) ninety days after the date on which the member becomes the spouse of the new spouse; or

(b) if immediately before the member becomes the spouse of the new spouse there is a child who would be entitled upon the death of the member to receive a child's pension under section 73, ninety days after the date on which the child ceases to be eligible to receive the child's pension.

Idem

(4) The administrator shall act on a direction delivered after the deadline specified in subsection (3) if the administrator is satisfied that the member is in good health having regard to the member's age.

(4a) A direction given under this section is not effective until six months following the date of delivery of the direction to the administrator. (Last amended June 1, 1995 - Effective June 1, 1995)

(4b) A direction made under this section is null and void if the death of the member occurs before the effective date of the direction. (Last amended June 1, 1995 - Effective June 1, 1995)

(4c) A member may revoke a direction given under this section by a written revocation delivered to the administrator before the direction becomes effective in accordance with subsection (4a). (Last amended September 8, 2006 – Effective June 1, 1995)

Amount of survivor pension

(5) Subject to section 84a, a member described in subsection (2) shall direct the administrator to pay a survivor pension in the amount of 50, 55, 60, 65, 70 or 75 per cent of the pension that would otherwise be payable on the first day of the month next following the month in which the member becomes the spouse of the new spouse. (Last amended June 20, 2012 – Effective March 3, 2000)

Adjustment of member's pension

(6) The amount of a retirement or disability pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the survivor pension in accordance with the direction. (Last amended October 10, 1995 - Effective January 1, 1992)

Idem

(7) The actuarial reduction required by subsection (6) shall be based upon the ages of the member and of the spouse on the last day of the month in which the direction is delivered to the administrator.

(7a) Prior to calculating the payment described in subsection (5), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Payment of survivor pension

(8) The administrator shall pay the survivor pension in accordance with the direction but not while there is a person who is eligible to receive a child's pension in respect of the member.

Eligibility

70a. (1) This section applies to a member or former member who, as of April 23, 1998, was:

(a) receiving a pension in respect of which there was no person eligible, as of April 22, 1998, to receive a survivor pension, and

(b) living with a person who would have qualified under the relevant provisions of the pension plan as the member's same-sex partner for purposes of eligibility for a survivor pension, other than a survivor pension provided by sections 70, 71, 72, or any predecessor thereof, if the definition of "same-sex partner" as set out in the pension plan had been in effect prior to April 23, 1998. (Last amended July 10, 2000 – Effective April 23, 1998)

Direction

(2) Subject to subsections (3) and (4), a member described in subsection (1) may direct the administrator to pay a survivor pension to the person described in subsection (1) for the person's lifetime commencing the month following the member's date of death. (Last amended July 10, 2000 – Effective April 23, 1998)

Idem

(3) Where the member dies prior to providing the direction referred to in subsection (2), such direction may be provided by the person described in subsection (1). (Last amended July 10, 2000 – Effective April 23, 1998)

Deadline

(4) The direction provided in accordance with subsection (2) or (3) shall be provided to the administrator. (Last amended September 8, 2006 - Effective April 23, 1998)

Entitlement

(5) Subject to subsection (6), the amount of the annual survivor pension, before adjustment for inflation, payable under this section shall be 50 per cent of the pension, before adjustment for inflation,

(a) that was being paid to the member at the date of death, if the member was at least sixty-five years of age on that date, or

(b) that would have been paid to the member as of the first day of the month next following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death. (Last amended July 10, 2000 - Effective April 23, 1998)

Offset

(6) The survivor pension described in subsection (5) shall be actuarially reduced by any amounts paid to any person, including the member's estate, as a result of the member's death. (Last amended July 10, 2000 - Effective April 23, 1998)

(7) No survivor pension is payable under this section if the person described in subsection (1) dies prior to providing the direction in accordance with subsections (3) and (4). (Last amended July 19, 2007 – Effective April 23, 1998)

(8) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007).

Survivor pension, predecessor Acts

71. (1) This section applies with respect to a member who, before the 1st day of September, 1984, ceased to be employed in education within the meaning of a predecessor of this Act and who became the spouse of a person after ceasing that employment.

Direction re survivor pension

(2) A member described in subsection (1) may direct the administrator to provide a survivor benefit for the member's spouse and section 70 applies with respect to the direction with necessary modifications.

Time limit

(3) A direction under this section shall be delivered to the administrator on or before the latest of,

(a) the 31st day of March, 1990;

(b) ninety days after the date on which the member becomes a spouse; or

(c) if on the 1st day of January, 1990 there is a child who would be entitled upon the death of the member to receive a survivor allowance under a predecessor of this Act, ninety days after the date on which the child ceases to be eligible to receive the survivor allowance.

Idem

(4) The administrator shall act on a direction delivered after the deadline specified in subsection (3) if the administrator is satisfied that the member is in good health having regard to the member's age.

Deemed direction

(5) A member described in subsection (1) who dies on or before the 31st day of March, 1990 without having given a direction under this section shall be deemed to have given it on that date and shall be deemed to have directed the administrator to pay a 50 per cent survivor pension.

Survivor pension (prior inquiry)

72. (1) This section applies with respect to a person who became the spouse of a member described in subsection 71 (1) after the member ceased to be employed in education within the meaning of a predecessor of this Act.

Idem

(2) This section does not apply unless the member has ceased to be a member before the 1st day of January, 1990 because he or she has died.

Survivor pension

(3) A spouse described in subsection (1) is entitled to a survivor pension calculated from the date of a written inquiry respecting a survivor pension,

(a) made to the Teachers' Superannuation Commission before the 1st day of January, 1990; or

(b) made to the administrator on or after the 1st day of January, 1990.

Amount of pension

(4) The amount of the survivor pension is 50 per cent of the amount of the member's retirement pension on the date of the member's death adjusted for inflation as if it were a pension for the period from the date of the member's death to the date the spouse becomes entitled to the survivor pension.

(5) Prior to calculating the payment described in subsection (4), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Child's pension

73. (1) This section applies with respect to the dependent children of a member who died while receiving a retirement or disability pension and,

(a) who had a spouse who died after becoming entitled to a survivor pension; or

(b) who did not have a spouse entitled to a survivor pension.

Entitlement to child's pension

(2) Each dependent child of a member, upon the death of the spouse or the member, as the case may be, is entitled to a child's pension while remaining a dependent child.

Amount of child's pension

(3) The amount of the annual child's pension is the amount of the survivor pension to which a spouse of the member was or would have been entitled after the death of the member, shared equally among the dependent children.

Share accrues to others

(4) The share of the child's pension of each of the children who ceases to be a dependent child accrues to the remaining dependent children, if any.

Beneficiary's pension, R.S.C. 1952, c. 148

74. (1) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Time limit

(2) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Idem

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Amount of beneficiary's pension

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Adjustment of member's pension

(5) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Revocation of direction

(6) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Direction void

(7) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Benefit to estate

75. The estate of a member who was receiving a pension on the date of death is entitled to a refund of the amount by which the member's contributions together with interest thereon exceeds the sum of the amount paid to the member and the amount, if any, paid to every other person who was entitled to a benefit on the member's death, together with interest thereon.

10 year guarantee

75a. (1) Notwithstanding any other provision of the plan, but subject to this section, where a member dies while receiving a retirement pension or a disability pension, but prior to receiving the equivalent of 120 monthly pension payments, the remaining balance of such pension payments shall be paid:

(a) as a pension to the person who remains otherwise eligible for benefits under the plan as a result of the member’s death, or

(b) to the member’s estate, if there is no person eligible as described in (a), in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Direction

(2) If a member has a spouse eligible for a survivor pension at the commencement of payment of the member’s pension, subsection (1) shall only apply if the member has delivered a written direction to the administrator prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(3) A direction provided in accordance with subsection (2) may be revoked by the member provided that a written revocation is delivered to the administrator prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(4) A direction provided in accordance with subsection (2) is void if the member dies prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Adjustment of member's pension

(5) The pension of a member who provides a direction in accordance with subsection (2) shall be reduced to allow for payment of the benefits in accordance with subsection (1). (Last amended April 2, 2001 – Effective April 1, 2001)

Offset

(6) Subject to subsection (11), the payments made in accordance with subsection (1) shall be paid in lieu of any other amounts otherwise payable under the plan as a result of the member's death. (Last amended April 2, 2001 – Effective April 1, 2001)

CPP Reduction

(7) The payments made in accordance with subsection (1) shall be reduced immediately upon the member's death to reflect any reduction described in section 81 that was not applicable immediately prior to the member's death. (Last amended April 2, 2001 – Effective April 1, 2001)

More than one beneficiary

(8) Where there is more than one person eligible as described in clause (1)(a), then the pension payable in accordance with that provision shall be shared equally among such persons. (Last amended April 2, 2001 – Effective April 1, 2001)

Upon death of beneficiary

(9) Where any person eligible as described in clause (1)(a) dies prior to completion of the pension payments under that provision, the remaining payments shall be shared equally among any remaining eligible persons or, if none, shall be paid to the person's estate in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Upon ineligibility of beneficiary

(10) Where any person eligible as described in clause (1)(a) ceases to be a person eligible as described in clause (1)(a) prior to completion of the pension payments under that provision, the remaining payments shall be shared equally among any remaining eligible persons or, if none, shall be paid to the member's estate in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Completion of 10 year guarantee

(11) Upon completion of the pension payments in accordance with clause (1)(a), the person or persons described in that provision shall be entitled to receive, on a prospective basis only, the pension that they would otherwise be receiving as a result of the member's death but for this section, except that any reduction that was applied pursuant to subsection (5) shall continue to apply. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to existing pensions

(12) This section shall apply, with necessary modifications, to a member who is receiving a pension as of April 1, 2001 except that, for the purposes of subsection (2) only, spousal eligibility for a survivor pension shall be determined as of April 1, 2001 and the direction required in accordance with (2) must be delivered to the administrator by May 1, 2001. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to deferred pensions

(12a) This section shall apply, with necessary modifications, to a member who ceased employment in education on or after January 1, 1990 but prior to April 1, 2001 and who is entitled to a deferred pension. (Last amended June 19, 2012 – Effective April 1, 2001)

Application to suspended pensions

(13) For the purposes of this section, references to a member who is receiving a pension shall include a member whose pension is suspended. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to TSA pensions

(14) This section shall apply, with necessary modifications, to a member who ceased employment in education prior to January 1, 1990 and who is either entitled to a deferred pension or receiving a pension as of April 1, 2001. (Last amended May 5, 2010 – Effective April 1, 2001)

Application to deferred pensions post-June 30, 2012

(15) This section shall apply, with necessary modifications, to a member who ceased employment in education prior to July 1, 2012 and who was not entitled to a deferred pension under section 30 as it read on June 30, 2012. (Last amended June 19, 2012 – Effective July 1, 2012)

D. Payment of Death Benefits

Commencement of pension

76. (1) A pension that is payable immediately on the death of a member who was not receiving a retirement or disability pension on the date of death shall begin as of the day after the day the member dies.

Idem

(2) A pension that is payable on the death of a member who was receiving a retirement or disability pension on the date of death shall begin as of the first day of the month after the month in which the member dies.

Interest payable

(3) Interest shall be paid on pension payments due under a pension mentioned in this section if the administrator does not begin paying the pension by the end of the month in which the beneficiary becomes entitled to receive it. (Last amended June 28, 1990 - Effective June 28, 1990)

Interest Payable

(4) Interest on each overdue monthly pension payment, calculated at the standard rate, shall be paid from the date the payment was due to the day before it was made. (Last amended February 28, 1992 - Effective January 1, 1992)

Payments to estate

77. (1) If the administrator is unable to locate a personal representative of the estate of a deceased member, the administrator may pay into court any payments that under the pension plan are required to be made to the estate.

Missing beneficiary

(2) If the administrator is unable, after making reasonable inquiries, to locate an individual who is entitled to a death benefit under the pension plan or a beneficiary designated by the deceased member under the *Pension Benefits Act*, the administrator shall pay to the estate of the deceased member one year after the date of death the amount to which the estate is otherwise entitled when no other person is entitled to a benefit on the death of the member.

Missing beneficiary found

(3) If an individual entitled to a death benefit under the pension plan or a beneficiary designated by the deceased member under the *Pension Benefits Act* applies for the benefit after the administrator makes a payment under subsection (2), the administrator shall pay the individual the amount of the benefit to which the individual is entitled less the amount paid to the estate by the administrator.

Transitional

(4) This section applies with respect to a person with credited service under a predecessor of this Act who dies before the 1st day of January, 1990, as if that person were a deceased member of the pension plan.

Discharge

(5) The administrator is discharged on making a payment in accordance with this section.

Interpleader, more than one applicant

78. (1) Revoked. (Last amended September 8, 2006 – Effective September 1, 2006)

Court may order

(2) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Application to court

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Application of R.S.O. 1980, c. 488, s. 62

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

PART VIII
BENEFITS AND PAYMENTS - GENERAL

A. Adjustments for Inflation

Inflation adjustment, pensions

79. (1) Every retirement pension, disability pension, survivor pension, child's pension and beneficiary's pension shall be adjusted for inflation in accordance with section 80.

Idem, deferred pensions

(2) Every deferred pension payable under the pension plan shall be adjusted for inflation in accordance with section 80 for the period beginning at the end of the last month for which the member has credit under the plan and ending when the pension begins.

Limitation

(3) No pension or deferred pension shall be adjusted under this section for inflation in respect of a period before the 1st day of January, 1990.

Adjustment of pensions for cessations prior to May 31, 1982

79a. (1) For pension instalments payable for periods on or after June 1, 2001, the annual pension of a member, or of the survivor of a member, who ceased to be employed for purposes of the plan prior to May 31, 1982, shall be adjusted in accordance with salary adjustments determined by the actuary with reference to the year in which the member ceased to be employed for purposes of the plan. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(2) Subsection (1) shall also apply to the pension payable to the survivor of a member where the member:

(a) ceased to be employed for purposes of the plan on or after May 31, 1982 but prior to September 1, 1984, and

(b) died prior to receiving a pension calculated on the basis of the average of the member's annual pensionable salary for the five school years during which it was highest,

but only to the extent that the survivor is not already receiving a survivor pension equivalent to that calculated on the basis described in (b). (Last amended April 2, 2001 – Effective April 1, 2001)

Applicability

(3) This section shall not apply to the retirement pension or benefits upon death of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended December 13, 2012 – Effective July 1, 2012)

Calculation of inflation adjustments

80. (1) In the formulas in this section,

"A" is the carry forward determined for the immediately preceding year,

"B" is the basic ratio for the year,

"C" is the adjustment ratio for the year,

"D" is the basic ratio for the year after the last year for which the member has credit in the pension plan, and shall be calculated to a maximum of 1.080 or to a minimum of 1.000, and (Last amended October 9, 2008 – Effective January 1, 2009)

"E" is the number of full months in the year that are after the month in the last year for which the member has credit in the pension plan. (Last amended October 9, 2008 – Effective January 1, 2009)

Definitions

(2) In this section,

"accumulated adjustment ratio", for a person's pension, means the product of the multiplication of all adjustment ratios for the years in the period commencing with the last year for which the member has credit in the pension plan and ending with the year for which the accumulated adjustment ratio is being determined; (Last amended October 9, 2008 – Effective January 1, 2009)

"adjustment ratio", for a person's pension, means,

(a) for any year before the year 1976 and for the last year for which the member has credit in the pension plan, 1.000,

(b) if the member for whose credit in the plan the pension is payable ceased to be employed in education in or after the year 1975, for the year after the last year for which the member has credit in the pension plan, the ratio determined by the formula "[(D - 1.000) × E / 12] + 1.000", and

(c) for the later of the year 1976 and the second year after the last year for which the member has credit in the pension plan and for any subsequent year, the ratio determined by the formula "A + B" calculated to a maximum of 1.080 or to a minimum of 1.000; (Last amended October 9, 2008 – Effective January 1, 2009)

"basic ratio", for a year, means the ratio expressed to three decimal places that the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year bears to the average for the Consumer Price Index over the first twelve months of that period;

"carry forward", with respect to the pension of a person, means,

(a) for any year before the year 1976, for the last year for which the member has credit in the pension plan and for the year after that year, nil, and

(b) for the later of the year 1976 and the second year following the last year for which the member has credit in the pension plan and for any subsequent year, the positive or negative number determined by the formula "A + B - C"; (Last amended October 9, 2008 – Effective January 1, 2009)

"Consumer Price Index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);

"member" means the person in respect of whose credit in the pension plan the pension, to which the formula is applied under this section, is payable, and includes a contributor within the meaning of the *Teachers' Superannuation Act*, *1983* or a predecessor Act; (Last amended October 9, 2008 – Effective January 1, 2009)

"pension" means a pension to which a person is entitled from the plan other than the adjustment for inflation provided by this section, and an allowance, annuity, deferred annuity or other periodic payments to which a person has become entitled under the *Teachers' Superannuation Act*, *1983* or a predecessor Act;

"plan" includes the pension plan established under the *Teachers' Superannuation Act*, *1983* and any predecessor Act.

Payment of inflation adjustment

(3) The annual amount of pension payable to a person from the pension fund shall, commencing with the year when payment of the pension is to commence and in each subsequent year that the pension continues to be payable, be adjusted for inflation by multiplying the annual amount of the pension by the accumulated adjustment ratio for the pension of the person for that year, and the amount by which the pension thus adjusted exceeds the annual amount of pension before the adjustment in each year shall be paid to the person entitled to receive the pension for which it is calculated at the same times, in the same manner and subject to the same terms and conditions as apply to the pension in respect of which it is paid.

Conditional inflation adjustment for post-2009 credit

(3a) Notwithstanding subsections (1), (2) and (3), but subject to subsection (3b), benefits payable in respect of credit accrued under the pension plan for periods after 2009 shall only be adjusted for inflation under this section to the extent that sufficient funds are available to provide for such adjustments without creating a going concern unfunded liability. (Last amended October 9, 2008 – Effective January 1, 2009)

50% guaranteed inflation adjustment for post-2009 credit

(3b) Benefits payable in respect of credit accrued under the pension plan for periods after 2009 shall be adjusted for inflation under this section such that the adjustment made each year is not less than one half of the adjustment that would have been made for the year in accordance with this section as it read on December 31, 2008. (Last amended October 9, 2008 – Effective January 1, 2009)

Inflation adjustment for benefits payable after 2011

(3c) Revoked. (Last amended September 17, 2013 – Effective January 1, 2014)

0% guaranteed inflation adjustment for post-2013 credit

(3d) Notwithstanding subsection (3b), benefits payable in respect of credit accrued under the pension plan for periods after 2013 may be further adjusted for inflation under this section such that the total adjustment made each year is less than one half of the adjustment that would have been made for the year in accordance with this section as it read on December 31, 2008. (Last amended September 17, 2013 – Effective January 1, 2014)

Determination of inflation adjustment for post-2009 and post-2013 credit

(3e) For purposes of subsections (3a), (3b) and (3d), the inflation adjustments for benefits payable each year, in respect of credit accrued under the pension plan for periods after 2009 and after 2013 respectively, shall be determined by the co-sponsors of the pension plan, the Executive of the Ontario Teachers' Federation and the Minister of Education. (Last amended September 17, 2013 – Effective January 1, 2014)

Ratio not to apply

(4) The ratio determined for the year 1990 under the *Superannuation Adjustment Benefits Act* does not apply to a pension to which this section applies.

Effect of re-employment

(5) For the purpose of determining an accumulated adjustment ratio for benefits that commence to be paid on or after May 10, 2007, for members who cease to be employed in education on or after September 1, 1995:

(a) the last school year in which the member accumulated more than ten days of credited service during the period from January 1, 1997 onward, or, if the member did not accumulate more than ten days of credited service in a school year during this period, then

(b) the last school year in which the member accumulated more than twenty days of credited service during the period from September 1, 1990 to December 31, 1996,

is deemed to be the last year for which the member has credit in the pension plan. (Last amended December 21, 2007 – Effective May 10, 2007)

(6) Revoked. (Last amended July 19, 2007 – Effective May 10, 2007)

B. CPP Reduction

CPP reduction for pensions

81. (1) If a member has contributed to the *Canada Pension Plan* or the *Quebec Pension Plan*, the amount of the member's retirement pension, full disability pension or partial disability pension shall be reduced by the amount calculated under subsection (3).

Commencement, retirement pension

(2) A reduction of a member's pension shall apply with respect to pension payments due the month after the earlier of,

(a) the month in which the member reaches sixty-five years of age; or

(b) the month in which the first instalment of the member's disability pension, if any, under the *Canada Pension Plan* or the *Quebec Pension Plan* is due.

Amount of reduction

(3) The amount of the reduction in an annual pension payable for periods on or after January 1, 1997 and prior to January 1, 1999 is calculated using the formula,

0.0068 x A x B,

and the amount of the reduction in an annual pension payable for periods on or after January 1, 1999 and prior to January 1, 2002 is calculated using the formula,

0.0060 x A x B,

and the amount of the reduction in an annual pension payable for periods on or after January 1, 2002 is calculated using the formula,

0.0045 x A x B

in which,

"A" is the lesser of,

(a) the member's average salary, and

(b) the amount determined under subsection (4), and

"B" is the number of years of the member's credited service for employment on or after the 1st day of January, 1966 in respect of which the member made contributions under the *Canada Pension Plan* or the *Quebec Pension Plan*. (Last amended April 2, 2001 – Effective April 1, 2001)

(3a) For pension instalments due on or after January 1, 1997, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0068 for 0.007 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension will not be recalculated. (Last amended February 20, 1997 - Effective January 1, 1997)

(3b) For pension instalments payable for periods on or after January 1, 1999, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule "1" of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0060 for 0.0068 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension will not be recalculated. (Last amended May 27, 1998 - Effective June 1, 1998)

(3c) For pension instalments payable for periods on or after January 1, 2002, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0045 for 0.0060 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension or a 10 year guaranteed pension will not be recalculated. (Last amended September 8, 2006 – Effective April 1, 2001)

Average YMPE

(4) The amount is the average of the Year's Maximum Pensionable Earnings for the year in which the member ceases to be employed in education and for each of the two preceding years, except that for an annual pension payable for periods on or after January 1, 2002 the amount is the average of the Year's Maximum Pensionable Earnings for the year in which the member ceases to be employed in education and for each of the four preceding years. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(4a) For pension instalments payable for periods on or after January 1, 2002, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated using the five year average of the Year's Maximum Pensionable Earnings, as described in subsection (4), in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension or a 10 year guaranteed pension will not be recalculated. (Last amended September 8, 2006 – Effective April 1, 2001)

(5) Where a reduction is applied as provided in subsection 81(2)(b) and the member's *Canada Pension Plan* or *Quebec Pension Plan* disability pension is terminated before the member reaches sixty-five years of age, the reduction will be suspended, effective the month following the month of the termination, until the payment of pensions due the month after the earlier of,

(a) the month in which the member reaches sixty-five years of age; or

(b) the month in which the first instalment of the member's disability pension, if any, under the *Canada Pension Plan* or the *Quebec Pension Plan* is due.

(Last amended April 15, 1998 - Effective January 1, 1997)

C. Payment of Benefits

Application for benefit

82. (1) No benefit under the plan shall be paid before the administrator receives an application for it in the form provided by the administrator.

Election or direction

(2) An election available under the plan or a direction that may be given to the administrator shall be made or given in the form provided by the administrator.

Repayment

82a. A person who receives payments to which the person is not entitled shall repay the amounts so received, together with interest thereon calculated at the standard interest rate. (Last amended May 5, 2010 – Effective January 1, 2002)

Multiple pensions

83. No member is entitled to payment of more than one pension under the plan during the same month or other payment period in respect of the member's credited service.

Commutation of pensions

84. The administrator shall pay the commuted value of a pension, other than a disability pension or dependent child pension, in accordance with subsections 44 (7) and (7.1), or clause 50 (1) (a), of the *Pension Benefits Act.* (Last amended January 15, 2014 – Effective January 1, 2014)

Shortened life expectancy

84a. (1) Upon application by a member, the administrator shall pay the commuted value of a pension or deferred pension in such circumstances of shortened life expectancy as may be prescribed under subsection 49(2) of the *Pension Benefits Act*, provided the prescribed conditions under that Act are satisfied. (Last amended June 17, 2003 – Effective March 3, 2000)

Amount

(2) Subject to subsections (3) and (4), the amount payable under subsection (1) shall be determined in accordance with the *Pension Benefits Act* and accepted actuarial practice. (Last amended September 8, 2006 – Effective March 3, 2000)

Idem

(3) The commuted value of a deferred pension shall be determined as if the member had a normal life expectancy. (Last amended June 17, 2003 – Effective March 3, 2000)

Idem

(4) The commuted value of a pension shall be determined based on the member having a shortened life expectancy. (Last amended June 17, 2003 – Effective March 3, 2000)

Application void

(5) An application made under this section is void if the member dies before the benefit under subsection (1) is paid. (Last amended June 17, 2003 – Effective March 3, 2000)

Deemed cessation

(6) A member who makes an application under this section and who satisfies the evidentiary requirements of the *Pension Benefits Act* is deemed to have ceased employment in education for the purposes of membership in the pension plan, on the date the member's physician signs the statement required under the *Pension Benefits Act*. (Last amended June 20, 2012 – Effective January 1, 2007)

(7) If a direction under section 70 regarding a "new spouse" has been delivered to the administrator, the benefit under subsection 84a (1) shall not be paid unless the "new spouse" provides to the administrator a signed statement waiving any entitlement under section 70. (Last amended June 20, 2012 – Effective March 3, 2000)

Deductions from pensions

85. (1) Despite section 65 of the *Pension Benefits Act*, a person receiving a pension under the pension plan or an allowance under a predecessor Act may direct the administrator to deduct and remit from the pension or allowance on behalf of the person,

(a) premiums payable under the Ontario Health Insurance Plan by the person;

(b) premiums for life, medical, dental or health-related insurance payable by the person under a contract of group insurance approved by the administrator for the purpose of this section; and

(c) membership fees payable to The Retired Teachers of Ontario (RTO)/Les enseignantes et enseignants retraités de l'Ontario (ERO). (Last amended September 8, 2006 – Effective January 1, 1999)

Conditions

(2) The administrator may impose and require compliance with such conditions as the administrator considers appropriate before acting upon a direction.

Revocation of direction

(3) A person making a direction may revoke it by written notice to the administrator.

Termination of pension

86. Every pension terminates as of the end of the month in which the event that terminates the pension occurs.

No assignment etc.

86a. No pension or benefit shall be capable of being assigned, charged, anticipated, given as security or surrendered except as provided for in the *Pension Benefits Act*. (Last amended September 8, 2006 - Effective January 1, 1992)

D. Administration

Appeal of decision

87. (1) A person who is aggrieved by a decision of an employee of the administrator respecting the person's entitlement to, or the amount of, a pension benefit may appeal the decision to a committee of the administrator designated for the purpose of this section and the committee of the administrator shall determine the appeal. (Last amended April 15, 1998 - Effective October 1, 1997)

Idem

(2) An appeal shall be made in accordance with the procedures established by the administrator.

Determination of commuted value

88. The commuted value of a benefit shall not be less than the amount calculated in accordance with the *Recommendations for Minimum Transfer Values of Pensions* published from time to time by the Canadian Institute of Actuaries and shall be calculated using the rate of interest specified by, and such actuarial tables as may be adopted by, the administrator.

Calculation of interest

89. (1) Unless otherwise indicated, interest shall be calculated at the standard interest rate. For a given year, the standard interest rate attributable to a transaction is a rate equal to the average yield for the 12 month period, ending on the 31st day of October in the preceding calendar year, of five-year personal fixed term chartered bank deposit rates as determined from the Canadian Socio-Economic Information Management (CANSIM) Series V 122515 published monthly in the Bank of Canada Review and interest is compounded annually each December 31st. (Last amended September 8, 2006 - Effective September 1, 2006)

Idem, transitional

(2) For 1990 the standard interest rate attributable to a transaction is the weighted average effective annual yield of the debentures held by the Teachers' Superannuation Fund under the *Teachers' Superannuation Act, 1983* as at the 31st day of December, 1989.

Idem, transitional

(3) Interest payable in respect of a period before the 31st day of December, 1989 shall be calculated up to that date at the applicable rate in effect under the *Teachers' Superannuation Act, 1983* and at the applicable standard rate in effect thereafter. (Last amended June 1, 1995 - Effective June 1, 1995)

Interest on contributions

(4) Interest credited under the pension plan on contributions shall be calculated in accordance with the *Pension Benefits Act* and credited to the member as at the 31st day of December in each year.

Interest on lump sums

(5) Interest is payable in accordance with the *Pension Benefits Act* on a lump sum payment of the commuted value of a benefit from the effective date of the determination of the commuted value to the day before the lump sum is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Report re employment in education

90. (1) Revoked. (Last amended May 6, 2010 – Effective September 1, 2012)

Failure to report

(2) Revoked. (Last amended May 6, 2010 – Effective September 1, 2012)

Prior refund re multiple pensions

91. Revoked. (Last amended April 15, 1998 - Effective January 1, 1992)

PART IX
PURCHASE OF CREDIT FOR SERVICE

A. General

Purchases, general

92. (1) A member may purchase or receive a maximum of five years of credited service,

(a) under sections 10 (2a), 10 (2f), 10 (4), 12a, 94 and 96, and

(b) for any unpaid portion of a period under subsections 10 (2e) and 10 (2g) in respect of which compensation is prescribed in accordance with Regulation 8507 (1) (a) of the *Income Tax Act* (Canada),

for absences after the 31st day of December, 1990.

(Last amended July 21, 2014 – Effective September 1, 2014)

Idem

(2) Subject to section 28, a member may not purchase credited service for a period of time for which the member has credited service under the plan. (Last amended December 20, 1999 - Effective September 1, 1998)

Past service pension adjustment

92a. (1) The purchase of credited service by a member who requires certification of a Past Service Pension Adjustment under the *Income Tax Act* (Canada) is not complete until the administrator has obtained a certificate from the Minister of National Revenue. (Last amended February 28, 1992 - Effective January 1, 1992)

Idem

(2) Credited service in respect of which certification has been obtained from the Minister of National Revenue shall not be included in the credited service maximums in subsections 92 (1) and 94 (15). (Last amended February 28, 1992 - Effective January 1, 1992)

Purchases, transitional

93. (1) The purchase of credited service by a member who delivers a completed application to the administrator before the 1st day of January, 1992 shall be made in accordance with sections 9, 10, 36, 45 and 48 of the *Teachers' Superannuation Act, 1983* and with sections 7 to 14 of Ontario Regulation 423/84 as those sections read on the 31st day of December, 1989.

Idem

(2) The *Teachers' Superannuation Act, 1983* as it reads on the 31st day of December, 1989 continues to apply for the purpose of determining a purchase of credited service under subsection (1).

Idem

(2a) Despite subsections (1) and (2) a member who has delivered a completed application to the administrator before the 1st day of January 1992 who fails to pay all of the contributions required to complete the purchase of credited service applied for before the 31st day of December, 1994 shall receive credited service in an amount based upon the contributions plus interest which he or she has actually made. (Last amended June 28, 1990 - Effective June 28, 1990)

Transitional

(3) Sections 95, 96 and 99 apply with respect to a member's application before the 1st day of January, 1992 in the circumstances described in those sections.

End of transitional period

(4) A person is not eligible after the 31st day of December, 1994 to make or complete a purchase of credited service to which a predecessor Act applies.

Interest rate

(5) For the purpose of a purchase of credited service described in subsection (1) for a period on or after the 1st day of January, 1990, references to the applicable rate of interest in Ontario Regulation 423/84 shall be read as if they were references to the standard interest rate.

Idem

(6) Subsection 89 (3) (calculation of interest, transitional) does not apply with respect to a purchase of credited service described in subsection (1) for a period before the 1st day of January, 1990.

B. For Employment in Education

Absences

94. (1) In this section,

"absence" means either an employer-approved leave of greater than five consecutive school days or a break in service;

"break in service" means a period when a member is not employed in education or is absent from employment without the employer's consent.

(Last amended July 21, 2014 – Effective September 1, 2014)

Purchase re break in service

(2) A member may purchase credited service for a break in service approved by the administrator for a period of disability immediately following a period of employment in education, where the member ceases to be employed in education as a result of the disability and meets the definition of "disabled" as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada). (Last amended August 4, 2011 – Effective December 2, 2010)

Application for purchase re break in service

(2a) A member shall apply to purchase credited service for a break in service within two years after the date when the member ceases, as a result of the disability, to be employed in education. (Last amended August 4, 2011 – Effective December 2, 2010)

Idem

(2b) The administrator shall accept an application to purchase credited service for a break in service that is made after the time described in subsection (2a) if the administrator is satisfied,

(a) that the delay in making the application resulted from a delay in diagnosing the disability; or

(b) that the member was unable, because of the effects of the disability, to make the application within the time described in subsection (2a).

(Last amended August 4, 2011 – Effective December 2, 2010)

Proof of disability

(2c) No application to purchase credited service for a break in service shall be considered by the administrator until the administrator has received the certificate of a medical doctor licensed in Ontario certifying that the applicant became mentally or physically disabled while employed in education and indicating the nature and degree of the disability. (Last amended August 4, 2011 – Effective December 2, 2010)

Ongoing proof of disability

(2d) The administrator may at any time require a member who has applied to purchase credited service for a break in service to furnish evidence, in such form as the administrator directs, that the member was disabled, as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada), throughout the break in service. A member's entitlement to purchase credited service for a break in service shall terminate if the administrator is not satisfied that the member is disabled. (Last amended August 4, 2011 – Effective December 2, 2010)

Limit

(2e) Despite subsections 92 (1) and 92a (2), no member may purchase credited service for a break in service in respect of a period that is after the fifth anniversary of the start of the break in service. (Last amended August 4, 2011 – Effective December 2, 2010)

Application

(3) A member may apply to purchase credited service for an absence by notifying the administrator of the member's intent to purchase. (Last amended December 30, 2009 - Effective September 1, 2010)

(3a) A member may only purchase credit for an absence for service outside of Canada, where that service was arranged by the member's employer, if the purchase is made on an ongoing basis during the period of the leave. (Last amended April 2, 2001 – Effective September 1, 2001)

Purchase re absence

(4) A member may purchase credited service for all or part of an absence. (Last amended April 2, 2001 – Effective September 1, 2001)

(4a) Despite subsection (4) a member on an absence from other than a full-time position is entitled to purchase credit under this section only for the time that, in the opinion of the administrator, the member would have been employed for compensation but for the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(5) No member may purchase credited service for an absence for the purpose of service in political office if the member is contributing to or is entitled to a pension under another registered pension plan other than the *Canada Pension Plan* or the *Quebec Pension Plan* in respect of the service.

Amount of contribution

(6) A member who purchases credited service on a monthly basis during the period of the absence shall contribute,

(a) the required contributions, based on the pensionable salary that the member's employer advises the administrator that the member would have earned, if the member were not absent, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) for any late monthly payments, interest thereon calculated at the standard interest rate from the date each contribution would have been made and ending on the day before the payment is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(6a) A member who purchases credited service other than on a monthly basis during the period of the absence shall contribute, on or before the end of the month in which the fifth anniversary of the end of the absence occurs, a lump sum which is equal to,

(a) the required contributions, based on the pensionable salary that the member's employer advises the administrator that the member would have earned, if the member were not absent, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) interest thereon calculated at the standard interest rate from the date each contribution would have been made and ending on the day before the payment is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(6b) Despite subsections (6) and (6a), a member who purchases credited service on or after the 1st day of September, 2010, shall contribute, on or before the end of the month in which the fifth anniversary of the end of the absence occurs,

(a) the required contributions, based on the pensionable salary as determined in accordance with section 14, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) interest thereon calculated at the standard interest rate from the first day of the month following the month in which the end of the absence occurs and ending on the day before the payment is made. (Last amended December 30, 2009 - Effective September 1, 2010)

Transition

(6c) Subsection (6b) shall only apply where the member has not previously completed payment for the purchase of the entire eligible absence period. (Last amended October 19, 2012 - Effective September 1, 2010)

Transition: Interest calculation for the portion of an absence previously considered complete

(6d) Despite subsections (6b) and (6c), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the interest applicable to that portion of the absence shall be calculated in accordance with subsection (6) (b) or (6a) (b). (Last amended October 19, 2012 - Effective September 1, 2010)

Due date

(7) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Return date

(8) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Matching contributions for purchases

(9) A contribution under subsection (6), (6a) or (6b) is considered to be a required contribution for the purpose of sections 25 and 26, and the required matching contribution shall be paid by the employer making the employer contributions in respect of the member immediately before the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(9a) Despite subsection (9), where a member was employed by a designated private school or a designated organization immediately before the absence and the employer is dissolved or in receivership at the time of the member's application to purchase credited service, the required matching contribution for a purchase of credited service for a break in service shall be paid by the member. (Last amended August 4, 2011 – Effective December 2, 2010)

Amount of contribution, delayed election

(10) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Advance payments

(11) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(12) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

No refund

(13) A member who makes contributions for an absence is not entitled to a refund of those contributions at any time, except to the extent that the member's purchase is not completed in accordance with subsection 92a.(1). (Last amended April 2, 2001 – Effective September 1, 2001)

Proportionate credit

(14) A member who does not complete payment for the full period of an absence shall receive proportionate credit. (Last amended April 2, 2001 – Effective September 1, 2001)

Maximum purchase, birth or adoption

(15) Despite subsection 92 (1) a member may also purchase a maximum of three years of credited service in respect of absences after the 31st day of December, 1990 taken at the birth or adoption of the member's children. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(16) For the purposes of subsection (15) a member may purchase a maximum of one year of credited service for an absence taken at the birth or adoption of the member's child or if more than one child is born or adopted at once, in respect of one such birth or adoption. (Last amended April 2, 2001 – Effective September 1, 2001)

Eligibility for purchase

(17) Revoked. (Last amended May 5, 2010 – Effective September 1, 2009)

Lump sum payments

(18) Revoked. (Last amended June 28, 1990 - Effective June 28, 1990)

End Date

(19) For the purposes of this section, the end of an absence occurs on the last day that, in the opinion of the administrator, the member could have worked if not for the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

End date

(20) Despite subsection (19), the end of an absence for a member who purchases credited service for a break in service shall be no later than the fifth anniversary of the start of the break in service. (Last amended October 19, 2012 - Effective September 1, 2010)

Transitional rules

94a. (1) A member whose absence ended prior to September 1, 2001 and who,

(a) returned to employment in education, following the absence, on or after September 1, 1996 but prior to September 1, 2001, or

(b) did not return to employment in education, following the absence, prior to September 1, 2001,

shall have until December 31, 2004 to complete a purchase of the absence. (Last amended April 2, 2001 – Effective September 1, 2001)

(2) A member who completes a purchase in accordance with subsection (1) shall contribute a lump sum on a contributions plus interest basis calculated in accordance with subsection 94 (6a). (Last amended April 2, 2001 – Effective September 1, 2001)

(3) A member whose absence ended prior to September 1, 2001 and who returned to employment in education, following the absence, prior to September 1, 1996 shall have until December 31, 2002 to complete a purchase of the absence by notifying the administrator by that date and by making the purchase within 90 days of the provision of a purchase cost quotation. (Last amended April 2, 2001 – Effective September 1, 2001)

(4) A member who completes a purchase in accordance with subsection (3) shall contribute a lump sum which is, on the date of the purchase, equal to the actuarial cost of the expected pension improvement. (Last amended April 2, 2001 – Effective September 1, 2001)

(5) This section shall only apply where the member has not previously completed a purchase of the absence, in which case the member may complete the purchase in accordance with this section without having to meet the requirements of subsection 94 (3) as it read on August 31, 2001. (Last amended April 2, 2001 – Effective September 1, 2001)

Transitional application deadline re: breaks in service

94b. (1) A member may purchase credited service for a break in service in accordance with subsection 94 (2) as it read on the 1st day of December, 2010, if the member delivers to the administrator a completed application to purchase credit, in the form provided by the administrator, including all supporting documents, by the 31st day of August, 2011. (Last amended August 4, 2011 – Effective December 2, 2010)

Transitional payment deadline re: breaks in service

(2) Despite subsections 94 (6) to (6c), a member described in subsection (1) shall have until the 30th day of December, 2011 to complete payment of the amount required under subsection 94 (6b). (Last amended August 4, 2011 – Effective December 2, 2010)

Absence during a school year

95. (1) Revoked. (Last amended June 20, 2012 – Effective January 1, 2012)

Amount of contribution

(2) Revoked. (Last amended June 20, 2012 – Effective January 1, 2012)

Interest payable

(3) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Status of contributions

(4) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Due date

(5) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Required contribution

(6) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Absence re strike or lockout

96. (1) A member may contribute for days that the member is absent from employment in education for the purpose of participating in a legal strike or because of a lockout. (Last amended April 2, 2001 – Effective September 1, 2001)

Amount of contribution

(2) The member shall contribute the amount of the member's required contribution for each day of absence plus the amount of the corresponding employer's contribution.

Interest payable

(3) The member shall pay interest, calculated at the standard rate, on any contribution received by the administrator more than one month after the end of the absence. (Last amended June 1, 1995 - Effective June 1, 1995)

For former membership

97. (1) This section applies with respect to a member who previously received a refund of required contributions under the pension plan. (Last amended April 2, 2001 – Effective September 1, 2001)

Eligibility

(2) No member may purchase credited service under this section until the member has accumulated, through employment in education, seventy days of credited service in one school year after returning to active membership.

Election within one year

(3) A member who elects to purchase credited service on or before the later of the first anniversary of the member's return to active membership and the 1st day of January, 1994 shall contribute the amount previously refunded together with interest thereon from the date the refund was made to the first day of the month in which the contribution is paid, calculated at the standard interest rate in effect on the date the refund was made. (Last amended April 2, 2001 – Effective September 1, 2001)

Limit

(4) No member may purchase more days of credited service under subsection (3) than the number of days in respect of which the member received the refund.

Due date

(5) A contribution under subsection (3) shall be paid as a lump sum before the later of the third anniversary of the member's return to active membership and the 1st day of January, 1995.

Required contribution

(6) A member who elects to purchase credited service after the deadline referred to in subsection (3) or who fails to make the payment before the deadline in subsection (5) shall contribute a lump sum which is, on the date of the purchase, equal to the actuarial cost of the expected pension improvement.

Repurchase of credited service

97a. (1) A member referred to in section 37 who becomes re-employed in education for more than 20 days in one school year may purchase credited service in an amount not greater than the credited service in respect of which a transfer and refund were made under that section. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(2) A member who elects to purchase credited service under subsection (1) shall contribute a lump sum equal to the greater of,

(i) the amounts transferred and refunded under section 37 together with interest thereon calculated at the standard rate from the day of the transfer or refund to the day before the payment is made; or

(ii) the actuarial cost, on the date of the purchase, of the expected pension improvement. (Last amended February 28, 1992 - Effective January 1, 1992)

Approved service outside Ontario

98. (1) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Idem

(2) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Limit

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(4) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Transitional re designated private schools

99. (1) This section applies to an active member,

(a) who is employed in an organization designated under the *Teachers' Superannuation Act, 1983* or in a school within the meaning of section 1 of the *Education Act*;

(b) who was employed before the 1st day of September, 1986 in a private school designated under a predecessor of this Act;

(c) who was employed on the 1st day of September, 1986 and for at least twenty days during the school year beginning on that date in an organization designated under the *Teachers' Superannuation Act, 1983* or in a school within the meaning of section 1 of the *Education Act*; and

(d) who elected before the 1st day of September, 1986 to be excluded from the benefits and obligations of the predecessor Act.

Purchase

(2) An active member may purchase credited service in accordance with subsections 13 (4), (6) and (7) of Ontario Regulation 423/84 as they read on the 31st day of December, 1989, with necessary modifications, for past teaching service in a private school designated under a predecessor of this Act.

Idem

(3) No member is entitled to apply to purchase credited service under this section after the 31st day of December, 1991.

C. For other Employment

For war service

100. (1) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

Idem

(2) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

For teaching special subjects

101. (1) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

Idem

(2) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

For foreign service as an educator

102. (1) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Eligibility

(2) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Limit

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(4) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

For other employment, R.S.C. 1952, c. 148

103. (1) A member may purchase credited service in the pension plan for employment not otherwise described in this Part if the employment was pensionable service under another pension plan registered under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective September 1, 2001)

Transfer from other plan

(2) For service prior to January 1, 1992, all funds associated with the service under the other plan shall be transferred to the pension plan and applied to the cost of the member's expected benefit improvement. Where no funds remain in the other plan, the member is not entitled to purchase pre-1992 credited service under this section. (Last amended September 8, 2006 - Effective January 1, 1992)

Amount of contribution

(3) For service after December 31, 1991, the member shall contribute an amount equal to the actuarial cost of the expected benefit improvement. (Last amended June 29, 1994 - Effective January 1, 1992)

(4) If the amount transferred under subsection (2) is less than the actuarial cost of the expected benefit improvement, the member shall contribute a lump sum which, on the date of the purchase, is equal to the difference. (Last amended June 29, 1994 - Effective January 1, 1992)

D. Reciprocal Agreements

Reciprocal agreements

104. (1) The administrator may enter into an agreement with the authorized representative of another pension plan respecting the terms upon which persons may transfer benefits and contributions between that plan and the pension plan.

Idem

(2) A reciprocal agreement must provide that a person transferring benefits and contributions to the pension plan acquires a benefit under the plan based upon the actuarial cost of the expected benefit on the date of the transfer.

(3) If a reciprocal agreement provides that a person may elect to pay directly to the administrator part or all of the difference between the required amount and the amount transferred (the "shortfall"), and provides the administrator with the authority to establish a deadline by which a person must complete payment of the shortfall, a person who elects to pay the shortfall shall complete such payment on or before the end of the month in which the fifth anniversary of the date the application to transfer was received by the administrator occurs. (Last amended June 20, 2012 – Effective September 1, 2001)

Reciprocal agreements, transitional

105. (1) Subject to subsection (2), reciprocal agreements entered into before the 1st day of January, 1990 by the Teachers' Superannuation Commission under section 49 of the *Teachers' Superannuation Act, 1983* are continued and expire on the 31st day of December, 1996.

Idem

(2) Reciprocal agreements referred to in subsection (1) do not expire on the 31st day of December, 1996 if, before that date, the reciprocal agreement is amended to include a term described in subsection 104 (2) or if the agreement includes such a term.

E. Administration

Application for purchase

106. An application to purchase credited service shall be made in a form provided by the administrator and shall be delivered to the administrator.

Applicability

106a. (1) Subsections 11 (6) to (9), 14 (1a) to (1i), 15 (2b), 94 (4a), (6b), (6c) and (9), as they read on the 1st day of September, 2010 apply to members who cease to be employed in education before the 1st day of September, 2010. (Last amended August 4, 2011 – Effective September 1, 2010)

Idem

(2) Subsections 94 (2) to (2e) and section 94b, as they read on the 2nd day of December, 2010 apply to members who cease to be employed in education before the 2nd day of December, 2010. (Last amended August 4, 2011 – Effective December 2, 2010)

Idem

(3) Section 84, as it read on the 1st day of January, 2014, applies to members who cease to be employed in education before the 1st day of January, 2014. (Last amended January 15, 2014 – Effective January 1, 2014)

Employed in education

106b. For a member who ceases to be employed in education before, on or after the 1st day of January, 2011, credited service purchased in accordance with subsection 94 (2) in respect of a period on or after the 1st day of January, 2011 is considered to be employment in education for the purposes of determining benefits. (Last amended August 4, 2011 – Effective January 1, 2011)

Effective date of purchase

107. A purchase of credited service is effective on the day the payment in relation to the purchase is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Purchase of partial credit

108. A member who is entitled to purchase credited service for a period of employment or an absence may purchase credited service for a part of the employment or absence. (Last amended April 2, 2001 – Effective September 1, 2001)

Contribution by spouse, etc.

109. A member who dies before completing a purchase of credited service shall receive credited service in an amount based upon the contributions plus interest which he or she has made. (Last amended June 29, 1994 - Effective January 1, 1992)

Idem

(2) Revoked. (Last amended June 29, 1994 - Effective January 1, 1992)

Lump sum payments

109a. A lump sum payment under this Part may consist of,

(a) a partial payment by means of a transfer permitted under the *Income Tax Act* (Canada); and

(b) a second payment of the balance of the amount required to pay for the credited service being purchased by the lump sum. (Last amended June 28, 1990 - Effective June 28, 1990)

Eligibility for purchase

109b. A member is not eligible to purchase credited service while receiving a pension. (Last amended May 5, 2010 – Effective September 1, 2009)

PART X
ADMINISTRATION OF THE PLAN

A. General

Extension of time

110. The administrator may extend any time limit under the pension plan before or after the expiration of the time if the administrator is satisfied that there are reasonable grounds for the extension, and may give such directions as the administrator considers appropriate consequent upon the extension.

Provision of information

111. (1) The administrator shall provide to each member of the pension plan the information and documents required under this Act or any other Act.

Idem, to administrator

(2) A member, a person who applies for, or receives, a pension, refund or other payment from the pension fund, a board of education or an employer of a member shall provide the administrator, upon request, with such information as the administrator may require to administer the pension plan.

(2a) The administrator may conduct an audit of the records of a board of education or an employer for the purpose of validation of information required for administration of the pension plan. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem, to members

(3) The administrator shall provide within a reasonable time to a member, upon written request, all information relating to the member's contributions and entitlements under the pension plan.

Fiscal year

112. The fiscal year of the pension plan is the twelve-month period that begins on the 1st day of January.

Actuarial calculations

113. Actuarial calculations and determinations required under the pension plan shall be made using such actuarial assumptions, principles and methods as may be required or adopted by the administrator.

B. Pension Fund

Payments from pension fund

114. A payment required under the pension plan must be paid from the pension fund.

Requirement to invest

115. Moneys in the pension fund that are not required to be paid out must be invested to meet the obligations of the pension plan.

C. Surplus and Deficiency

Actuarial gain

116. Revoked. (Last amended January 24, 1992 - Effective January 1, 1992)

Surplus

117. Revoked. (Last amended January 24, 1992 - Effective January 1, 1992)

Requirement to contribute to deficit

118. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

PART XI
DESIGNATION OF PRIVATE SCHOOLS AND ORGANIZATIONS

Private schools

119. (1) The Partners' Committee by notice to the administrator may designate a school, college, academy or other educational institution as a designated private school for the purpose of the pension plan,

(a) if it gives instruction equivalent to that given in elementary or secondary schools in Ontario;

(b) if it is not supported in any way by school taxes or by provincial or municipal grants; and

(c) if it meets the criteria set out in subsection (3). (Last amended June 1, 1995 - Effective January 1, 1992)

Organizations

(2) The Partners' Committee by notice to the administrator may designate an organization as a designated organization for the purpose of the pension plan,

(a) if it provides services related to elementary or secondary education; and

(b) if it meets the criteria set out in subsection (3). (Last amended June 1, 1995 - Effective January 1, 1992)

Criteria

(3) The school, college, academy or other educational institution or the organization,

(a) must not be operated for profit or gain and any profits must be used to carry out its objects; and

(b) by its governing body must undertake in writing to make the reports described in subsection (5), to pay the amounts described in subsection (6), and to perform all administrative functions required of an employer for the purposes of the pension plan.

Effective date of designation

(4) A notice of designation under subsection (2) shall specify the effective date. (Last amended April 15, 1998 - Effective January 1, 1992)

Reports

(5) The administrator may require a designated private school or designated organization to make annual reports for the purpose of the administration of this Act and the pension plan and to supply such information as to its constitution, operations, teaching staff and otherwise as the administrator may require.

Payments under the plan

(6) A designated private school or designated organization shall, in accordance with the pension plan, make the employer contributions and collect and remit the contributions by its employees who become active members of the pension plan.

Past service in prescribed schools and institutions

119a.(1) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

(2) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

Termination of designation

120. (1) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

Grounds

(2) The Partners' Committee by notice to the administrator may terminate the designation of a designated private school or a designated organization,

(a) if the designated private school or designated organization, by its governing body, has requested the termination of the designation;

(b) if the designated private school or designated organization is not complying with its undertakings; or

(c) if there is a change in the objects or mode of carrying out the objects of the designated private school or designated organization. (Last amended June 1, 1995 - Effective January 1, 1992)

Notice and submissions

(3) The Partners' Committee shall give notice of the termination to the governing body and to the employees of the designated private school or designated organization who are active members of the pension plan. (Last amended June 1, 1995 - Effective January 1, 1992)

Effective date

(4) A notice of termination of designation shall specify the effective date. (Last amended June 1, 1995 - Effective January 1, 1992)

Effect of termination of designation

(5) Upon the termination of a designation, the employees of the private school or the organization cease to be eligible to be active members of the pension plan.

Idem

121. (1) Revoked. (Last amended December 21, 2007 - Effective September 1, 2008)

Effective date

(2) Revoked. (Last amended December 21, 2007 - Effective September 1, 2008)

Designations, transitional

122. The designation of a designated private school, designated organization and a designated capacity under the *Teachers' Superannuation Act, 1983* that is in effect on the 31st day of December, 1989 shall have effect as a designation made under this Part.

PART XII-ONTARIO TEACHERS' PENSION PLAN BOARD (REVOKED)

(Last amended January 24, 1992 - Effective January 1, 1992)

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ONTARIO TEACHERS' PENSION PLAN

AMENDMENT TO THE ONTARIO TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on September 22, 2015;

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

WIND UP

1. Section 118a is added to the Plan:

Wind Up

118a. If the pension plan is wound up within the meaning of the *Pension Benefits Act*, the assets of the pension fund shall first be used to pay or satisfy properly incurred liabilities to creditors, following which the remaining assets of the pension fund shall be used to pay or satisfy the accrued benefit entitlements of members, former members, retired members and any other persons entitled to a benefit under the pension plan in respect of a member, former member, or retired member before any other distribution is made.

Effective on the date this agreement is countersigned by both Partners.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Date: Sept 28/15

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Date: 27 September, 2015

TEACHERS' PENSION PLAN

AMENDMENT TO THE TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on July 21, 2014; and

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

Credit for Service

1. Effective April 20, 2015, subsection 10 (4) of the Plan is revoked and replaced with the following:

Limitation

10. (4) Except for periods of lockout or legal strike or the strikes declared illegal by the Ontario Labour Relations Board on May 26, 2015 for the following periods:

(a) Durham District School Board – April 20, 2015 - May 26, 2015
(b) Rainbow District School Board – April 27, 2015 - May 26, 2015
(c) Peel District School Board – May 4, 2015 - May26, 2015,

a person shall not receive credited service for employment unless contributions in respect of the employment are made by or on behalf of that person.

For Employment in Education

2. Effective April 20, 2015, subsection 96 (1) of the Plan is revoked and replaced with the following:

Absence re strike or lockout

96. (1) A member may contribute for days that the member is absent from employment in education for the purpose of participating in a legal strike or the strikes declared illegal by the Ontario Labour Relations Board on May 26, 2015 for the following periods:

(a) Durham District School Board – April 20, 2015 - May 26, 2015
(b) Rainbow District School Board – April 27, 2015 - May 26, 2015
(c) Peel District School Board – May 4, 2015 - May26, 2015,

or because of a lockout.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Dated at Toronto this 22nd day
of September, 2015.

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Dated at Toronto this ____ day
of _____, 2015.

ONTARIO TEACHERS' PENSION PLAN

AMENDMENT TO THE ONTARIO TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on September 28, 2015; and

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

Re-employment

1. Effective September 1, 2010, subsection 46 (5) of the Plan is revoked and replaced with the following:

"Re-employed pensioner" limitation

46. (5) The term "re-employed pensioner" shall include a member who provides services, other than as a teacher, to a ministry of the Government of Ontario only if:

(a) the ministry is the Ministry of Education, and

(b) the member's retirement pension under the plan begins after September 1, 2010.

2. Effective September 1, 2010, subsection 46(6) of the Plan is amended by adding the words "Despite subsection 46(5)," at the beginning of the subsection.

3. Effective September 1, 2015, subsection 46 (6) of the Plan is revoked.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Date: Nov 28/15

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Date: Nov. 23, 2015

This is an AGREEMENT

BETWEEN:

Her Majesty the Queen
in right of the Province of Ontario
represented by the Minister of Education and Training
("the Minister")

and

The Ontario Teachers' Federation
represented by its Executive
("the OTF")

These are the terms to which the Minister and the OTF agree;

Introduction

1. The Minister and the OTF have agreed to establish a partnership for the purpose of designing and administering the Ontario Teachers' Pension Plan and managing the Ontario Teachers' Pension Fund.

2. It is the intention of the partners that this partnership will start on the 1st day of January, 1992.

3. In this agreement,

(a) the Minister and the OTF will be referred to as the "partners" or the "partnership",

(b) the Ontario Teachers' Pension Plan Board continued by the *Teachers' Pension Act, 1989* will be referred to as "the Board",

(c) the Ontario Teachers' Pension Plan continued by the *Teachers' Pension Act, 1989* will be referred to as the "pension plan" or the "plan" and,

(d) the Ontario Teachers' Pension Fund continued by the *Teachers' Pension Act, 1989* to provide benefits in respect of the pension plan will be referred to as the "pension fund" or the "fund".

4. The partnership established by this agreement is intended to govern all aspects of the plan and the fund. Wherever this agreement differs with any law, that part of the agreement is of no effect but the rest of the agreement continues to govern the plan and the fund.

5. The Minister agrees to do everything possible to make sure that the Teachers' Pension Plan Board will not be considered a Scheduled Agency under the Guidelines of the Management Board of Cabinet.

6. The Minister agrees to do everything possible to have subsection 43(3) of Ontario Regulation 708/87 amended to provide that the pension fund is no longer exempted from the application of subsection 23(1) of the *Pension Benefits Act.*

7. The Minister may designate one or more persons to act in the Minister's place under this agreement. The OTF may designate one or more persons to act in its place under this agreement.

Role of the partners

8. The partners will be responsible for designing the plan structure, setting the benefits of the plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the plan, this agreement or other plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the Board, and defining the role of the Board.

9. The partners will enter into a memorandum of understanding with the Board setting out,

(a) the duties of the Board,

(b) the process for consultation in the preparation of valuations,

(c) the process for consultation on the amount of money to be paid to members of the Board, including the Chair and to members of committees appointed by the Board,

(d) the actuarial methods which the Board will use in valuing the plan and,

(e) any other terms of the relationship between the partners and the Board to which the partners agree.

10. The partners agree that every three years they will follow the procedure described in this agreement to meet and negotiate changes to the plan.

11. Either partner may ask the other to meet at any time to discuss changes to any of the matters referred to in paragraph 8 and the partners agree to make their best efforts to do so.

11a. The partners agree to meet as required to discuss the amount of the Minister's contribution due on the first business day of January that is to be deferred to the first business day of April of the same year and to determine the interest rate to be applied for the period of the deferral; determination of such interest rate to be guided by the principle that the Teachers' Pension Plan not be disadvantaged by the deferral. (Last amended May 29, 1992 - Effective May 29, 1992)

11b. The partners agree that the payment of a portion of the Minister's contribution that is due on the first business day of January of 1994 and a portion of the Minister's contribution that is due on the first day of January of 1995 may be deferred to March 31 of each respective year; the amount of the deferral, with interest, to equal $200 million in 1994 and $125 million in 1995; amounts to be adjusted to reflect payments authorized under Paragraph 65. (Last amended November 15, 1993 - Effective November 15, 1993)

12. If the Board advises the partners that a change must be made to the plan to comply with any law the partners agree that they will meet as soon as possible to discuss it.

13. The partners will establish a Partners Committee by each appointing three members. Either partner may refer to the Committee any matter referred to in paragraph 8 or 12 when no agreement results from discussion of the matter.

14. The Partners Committee may by agreement use the services of the manager of negotiations referred to in paragraph 76 to resolve any dispute. The Committee may by agreement use any dispute resolution mechanism including voluntary arbitration to resolve any dispute.

15. Either partner may ask the actuary hired by the Board to provide or prepare any information which that partner thinks it needs in discussing changes to the plan. The cost of the actuary in preparing that information will be paid out of the fund. The information will be provided to both partners.

15a. The partners may initiate, with the Board, discussions, reviews and research regarding the funded status of the plan including the design of conditional inflation protection, the reasonable costs of such reviews and research to be paid out of the fund subject to the prior approval of the Board. (Last amended October 9, 2008 – Effective January 1, 2009)

16. Either partner may audit the plan and the fund at any time at the expense of that partner. The Board will cooperate in the audit.

Role of the Board

17. The Board is responsible for the administration of the pension plan, the management of the pension fund and all other matters set out in this agreement.

18. The Board may exercise every power necessary to administer the pension plan, manage the pension fund and fulfil every other task which the partners assign to it.

19. The responsibilities of the Board include,

(a) investing and managing the pension fund to do all things possible so that the obligations of the pension plan will be met,

(b) preparing a valuation at least every three years to comply with the *Pension Benefits Act,*

(c) preparing annual valuations if the Board decides it is appropriate and providing preliminary results to the partners as soon as they are available,

(d) deciding on the actuarial assumptions used in administering the plan and in preparing valuations of the plan,

(e) consulting with the partners during the preparation of a valuation and making its best effort to respond to any comments and recommendations of the partners. The content of a final valuation is the decision of the Board,

(f) giving a copy of every valuation prepared for the Board to each partner and giving any information requested by a partner to each partner as quickly as possible,

(g) having the plan and the fund audited every year,

(h) preparing a report at the end of every fiscal year that tells how the plan and the fund have been doing in that year,

(i) holding a meeting with both partners at least once each year to explain the annual report to them and to answer any questions about the plan and fund,

(j) making sure that the plan and the fund are administered and managed to comply with all laws that affect them,

(k) advising the partners about any changes to the plan that need to be made to comply with the law,

(l) advising the partners about changes that would improve the administration of the plan,

(m) interpreting the plan and determining benefit entitlements,

(n) developing an investment policy and giving a copy to each partner and to the Financial Services Commission of Ontario,

(o) making rules regarding the conduct of its business,

(p) appointing or electing a vice Chair and any other officers that the Board feels are necessary for the conduct of its business.

The Board

20. The Board will have a maximum of nine members. The partners will each appoint four members.

21. The ninth member of the Board will be the Chair. The process for appointing a Chair is set out in the next section of this agreement.

22. The Minister and the OTF will each appoint two members to the Board to terms ending on the 31st day of December, 1992.

23. The Minister and the OTF will each appoint two members of the Board whose terms will end on the 31st day of December, 1993.

24. If a person appointed under paragraph 19 or 20 is a member of the Board when the partnership starts, the Lieutenant Governor in Council will make an Order changing the length of that person's term.

25. After the expiry of the term of a member of the Board who holds office on the 1st day of January, 1992 the partner who recommended to the Lieutenant Governor in Council the appointment of that member will fill the vacancy by appointing or re-appointing.

26. Unless a member cannot complete his or her term, is removed or is appointed after a member whose term was extended because of a delay in the appointment of his or her successor, the term of all members appointed after the 1st day of January, 1992 will be two years.

27. No person may be a member of the Board for more than four consecutive terms. The initial term of a member who is appointed as a successor under paragraph 29, or as a new member under paragraph 30 or 31, shall not be counted in the number of consecutive terms a member may serve. (Last amended January 15, 2014 – Effective January 1, 2014)

28. If no appointment is made to fill the vacancy at the end of a member's term, the member will continue in office until an appointment is made.

29. When a successor is appointed to a term after his or her predecessor's term has been extended for failure to appoint a successor, the successor's term will end two years after the predecessor's term would have ended but for the delay in appointment.

30. If a member of the Board cannot finish his or her term then the partner who appointed the member may appoint a new member for a term ending on the date when the term of the departing member would have ended.

31. At any time either partner may remove a board member whom that partner has appointed and appoint a new member for a term ending on the date when the term of the departing member would have ended.

The Chair

32. The partners may decide together on the person to be appointed as Chair of the Board. The partners agree to meet six months before the term of the Chair of the Board expires to discuss candidates, and attempt to agree upon the Chair.

33. Either partner may initiate the selection of a Chair in the following way as an alternative to the discussion referred to in paragraph 32,

(a) The partners will each prepare a list of at least three persons that they would like to be Chair. The partners will give each person named a number indicating priority. The lowest priority will be indicated by the number equal to the number of persons on the list.

(b) The partners will then examine the list prepared by the other.

(c) If one name appears on both lists that person will be appointed Chair.

(d) If two or more persons appear on both lists the priority ratings given to those persons by each partner will be added together. The person whose priority rating adds to the lowest number will be appointed Chair.

(e) If no name appears on both lists the partners agree to consult together and to prepare and exchange lists until a name does appear on lists prepared by each.

34. The person selected by the partners will be the Chair for a term of two years beginning on the 1st day of January of the year following selection.

35. No person may be Chair for more than four consecutive terms. Previous terms served by a Chair as a board member shall not be counted in the number of consecutive terms a Chair may serve. (Last amended December 16, 1994 - Effective December 16, 1994)

36. The Lieutenant Governor in Council will make an order making the term of the current Chair of the Board end on the 31st day of December, 1991.

37. If no appointment is made to fill the vacancy at the end of a Chair's term then the Chair will continue in office until an appointment is made.

38. If the Chair cannot finish his or her term then the Minister and the OTF will select a new Chair. The new Chair will be appointed for a term ending on the date when the term of the departing Chair would have ended.

39. The Chair may vote on any matter the Board is considering.

Operation of the Board

40. The Board may appoint committees and delegate to them any function of the Board. The Board may appoint persons who are not Board members to sit on any committee.

41. Committee members will be appointed for a term of up to two years.

42. A quorum of the Board or a Committee is a majority of the members. No meeting of the Board or a Committee may conduct any business unless a member appointed by each partner is present.

43. The Board will decide on a reasonable amount of money to be paid to the Board members, Committee members and the Chair for time and effort spent on Board business. The money will be paid out of the pension fund.

44. If any Board or Committee member is a public servant of Ontario that person will only be paid for any income the person loses as a result of time spent on Board business and for his or her expenses of doing Board business.

45. Any expenses that the Board must pay to operate and to administer the pension plan and manage the pension fund will be paid out of the pension fund.

46. The Board will employ a Chief Executive Officer and such other staff as are necessary to carry out its responsibilities.

47. The Board may decide which of its employees will be able to participate in the Public Service Pension Plan established under the *Public Service Pension Act, 1989* and the Minister agrees to do all things possible to ensure that those employees are covered.

48. The Board may employ persons to provide it with professional, technical or other help.

49. The Board must employ an external actuary and an external auditor.

50. The Board's employees will be paid out of the pension fund.

Indemnification

51. (a) Subject to subsection (e), the Board shall indemnify a person or his or her heirs or legal representatives (the "Indemnee") against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment (collectively "Expenses"), reasonably incurred by the person in respect of any civil, criminal, administrative or investigative action or proceeding (collectively a "Proceeding") to which the person is made or threatened to be made a party by any person including the Board, by reason of being or having been a member, committee member, officer or employee of the Board or a person who acts or acted at the Board's direction as a member, director, officer, employee, partner or agent of another corporation, partnership, joint venture, trust or other enterprises (collectively "enterprise"), if,

i) the person acted honestly and in good faith with a view to the best interests of the Board or such other enterprise; and

ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the person had reasonable grounds for believing that his or her conduct was lawful.

(Last amended August 4, 2011 – Effective September 1, 2000)

(b) In furtherance of its obligations under subsection (a) the Board may purchase and maintain insurance for the benefit of any person referred to in subsection (a) in relation to any Expenses that may be indemnifiable under subsection (a). (Last amended August 4, 2011 – Effective September 1, 2000)

(c) The Board's indemnification of a person referred to in subsection (a) and any cost of purchasing and maintaining insurance for the benefit of such person are expenses of operating and administering the pension plan and managing the pension fund and may be paid out of the pension fund. (Last amended August 4, 2011 – Effective September 1, 2000)

(d) The Board or a person referred to in subsection (a) may apply to the court for an order approving an indemnity under this section and the court may so order and make any further order it thinks fit. (Last amended August 4, 2011 – Effective September 1, 2000)

(e) An indemnity given pursuant to subsection (a) extends only to Expenses that exceed amounts otherwise recoverable (and, in fact, recovered) by the Indemnee under any indemnity or policy of insurance applicable in respect of a Proceeding, and is to be regarded specifically as excess to any such amounts. An indemnity given pursuant to subsection (a) shall be subject to the condition that, in the event any indemnor or insurer against whom an Indemnee may have a claim for indemnity shall decline to pay, deny liability or otherwise contest either a claim by a person or the due amount thereof, the Indemnee must, if so requested by the Board, co-operate with and assist the Board in pursuing any claim against the other indemnor or insurer as the case may be, in such manner and to the extent that counsel to the Board may recommend or advise in the circumstances. (Last amended August 4, 2011 – Effective September 1, 2000)

(f) In any case where the Board reasonably considers that a person has fulfilled the conditions set out in clauses (a)(i) and (ii), above, and that it is otherwise appropriate to do so, prior to any settlement or judgment the Board may make an advance to an Indemnee in respect of a person referred to in subsection (a) to defray Expenses incurred or to be incurred by the Indemnee in relation to a Proceeding on such conditions as the Board considers appropriate and necessary. Any advance made under this subsection (f) shall be repayable by the Indemnee if the Indemnee fails to meet the conditions set out in clauses a(i) and (ii), above, in respect of such person. (Last amended August 4, 2011 – Effective September 1, 2000)

(g) Where the Board considers it appropriate, the Board may enter into an indemnity agreement with any person and such agreement shall reflect the limitation of this provision. (Last amended August 4, 2011 – Effective September 1, 2000)

(h) The application of paragraph 51 is effective as of September 1, 2000. (Last amended August 4, 2011 – Effective September 1, 2000)

52. The Board may buy, sell or lease real estate either as an investment or to provide a place to carry on business.

53. The Board may delegate any of its powers or duties to a committee or to an employee. It may impose conditions on any delegation it makes.

54. A committee of the Board may delegate any of its tasks to an employee of the Board if the Board approves.

Initial unfunded liability

55. The going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund as at the 1st day of January, 1990 will be paid by the Treasurer of Ontario out of the Consolidated Revenue Fund according to Schedule 2 of the *Teachers' Pension Act, 1989*.

56. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Gains and losses

57. A valuation which is prepared for filing with the Superintendent of Financial Services shall be actuarially balanced so that the present value of,

(a) benefits and costs to be paid out of the fund, and

(b) any contingency reserve,

are equal to the sum of the value of the plan's assets, including

(c) the present value of,

(i) the members' contributions,

(ii) the employers' contributions,

(iii) the outstanding balance of special payments to liquidate the going concern unfunded actuarial liability disclosed by the valuation as at January 1, 1990, and

(iv) any outstanding payments required to discharge a solvency deficiency. (Last amended March 5, 2002 - Effective April 2, 2001)

The IUL Settlement

57a. Notwithstanding any other provision in this agreement, and including without limitation, paragraphs 10, 55, 59, 60, 60a and paragraphs 73 to 101, during the IUL settlement period this paragraph shall apply to the application of actuarial gains.

(i) In this paragraph,

(a) the "initial unfunded liability settlement period" (the "IUL settlement period") means the period between January 1, 1998 and December 31, 2002 and includes any period of extension pursuant to subparagraph (v).

(b) the "initial unfunded liability" means the going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund referred to in paragraph 55 of the agreement.

(ii) Notwithstanding subparagraph 19(c), during the IUL settlement period, an actuarial valuation for funding purposes of the pension fund shall be prepared by the Board's actuary as at the 1st day of January and filed annually with the Superintendent of Financial Services, unless the partners jointly agree to instruct the Board not to file the valuation.

(iii) Effective with the valuation as at January 1, 1998, any actuarial gains disclosed in a valuation prepared in accordance with subparagraph (ii) will be applied in the following order of priority:

(a) (1) to provide an early retirement pension calculated in accordance with subsection 43(4) of Schedule 1, to members who have accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals eighty-five years (the "factor 85 entitlement"), provided that such member so qualifies on or after June 1, 1998, and on or before December 31, 2002;

(2) to provide early retirement reductions measured from 85 points rather than 90 points for benefits calculated under sections 44 and 52 of Schedule 1 for members who cease to be employed in education between June 1, 1998 and December 31, 2002;

(b) to provide for a permanent reduction in the amount of the Canada Pension Plan or Quebec Pension Plan reduction for pension instalments payable on or after January 1, 1999 as provided for in subsection 81(3) of Schedule 1 by substituting "0.0060" for "0.0068" in the formula;

(c) to provide to members on an absence, as defined in subsection 94(1) of Schedule 1, that commences during the period from the 1st day of June, 1998 to the 31st day of December, 2002, an exemption from the requirement in subsection 94(3)(b) of Schedule 1 where the member is otherwise eligible to purchase credited service under that section, and where the member, at the beginning of the leave,

(1) was at least 60 years of age;

(2) has accumulated at least that number of years qualifying service that, when added to the member's age, totals 75 years; or

(3) has credited service which totals at least 30 years; and

(d) to eliminate the obligation on the Minister of Finance to make special payments on account of the initial unfunded liability, in accordance with this agreement.

(iv) Subject to subparagraphs (v) and (vi), if there are any actuarial gains remaining after providing for (iii) (a), (b), (c) and (d), such gains disclosed in the annual actuarial valuations for funding purposes up to and including the valuation as at January 1, 2002, will be available for benefit enhancements including, but not limited to, the renewal on a permanent or temporary basis of the factor 85 entitlement, member contribution rate reductions, or to be allocated to a contingency reserve, as determined by the OTF in its sole discretion. (Last amended March 5, 2002 - Effective April 2, 2001)

(v) (a) The sum of the actuarial gains available to the OTF under subparagraph (iv), including the actuarial gains disclosed in the valuation as at January 1, 2002, shall be equal to the present value of the special payments, before the application of actuarial gains pursuant to subparagraph (iii)(d), required to amortize the initial unfunded liability as determined by the Board's actuary and disclosed in the valuation as at January 1, 1998 (the "IUL amount"), and the increase in the going concern liabilities required to provide the benefits conferred by (iii)(a), (b) and (c) as determined by the Board's actuary as at January 1, 1998, (the "benefit cost amount"). The partners agree that, effective April 3, 2001, after recognition of plan changes adopted to that time, there remains $76 million in actuarial gains available to the OTF under subparagraph (iv). (Last amended March 5, 2002 - Effective April 2, 2001)

(b) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, all actuarial gains disclosed in any actuarial valuation for funding purposes subsequent to the valuation as at January 1, 2002, will be available for such benefit enhancements, member contribution rate reductions, or to be held in a contingency reserve, as determined by the OTF in its sole discretion, until the sum of the actuarial gains available to the OTF for such purposes equals the difference between the IUL amount and the benefit cost amount.

(c) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, the IUL settlement period shall be extended to the date that the sum of the actuarial gains available to the OTF under subparagraph (iv) and (v) equals the difference between the IUL amount and the benefit cost amount.

(vi) (a) Prior to April 1, 2001, if actuarial gains are available after provision has been made for (iii)(a) to (d), and the OTF wishes to apply such gains pursuant to subparagraph (iv) for benefit enhancements or member contribution rate reductions, the partners shall meet to determine the effective date for the implementation of such benefit enhancements or contribution rate reductions.

(b) Subsequent to April 1, 2001, the OTF may, at its sole discretion, determine when such benefit enhancements or contribution rate reductions, are to be implemented. The Minister agrees to waive his consent to the plan amendments necessary to implement such benefit enhancements or member contribution rate reductions, provided these amendments are not filed by the OTF prior to April 1, 2001. Pursuant to paragraphs 8 and 104 of this agreement, the partners agree that Schedule 1 shall be amended by the OTF, to implement such benefit enhancements or contribution rate reductions, and the OTF shall promptly deliver the amendment(s) to the Board, and the Board shall promptly file the amendment(s) with the Superintendent of Financial Services upon receipt of same from the OTF.

(vii) The Minister of Finance will continue to make special payments out of the Consolidated Revenue Fund in accordance with paragraph 55 of the agreement during the IUL settlement period until the obligation to make special payments on account of the initial unfunded liability is eliminated in accordance with this agreement. The amount of the special payments payable pursuant to this subparagraph shall be in accordance with the schedule of payments set out in Appendix H to the Report on the Actuarial Valuation for Funding Purposes for the plan as at January 1, 1996 ("Appendix H") until December 1, 2001, and in accordance with Schedule 2 subsequent to December 1, 2001, if the Minister of Finance continues to be obligated to make special payments on account of the initial unfunded liability beyond this date. If subsection 3(12) of Schedule 2 to the *Teachers' Pension Act* is applicable with respect to any actuarial gains disclosed in a valuation pursuant to subparagraph (ii), the Minister of Finance shall not exercise his discretion in subsection 3(12) of Schedule 2 to reduce the remaining special payments as set out in Appendix H, until the obligation of the Minister of Finance to make special payments on account of the initial unfunded liability is eliminated.

(viii)The issue raised in the "part-time leave" case pending before the Ontario Court of Appeal shall be referred to mediation by Mr. M. Stanley Beck. Mr. Beck will be asked to provide a non-binding opinion on the merits of the case by no later than July 15, 1998. The cost of the mediation pursuant to this subparagraph shall be paid from the fund.

(ix) The partners shall establish a committee to deal on a priority basis with accounting matters relating to joint pension plan sponsorship, and agree to contact the Public Sector Accounting and Auditing Board (PSAAB) to raise issues of concern to the partners. The committee shall report to the Partners by May 1, 1999. The reasonable costs of the committee shall be paid from the fund.

(x) Subject to any extension of the IUL settlement period pursuant to subparagraph (v), at the end of the IUL settlement period, the provisions of this agreement respecting the use of actuarial gains or losses, other than this paragraph 57a, will apply. The next triennial negotiation pursuant to paragraphs 73 to 101 will be based on the actuarial valuation for funding purposes as at January 1, 2002, unless the IUL settlement period is extended beyond this date, or the partners agree otherwise.

(xi) Any dispute regarding the interpretation, application, administration and implementation of the provisions in this paragraph 57a may be resolved in accordance with paragraph 14 of the agreement, and/or through such other proceedings as are otherwise available to either partner.

58. If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate a need to increase the contribution rate the partners agree to meet as soon as possible to discuss how to adjust for that need on an equally shared basis. If the partners cannot agree on how to adjust they will refer the issue to the mediation and arbitration procedures described elsewhere in this agreement to adjust the contribution rate and/or benefits. (Last amended November 15, 1993 - Effective November 15, 1993)

59. If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate that the contribution rate can be decreased the implicit actuarial gain disclosed by the valuation will be applied to reduce and, if possible, eliminate the payments required to liquidate any unamortized balance of a solvency deficiency. (Last amended November 15, 1993 - Effective November 15, 1993)

60. An implicit actuarial gain remaining after the elimination of a deficiency mentioned in paragraph 59, will be used to establish a contingency reserve in an amount agreed upon by the partners or for any of the following purposes upon which the partners have agreed or which an arbitrator has awarded,

(i) to reduce contributions which members and employers are required to pay, and/or

(ii) to improve benefits payable to members.

60a. The portion of the gain disclosed by the January 1, 1996 valuation remaining after the implementation of the benefit improvements contained in the December 30, 1996 arbitration award shall be placed in a contingency reserve called the Rate Stabilization Fund for the period January 1, 1996 to December 31, 1998. (Last amended February 20, 1997 - Effective January 1, 1996)

60b. The $76 million of actuarial gains that, effective April 3, 2001, remain available to the OTF under the subparagraph 57a (iv) shall be allocated to a contingency reserve until such time as the OTF, in its sole discretion, may determine, at which time such gains shall be used toward the provision of future benefit enhancements and/or member contribution rate reductions as determined by the OTF, in its sole discretion. (Last amended March 5, 2002 – Effective April 2, 2001)

60c. The portion of the actuarial surplus disclosed by the January 1, 2001 valuation that remains after providing for,

(a) the benefit improvements contained in the plan amendments dated April 2, 2001, and

(b) the contingency reserve pursuant to paragraph 60b,

shall be allocated to a contingency reserve called the Rate Stabilization Fund for the period January 1, 2001 to December 31, 2001, or until such later date agreed to by the partners. (Last amended March 5, 2002 – Effective April 2, 2001)

60d. The partners acknowledge that the $76 million referred to in paragraph 60b will be used towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3% and that this application will fully discharge the credit owing the Ontario Teachers' Federation under paragraph 60b. (Last amended December 21, 2006 – Effective January 1, 2007)

60e. The partners agree that $7 million shall be allocated to a contingency reserve, to the credit of the Minister, to reflect the additional $7 million that was used, in addition to the $76 million referred to in paragraph 60d, towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3%. (Last amended December 21, 2006 – Effective January 1, 2007)

61. The valuation as at January 1, 1992 that was prepared and provisionally filed with the Pension Commission of Ontario shall be considered invalid. (Last amended November 15, 1993 - Effective November 15, 1993)

62. The board will prepare a valuation of the plan as at the 1st day of January, 1993. (Last amended November 15, 1993 - Effective November 15, 1993)

63. A portion, in the amount of $1.2 billion, of the gain disclosed by the January 1, 1993 valuation is to be applied to reduce the Minister's scheduled special payments under Schedule 2 of the Act, in the period from January 1, 1993 until the entire amount is exhausted. (Last amended November 15, 1993 - Effective November 15, 1993)

64. A further portion, in the amounts of $200 million as at March 31, 1994 and $125 million as at March 31, 1995, of the gain disclosed by the January 1, 1993 valuation, is to be applied to reduce scheduled government payments to the plan on or before the 31st of March, 1995. (Last amended November 15, 1993 - Effective November 15, 1993)

65. The partners may authorize the use of an additional portion of the gains from the 1993 valuation to offset social contract targets for those members of the plan who are not covered by the Teachers' Sub-Sectoral Framework Agreement and who meet the set of principles agreed on by the partners; these gains will be allocated in the same proportion as members of the plan who are covered by the Teachers' Sub-Sectoral Agreement. (Last amended November 15, 1993 - Effective November 15, 1993)

66. Any residual portion of the gain disclosed by the January 1, 1993 valuation is to be placed in a contingency reserve for rate stabilization until at least January 1, 1996. (Last amended November 15, 1993 - Effective November 15, 1993)

67. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

68. If a solvency valuation of the plan, conducted as at a date on or before the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,

(1) The members will during each of the fifteen years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).

(2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the fifteen years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through fifteenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

69. If a solvency valuation of the plan, conducted as at a date after the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,

(1) The members will during each of the ten years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).

(2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the ten years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through tenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

70. If a valuation done after one which showed a solvency deficiency discloses that there is no solvency deficiency or one that is less than would be expected based on the first valuation, the partners agree to adjust on an equally shared basis for any payments that have been made under paragraphs 68 or 69. (Last amended November 15, 1993 - Effective November 15, 1993)

71. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Triennial negotiation of changes to the plan

72. The Board will prepare a valuation of the plan as at the 1st day of January, 1996 as soon as possible after that date. This will be the valuation to be used for the first set of negotiations. (Last amended November 15, 1993 - Effective November 15, 1993)

73. The subject of the negotiations and of all subsequent triennial negotiations will be any of the matters referred to in paragraphs 8 and 12.

74. As soon as preliminary results of the valuation are available the partners will meet to bargain in good faith and make every reasonable effort to reach an agreement on the changes, if any, that will be made to the plan.

75. The partners will advise the Board what changes affecting benefits and contribution rates they are proposing and the Board will provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

76. There will be a manager of negotiations whose fees and expenses shall be paid by the fund. The manager will be appointed by agreement of the partners or if they cannot agree the Chief Executive Officer of the Board will act as manager. When the manager is appointed, the partners may give the manager any role in the negotiation process in addition to the role described in this agreement. (Last amended March 27, 1996 - Effective January 1, 1996)

77. At any time after the preliminary results of a valuation are available the partners may agree to appoint a mediator. The mediator will be chosen by the agreement of the partners or by a method to which they agree at that time.

78. If no agreement is reached on all proposed changes by the 1st day of May, 1996 and no mediator has been appointed by agreement the manager will appoint a mediator to mediate proposed changes to the contribution rate or benefits under the plan. The manager will do so by preparing a list of five persons willing to act as mediator and asking each partner to select three names from the list. The manager will appoint one of the persons chosen by both partners. (Last amended November 15, 1993 - Effective November 15, 1993)

79. Any proposed changes to the plan not involving the contribution rate or benefits which remain unresolved on the 1st day of May, 1996 will be referred to the Partners Committee established under paragraph 13. The Partners Committee will make every effort to resolve those issues referred to it. (Last amended November 15, 1993 - Effective November 15, 1993)

80. If the partners agree, the mediator may be appointed as a mediator/arbitrator in which case the appointee will decide on the process and time frame for conducting mediation/arbitration.

81. If the partners do not agree on mediation/arbitration the mediator will meet with them and try to mediate an agreement.

82. Within 30 days of appointment the mediator will prepare a confidential report setting out his or her views on the positions of the two partners and containing a recommendation. The report will be delivered to the partners.

83. The mediator may extend the deadline for delivering the report by 14 days if he or she is of the opinion that the partners are likely to reach an agreement during the extension.

84. If the partners do not accept the report within 14 days of its being delivered to them it will be destroyed and an arbitration board will be appointed.

85. At any time after a mediator has been appointed the partners may agree to appoint a board of arbitration.

86. If the partners agree to appoint a board of arbitration or if 14 days have passed since the mediator's report each partner will appoint one person to the board of arbitration and the two appointees will select a final member who will be the umpire.

87. This agreement together with a referral to a board of arbitration constitutes a submission under the *Arbitrations Act*, R.S.O. 1980, c. 25, as amended.

88. If the persons appointed by the partners to a board of arbitration do not appoint an umpire within 14 days of the appointment of the latter of them, the manager will prepare a list of five persons who are willing to act as umpire and ask each partner to select three names from the list. The manager will appoint as umpire one of the persons chosen by both partners.

89. The umpire will establish the procedure for conducting the arbitration but will allow each partner an opportunity to present evidence and make representations. The persons appointed by the partners will consult with the appointing partner during the arbitration.

90. The board of arbitration will hold a hearing within 30 days of its appointment and make an award within 60 days of the conclusion of the hearing. The board of arbitration will provide reasons for its award.

91. The board of arbitration in making an award will consider prevailing economic conditions and the overall state of the provincial economy.

92. The award made by the board of arbitration will,

(a) deal only with the contribution rate and/or benefits of the pension plan and otherwise maintain the plan as it is set out in Schedule 1,

(b) comply with the laws of Ontario,

(c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,

(d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,

(e) ensure that any increase in benefits is adequately funded,

(f) not impair the ability of the Board to fulfil its fiduciary responsibilities,

(g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). (Last amended March 26, 2003 – Effective January 1, 2003)

92.1 In the event that a board of arbitration is appointed pursuant to any provision of the agreement, other than paragraph 57a, to determine the application of actuarial gains disclosed in a valuation for funding purposes where a portion of the actuarial gains disclosed in such valuation is subject to the provisions of paragraph 57a, the board of arbitration shall not issue an award regarding that portion of the actuarial gains which is subject to the provisions of paragraph 57a. (Last amended May 27, 1998 - Effective April 18, 1998)

93. The board of arbitration will give the partners a copy of the award and reasons as soon as they are prepared.

94. The Board will prepare a final valuation of the plan which implements all of the changes to the plan which have been awarded or agreed to by the partners. The changes will take effect on the 1st day of January, 1997 or on such earlier date to which the partners have agreed. (Last amended November 15, 1993 - Effective November 15, 1993)

95. The final valuation will be filed with the Financial Services Commission of Ontario and Schedule 1 will be amended to reflect the changes agreed to and the award if any.

96. Every three years, after January 1, 1996, the process described in this section will be repeated unless the partners agree that no changes will be made to the plan. (Last amended November 15, 1993 - Effective November 15, 1993)

97. The manager and the umpire may agree to extend the timelines set out by this agreement if they think it will help the partners reach an agreement.

98. The partners may agree to change the procedure described in this agreement, either for one round of negotiations or for all future negotiations.

99. The costs of mediation and arbitration will be paid out of the fund. (Last amended March 27, 1996 - Effective January 1, 1996)

100. The mediator or the umpire may employ experts to assist her or him. The cost of employing experts will be shared equally by the partners. The mediator or umpire will consult with the partners about a reasonable budget for such costs.

101. Revoked. (Last amended March 26, 2003 – Effective January 1, 2003)

General

102. Schedule 1 to the *Teachers' Pension Plan, 1989* as amended is adopted by the partners as part of this agreement.

103. The partners agree that this agreement forms part of the plan documents of the pension plan and that they will file a copy of this agreement with the Pension Commission of Ontario.

104. The partners may at any time agree to change any of the provisions of Schedule 1. A change to Schedule 1 will be effected when it is filed with the Financial Services Commission of Ontario by the partners.

105. The partners will not make any change to Schedule 1 which is contrary to the laws of Ontario. Any change which is inconsistent will be void to the extent of the inconsistency.

106. Sections 116, 117, 118 and all of Part XII of Schedule 1 are revoked.

107. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

108. The Board will print a new consolidation of Schedule 1 as soon as possible after any changes to it have been filed with the Financial Services Commission of Ontario.

109. The Minister will submit a copy of Schedule 1 and the annual report to the Lieutenant Governor in Council and lay it before the Assembly at the first opportunity after the report is prepared by the Board.

110. The partners agree that the Funding Management Policy attached hereto, and as amended from time to time, forms part of this agreement. (Last amended June 3, 2009 – Effective January 1, 2009)

July 15, 1991

APPENDIX "A"

Funding Management Policy

Article I. Application

Section 1.01 *Best Estimates Assumptions*: For the purposes of this Funding Management Policy, except as otherwise provided herein, the Board shall provide the required reports using the Board's best estimates assumptions including, in the case of the discount rate, a margin for adverse deviation. The Board's best estimate economic assumptions may be based on market data, smoothed data, the reference rate or the Board's expectation if the Board believes future experience may differ from market data. The Board's assumptions shall be used only if they would be consistent with accepted actuarial practice. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.02 *Escalated Adjustments Indices*: The Board shall also maintain indices to record escalated adjustments for post-2009 service. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.03 *Different Discount Rate*: If a preliminary valuation uses a discount rate lower than the restoration basis for valuations prepared under Article III and Article VI, lower than the temporary basis for valuations prepared under Article IV, or lower than the distribution basis for valuations prepared under Article V, then the Board shall notify the partners and the partners shall meet with the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.04 *Exit Provision*: The provisions in Article II to Article IX shall expire twelve months after the notification referred to in Section 1.03 unless both partners otherwise notify the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.05 This Funding Management Policy shall be applied as follows:

(a) *If there is a restoration basis excess when current contributions exceed basic contributions and/or current benefits are less than run-rate benefits, the excess can be used to reduce contributions and/or increase benefits in accordance with Article III*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.04, then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(b) *If there is a restoration basis deficit using current contributions and current benefits, contributions must be increased and/or benefits must be reduced in accordance with Article III to eliminate the deficit*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.09, then Section 3.10, Section 3.11, Section 3.12, Section 3.13, and Section 3.14 shall apply;

(c) *If there is a restoration basis excess when contributions are less than or equal to basic contributions and benefits are greater than or equal to run-rate benefits, prepare a temporary basis valuation in accordance with Article IV*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, either:

(i) do not satisfy the conditions in either Section 3.04 or Section 3.09; or

(ii) satisfy the conditions in Section 3.04, and

1) the present value of revised benefits is equal to the present value of run-rate benefits, and

2) the present value of revised contributions is equal to the present value of basic contributions;

then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02;

(d) *Temporary and Distribution Basis Valuations*:

(i) *If there is a temporary basis excess, prepare a distribution basis valuation in accordance with Article V*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the distribution basis, the definitions in Section 5.01 and the proviso in Section 5.02, and

1) *If there is a distribution basis excess, the distribution basis excess can be used to make plan improvements in accordance with Article V*: if the results of that preliminary valuation satisfy the conditions in Section 5.03, then Article V shall apply;

2) *If there is a distribution basis deficit but a temporary basis excess, the temporary basis excess can be used to make temporary plan improvements in accordance with Article IV*: if the results of that preliminary valuation do not satisfy the conditions in Section 5.03, then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, and Article IV shall apply;

(ii) *If there is a temporary basis deficit, the restoration basis valuation will apply in accordance with Article III*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, do not satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, and Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(e) *Post-December 30, 2017 Valuations*: If the results of a preliminary valuation prepared as of a date after December 30, 2017, using the restoration basis and the definitions in Section 6.01, satisfy the conditions in Section 6.02, then Section 6.03 shall apply;

(f) *2013 Term Sheet Precedence*: The provisions of the 2013 Term Sheet shall take precedence over this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.06 *Actions Subject to Pension Legislation*: Prior to the commitment of a surplus distribution or a contribution decrease, the partners shall ensure such distribution or contribution decrease is in accordance with the *Income Tax Act* (Canada), the *Pension Benefits Act* (Ontario) and their respective regulations. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.07 *Conditions on Temporary Improvements*: Any commitment to provide temporary improvements shall be made conditional on the results of a preliminary valuation for each year of the commitment period indicating that the conditions in Section 3.04(a) are met prior to and after such temporary improvement. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.08 *Headings*: Headings are underlined and are for convenience only and shall not affect the interpretation or meaning of any provision of this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Article II. Definitions

Section 2.01 For the purposes of this Funding Management Policy:

(a) "2013 Term Sheet" means the March 13, 2013 OTPP Term Sheet entered into by the partners;

(b) "basic contributions" are the contributions required by subsections 19(1) or (2) of Schedule 1 as it read on January 1, 2012;

(c) "commitment period" means the three-year period during which a temporary improvement is provided;

(d) "commitment value" means the present value of the portion of the temporary improvement value provided during the commitment period;

(e) "Consumer Price Index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);

(f) "CPI adjustment" means the ratio between 1.000 and 1.080 of the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year to the average for the Consumer Price Index over the first twelve months of that period - 1. If the ratio would have been less than 1.000 or greater than 1.080, but for those limits, the difference shall be carried forward in a manner consistent with that set out in section 80 of Schedule 1;

(g) "current accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all current ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the current accumulated adjustment ratio is being determined. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(h) "current benefits" are the pension benefits, current escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read at the current valuation date without taking into account any amendment made, or changes agreed to by the partners, on or after the current valuation date;

(i) "current contributions" are the contributions required by Schedule 1 as it read at the current valuation date without taking into account any amendment made on or after the current valuation date;

(j) "current escalated adjustments" are the escalated adjustments in respect of post-2009 service that were applied prior to the January 1st following the current valuation date and assumed thereafter at the rate set out in the most recent filed valuation;

(k) "current ratio", for a year, means 1 + the proportion of the CPI adjustment granted as agreed to by the partners, and as may have been revised from time to time, provided that the proportion shall not be less than 50% in respect of service accrued before 2014, but not including any revision agreed to by the partners in relation to the current valuation;

(l) "current valuation date" in respect of a valuation is the date provided in Section 7.01;

(m) "distribution basis" is the reference rate with a positive adjustment of 0.5% together with the Board's best estimate actuarial assumptions for all other factors;

(n) "freeze period" means the period from December 31, 2012 to December 30, 2017;

(o) "going concern liabilities" are the going concern liabilities within the meaning of Regulation 909 made under the *Pension Benefits Act* and must also include the present value of the pension benefits and escalated adjustments that both accrued prior to the valuation date and that will accrue on or after the valuation date to the persons who were members of the plan on the valuation date and the present value of the ancillary benefits for which the eligibility requirements will be satisfied on or after the valuation date by the persons who were members of the plan on the valuation date;

(p) "preliminary valuation" means a valuation referred to in Section 7.01;

(q) "reference rate" means the interest rate chosen by the Board representing the Government of Canada long bond yield (currently, CANSIM Series V39056 nominal and CANSIM Series V39057 real, or their reasonable respective replacements) that may be based on market data or smoothed data;

(r) "remaining amortization value" means the difference between the temporary improvement value and the commitment value;

(s) "restoration basis" is the reference rate with a positive adjustment of 1.55% together with the Board's best estimate actuarial assumptions for all other factors;

(t) "revised accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the current accumulated adjustment ratio, as modified by an agreement between the partners to change the proportion of the CPI adjustment in respect of post-2009 service prior to the year following the current valuation date. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(u) "revised benefits" are the current benefits including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation;

(v) "revised contributions" are the current contributions including any amendment made on or after the current valuation date based on that valuation;

(w) "revised escalated adjustments" are the current escalated adjustments including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation and assumed thereafter at the rate set out in that valuation;

(x) "run-rate accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all run-rate ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the run-rate accumulated adjustment ratio is being determined;

(y) "run-rate benefits" are the pension benefits, run-rate escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read on January 1, 2009, together with any benefits provided by amendments described in Article IX;

(z) "run-rate escalated adjustments" are the escalated adjustments in respect of post-2009 service that would have applied at the rate of 100% of the CPI adjustment prior to the January 1st following the current valuation date and that would be assumed thereafter at the rate of 100% of the CPI adjustment;

(aa) "run-rate ratio", for a year, means 1 + the CPI adjustment for the year;

(bb) "temporary basis" is the reference rate with a positive adjustment of 1.25% together with the Board's best estimate actuarial assumptions for all other factors;

(cc) "temporary improvement" means an improvement provided in accordance with Section 4.05;

(dd) "temporary improvement value" is the present value of a contribution decrease, a distribution of surplus and/or a benefit improvement that is amortized over a period of up to ten years, but is committed to for the duration of the commitment period only, provided that at the establishment of the commitment:

(i) the partners may elect an amortization period between three and ten years; and

(ii) for amortization periods of less than ten years, any temporary improvement for a given year shall be limited such that the present value of that given year's temporary improvement is not greater than the present value of basic contributions, calculated using the temporary basis, to be paid in the same year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article III. **<u>Funding Zone - Restoration</u>**

Section 3.01 *<u>Definitions</u>*: For the purposes of Article III, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.02 *Restoration Basis Plus an Adjustment*: For the purposes of Article III, current liabilities and revised liabilities may be calculated as at the current valuation date using the restoration basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.03 *CPI Adjustment*: For the purposes of Article III, and subject to a subsequently filed valuation, the proportion of the CPI adjustment for the period covered by the current valuation, in respect of each applicable period of service, will be the same for each year in that period and assumed at the same rate thereafter. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.04 *Restoration Basis Excess, but Basic Contributions and/or Run-Rate Benefits Not Restored*:

(a) If assets are greater than current liabilities; and

(b) if:

(i) the present value of current contributions is greater than the present value of basic contributions, or

(ii) the present value of current benefits is less than the present value of run-rate benefits, or

(iii) both (i) and (ii);

then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.05 *Restoration Basis Excess Report*: The Board shall report to the partners:

(a) the excess of assets over current liabilities; and

(b) the extent to which the excess can be used to provide the changes specified in Section 3.06.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.06 *Application of Restoration Basis Excess*: For purposes of clarity, excesses identified pursuant to Section 3.05 shall be applied in the following order, provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors:

(a) *Bring Escalated Adjustments to 50% for Post-2013 Service*: to provide escalated adjustments up to 50% of the CPI adjustment in respect of service accrued after 2013 for the period covered by the valuation, and assumed thereafter at the same rate;

(b) *Bring Escalated Adjustments to 100%*: to provide escalated adjustments up to 100% of the CPI adjustment for the period covered by the valuation, and assumed thereafter at the same rate;

(c) *Restore Escalated Adjustments for Post-2013 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2013, to the current accumulated adjustment ratio for the period from 2010 to 2013, beginning with the first year in which current escalated adjustments were less than 50% of the run-rate escalated adjustments;

(d) *Restore Escalated Adjustments for Post-2009 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2009 to the run-rate accumulated adjustment ratio, beginning with the first year in which current escalated adjustments were less than run-rate escalated adjustments;

(e) *Provide Benefit Increases or Contribution Rate Reductions*: to provide the following:

(i) an increase in benefits, where the present value of current benefits is less than the present value of run-rate benefits,

(ii) a reduction in contribution rates, where the present value of current contributions exceeds the present value of basic contributions, or

(iii) a combination of (i) and (ii).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.07 *Conditions on Application of Excess*: Subject to Section 3.06 and Section 3.08 or any mutual agreement to the contrary, the partners shall apply the excess of assets over current liabilities to change benefits, contributions, or both, provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities;

(b) the revised accumulated adjustment ratio is equal to or less than the run-rate accumulated adjustment ratio;

(c) the revised accumulated adjustment ratio is equal to or greater than the current accumulated adjustment ratio;

(d) the present value of revised benefits is equal to or less than the greater of the present value of current benefits and the present value of run-rate benefits;

(e) the present value of revised benefits is equal to or greater than the lesser of the present value of current benefits and the present value of run-rate benefits;

(f) the present value of revised contributions is equal to or greater than the lesser of the present value of current contributions and the present value of basic contributions; and

(g) the present value of revised contributions is equal to or less than the greater of the present value of current contributions and the present value of basic contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.08 *2013 Term Sheet Limits*: As set out in further detail in the 2013 Term Sheet, during the freeze period:

(a) The partners may provide escalated adjustments pursuant to Section 3.06(a), Section 3.06(b), Section 3.06(c) and Section 3.06(d) only if the assets are greater than 100% of the current liabilities and do not fall below 100% of the revised liabilities after the adjustment; and

(b) The partners may agree to improve benefits, or to restore benefits that were reduced during the freeze period, pursuant to Section 3.06(e) only if the net assets available for benefits (as such term is used in the preliminary valuations) are equal to or greater than 105% of the current liabilities and do not fall below 105% of the revised liabilities after the benefit improvement or restoration.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.09 *Restoration Basis Deficit*: If current liabilities are greater than assets, then Section 3.10, Section 3.11, Section 3.12, Section 3.13 and Section 3.14 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.10 *Restoration Basis Deficit Report*: The Board shall report to the partners:

(a) the excess of current liabilities over assets; and

(b) the amount required to change current benefits, current contributions, or both, to eliminate the excess referred to in Section 3.10(a) above, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.11 *Conditions on Elimination of Deficit*: Subject to Section 3.12 and Section 3.14, the partners may change benefits, contributions, or both, to eliminate the excess referred to in Section 3.10(a), provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities; and

(b) revised member contributions shall be limited to 15% of pensionable salaries above the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.12 *Restrictions on Benefit Reductions*: Current benefits shall not be reduced unless:

(a) the partners agree on the terms and conditions of any reduction in current benefits;

(b) the partners have entered into a written agreement governing the manner in which contributions by the Minister and the Employers will be adjusted to offset any reduction in benefits; and

(c) the revised accumulated adjustment ratio, in respect of each year, is equal to or greater than the current accumulated adjustment ratio for the year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.13 *Restrictions on Contribution Increases*: Subject to Section 3.14, the partners have the authority to set the level of contributions that must be reached before current benefits are reduced below run-rate benefits, subject to the commitment that member contributions will not exceed 15% of pensionable salaries above the Year's Maximum Pensionable Earnings (as prescribed under the Canada Pension Plan). (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.14 *Further Restrictions on Contribution Increases*: As set out in further detail in the 2013 Term Sheet, during the freeze period there will be no employer contribution increases except as provided under the 2013 Term Sheet. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IV. Funding Zone – Temporary Improvements

Section 4.01 *Definitions*: For the purposes of Article IV, as at the current valuation date, using the temporary basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(d) The reference rate for purposes of determining the temporary basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.02 *Temporary Basis Plus an Adjustment*: For the purposes of Article IV, current liabilities and revised liabilities may be calculated as at the current valuation date using the temporary basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.03 *Temporary Basis Excess*: If assets are greater than current liabilities, then Section 4.04, Section 4.05 and Section 4.06 shall apply, provided that no temporary improvements may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.04 *Temporary Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets exceed current liabilities;

(b) the commitment value;

(c) the extent to which the commitment value can be used to provide a reduction to current contributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(d) the extent to which the commitment value can be used to provide annual surplus distributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(e) the extent to which the commitment value can be used to provide a temporary benefit improvement, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period; and

(f) the extent to which the commitment value can be used to provide a combination of Section 4.04(c), Section 4.04(d) and Section 4.04(e).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.05 *Conditions on Application of Excess*: Subject to Article VI and Section 4.06, the partners may apply all or part of the commitment value to change temporarily current contributions, provide surplus distributions on a temporary basis, or provide a temporary benefit improvement, provided that no amendment shall be made unless, after such amendment, the excess of assets over revised liabilities is equal to or greater than zero. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.07 *Temporary Basis Deficit*: If assets are equal to or less than current liabilities, then Section 4.08 and Section 4.09 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.08 *Temporary Basis Deficit Report*: The Board shall report to the partners the amount by which current liabilities exceed assets. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.09 *No Action on Temporary Basis and Return to Restoration Basis*: Subject to Article VI, the partners shall not provide new temporary improvements and Article III shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article V. Funding Zone – Permanent Improvements

Section 5.01 *Definitions*: For the purposes of Article V, as at the current valuation date, using the distribution basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "current targeted funding amount" is 10% of current liabilities;

(d) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(e) The reference rate for purposes of determining the distribution basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(f) "revised targeted funding amount" is 10% of revised liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.02 *Distribution Basis Plus an Adjustment*: For the purposes of Article V, current liabilities and revised liabilities may be calculated as at the current valuation date using the distribution basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.03 *Distribution Basis Excess*: If the excess of assets over current liabilities is greater than the current targeted funding amount, then Section 5.04 and Section 5.05 shall apply, provided that no changes pursuant to Section 5.05 may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.04 *Distribution Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets minus current liabilities exceed the current targeted funding amount; and

(b) the amount required to change current benefits, current contributions, or both, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.05 *Conditions on Application of Excess*: Subject to Article VI, the partners may apply all or part of the amount by which assets minus current liabilities exceed the current targeted funding amount to change current benefits, current contributions, or both, provided that no amendment shall be made unless:

(a) after such amendment the excess of assets over revised liabilities is equal to or greater than the revised targeted funding amount; and

(b) the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any change in current benefits that is reflected in the value of the liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.06 *Distribution Basis Deficit*: If:

(a) the excess of assets over current liabilities is less than the current targeted funding amount;

(b) the present value of current contributions is equal to or less than the present value of basic contributions;

(c) the present value of current benefits is equal to or greater than the present value of run-rate benefits; and

(d) the current accumulated adjustment ratio is equal to the run-rate accumulated adjustment ratio;

then Section 5.07 and Section 5.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.07 *Distribution Basis Deficit Report*: The Board shall report to the partners the amount by which assets minus current liabilities are less than the current targeted funding amount. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.08 *No Action on Distribution Basis and Return to Temporary Basis*: Subject to Article VI, the partners shall not apply, pursuant to this Article V, any part of the amount by which assets exceed current liabilities, and Article IV shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VI. Post December 30, 2017 Valuations

Section 6.01 *Definitions*: For the purposes of Article VI, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.02 *Post-2017 Excess*: Notwithstanding any other provision of this Funding Management Policy, as set out in further detail in the 2013 Term Sheet, after the end of the freeze period, if a valuation report with a valuation date after December 30, 2017 provides that assets are greater than current liabilities as at the date of the current valuation, then Section 6.03 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.03 *2013 Term Sheet Provisions*:

(a) the OTF will have 'first call' on 100% of the value of the excess of the assets over the current liabilities (to take the form of "surplus credits") up to a cumulative total of the value of the lesser of:

(i) the value of the benefit reductions made during the freeze period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (1) the value of benefit reductions for which matching contributions are made by the Minister and the Employers, and (2) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full conditional inflation protection for post-2013 service and the resulting change to the discount rate, and

(ii) the benefit reduction limit as calculated under the 2013 Term Sheet;

(b) if inflation protection is invoked below 50% during the freeze period, surplus credits will include an amount equal to the actual foregone pension payments during and after the freeze period that arise from the reduction in inflation protection invoked during the freeze period until such time as that inflation protection is restored at 50% or more during or after the freeze period; and

(c) the OTF may apply all or part of surplus credits to change current benefits, current contributions, or both, provided that no amendment shall be made unless assets are equal to or greater than revised liabilities after such amendment.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article VII. Valuation Frequency and Timing

Section 7.01 The Board shall require the actuary to prepare a preliminary valuation of the plan as of January 1, 2003 and each January 1 thereafter and, in addition, on such other date as the partners mutually agree. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.02 Subject to the requirements of the *Pension Benefits Act*, the partners agree that valuations shall be filed with the Superintendent of Financial Services only by their mutual agreement. The partners shall direct the Board, no later than seven months following the valuation date, whether to file. No such filing shall affect the timing of triennial negotiations between the partners referred to in paragraph 96. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.03 The seven-month notice requirement referred to in Section 7.02 shall not apply to the January 1, 2005 valuation and shall not apply to the January 1, 2012 valuation. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VIII. Arbitration

Section 8.01 Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.02 The limitations on amendments set out in Section 3.07, Section 4.05, Section 4.06, Section 4.09, Section 5.05, and Section 5.08 shall apply to an award made by a board of arbitration pursuant to paragraph 92. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.03 Subject to the 2013 Term Sheet, nothing in Article II to Article IX affects the timing of the triennial negotiation, mediation and arbitration process referred to in paragraphs 72 to 100. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IX. **Limitations**

Section 9.01 The limitations on amendments in this Funding Management Policy shall not apply to amendments:

(a) made pursuant to paragraphs 60b, 60d, or 60e;

(b) that are required to comply with provincial law or, where both partners agree, to maintain registration as a registered pension plan under the *Income Tax Act (Canada*); or

(c) made by mutual agreement of the partners that do not increase liabilities by more than 0.5%.

(Last amended May 27, 2015 – Effective March 6, 2015)

AMENDMENT TO THE TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS the Partners' Agreement was most recently amended on January 15, 2014; and

WHEREAS the Partners wish to amend the Partners' Agreement further;

NOW THEREFORE the Partners agree as follows:

The Board

1. Effective January 1, 2016, paragraphs 20 and 21 of the Partners' Agreement are revoked and replaced with the following:

    20. The Board will have a maximum of eleven members. The partners will each appoint five members.

    21. The eleventh member of the Board will be the Chair. The process for appointing a Chair is set out in the next section of this agreement.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Dated at Toronto this 21st day
of May, 2015.

The Ontario Teachers' Federation
as represented by its Executive

Rian McLaughlin
OTF President

Dated at Toronto this 6 day
of May, 2015.

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Fw: OTPP documents
Date: Saturday, September 10, 2016 08:04:44
Attachment 1: Schedule 1 - 20140721.pdf
Attachment 2: 20150928 amendment.pdf
Attachment 3: 20150922 amendment.pdf
Attachment 4: 20151128 amendment.pdf
Attachment 5: Current - Partners' Agreement - 03-06-15.pdf
Attachment 6: 20150521 amendment.pdf

From: Morton, Sarah (EDU) <Sarah.Morton@ontario.ca>
Sent: Friday, September 9, 2016 10:15 PM
To: Hatzis, Len (TBS); Manji, Shemin (MOF); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS); Inselsbacher, Karen (MET); Petsche, Nadine (TBS)
Subject: OTPP documents

Confidential

Hi all,

Apologies for missing the call I was driving to the cottage. The documents that I am aware of that could be relevant to this analysis are:
-Schedule 1 to the Teachers' Pension Act which is the text of the pension plan, (plus the amendments made in 2015. I do not have a consolidated electronic version) (attached)
-The Partners' Agreement + one amendment (again no consolidated version) (attached)
-The Funding Management Plan which is an appendix to the Partners Agreement. I will send that by way of another email.

Sincerely,
Sarah Morton

ONTARIO TEACHERS' PENSION PLAN

SCHEDULE 1 to the *TEACHERS' PENSION ACT*

PART I
INTERPRETATION

Definitions

1. (1) In this Schedule,

“active member” means a person employed in education who is making contributions under the plan and includes a person receiving payments under a long term income protection agreement and by whom or on whose behalf contributions are being made in accordance with subsection 21 (1); (Last amended August 4, 2011 – Effective September 1, 2011)

"active member on LTIP" means an active member as described in section 6;

"administrator" means the Ontario Teachers' Pension Plan Board; (Last amended June 28, 1990 - Effective June 28, 1990)

"average salary", of a member, means the average salary determined in accordance with section 15;

“benefit” means an amount payable under the pension plan, including a pension, a commuted value or a lump-sum payment; (Last amended May 5, 2010 – Effective September 1, 2002)

"board of education" has the same meaning as "board" in subsection 1 (1) of the *Education Act*;

"child" has the same meaning as in subsection 1 (1) of the *Family Law Act*;

"date of disability", of an active member on LTIP, means the date on which the member ceases to be employed in education as a result of the disability;

"dependent child" means a child of a deceased member who was dependent on the member for support at the time of the member’s death, and who,

(a) is less than eighteen years of age, or

(b) is eighteen or more years of age but less than twenty-five years of age and is in full-time attendance at a school or university, having been in such attendance substantially without interruption since the child reached eighteen years of age or since the member died, whichever occurred later, or

(c) is disabled, having been disabled without interruption since the member died;

(Last amended May 5, 2010 – Effective January 1, 1992)

"designated organization" means an organization designated under subsection 119 (2);

"designated private school" means a school designated under subsection 119 (1);

"employed in education" means employed as described in section 2, 6, 7, 8 or 9; (Last amended October 10, 1995 - Effective January 1, 1990)

“employer-approved leave” means a leave of absence, with or without pay, to which the member’s employer consents; (Last amended July 21, 2014 – Effective September 1, 2014)

“long term income protection agreement” means an agreement to provide long term income protection in the event of a member’s long term disability that is entered into by an insurer within the meaning of section 1 of the *Insurance Act* and,

(a) the Minister of Education;

(b) a board of education;

(c) the Ontario Teachers’ Federation established under the *Teaching Profession Act*;

(d) an affiliated body described in the *Teaching Profession Act*; or

(e) an authority approved by the administrator.

(Last amended August 4, 2011 – Effective September 1, 2011)

"member" means a person who, as a result of his or her employment in education, is entitled to benefits or to a refund of contributions under the pension plan;

"re-employed pensioner" means a member who, after

(a) ceasing to be employed in education before, on or after September 1, 2012, and

(b) the beginning of the month in which the member’s retirement pension under the plan begins,

is employed by or otherwise engaged, directly or indirectly, to provide services for compensation for an employer who participates in the pension plan; (Last amended June 20, 2012 – Effective September 1, 2012)

“school day” has the same meaning as “school day” in subsection 1 (1) of the *Education Act* as amended from time to time; (Last amended July 21, 2014 – Effective September 1, 2014)

"school year" means the twelve-month period that normally begins on the 1st day of September, however, for a member whose school year commences prior to September 1st, the administrator may determine the days that the member is required to work prior to September 1st to be in the subsequent school year; (Last amended September 8, 2006 – Effective September 1, 2006)

“short absence” means an employer-approved leave of five or fewer consecutive school days; (Last amended July 21, 2014 – Effective September 1, 2014)

"spouse" means either of two persons who,

(a) are married to each other, or

(b) are not married to each other and are living together in a conjugal relationship,

(i) continuously for a period of not less than three years, or

(ii) in a relationship of some permanence, if they are the natural or adoptive parents of a child, both as defined in the *Family Law Act;*

(Last amended September 8, 2006 – Effective June 10, 2003)

"standard interest rate" means the interest rate determined under section 89;

"statutory leave" means any leave of absence within the meaning of the *Employment Standards Act, 2000* as amended from time to time; (Last amended September 8, 2006 – Effective September 4, 2001)

"Year's Maximum Pensionable Earnings", in relation to a year, means the Year's Maximum Pensionable Earnings prescribed under the *Canada Pension Plan.*

Qualification as a teacher

(2) A person is considered to be qualified as a teacher for the purposes of membership in the pension plan,

(a) if the person has obtained teacher certification from one of the Ministry of Education or the Ontario College of Teachers; or

(b) if a board of education holds a letter of permission granted by the Minister of Education in respect of the person.

(Last amended November 27, 2000 – Effective May 20, 1997)

Employment

(3) A person is considered to be employed,

(a) full-time, if the person is required to work throughout each work day of a year or of a session; and

(b) part-time, if the person is required to work on a regular but not full-time basis.

Idem

(4) A person is considered to be employed on an occasional basis as a teacher and not part-time if the person is an occasional teacher within the meaning of section 1 of the *Education Act*.

PART II
PARTICIPATION

A. Membership in the Plan

Eligibility for membership

2. (1) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is employed,

(a) as a teacher, as determined by the administrator, in a school within the meaning of subsection 1 (1) of the *Education Act*;

(b) as a teacher in a school outside Ontario under an approved teacher exchange system;

(c) as a teacher by the minister of a ministry of the Government of Ontario;

(d) as a teacher in a school or a class operated by the Toronto and Region Conservation Authority; or

(e) by a board of education.

(Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(2) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is employed in a designated private school or a designated organization. (Last amended December 21, 2007 – Effective September 1, 2008)

Idem

(2a) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and has taken a statutory leave from employment in education which leave began prior to the 1st day of September, 2010. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(2b) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is receiving payments for loss of earnings in respect of employment in education under the *Workplace Safety and Insurance Act*. (Last amended September 8, 2006 – Effective September 1, 2006)

Exception

(3) No person is eligible to be an active member of the pension plan,

(a) if the person is regularly employed outside Ontario and is performing services in Ontario under an approved teacher exchange system; or

(b) beyond November 30th of the calendar year in which the person attains seventy-one years of age, or beyond such other time as is permitted under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Commencement of membership

3. (1) Every person employed as described in subsection 2 (1) full-time or part-time becomes an active member of the plan on the later of,

(a) the 1st day of January, 1990;

(b) the date the employment contract begins; or

(c) the date on which the person becomes qualified as a teacher.

(Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(2) Subject to subsection 5 (1), every person employed as described in subsection 2 (2) full-time or part-time becomes an active member of the plan on the day that is the latest of,

(a) the 1st day of January, 1990;

(b) the date the employment contract begins; or

(c) the date the designation of the private school or the organization is effective.

Idem

(3) Every person employed in education on an occasional basis becomes an active member of the plan on the person's first day of employment in a school year. (Last amended February 20, 1997 - Effective January 1, 1997)

(3a) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

Commencement of membership, re-employed pensioner

(4) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(4a) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(5) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(6) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Election re occasional employee

4. (1) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

Obligations

(2) Revoked. (Last amended October 10, 1995 - Effective September 1, 1996)

Election re designated private schools, etc.

5. (1) A person employed at a designated private school or a designated organization on the date the designation becomes effective may elect not to become an active member of the plan.

Time for election

(2) An election under this section is not effective unless delivered in writing to the governing body of the designated private school or designated organization and to the administrator,

(a) not later than three months after the effective date of designation for the private school or organization, if the person is qualified as a teacher when the designation takes effect; or

(b) not later than three months after the date the person becomes qualified as a teacher, if the person is not so qualified on the effective date of designation for the private school or organization.

Not applicable

(3) This section does not apply to a person who is an active member of the plan or to a person who is receiving a pension under the plan on the date the designation becomes effective. (Last amended September 8, 2006 – Effective September 1, 2002)

Further election

(4) This section applies with necessary modifications to a person employed at a designated private school or a designated organization on September 1, 2008, who becomes eligible for active plan membership on that date in accordance with subsection 2 (2). The required election must be delivered by December 1, 2008. (Last amended December 21, 2007 – Effective September 1, 2008)

Active member on LTIP

6. (1) An active member who begins to receive payments under a long term income protection agreement continues as an active member of the plan until the earlier of:

(a) the date the member ceases to receive payments under the long term income protection agreement;

(b) the date the member begins receiving a benefit under the pension plan; or

(c) the end of the calendar year in which the member attains seventy-one years of age, or such other time as is permitted under the *Income Tax Act* (Canada).

(Last amended August 4, 2011 – Effective September 1, 2011)

Idem

(1a) For the purposes of subsection (1), an active member who has been approved for payments under a long term income protection agreement but is not receiving payments by reason of the application of offset or all-source maximum provisions of the long term income protection agreement shall be deemed to receive payments under a long term income protection agreement. (Last amended August 4, 2011 – Effective September 1, 2001)

Idem

(1b) For the purposes of subsection (1) and subject to the limits set forth therein, an active member who receives payment in the form of a lump sum under a long term income protection agreement shall be deemed to receive payments under a long term income protection agreement for the period determined by the administrator. (Last amended August 4, 2011 – Effective September 1, 2011)

Evidence of medical condition

(1c) The administrator may at any time require a member described in subsection (1b) to furnish evidence, in such form as the administrator directs, that the member is disabled as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada) throughout the period of active membership on LTIP. The period of active membership on LTIP of a member described in subsection (1b) shall terminate at the end of the month in which the administrator notifies the member that the administrator is not satisfied that the member is disabled. (Last amended August 4, 2011 – Effective September 1, 2011)

Return to employment

(1d) If a member described in subsection (1b) becomes employed in education, other than as an active member on LTIP, and the percentage of full-time basis of that employment is equal to or greater than the percentage of full-time basis upon which the member was employed immediately prior to becoming disabled, the member shall be deemed to have ceased to receive payments under a long term income protection agreement on the date that the member commences that period of employment in education. (Last amended August 4, 2011 – Effective September 1, 2011)

Eligibility

(2) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(3) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Definition

(4) Revoked. (Last amended August 4, 2011 – Effective September 1, 2011)

Active membership, university faculty

7. (1) A member who, during an employer-approved leave, becomes employed on the staff of a faculty of education of an Ontario university on or after the 1st day of January, 1990 is an active member of the plan. (Last amended July 21, 2014 – Effective September 1, 2014)

Limitation

(2) A person is eligible for active membership under this section for a maximum of five school years.

Not applicable

(3) This section does not apply to a person who is employed on the staff of a faculty of education of an Ontario university that is designated under section 119. (Last amended September 8, 2006 – Effective September 1, 2002)

Transitional re universities

8. (1) A person who, on the 1st day of January, 1990, is qualified as a teacher and is employed full-time on the staff of a faculty of education of an Ontario university is an active member of the plan as long as the person continues in full-time or part-time employment at such a faculty.

Idem, part-time employee

(2) A person who, on the 1st day of January, 1990, is qualified as a teacher and is employed part-time on the staff of a faculty of education of an Ontario university is an active member of the plan as long as the person continues either part-time or full-time employment at such a faculty.

Not applicable

(3) This section does not apply to a person who is employed on the staff of a faculty of education of an Ontario university that is designated under section 119. (Last amended September 8, 2006 – Effective September 1, 2002)

Transitional re Ryerson, CAATs

9. (1) This section applies with respect to a person who,

(a) is qualified as a teacher and is employed by Ryerson University; or

(b) was deemed, under a predecessor of this Act, to be employed in education by a college of applied arts and technology. (Last amended May 5, 2010 – Effective July 1, 2002)

Idem, full-time employee

(2) A person who, on the 1st day of January, 1990, has been employed full-time by Ryerson University or a college of applied arts and technology continuously since the 1st day of September, 1984 is an active member of the pension plan as long as the person continues in full-time employment either at Ryerson or at such a college. (Last amended May 5, 2010 – Effective July 1, 2002)

Idem, part-time employee

(3) A person who, on the 1st day of January, 1990, has been employed part-time by Ryerson University or a college of applied arts and technology continuously since the 1st day of September, 1984 is an active member of the pension plan as long as the person continues in part-time or full-time employment either at Ryerson or at such a college. (Last amended May 5, 2010 – Effective July 1, 2002)

B. Credit for Service

Credited service

10. (1) An active member receives one year of credited service for working a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

(1a) For the purpose of determining credited service of an active member under this section, for the period to August 31, 2001, the administrator may use one or more standard calendars. (Last amended April 15, 1998 - Effective January 1, 1990)

Idem, partial year

(2) An active member receives credited service for part of a year in the proportion that the number of hours or days worked by the member during the school year bears to the number of hours or days in a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Credited service during statutory leave

(2a) Despite subsections (1) and (2) an active member who makes contributions during a statutory leave which began prior to the 1st day of September, 2010 receives credited service for the number of days which the member would have worked during that leave to earn the amount of pensionable salary attributed to the member in calculating the member's contributions during the leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Credited service during LTIP

(2b) (a) Despite subsections (1) and (2), an active member who is receiving payments under a long term income protection agreement and in respect of whom required contributions are being made in accordance with subsection 21 (1) shall receive credited service for the period that the member's employer reports the member would have worked if the member had worked throughout the school year. (Last amended August 4, 2011 – Effective September 1, 2011)

(b) Despite subsections (1) and (2), an active member who receives payment in the form of a lump sum under a long term income protection agreement and in respect of whom required contributions are being made in accordance with subsection 21 (1) shall receive credited service for the period to which the lump sum payment relates, as determined by the administrator in accordance with subsection 6 (1b). (Last amended August 4, 2011 – Effective September 1, 2011)

Credited service during WSIB

(2c) Despite subsections (1) and (2), an active member who is receiving payments for loss of earnings under the *Workplace Safety and Insurance Act* and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if the member had worked throughout the school year. (Last amended September 8, 2006 – Effective September 1, 2006)

Idem

(2d) Despite subsection (2b), for the period of September 1, 2001 to August 31, 2006, where the credited service of an active member as described in subsection 6 (1a) is subject to the certification of a Past Service Pension Adjustment under the *Income Tax Act* (Canada), an active member shall receive credited service only once the administrator has obtained a certificate from the Minister of National Revenue. (Last amended August 4, 2011 – Effective September 1, 2011)

Credited service during sick leave

(2e) Despite subsections (1) and (2), an active member who is receiving sick leave payments, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the sick leave. (Last amended December 19, 2012 – Effective September 1, 2012)

Credited service during unpaid professional activity days

(2f) Despite subsections (1) and (2), an active member who is subject to unpaid professional activity days, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the unpaid professional activity days. (Last amended April 2, 2013 – Effective September 1, 2012)

Credited service during a short absence

(2g) Despite subsections (1) and (2), an active member who is on a short absence, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the short absence. (Last amended July 21, 2014 – Effective September 1, 2014)

Idem, more than full-time school year

(3) Where an active member works more than a full-time school year he or she is not entitled to credited service for hours or days worked which are in excess of a full-time school year if he or she is entitled to a refund of contributions under s. 28, whether or not the refund is paid. (Last amended June 28, 1990 - Effective June 28, 1990)

Limitation

(4) Except for periods of lockout or legal strike a person shall not receive credited service for employment unless contributions in respect of the employment are made by or on behalf of that person. (Last amended June 29, 1994 - Effective January 1, 1990)

Idem

(5) No person is entitled to receive more than one year of credited service in respect of the person's employment during one school year.

Idem

(6) Subject to subsection (7), no person is entitled to accumulate more than thirty-five years of credited service under the plan in respect of a period prior to the 1st day of January, 1992. (Last amended February 28, 1992 - Effective January 1, 1992)

Exception

(7) A member who accumulates thirty-five years of credited service may continue to accumulate credited service until the month in which he or she reaches the age which, when added to the member's credited service equals ninety. (Last amended February 28, 1992 - Effective January 1, 1992)

Idem

(8) Despite subsection (7) a member may accumulate credited service greater than the limit set out therein with respect to a period after the 31st day of December, 1991. (Last amended June 1, 1995 - Effective June 1, 1995)

Partial year

11. (1) The length of a member's qualifying service determined under this section applies for the purpose of determining the member's entitlement to a benefit but does not apply for the purpose of calculating the amount of the benefit. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(2) If a member accumulates more than ten days but less than or equal to one year of credited service as determined under sections 10, 96, 97 or 97a during one school year, the member's qualifying service shall be considered to equal one year. (Last amended May 5, 2010 - Effective September 1, 2001)

Idem

(2a) If the administrator is unable to determine in which of two successive school years the credited service of a member described in subsection (2) took place, it shall be deemed to have taken place in the earlier year. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(3) If a member described in subsection (2), or a survivor of a member, receives a pension during the school year, the member shall receive qualifying service only for those months which the member, or survivor of the member, as the case may be, does not receive a pension. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(4) If a member described in subsection (2) becomes employed in education for the first time on or after the 1st day of January, 1990, the member shall receive qualifying service only for that portion of the school year during which the member is an active member. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(5) Revoked. (Last amended October 10, 1995 - Effective September 1, 1995)

Purchases of credit

(6) Subsection (2) shall include credited service accumulated by a member for a school year under section 94 or 95 in respect of periods on or after the 1st day of September, 2010, provided that the member has completed a purchase of the entire eligible absence period in respect of that school year. (Last amended August 4, 2011 – Effective September 1, 2010)

Partial purchases of credit

(7) If a member referred to in subsection (6) does not complete a purchase of the entire eligible absence period for a school year, the member shall only receive qualifying service in respect of the purchase equal to the member's credited service in respect of the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Limitation

(8) A member is not entitled to accumulate more than one year of qualifying service under this section in respect of a school year. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(9) If a member accumulates ten days or less of credited service in respect of a school year, the member shall receive qualifying service for that school year equal to the member's credited service for that school year. (Last amended December 30, 2009 - Effective September 1, 2010)

C. Calculation of Pensionable Salary

Pensionable salary

12. (1) A member's pensionable salary for a school year is the remuneration paid to the member respecting employment in education and excludes,

(a) remuneration for services other than for employment in education;

(b) perquisites related to employment;

(c) payments related to accumulated sick leave or other employment benefit credits;

(d) payments related to retirement or termination of employment;

(e) payments to reimburse the member for expenses incurred during the course of employment;

(f) payments related to employment or for loss of earnings under the *Workplace Safety and Insurance Act* during a period in which the member is already an active member under section 6; (Last amended May 5, 2010 – Effective September 1, 2006)

(g) payments related to employment during a period in which the member is already an active member by virtue of receiving payments for loss of earnings under the *Workplace Safety and Insurance Act*; and (Last amended September 8, 2006 – Effective September 1, 2006)

(h) any remuneration paid to the member respecting employment in education that exceeds an annual rate of pay of six times the Year's Maximum Pensionable Earnings in effect each year. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(2) Pensionable salary excludes the amounts described in clauses (1) (a) to (h) whether paid under a contract or gratuitously by an employer. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(3) The pensionable salary of a member who receives board or lodging related to employment in education shall be deemed to be such amount, having regard for the value of the board or lodging, as is determined by the administrator.

Idem

(4) The pensionable salary of a member who is entitled to a refund under s. 28 (overpayment) shall be reduced by the amount of remuneration for which the contributions could have been refunded, whether or not the refund is paid. (Last amended June 28, 1990 - Effective June 28, 1990)

Pensionable salary during statutory leave

(5) The pensionable salary of an active member who makes contributions for a statutory leave which began prior to the 1st day of September, 2010 is the remuneration that the member's employer reports that the member would have earned if the member had not taken a statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Pensionable salary during WSIB

(5a) The pensionable salary of an active member who is receiving payments for loss of earnings under the *Workplace Safety and Insurance Act* is the remuneration that the member's employer reports that the member would have earned if the member had not been receiving such payments under the *Workplace Safety and Insurance Act*. (Last amended September 8, 2006 – Effective September 1, 2006)

Pensionable salary during sick leave

(5b) For the purposes of subsection 10 (2e), the pensionable salary of an active member who is receiving sick leave payments is the remuneration that the member's employer reports that the member would have earned if not for the sick leave. (Last amended December 19, 2012 – Effective September 1, 2012)

Pensionable salary during unpaid professional activity days

(5c) For the purposes of subsection 10 (2f), the pensionable salary of an active member who is subject to unpaid professional activity days is the remuneration that the member's employer reports that the member would have earned if not for the unpaid professional activity days. (Last amended April 2, 2013 – Effective September 1, 2012)

Pensionable salary during a short absence

(5d) For the purposes of subsection 10 (2g), the pensionable salary of an active member who is on a short absence is the remuneration that the member's employer reports that the member would have earned if not for the short absence. (Last amended July 21, 2014 – Effective September 1, 2014)

Pensionable salary

(6) Revoked. (Last amended June 29, 1994 - Effective January 1, 1992)

Deferred salary leave plans

12a. (1) This section applies to a member who participates in a deferred salary leave plan entered into in writing between the member and his or her employer. (Last amended April 2, 2001- Effective September 1, 2001)

Deemed pensionable salary

(2) Despite subsection 12 (1) the pensionable salary of a member referred to in subsection (1) is the amount that the member's employer advises the administrator would have been paid to the member but for the member's participation in a deferred salary leave plan. (Last amended June 29, 1994 - Effective January 1, 1992)

Coming into force

(3) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Pensionable salary re active member on LTIP

13. (1) The pensionable salary of an active member on LTIP is the remuneration that the member's employer reports the member would have earned if the member had worked throughout the school year in which the member began receiving LTIP benefits. (Last amended April 2, 2001- Effective September 1, 2001)

Idem

(2) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Idem

(3) Despite subsection (1), for the period of September 1, 2001 to August 31, 2011, the pensionable salary of an active member as described in subsection 6 (1a) shall be the greater of:

(a) the pensionable salary determined in accordance with subsection (1) and increased in accordance with subsections 15 (4) to (4c); and

(b) the pensionable salary determined in accordance with subsection 12 (5a).

(Last amended August 4, 2011 – Effective September 1, 2011)

Pensionable salary re purchases of credit prior to September 1, 2010

14. (1) The pensionable salary of a member who purchases credited service under section 94, 95 or 96 for an absence is the amount of remuneration that, in the opinion of the member's employer, the member would have earned had he or she not taken the absence. (Last amended April 2, 2001 - Effective September 1, 2001)

Idem re pensionable salary for purchases on or after September 1, 2010

(1a) Despite subsection (1), the pensionable salary for a purchase of credited service under section 94, 95 or 96, where the member has not completed payment prior to the 1st day of September, 2010 for the entire eligible absence period, is an amount based upon the annual pensionable salary that, in the opinion of the administrator, the member earned prior to the start of the absence as adjusted in accordance with this section. (Last amended October 19, 2012 – Effective September 1, 2010)

Adjusted pensionable salary

(1b) For the purposes of subsection (1a), a member’s pensionable salary for an absence is adjusted after the school year in which the member began the absence by multiplying the pensionable salary for that year by the accumulated adjustment ratio determined in the manner set out in subsection (1d). (Last amended June 20, 2012 – Effective September 1, 2010)

Exception

(1c) Despite subsection (1b), where an absence begins on the first day of the member’s school year, the pensionable salary is adjusted in the manner set out in subsection (1b) beginning with the school year in which the member began the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Accumulated adjustment ratio

(1d) A member's accumulated adjustment ratio for purposes of subsection (1b) is the product of the basic ratio for each school year beginning with the school year following the school year in which the member began the absence and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended December 30, 2009 - Effective September 1, 2010)

Exception

(1e) Despite subsection (1d), where an absence begins on the first day of the member’s school year, the member's accumulated adjustment ratio for purposes of subsection (1b) is the product of the basic ratio for each school year beginning with the school year in which the member began the absence and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended December 30, 2009 - Effective September 1, 2010)

Basic ratio

(1f) The basic ratio for a school year referred to in subsections (1d) and (1e) is a factor provided by the Minister. (Last amended December 30, 2009 - Effective September 1, 2010)

Alternative basic ratio

(1g) In the event that the basic ratio described in subsection (1f) is not provided by the Minister before the date that the cost for the purchase of credited service is calculated, the basic ratio for a school year referred to in subsections (1d) and (1e) is the ratio expressed to three decimal places that the average for the consumer price index over the last twelve months of the twenty-four month period ending with the 31st day of July in the preceding school year bears to the average for the consumer price index over the first twelve months of that period. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(1h) For the purposes of subsection (1g), "consumer price index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada). (Last amended December 30, 2009 - Effective September 1, 2010)

Transition

(1i) Revoked. (Last amended October 19, 2012 - Effective September 1, 2010)

Grandfathering the portion of an absence previously considered complete

(1j) Despite subsection (1a), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the pensionable salary for that portion of the absence is determined in accordance with subsection 14(1). (Last amended October 19, 2012 - Effective September 1, 2010)

Idem re pensionable salary for the remaining portion of an employer approved leave

(1k) Despite subsection (1a), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the pensionable salary for any remaining subsequent portion of the entire eligible absence period that is an employer-approved leave is determined in accordance with subsection (1j), and adjusted, with necessary modifications, in accordance with subsections (1b) to (1h). (Last amended October 19, 2012 - Effective September 1, 2010)

Idem

(2) The pensionable salary of a member who purchases credited service under section 103 is the amount of the member's remuneration for employment during the applicable period.

(3) The pensionable salary described in subsection 14(2) shall not be used in the calculation of the average salary of the member. (Last amended June 29, 1994-Effective January 1, 1992)

Average salary

15. (1) The average salary of a member,

(a) with more than five years' qualifying service is the average of the member's annual pensionable salary for the five school years during which it was highest; and

(b) with five years' or less qualifying service is the average of the member's annual pensionable salary. (Last amended October 10, 1995 - Effective September 1, 1995)

Part-time or occasional employee

(2) For the purpose of determining the average salary of a member employed more than ten days but less than a full-time school year or an active member on LTIP whose LTIP payments are based upon a less than full-time salary, the annual pensionable salary of the member is calculated using the formula,

$$(A/B) \times C$$

in which,

"A" is the amount of the member's pensionable salary for the school year,

"B" is the lesser of,

(a) the number of days of credited service accumulated by the member during the school year, and

(b) the number of days in a full-time school year, and

"C" is the number of days in a full-time school year except,

(a) in the first year of the member's employment in education when it is the number of days between the first day worked by the member and the end of the school year, or

(b) in the final year of active membership when it is the number of days in a full-time school year between the beginning of the school year and the date the member's pension or the pension of a survivor of the member begins. (Last amended February 20, 1997 - Effective January 1, 1997)

Employee working less than full final year

(2a) For the purpose of determining the average salary of a member employed more than ten days but less than a full-time school year during his or her final year of active membership, the pensionable salary of the member as determined under subsection (2) for that final year shall be increased by an amount calculated using the formula,

$$A \times B/C$$

in which,

"A" is the member's pensionable salary for the school year in which it was sixth highest,

"B" is the number of days in a full-time school year between the date the member's pension or the pension of a survivor of the member begins and the end of the school year, and

"C" is the number of days in a full-time school year. (Last amended February 20, 1997 - Effective January 1, 1997)

Purchases of credit

(2b) Subsections (2) and (2a) shall apply, with necessary modifications, to credited service accumulated by a member for a school year under section 94 or 95 in respect of periods on or after the 1st day of September, 2010, provided that the member has completed a purchase of the entire eligible absence period in respect of that school year. (Last amended August 4, 2011 – Effective September 1, 2010)

Restriction

(3) Revoked.

(a) Revoked.

(b) Revoked. (Last amended October 10, 1995 - Effective September 1, 1995)

Inflation adjusted pensionable salary

(4) For the purposes of this section, the pensionable salary for an active member on LTIP is increased after the school year in which the member began receiving LTIP benefits by multiplying the pensionable salary for that year, as determined under section 13, by the accumulated adjustment ratio determined in the manner set out in subsection (4a). (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4a) A member's accumulated adjustment ratio for purposes of subsection (4) is the product by multiplication of the basic ratio for each school year beginning with the school year following the school year in which the member began receiving LTIP benefits and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4b) The basic ratio for a school year referred to in subsection (4a) is the ratio expressed to three decimal places that the average for the consumer price index over the last twelve months of the twenty-four month period ending with the 30th day of September in that school year bears to the average for the consumer price index over the first twelve months of that period. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4c) For the purposes of subsection (4b), "consumer price index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada). (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4d) Subsections (4) to (4c) do not apply for the period of September 1, 2001 to August 31, 2011 in respect of a member who is an active member as described in subsection 6 (1a) and whose pensionable salary is determined in accordance with subsection 12 (5a). (Last amended August 4, 2011 – Effective September 1, 2011)

D. Transitional

Transitional re membership

16. (1) Every person who has credit in the Teachers' Superannuation Fund on the 31st day of December, 1989 and who is not entitled to an allowance under a predecessor of this Act becomes an active member of the pension plan upon completing one day of employment in education on or after the 1st day of January, 1990.

Idem, active member on LTIP

(2) Every person who was making contributions or on whose behalf contributions were being made on the 31st day of December, 1989 under an agreement referred to in section 4 of the *Teachers' Superannuation Act, 1983* or under a predecessor of that section is considered to be an active member on LTIP.

Transitional re credited service

17. Every active member shall be considered to have accumulated credited or qualifying service under the pension plan in an amount equal to the credited or qualifying service that he or she had accumulated under a predecessor of this Act. (Last amended October 10, 1995 - Effective September 1, 1995)

Re-employed pensioners

18. A re-employed pensioner making contributions under the pension plan or a predecessor of this Act on or after the 1st day of September, 1989 up to the 1st day of January, 1990 is entitled to a refund of contributions, if any, made in respect of the first ninety-five days or less of employment during that period.

PART III
CONTRIBUTIONS

A. Member Contributions

Amount of member's contributions

19. (1) Every active member who is required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan* shall contribute for a year, for salary paid after 2011,

(a) 10.4 per cent of that portion of the member's pensionable salary up to and including the amount of the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*; and

(b) 12 per cent of that portion of the member's pensionable salary that exceeds the amount of the Year's Maximum Pensionable Earnings. (Last amended August 4, 2011 – Effective January 1, 2012)

Idem

(2) Every active member who is not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan* shall contribute 12 per cent of the member's pensionable salary for the year, for salary paid after 2011. (Last amended August 4, 2011 – Effective January 1, 2012)

Maximum amount of contributions, R.S.C. 1952, C. 148

(2a) If a member's contributions calculated under this section for a period after the 31st day of December, 1991 exceeds the lesser of the maximum contribution permitted under the *Income Tax Act* (Canada) and the maximum contribution determined by the actuary, it shall be reduced to an amount equal to the lesser maximum. (Last amended December 21, 2006 – Effective January 1, 2007)

Deemed required to contribute to CPP

(2b) An active member who at any time after the end of the month in which he or she attains the age of 65 years and before the end of the month in which he or she attains the age of 70 years receives a Canada Pension Plan retirement pension shall contribute for salary paid after 2011 the contributions set out in paragraphs (1) (a) and (b) if an election under paragraph 12 (1) (c) of the *Canada Pension Plan* is not in effect at the time of the salary payment. (Last amended June 20, 2012 – Effective January 1, 2012)

Pensionable salary

(3) Revoked. (Last amended October 23, 1991 - Effective October 23, 1991)

Additional contributions

(4) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.0 per cent of the member’s pensionable salary for the year, for salary paid during the year 2007. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(5) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.3 per cent of the member's pensionable salary for the year, for salary paid during the year 2008. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(6) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.1 per cent of the member's pensionable salary for the year, for salary paid after 2008 but before 2012. (Last amended August 4, 2011 – Effective January 1, 2012)

Idem

(7) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 0.4 per cent of the member's pensionable salary for the year, for salary paid during the year 2012. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(8) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 0.75 per cent of the member's pensionable salary for the year, for salary paid during the year 2013. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(9) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 1.1 per cent of the member's pensionable salary for the year, for salary paid after 2013 but before 2027. (Last amended June 20, 2012 – Effective January 1, 2012)

Contributions by members working more than full-time

19a. An active member who is employed on a full-time basis to work a full-time school year is not required to make a contribution for any employment during that school year in excess of a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Member contributions during statutory leaves

19b. An active member shall, during a statutory leave which began prior to the 1st day of September, 2010, contribute the applicable amount set out in section 19 unless the member has notified the employer in writing that she or he elects not to participate in the pension plan during the statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Member contributions during statutory leaves on or after September 1, 2010

19c. A member shall, during a statutory leave which begins on or after the 1st day of September, 2010, contribute the applicable amount set out in section 94 unless the member has notified the employer in writing that she or he elects not to participate in the pension plan during the statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Collection of member contributions

20. (1) The employer of an active member shall deduct the amount the member is required to contribute under section 19 from the salary paid to the member.

Transfer of amount deducted

(2) An employer shall deliver to the administrator or deposit to the account of the pension fund on or before the last day of each month in which a member's salary is paid the amount deducted for the member's contribution.

Interest payable

(3) An employer shall pay interest on amounts in arrears from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended September 8, 2006 - Effective January 1, 2003)

Idem

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended September 8, 2006 – Effective January 1, 2003)

Report to administrator

(4) An employer shall make such reports to the administrator as the administrator requires in respect of member contributions.

Member contributions not to be collected

(5) An employer shall not deduct from the salary paid to an active member employed on a full-time basis for a full-time school year an amount greater than the contributions payable under section 19 by an employee who works a full-time school year unless the member directs the employer to do so. (Last amended June 28, 1990 - Effective June 28, 1990)

Idem

(6) An employer who is provided with evidence that an active member is employed on a full-time basis for a full-time school year by another employer shall not make any deduction from the salary paid to that member for contributions under section 19 unless the member directs the employer to do so. (Last amended June 28, 1990 - Effective June 28, 1990)

Status of contributions

(7) A contribution which an active member directs his or her employer to deduct under subsection (5) or (6) is considered to be a required contribution for the purpose of sections 25 and 26. (Last amended June 28, 1990 - Effective June 28, 1990)

Underpayment of contributions

20a. (1) A member who has for any year contributed an amount less than that calculated under section 19 shall, upon being notified of the amount of the undercontribution, pay as a lump sum an amount equal to the undercontribution. (Last amended February 28, 1992 - Effective January 1, 1992)

Interest

(2) A member referred to in subsection (1) shall pay interest calculated at the standard rate on the amount of the undercontribution from the day the member is notified to the day before the undercontribution is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Contributions re active members on LTIP

21. (1) The amount of the required contribution for an active member on LTIP is,

(a) 6.9 per cent of the pensionable salary of a member who becomes disabled before the 1st day of January, 1991, and

(b) 8.9 per cent of the pensionable salary of a member who becomes disabled after the 31st day of December, 1990,

except that payment of the required contribution is waived for a member who becomes disabled after the 31st day of August, 2001. (Last amended April 2, 2001 – Effective September 1, 2001)

Inflation adjusted pensionable salary

(2) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(2a) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(2b) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem S.C. 1970 - 1971 - 1972 c. 15

(2c) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

(2d) If a member's contribution calculated under subsection (1) for a period after the 31st day of December, 1991 exceeds the lesser of the maximum contribution to a registered pension plan permitted under the *Income Tax Act* (Canada) and the maximum contribution determined by the actuary, it shall be reduced to an amount equal to the lesser maximum. (Last amended June 1, 1995 - Effective June 1, 1995)

Restriction re election

(3) Revoked. (Last amended October 23, 1991 - Effective October 23, 1991)

Notice of status

(4) An active member on LTIP shall give notice on the first day of each school year to his or her employer or former employer that the member continues to be an active member on LTIP.

Minister's payments re active member on LTIP

22. The contributions required under subsection 21 (1) from an active member on LTIP who is receiving benefits under a long term income protection plan established under the *Public Service Act* shall be paid on behalf of the member by the Minister.

Collection re active member on LTIP

23. (1) The required contribution for an active member on LTIP shall be paid to the person who was his or her employer on the date of disability.

Idem

(2) Payments under subsection (1) must be made on or before the fifteenth day of the month following the month in which each payment under the long term income protection agreement is made to the member.

Increased contributions

(3) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Transfer of contribution

(4) An employer to whom a payment in respect of an active member on LTIP is to be made under this section shall, whether or not the payment is made, deliver to the administrator on or before the last day of each month in which the member's LTIP payment is required the amount of the member's required contribution. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(5) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Interest payable

(6) Interest is payable on payments in arrears made to the employer or by the employer from the date the payment is due to the day before it is made, calculated at the standard interest rate plus 4 per cent. (Last amended February 28, 1992 - Effective January 1, 1992)

Cause of action

(7) An employer may maintain an action for the recovery of an amount paid to the administrator under subsection (4) if the employer has not received the corresponding payment of required contributions for an active member on LTIP.

Collection re member on statutory leave

23a. (1) An active member who has taken a statutory leave which began prior to the 1st day of September, 2010 and has not notified his or her employer in writing that she or he elects not to participate in the pension plan during the leave, shall pay the member's contribution to the member's employer on or before the normal pay day of the employer. (Last amended December 30, 2009 - Effective September 1, 2010)

(2) An employer to whom a payment in respect of an active member referred to in subsection (1) is to be made shall, whether or not the payment is made, deliver to the administrator on or before the last day of each month of the member's statutory leave the amount of the member's required contribution. (Last amended October 23, 1991 - Effective October 23, 1991)

(3) Interest is payable on payments due from the employer which are in arrears from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended May 5, 2010 – Effective January 1, 2003)

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended May 5, 2010 – Effective January 1, 2003)

(4) An employer may maintain an action for the recovery of an amount paid to the administrator together with interest thereon at the standard interest rate under this section if the employer has not received the corresponding payment of required contributions from the active member who has taken a statutory leave. (Last amended October 23, 1991 - Effective October 23, 1991)

B. Employer Contributions

Liability for contributions

24. (1) Employer contributions in respect of an active member employed as described in subsection 2 (1) shall be paid by the Minister.

Idem

(2) Subsection (1) does not apply with respect to any contribution in relation to which the member is required under this pension plan to make the contribution that would otherwise be made by the Minister.

Idem

(3) Employer contributions in respect of an active member employed as described in subsection 2 (2) or section 7, 8 or 9 shall be paid by the employer of the member.

Idem

(4) Employer contributions in respect of an active member on LTIP shall be paid by the person making the employer contributions in respect of the member immediately before the date of disability.

(5) No employer contribution, other than an eligible contribution under the *Income Tax Act* (Canada), shall be made to the plan. (Last amended June 29, 1994 - Effective January 1, 1992)

Contributions by the Minister

25. (1) The Minister shall contribute in each year an amount equal to the required contributions made during the year before the preceding year by or on behalf of those members for whom the Minister is required to make employer contributions.

Idem, active members on LTIP

(2) In addition to the amount required under subsection (1), the Minister shall contribute in each year, in respect of the year before the preceding year, 4 per cent of the pensionable salaries of active members on LTIP who become disabled before the 1st day of January, 1991. (Last amended June 3, 2009 – Effective January 1, 2010)

Idem

(2a) In addition to the amounts required under subsections (1) and (2), the Minister shall contribute in each year, in respect of the year before the preceding year:

(a) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP who became disabled after the 31st day of August, 2001, but for the waiver in subsection 21(1); and

(b) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP to increase the member's pensionable salary under section 15, if contributions were required on such increase in pensionable salary. (Last amended June 3, 2009 – Effective January 1, 2010)

Additional contributions

(2b) In respect of the year 2008, the Minister shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of active members in respect of whom required contributions were made during that year in accordance with section 19 and for whom the Minister is required to make employer contributions. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(2c) In respect of the year 2008, the Minister shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of members who purchase credit under the pension plan in respect of that year and for whom the Minister is required to make employer contributions. (Last amended December 21, 2007 – Effective January 1, 2007)

Idem

(2d) In addition to the amounts required under this section, the Minister shall contribute in each year a proportional amount of the difference, as calculated by the administrator, between the inflation adjustments that were included in pensions, commuted values and lump sum payments (other than reciprocal transfers) that were paid in the year before the preceding year and the inflation adjustments that would have been included in such benefits but for the combined application of subsections 80(3a) and (3b). The Minister's proportional amount shall be based on the pensionable salaries of active members for whom the Minister is required to make employer contributions, in respect of the year before the preceding year, as a percentage of the pensionable salaries of all active members for that year. (Last amended September 17, 2013 - Effective January 1, 2014)

Idem

(2e) For greater certainty, if inflation adjustments have ever been made in accordance with subsection 80(3d), the Minister's contributions pursuant to subsection 25(2d) shall be determined as if inflation adjustments had never been made in accordance with subsection 80(3d). (Last amended September 17, 2013 - Effective January 1, 2014)

Due date

(3) The Minister's contribution is due on the first business day following the 1st day of January in each year and not as required under the *Pension Benefits Act*. (Last amended June 28, 1990 - Effective June 28, 1990)

Interest payable

(4) Interest on the Minister's contribution is payable for the period beginning on the 1st day of June of the year that was two years before the date on which a payment is due and ending on the day before the payment is made, calculated at the standard interest rate in effect on that 1st day of June.

(4a) Despite subsections (3) and (4), $500,000,000 of the Minister's contribution due on January 4, 1993 shall be made on April 1, 1993 with interest at the rate of 11.25% per annum applied from January 4, 1993 to March 31, 1993. (Last amended May 29, 1992 - Effective May 29, 1992)

Idem, transitional

(5) Interest payable in respect of a period before the 1st day of January, 1990 shall be calculated,

(a) up to that date, in accordance with the *Teachers' Superannuation Act, 1983;*

(b) on and after that date, at the standard interest rate in effect on the 1st day of January, 1990.

Delivery

(6) The Minister shall deliver contributions to the administrator or deposit them to the account of the pension fund.

Order of Lieutenant Governor in Council

(7) To reduce the time between the date of payment mentioned in subsection (3) and the payment of contributions by or on behalf of those members for whom the Minister is required to make employer contributions, the Lieutenant Governor in Council may, despite subsections (1) and (4), by order require the Minister to make payments for such number of months in the preceding year as are specified in the order in respect of contributions in those months by or on behalf of those members for whom the Minister is required to make employer contributions.

Idem

(8) An order made under subsection (7) shall revise the period of time mentioned in subsection (1) in respect of which contributions by the Minister are computed so that it reflects the additional contributions required to be made by the Minister.

Idem

(9) An order under subsection (7) shall adjust the date from which interest is to be calculated under subsection (4) to reflect the reduced time between the last month in which contributions are made by or on behalf of those members for whom the Minister is required to make employer contributions and the month when the Minister pays an amount equal to those contributions.

Contributions by employers

26. (1) An employer shall contribute in each month an amount equal to the required contributions made during the month by or on behalf of those members for whom the employer is required to make employer contributions.

Idem, active members on LTIP

(1a) In addition to the amount required under subsection (1), an employer shall contribute:

(a) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP who became disabled after the 31st day of August, 2001, but for the waiver in subsection 21(1); and

(b) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP to increase the member's pensionable salary under section 15, if contributions were required on such increase in pensionable salary. (Last amended April 2, 2001 – Effective September 1, 2001)

Additional contributions

(1b) In respect of the year 2008, an employer shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of active members in respect of whom required contributions are made during that year in accordance with section 19 and for whom the employer is required to make employer contributions. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(1c) In respect of the year 2008, an employer shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of members who purchase credit under the pension plan in respect of that year and for whom the employer is required to make employer contributions. (Last amended December 21, 2007 – Effective January 1, 2007)

Idem

(1d) In addition to the amounts required under this section, an employer shall contribute in each year a proportional amount of the difference, as calculated by the administrator, between the inflation adjustments that were included in pensions, commuted values and lump sum payments (other than reciprocal transfers) that were paid in the year before the preceding year and the inflation adjustments that would have been included in such benefits but for the combined application of subsections 80(3a) and (3b). The employer's proportional amount shall be based on the pensionable salaries of active members for whom the employer was required to make employer contributions, in respect of the year before the preceding year, as a percentage of the pensionable salaries of all active members for that year. (Last amended September 17, 2013 – Effective January 1, 2014)

Idem

(1e) For greater certainty, if inflation adjustments have ever been made in accordance with subsection 80(3d), an employer's contributions pursuant to subsection 26(1d) shall be determined as if inflation adjustments had never been made in accordance with subsection 80(3d). (Last amended September 17, 2013 - Effective January 1, 2014)

Due date

(2) An employer's contribution is due on the last day of the month.

Idem

(2a) Notwithstanding subsection (2), an employer's contribution under subsection (1d) is due on the first business day following the 1st day of January in each year. (Last amended June 3, 2009 – Effective January 1, 2010)

Interest payable

(3) Interest on an employer's contribution is payable from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended September 8, 2006 - Effective January 1, 2003)

Idem

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended September 8, 2006 – Effective January 1, 2003)

Idem

(3b) Notwithstanding subsection (3), interest on an employer's contribution under subsection (1d) is payable from June 1st of the year before the preceding year to the day before the payment is made, calculated at the standard interest rate in effect on that June 1st. (Last amended June 3, 2009 - Effective January 1, 2010)

Delivery

(4) An employer shall deliver contributions to the administrator or deposit them to the account of the pension fund.

C. Refund of Overpayments

Refund error

27. The administrator shall refund contributions or other payments made in error or not permitted under the pension plan, together with interest, if the administrator received the contributions or other payments.

Overpayment of contributions

28. (1) This section applies to an active member who,

(a) (i) works more than a full-time school year during the school year, or

(ii) was employed on an occasional basis in addition to an absence purchased on a contributions plus interest basis in accordance with section 94; and (Last amended April 2, 2001 – Effective September 1, 2001)

(b) has made contributions greater than those required under s. 19 of a member working a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Idem

(2) An active member described in subsection (1) is entitled to a refund of contributions calculated in accordance with subsection (4). (Last amended June 28, 1990 - Effective June 28, 1990)

Refund to employer

(3) Despite section 78 of the *Pension Benefits Act*, a person who has made employer contributions in respect of a member described in subsection (1) is entitled to a refund of employer contributions equal to the amount of the refund to which the member is entitled. (Last amended June 28, 1990 - Effective June 28, 1990)

Amount of refund

(4) The refund of contributions is calculated using the formula,

$$\mathbf{(A + B + C \ldots) \times N}$$

in which, "A", "B", "C" … is the series in which each variable is the amount of salary paid to the member at each different rate of salary earned by the member during the school year and/or the amount of salary attributable to the credit purchase in accordance with section 94, beginning with the lowest rate of salary and ending with the highest provided that the number of days for which salary is accumulated by the addition of variables does not exceed the number of days in excess of a full-time school year for which the member makes contributions, and

"N" is the per cent referred to in clause 19 (1) (b), plus any additional per cent of salary that was paid by the member in accordance with section 19 in respect of the salary being refunded, expressed as a decimal fraction. (Last amended December 21, 2006 – Effective January 1, 2007)

(4a) For the purposes of subsection (4), credit purchased on an actuarial cost basis, or transferred into the plan in accordance with section 104, will be deemed to be the highest rate of salary. (Last amended December 20, 1999 - Effective September 1, 1998)

Interest payable

(5) Interest is payable on a refund of contributions from the last day of the school year until the day before it is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Lump sum

(6) A refund of contributions shall be paid as a lump sum. (Last amended June 28, 1990 - Effective June 28, 1990)

Refund, re-employed pensioners

29. Despite subsection 63 (4) of the *Pension Benefits Act*, a person described in subsection 46 (3) of the *Teachers' Superannuation Act, 1983* who became re-employed in education for less than twenty days between the 1st day of September, 1986 and the 31st day of August, 1989 is entitled to the refund described in that section.

PART IV
PAYMENTS UPON TERMINATION OF MEMBERSHIP

A. Vesting

Vesting of benefits

30. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Payment of deferred pension

(3) A member who terminates membership in the pension plan on or after July 1, 2012 is entitled to a deferred pension calculated and paid in accordance with Part V. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of benefits upon death of member

(3a) Benefits payable in respect of a member who terminates membership in the pension plan as a result of the member's death on or after July 1, 2012, and before the commencement of payment of the deferred pension to which the member was entitled on the date of death, shall be calculated and paid in accordance with Part VII. (Last amended December 13, 2012 – Effective July 1, 2012)

Limit

(4) No person is entitled to more than one deferred pension in respect of the same period of employment.

Entitlement on termination of membership

31. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Limitation

(3) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem, transitional

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Rights of former members

32. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

B. Refunds and Transfers

Refund re post-1986 contributions

33. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund re pre-1987 contributions

34. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund at or after sixty-five years of age

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund re pre-1987 deferred pension

35. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Before reaching forty-five years of age

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

On or after forty-five years of age

(3) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Reduction in deferred pension

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

50 per cent rule

36. (1) A member entitled to a deferred pension relating to employment after the 31st day of December, 1986 is entitled to a refund, paid in a lump sum, upon ceasing to be employed in education, of the amount by which the member's required contributions plus interest for the period after that date exceeds one half of the commuted value of the deferred pension for that period. (Last amended June 19, 2012 – Effective July 1, 2012)

Exclusion

(2) Subsection (1) does not apply with respect to a member's contributions and credited service for which no corresponding employer contribution is required under section 25 or 26. (Last amended June 1, 1995 - Effective June 1, 1995)

(3) A member who receives a refund under subsection (1), who elects to receive a deferred pension and who subsequently becomes re-employed in education or completes a purchase of credited service, must repay the refund together with interest thereon before the pension commences. (Last amended September 8, 2006 - Effective September 1, 2001)

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(5) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(6) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(7) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (3) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2002)

Transfer re deferred pension

37. (1) A member entitled to a deferred pension who ceases to be employed in education is entitled to a transfer of the commuted value of the deferred pension, paid in a lump sum, to another retirement savings arrangement in accordance with section 42 of the *Pension Benefits Act* and to a refund or transfer of excess contributions, calculated under section 36, subject to the limitations of the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

(2) A member who is entitled to an immediate payment of a pension benefit is not entitled to a refund or transfer under this section. (Last amended September 8, 2006 – Effective June 1, 1995)

(3) A member who is entitled to a transfer under this section shall deliver a completed termination options application, including all supporting documentation, to the administrator within six months of the member’s termination of membership in the plan. (Last amended September 8, 2006 – Effective January 1, 1995)

(4) A termination options application completed after the deadline specified in subsection (3) shall be considered a new notification of intention to terminate membership in the plan and the member's entitlement to a transfer under this section shall be determined as of the new termination of membership date. (Last amended September 8, 2006 – Effective January 1, 1995)

Application for refund, etc.

38. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of refund

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

PART V
RETIREMENT PENSIONS

A. Entitlement to Pension

One pension only

39. (1) No member is entitled to more than one retirement pension under the pension plan in respect of the same period of credited service.

Idem

(2) A member receiving a disability pension under the pension plan is not eligible to receive a retirement pension.

Retirement

(3) No member is entitled to begin to receive a retirement pension or a disability pension while the member is employed in education until the end of the calendar year in which the member attains seventy-one years of age, or until such other time as is required under the *Income Tax Act* (Canada). (Last amended June 20, 2012 – Effective January 1, 2012)

Normal retirement date

40. The normal retirement date of a member is the first day of the month following the date on which the member reaches sixty-five years of age.

Entitlement to pension (2 year rule)

41. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension (2 year rule)

(3) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(3a) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment, pre-1987 service

(4) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation on pensions less than $2,400

(5) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (10 year rule), transitional

42. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension (10 year rule)

(3) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(3a) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (immediate vesting)

42a. (1) A member who terminates membership in the pension plan on or after July 1, 2012 is entitled to receive a retirement pension for the member's lifetime calculated under subsection (3). (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) A retirement pension under this section begins as of the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension

(3) Subject to subsection (4), the amount of the retirement pension, before adjustment for inflation, is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction). (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of pensions, predecessor Acts

(4) The retirement pension of a member who ceased to be employed in education prior to January 1, 1990 shall be calculated, with necessary modifications, in accordance with the terms of the *Teachers' Superannuation Act, 1983*, or a predecessor Act, and shall be paid out of the pension fund in accordance with the Act under which the member ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(5) If the amount of the retirement pension calculated under subsection (3) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation on pensions less than $2,400

(6) Subject to section 84, where the annual amount of the retirement pension calculated under subsection (3) or (4) is less than $2,400 the member is entitled to a pension in that lesser amount and not to a pension in the amount of $2,400 as provided for by Order in Council 1453/74. (Last amended June 19, 2012 – Effective July 1, 2012)

Exception

(7) Subsection (6) shall not apply to a member who has at least ten years of credited service in whole or in part before the 1st day of January, 1987 on the date he or she ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation

(8) For greater certainty, subsection 76 (2) of the *Teachers' Superannuation Act, 1983* shall not apply to the retirement pension of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (special early retirement)

43. (1) A member who has accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals ninety years is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended October 10, 1995 - Effective September 1, 1995)

(1a) A member who ceases to be employed in education on or after June 1, 1998, and who has accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals eighty-five years is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended April 2, 2001 – Effective April 1, 2001)

Idem (35 year rule)

(2) A member who ceases to be employed in education after the 31st day of May, 1987 and before the 1st day of September, 1990 and who has thirty-five years of qualifying service is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended October 10, 1995 - Effective September 1, 1995)

(2a) A member who has accumulated thirty-five or more years of credited service is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended February 20, 1997 - Effective January 1, 1997)

Commencement

(3) A retirement pension under this section begins as of the beginning of the month following the date the member ceases to be employed in education or, at the election of the member, of any month thereafter that is not later than:

(a) the end of the calendar year in which the member attains seventy-one years of age, or

(b) such other time as is required under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Amount of pension

(4) The amount of the retirement pension, before adjustment for inflation, is calculated using the formula,

$$(A \times B) - C$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

Maximum pension payable, R.S.C. 1952, c. 148

(4a) If the amount of the retirement pension calculated under subsection (4) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended February 28, 1992 - Effective January 1, 1992)

Early retirement option

44. (1) A member entitled to a deferred pension under section 42a may elect to begin to receive a retirement pension on the first day of any month that is ten years before the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Idem

(1a) A member who ceases to be employed in education on or after June 30, 2001 and who is entitled to a deferred pension under section 42a may elect to begin to receive a retirement pension on the first day of any month that is within fifteen years of the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of early retirement pension

(2) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects early retirement under subsection (1) and who elects to begin to receive the pension on the first day of the month following the later of: the cessation of employment in education; or the last day of credited service in the plan, shall be calculated using the formula,

$$[A \times B \times (1 - C)] - D$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service,

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.025 times the difference between ninety and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(2a) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

(2b) The amount of the annual retirement pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, where the member elects early retirement under subsection (1) or (1a) and elects to begin to receive the pension on the first day of the month following the later of: the cessation of employment in education; or the last day of credited service in the plan, shall be calculated using the formula set out in subsection (2) except that:

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.025 times the difference between eighty-five and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

(3) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects early retirement under subsection (1) on a deferred pension shall be calculated using the formula,

$$[A \times B \times (1 - C)] - D$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service,

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.05 times the difference between ninety and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

(3a) The amount of the annual retirement pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, where the member elects early retirement under subsection (1) or (1a) on a deferred pension shall be calculated using the formula set out in subsection (3) except that:

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.05 times the difference between eighty-five and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

Maximum pension payable, R.S.C. 1952, c. 148

(4) If the amount of the retirement pension determined under subsection (2), (2b), (3), (3a) or (5), in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada) after taking into account the reduction (if any) on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada) it shall be reduced to an amount equal to such maximum. (Last amended May 27, 1998 - Effective June 1, 1998)

Commuted value

(5) Despite subsections (3) and (3a), the commuted value of the retirement pension received on early retirement shall be not less than the commuted value of the retirement pension to which the member would be entitled on the normal retirement date based upon the member's credited service up to the early retirement date. (Last amended May 27, 1998 - Effective June 1, 1998)

Postponed pension option

45. (1) A member may elect to begin to receive his or her retirement pension in any month after the member's normal retirement date, but not later than:

(a) the end of the calendar year in which the member attains seventy-one years of age, or

(b) such other time as is required under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Amount of late retirement pension

(2) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects late retirement as described in subsection (1) is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

(2a) If the amount of the retirement pension calculated under subsection (2) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended June 29, 1994 - Effective January 1, 1992)

Re-employed pensioner election

46. (1) Prior to commencing re-employment for the first time after commencement of pension, a pensioner may elect to become an active member for the purpose of a pension recalculation in accordance with subsection (2), in which case the pension is suspended immediately upon the re-employment. (Last amended October 23, 2008 – Effective January 1, 2009)

Recalculation of pension

(2) If a re-employed pensioner accumulates one year or more of credited service after becoming an active member, other than by means of a purchase of credited service or by the annualization of a partial year of credited service under section 11, and, if the re-employed pensioner makes an application to the administrator, the amount of the pensioner's retirement pension shall be recalculated in accordance with the terms of the pension plan in force on the date of the application.

(2a) A re-employed pensioner making application under subsection (2) shall repay any refund previously made under section 36 together with interest thereon before the pension commences. (Last amended April 15, 1998 - Effective June 1, 1995)

(2b) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2c) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2d) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2e) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (2a) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2002)

Exception

(3) A re-employed pensioner who does not accumulate one year of credited service after becoming an active member is entitled when the re-employment ceases,

(a) to the resumption of the retirement pension to which the pensioner was entitled immediately before becoming re-employed; and

(b) to the refund of the member's required contributions, together with interest thereon, made during the re-employment.

Pension suspension

(3a) Except for a pensioner whose pension is suspended immediately under subsection (1), no retirement pension is payable to a re-employed pensioner as of the month following the member's fifty-first day of re-employment in a school year. (Last amended May 6, 2010 – Effective September 1, 2012)

Pension resumption

(3b) A re-employed pensioner whose pension is suspended in accordance with subsection (3a) is entitled, when the re-employment ceases, to the resumption of the retirement pension to which the pensioner was entitled immediately before becoming re-employed. (Last amended October 23, 2008 – Effective January 1, 2009)

Notice of re-employment

(3c) A re-employed pensioner shall notify the administrator promptly upon exceeding the limits under subsection (3a). (Last amended October 23, 2008 – Effective January 1, 2009)

Reporting of re-employment

(3d) An employer shall report to the administrator any service provided to the employer by a re-employed pensioner. (Last amended May 6, 2010 – Effective September 1, 2012)

Idem

(3e) At the request of the administrator, a re-employed pensioner shall report to the administrator the number of days, if any, that the member provides services to an employer as a re-employed pensioner. If the member does not report within a reasonable time after the request, the administrator shall cease to pay the pension until the report is given. (Last amended May 6, 2010 – Effective September 1, 2012)

Repayment

(4) A re-employed pensioner who receives pension payments to which the pensioner is not entitled shall repay the amount so received, together with interest thereon, before becoming entitled to further payments under the pension plan.

"Re-employed pensioner" not applicable

(5) The term "re-employed pensioner" shall not include a member who provides services, other than as a teacher, to a ministry of the Government of Ontario other than the Ministry of Education. (Last amended May 6, 2010 – Effective September 1, 2010)

Idem

(6) The term "re-employed pensioner" shall not include a member who has been providing services, other than as a teacher, under contract to the Ministry of Education since before September 1, 2010, until the earlier of:

(a) the renewal of such contract, if applicable, or

(b) September 1, 2015.

(Last amended May 6, 2010 – Effective September 1, 2010)

B. Payment of Retirement Pensions

Application for retirement pension

47. (1) A member who wishes to begin receiving a retirement pension shall apply to the administrator.

Deemed application

(2) A member who does not apply to begin receiving a retirement pension shall be deemed to do so on November 30th of the calendar year in which the member attains seventy-one years of age, or at such other time as is required under the *Income Tax Act* (Canada). (Last amended June 20, 2012 – Effective January 1, 2012)

Payment of pension

48. (1) The administrator shall begin payment of a member's retirement pension not later than the later of,

(a) the month following the month in which the member ceases to be employed in education; or

(b) the month following the month in which application for the pension is complete.

Monthly instalments

(2) The administrator shall pay a retirement pension in monthly instalments on the last day of the month.

Interest payable

(3) The administrator shall pay interest on late payments, from the first day of the month following the month in which the member's pension begins. (Last amended June 20, 2012 – Effective January 1, 2012)

Notice of re-employment

49. (1) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Failure to give notice

(2) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Repayment of pension

(3) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

PART VI
DISABILITY PENSIONS

A. Entitlement to Disability Pension

Entitlement to disability pension

50. (1) This section applies to a member with at least ten years of qualifying service who becomes disabled while employed in education and who, as a result of the disability, ceases before the normal retirement date to be employed in education. (Last amended October 10, 1995 - Effective September 1, 1995)

Full disability pension

(2) If the administrator finds that a member described in subsection (1) is incapable of further employment, the member is entitled to a full disability pension for the member's lifetime.

Partial disability pension

(3) If the administrator finds that a member described in subsection (1) is incapable of further employment in education, the member is entitled to a partial disability pension for the member's lifetime.

Eligibility

(4) A member who has previously terminated his or her membership and who returns to membership and purchases credited service for previous employment in education is not eligible to receive a disability pension until the member accumulates two additional years of credited service.

Idem

(5) Subsection 11 (2) (partial year) does not apply for the purpose of determining a member's accumulation of the two additional years of credited service under subsection (4).

Effect of re-employment

51. (1) A member receiving a full disability pension who becomes employed ceases to be entitled to a full disability pension.

Idem

(2) A member receiving a disability pension who becomes employed in education ceases to be entitled to a disability pension. (Last amended June 1, 1995 - Effective June 1, 1995)

Reduced partial disability pension

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Application

(4) This section applies with respect to a member who is receiving a disability pension on or after the 1st day of January, 1990.

Amount of full disability pension

52. (1) The amount of the annual full disability pension, before adjustment for inflation, for a member is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service under the plan, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

Amount of partial disability pension

(2) The amount of a partial disability pension, before adjustment for inflation, for a member is calculated using the formula,

$$\mathbf{[(A \times B)\ (1 - C)] - D}$$

in which,

"A" and "B" have the same meaning as in the formula for calculating the amount of a full disability pension,

"C" is an amount equal to 0.025 times the lesser of,

(a) the number of years by which the member's age on the date the pension begins is less than 65, and

(b) ninety minus the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension begins, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 15, 1998 - Effective January 1, 1992)

(2a) The amount of a partial disability pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, is calculated using the formula set out in subsection (2), except that:

"C" is an amount equal to 0.025 times the lesser of,

(a) the number of years by which the member's age on the date the pension begins is less than sixty-five, and

(b) eighty-five minus the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension begins,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

Maximum pension payable, R.S.C. 1952, c. 148

(2b) If the amount of the full or partial disability pension determined under either subsection (1), (2), or (2a), as applicable, in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada) after taking into account the reduction (if any) on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to such maximum. (Last amended May 27, 1998 - Effective June 1, 1998)

Limitation

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of reduced partial disability pension

(4) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Resumption of disability pension

53. (1) Subject to subsection (2), if a member becomes re-employed in education and ceases to receive a disability pension under the pension plan or a predecessor Act, the member is entitled upon ceasing the re-employment to the resumption of the original disability pension without adjustment of the amount of the pension and to a refund of the member's contributions made during the period of re-employment, together with interest thereon. (Last amended June 1, 1995 - Effective June 1, 1995)

Idem

(2) A member described in subsection (1) who completes the equivalent of two years of full-time employment in education after becoming re-employed and then ceases to be so employed shall make a fresh application for a pension, and the terms of the pension plan on the date the application is made shall apply with respect to the member's entitlement to a pension.

(3) A member making application under subsection (2) shall repay any refund previously made under section 36 together with interest thereon before the pension commences. (Last amended September 8, 2006 – Effective September 1, 2006)

(4) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (3) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2006)

Change of disability status re survivor pension

54. (1) This section applies if a member receiving a partial disability pension dies while the administrator is considering whether the member is entitled to a full disability pension based upon fresh medical evidence concerning the member's disability. (Last amended February 28, 1992 - Effective January 1, 1992)

Determination by the administrator

(2) Having regard to the facts established at the date of the member's death, the administrator shall determine whether the member would have been entitled, immediately before the date of death, to a full disability pension.

Deemed receipt

(3) For the purpose of calculating the amount of a survivor pension, child's pension or beneficiary's pension, if the administrator determines that the member would have been entitled to a full disability pension, the member shall be deemed to have been receiving it on the date of death.

(4) Despite subsection 3, where the benefit otherwise payable to a survivor exceeds the maximum payable under the regulations of the *Income Tax Act* (Canada), the amount in excess shall not be paid. (Last amended June 29, 1994 - Effective January 1, 1992)

B. Payment of Disability Pension

Application for disability pension

55. (1) A member shall apply for a disability pension within two years after the date when the member ceases, as a result of the disability, to be employed in education.

Idem

(2) The administrator shall accept an application for a disability pension that is made after the time described in subsection (1) if the administrator is satisfied,

(a) that the delay in making the application resulted from a delay in diagnosing the disability; or

(b) that the member was unable, because of the effects of the disability, to make the application within the time described in subsection (1).

Proof of disability

(3) No application for a disability pension shall be considered by the administrator until the administrator has received,

(a) the certificate of a medical doctor licensed in Ontario designated by the administrator, certifying that the applicant became mentally or physically disabled while employed in education and indicating the nature and degree of the disability; and

(b) a report of the medical referee of the administrator containing such recommendations as the medical referee considers proper with regard to the granting of a disability pension to the applicant. (Last amended April 15, 1998 - Effective January 1, 1992)

Disability pension, predecessor Acts

56. (1) This section applies with respect to a person who ceased to be employed in education before the 1st day of January, 1990 as a result of a mental or physical incapacity and who did not apply for a disability allowance under a predecessor of this Act.

Application

(2) Section 55 applies with necessary modifications to an application by a person described in subsection (1).

Entitlement

(3) The person is entitled to a disability allowance determined in accordance with the *Teachers' Superannuation Act, 1983.*

Idem

(4) Clause 17 (1) (d) or 18 (1) (d) of the *Teachers' Superannuation Act, 1983* does not apply if the administrator accepts an application under subsection 55 (2).

Commencement of disability pension

57. (1) Subject to subsection (2), a member's disability pension shall begin as of the first day of the month following the month in which the member ceases to be employed in education.

Idem

(2) No disability pension shall begin as of a date earlier than one year before the date the administrator receives the completed application for the pension.

Reduced partial disability pension

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Monthly instalments

(4) The administrator shall pay a disability pension in monthly instalments.

Due date

(5) Disability pension payments are due on the last day of the month.

Interest payable

(6) Interest shall be paid on overdue pension payments if the administrator does not begin paying a pension by the end of the month in which the member becomes entitled to receive it.

Interest payable

(7) Interest on each overdue monthly pension payment, calculated at the standard rate, shall be paid from the date the payment was due to the day before it was made. (Last amended February 28, 1992 - Effective January 1, 1992)

Evidence of medical condition

58. (1) The administrator may at any time require a member who is receiving a disability pension to furnish evidence, in such form as the administrator directs, of the member's mental or physical condition.

Failure to furnish evidence

(2) If the member fails to furnish evidence within a reasonable time that his or her condition continues to be of a nature that entitles the member to receive the disability pension, the administrator shall terminate payment of the pension.

Review by administrator

(3) If the administrator terminates payment of a full disability pension, the member may request the administrator to review the decision to terminate payment.

Idem

(4) If the administrator is satisfied upon reviewing a decision to terminate payment that the member is entitled to a disability pension under section 50 or 51, the administrator shall pay the disability pension.

Application

(5) This section does not apply with respect to a member who has reached normal retirement age.

Notice of re-employment

59. (1) A member receiving a disability pension shall notify the administrator in writing promptly upon becoming employed or changing employment.

Failure to give notice

(2) A member who fails to comply with subsection (1) is not entitled to receive a disability pension payment during a period when notice should have been given under that subsection.

Repayment of pension

(3) A member who receives pension payments to which the member is not entitled shall repay the amount so received, together with interest thereon, before becoming entitled to further payments under the pension plan.

PART VII
BENEFITS UPON DEATH

A. Upon the Death of a Member not Entitled to a Pension

Refund of contributions

60. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of post-1986 contributions

60a. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Application

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of pre-1987 contributions

60b. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Application

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

B. Upon the Death of a Member Entitled to a Deferred Pension

Pre-retirement (spousal) death benefit

61. (1) If a member who is entitled to a deferred pension dies before commencement of payment of the deferred pension, the person who is the spouse of the member on the date of death is entitled to receive,

(a) the benefit described in section 62, in respect of the member's employment, if any, before the 1st day of January, 1987; and

(b) the benefit described in section 63, in respect of the member's employment, if any, on or after the 1st day of January, 1987.

(Last amended May 5, 2010 – Effective June 1, 1995)

Application

(2) Subsection (1) does not apply if the member and the spouse are living separate and apart on the date of death of the member.

Further application

(3) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(4) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(5) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(6) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Pre-1987 (spousal) death benefit

62. (1) This section applies with respect to that portion of the death benefit that relates to a member's employment before the 1st day of January, 1987.

Survivor pension

(2) The spouse of a member with ten years or more qualifying service is entitled to the survivor pension described in subsection (3) for the lifetime of the spouse. (Last amended October 10, 1995 - Effective September 1, 1995)

Pre-1987 survivor pension

(3) The amount of the survivor pension, before adjustment for inflation, shall be based upon the member's credited service for employment before the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(a) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on the date of death; or

(b) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

Commutation of pension

(3a) If the spouse of a member elects to receive payment of the benefit described under clause 63 (4) (a), then the spouse of the member shall receive a lump sum payment equal to the commuted value of the survivor pension calculated in accordance with subsection (3), and not the survivor pension calculated in accordance with subsection (3). (Last amended December 13, 2012 - Effective July 1, 2012)

Refund of contributions (10 year rule)

(3b) If the commuted value of the survivor pension calculated in accordance with subsection (3) is less than the amount of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon, then the spouse of the member is entitled to a refund, paid in a lump sum, of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon, and not to the benefit described in either subsection (3) or (3a). (Last amended December 13, 2012 - Effective July 1, 2012)

Refund of contributions

(4) The spouse of a member who dies with less than ten years of qualifying service is entitled to a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon. (Last amended June 19, 2012 - Effective July 1, 2012)

Post-1986 (spousal) death benefit

63. (1) This section applies with respect to that portion of the death benefit that relates to a member's employment on or after the 1st day of January, 1987.

Benefit

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of contributions

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 1995)

Idem

(4) The spouse of a member is entitled to receive,

(a) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987; or

(b) a survivor pension for the lifetime of the spouse, the commuted value of which is at least equal to the commuted value of a pension for credited service for the member's employment on or after the 1st day of January, 1987, calculated as if the member had become entitled to a retirement pension on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Election

(5) The spouse may elect the form of benefit to be paid under subsection (4) and a spouse who does not do so within twelve months after the death of the member shall be deemed to have elected to receive a survivor pension. (Last amended May 5, 2010 – Effective January 1, 2008)

Deemed election

(5a) The spouse of a member who dies within twelve months after the death of the member without electing the form of benefit to be paid under subsection (4) shall be deemed to have elected to receive payment of the benefit described under clause (4) (a). (Last amended December 13, 2012 - Effective July 1, 2012)

Survivor pension

(6) A spouse who elects to receive a survivor pension may elect to begin to receive the pension at any time up to the end of the calendar year in which the spouse attains seventy-one years of age, or up to such other time as is required under the *Income Tax Act* (Canada), provided that the pension shall not begin before the month following the month in which the administrator has received all supporting documentation required to pay the pension. (Last amended June 20, 2012 – Effective January 1, 2012)

Pre-retirement child's pension

64. (1) This section applies with respect to the dependent children of a member entitled to a deferred pension who died before commencement of payment of the deferred pension and,

(a) who had a spouse who became entitled to a survivor pension who subsequently died; or

(b) who did not have a spouse entitled to a survivor pension.

(Last amended May 5, 2010 – Effective June 1, 1995)

Entitlement to child's pension

(2) Subject to subsections (3), (3a) and (3b), each dependent child of a member is entitled upon the death of the spouse or the member, as the case may be, to receive a child's pension calculated under subsections (4a) and (4b) while the child remains a dependent child. (Last amended December 13, 2012 - Effective July 1, 2012)

Exception re: post-1986 spousal death benefit

(3) No child's pension is payable in respect of the credited service of a deceased member for which the spouse of the member received the lump sum payment described in clause 63 (4) (a).

Exception re: post-1986 benefit to spouse's estate

(3a) No child's pension is payable in respect of the credited service of a deceased member for which the spouse's estate is entitled to payment of the benefit described under clause 63 (4) (a). (Last amended December 13, 2012 - Effective July 1, 2012)

Exception re: pre-1987 spousal death benefit

(3b) No child's pension is payable in respect of the credited service of a deceased member for which the spouse of the member is entitled to payment of the benefit described under either subsection 62 (3), 62 (3a) or 62 (3b). (Last amended December 13, 2012 - Effective July 1, 2012)

Amount of child's pension

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Pre-1987 (child) death benefit

(4a) (a) This subsection applies with respect to that portion of the death benefit that relates to a member's employment before the 1st day of January, 1987. (Last amended June 19, 2012 - Effective July 1, 2012)

Survivor pension

(b) The dependent child of a member with ten years or more qualifying service is entitled to the child's pension described in subsection (4a) (c) while the child remains a dependent child. (Last amended June 19, 2012 – Effective July 1, 2012)

Pre-1987 child's pension

(c) The amount of the child's pension, before adjustment for inflation, shall be based upon the member's credited service for employment before the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(i) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(ii) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Post-1986 (child) death benefit

(4b) (a) This subsection applies with respect to that portion of the death benefit that relates to a member's employment on or after the 1st day of January, 1987. (Last amended June 19, 2012 - Effective July 1, 2012)

Benefit

(b) The amount of the child's pension, before adjustment for inflation, shall be based upon the member's credited service for employment on or after the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(i) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(ii) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(5) The child's pension shall be shared equally among the member's dependent children.

Share accrues to others

(6) The share of the child's pension of each of the children who ceases to be a dependent child accrues to the remaining dependent children, if any.

Benefit to beneficiary

65. (1) A beneficiary designated by a member entitled to a deferred pension is entitled to the benefit described in subsection (2),

(a) if the member dies before commencement of payment of the deferred pension; and

(b) if, on the date of death, the member does not have a spouse entitled to a benefit payable on his or her death.

(Last amended December 13, 2012 - Effective July 1, 2012)

Amount of benefit

(2) Subject to subsection (3), a beneficiary designated by a member is entitled to receive,

(a) a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon; and

(b) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987.

(Last amended December 13, 2012 - Effective July 1, 2012)

Residual entitlement

(3) If a person is entitled to a child's pension under section 64 on the death of the member, the beneficiary is entitled to a refund of the amount by which the amount calculated under clause (2) (a) exceeds the commuted value of the amount payable under subsection 64 (4a), together with interest thereon, and a refund of the amount by which the amount calculated under clause (2) (b) exceeds the commuted value of the amount payable under subsection 64 (4b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

Benefit to member's estate

66. (1) The estate of a member entitled to a deferred pension who dies before commencement of payment of the deferred pension is entitled to the payments described in this section. (Last amended May 5, 2010 – Effective June 1, 1995)

Idem, no others entitled

(2) Subject to subsection (3), if no spouse or designated beneficiary is entitled to a benefit on the death of the member, the estate is entitled to,

(a) a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon; and

(b) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987.

(Last amended December 13, 2012 - Effective July 1, 2012)

Residual entitlement

(3) If a person is entitled to a child's pension under section 64 on the death of the member, the estate is entitled to a refund of the amount by which the amount calculated under clause (2) (a) exceeds the commuted value of the amount payable under subsection 64 (4a), together with interest thereon, and a refund of the amount by which the amount calculated under clause (2) (b) exceeds the commuted value of the amount payable under subsection 64 (4b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(4) Revoked. (Last amended December 13, 2012 - Effective July 1, 2012)

(5) Revoked. (Last amended December 13, 2012 - Effective July 1, 2012)

Benefit to spouse's estate

66a. (1) Where the member had a spouse who elected to receive the benefit described under clause 63 (4) (b), and who subsequently dies after the payments described under clause 63 (4) (b) have commenced, the spouse's estate is entitled to a refund of the amount by which the member's contributions made in respect of credited service on or after January 1, 1987, together with interest thereon, minus any payments made under section 36, together with interest thereon, and minus the commuted value of the amount payable under subsection 64 (4b), together with interest thereon, exceed the amount paid to the spouse under clause 63 (4) (b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(2) Where the member had a spouse who elected to receive the benefit described under clause 63 (4) (b), and who subsequently dies before the payments described under clause 63 (4) (b) have commenced, the spouse's estate is entitled to the amount determined under clause 63 (4) (a), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(3) Where the member had a spouse who died after becoming entitled to a survivor pension under subsection 62 (3), the spouse's estate is entitled to a refund of the amount by which the member's contributions for employment before the 1st day of January, 1987, together with interest thereon, exceed the amount paid to the spouse under subsection 62 (3), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

Payment of benefits, predecessor Acts

66b. (1) Benefits paid upon the death of a member who ceased to be employed in education prior to January 1, 1990 and who is entitled to a deferred pension on the date of death shall be calculated, with necessary modifications, in accordance with the terms of the *Teachers' Superannuation Act, 1983*, or a predecessor Act, and shall be paid out of the pension fund in accordance with the Act under which the member ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

Limitation on survivor pensions less than $1,200

(2) Subject to section 84, where the annual amount of the survivor pension calculated under sections 62 and 63 is less than $1,200 the spouse of a member is entitled to a pension in that lesser amount and not to a pension in the amount of $1,200 as provided for by Order in Council 1453/74. (Last amended December 13, 2012 - Effective July 1, 2012)

Exception

(3) Subsection (2) shall not apply to the spouse of a member who has at least ten years of credited service in whole or in part before the 1st day of January, 1987 on the date he or she ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

Limitation

(4) For greater certainty, subsection 76 (2) of the *Teachers' Superannuation Act, 1983* shall not apply to any survivor pension payable in respect of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

C. Upon the Death of a Pensioner

Survivor pension, spouse

67. (1) If a member dies on or after commencement of payment of a pension, the person who was the spouse on the date that the payment of the first instalment of the pension was due is entitled to the survivor pension described in subsection (3) for the spouse's lifetime. (Last amended May 5, 2010 – Effective June 1, 1995)

Application

(2) Subsection (1) does not apply if the member and the spouse were living separate and apart on the date that the payment of the first instalment of the member's pension was due. (Last amended May 5, 2010 – Effective June 1, 1995)

Amount of survivor pension

(3) Subject to sections 68, 69, and 84a, the amount of the annual survivor pension, before adjustment for inflation, payable to the surviving spouse shall be not less than 50 per cent of the pension, before adjustment for inflation,

(a) that was being paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(b) that would have been paid to the member as of the first day of the month next following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 20, 2012 – Effective March 3, 2000)

Exception for low pensions

(4) Despite subsection (3) the survivor of a person who died while receiving an annual pension that had been adjusted under Order in Council 1453/74, is entitled to a pension that is 50 per cent of the pension being paid to the person at the date of death, or such greater percentage as the deceased person had elected prior to death. (Last amended October 23, 1991 - Effective October 23, 1991)

Spousal election re survivor pension

68. (1) In the absence of a joint waiver by a member and the member's spouse of the spouse's entitlement under subsection 44 (3) of the *Pension Benefits Act* (amount of survivor benefit), the amount of the survivor pension payable on the death of the member shall be 60 per cent of the amount of the member's pension that would be payable if the amount of the pension were calculated without regard to this section. (Last amended October 23, 1991 - Effective October 23, 1991)

Waiver void

(2) A waiver referred to in subsection (1) is void if it is dated, signed, or delivered to the administrator more than twelve months before the commencement of payment of the member’s pension or after the commencement of payment of the member’s pension. (Last amended August 4, 2011 – Effective May 18, 2010)

Adjustment of member's pension

(3) In the absence of a waiver referred to in subsection (1), the amount of the pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the increased survivor pension in accordance with subsection (1). (Last amended October 10, 1995 - Effective January 1, 1992)

(3a) Prior to calculating the payment described in subsection (1), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Application

(4) This section does not apply with respect to a member who, before the 1st day of January, 1988, began to receive a pension under a predecessor Act.

Idem

(5) This section does not apply with respect to a member who dies before commencement of payment of the member’s pension. (Last amended May 5, 2010 – Effective June 1, 1995)

Increase of survivor pension

69. (1) A member may direct the administrator to increase the amount of a survivor pension that may become payable under section 67 in respect of the member to an amount equal to 55, 65, 70 or 75 per cent of the member's pension that would be payable if the amount of the pension were calculated without regard to this section.

Time limit

(2) A direction must be given in writing and must be delivered to the administrator at least two years before the earlier of,

(a) the member's normal retirement date; or

(b) the beginning of the month in which the member's pension begins.

Idem

(3) The administrator shall act on a direction delivered after the deadline specified in subsection (2) and before the member applies for a retirement pension if the administrator is satisfied that the member is in good health having regard to the member's age.

Adjustment of member's pension

(4) The amount of the pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the increased survivor pension in accordance with the direction. (Last amended October 10, 1995 - Effective January 1, 1992)

(4a) Prior to calculating the payment described in subsection (1), the pension the member was receiving shall be reduced immediately upon the member's death to reflect any reduction described in section 81 that was not applicable immediately prior to the member's death. (Last amended June 20, 2012 – Effective January 1, 1990)

Commuted value

(5) The commuted value of pension paid to the member including the commuted value of the increased survivor benefit shall not be less than the commuted value of the pension, including survivor benefit, that would otherwise be payable.

Revocation of direction

(6) A member may revoke a direction given under this section by a written revocation delivered to the administrator before the member begins receiving a pension.

Direction void

(7) A direction given under this section by a member is void if the member dies before beginning to receive a pension.

Restriction

(8) A person whose pension would be reduced from an amount greater than $2,400 to an amount less than $2,400 upon making an election under this section is not entitled to an increase in his or her pension under Order in Council 1453/74. (Last amended October 23, 1991 - Effective October 23, 1991)

Survivor pension, new spouse

70. (1) In this section and section 84a, "new spouse", in relation to a member, means a person who becomes the spouse of the member after the commencement of payment of the member's retirement or disability pension. (Last amended June 20, 2012 – Effective March 3, 2000)

Idem

(2) A member who does not have a spouse eligible to receive a survivor pension under section 67 may, after the commencement of payment of the member's retirement or disability pension, direct the administrator to provide a survivor pension to a new spouse. (Last amended May 5, 2010 – Effective June 1, 1995)

Time limit

(3) A direction must be given in writing and must be delivered to the administrator on or before the later of,

(a) ninety days after the date on which the member becomes the spouse of the new spouse; or

(b) if immediately before the member becomes the spouse of the new spouse there is a child who would be entitled upon the death of the member to receive a child's pension under section 73, ninety days after the date on which the child ceases to be eligible to receive the child's pension.

Idem

(4) The administrator shall act on a direction delivered after the deadline specified in subsection (3) if the administrator is satisfied that the member is in good health having regard to the member's age.

(4a) A direction given under this section is not effective until six months following the date of delivery of the direction to the administrator. (Last amended June 1, 1995 - Effective June 1, 1995)

(4b) A direction made under this section is null and void if the death of the member occurs before the effective date of the direction. (Last amended June 1, 1995 - Effective June 1, 1995)

(4c) A member may revoke a direction given under this section by a written revocation delivered to the administrator before the direction becomes effective in accordance with subsection (4a). (Last amended September 8, 2006 – Effective June 1, 1995)

Amount of survivor pension

(5) Subject to section 84a, a member described in subsection (2) shall direct the administrator to pay a survivor pension in the amount of 50, 55, 60, 65, 70 or 75 per cent of the pension that would otherwise be payable on the first day of the month next following the month in which the member becomes the spouse of the new spouse. (Last amended June 20, 2012 – Effective March 3, 2000)

Adjustment of member's pension

(6) The amount of a retirement or disability pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the survivor pension in accordance with the direction. (Last amended October 10, 1995 - Effective January 1, 1992)

Idem

(7) The actuarial reduction required by subsection (6) shall be based upon the ages of the member and of the spouse on the last day of the month in which the direction is delivered to the administrator.

(7a) Prior to calculating the payment described in subsection (5), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Payment of survivor pension

(8) The administrator shall pay the survivor pension in accordance with the direction but not while there is a person who is eligible to receive a child's pension in respect of the member.

Eligibility

70a. (1) This section applies to a member or former member who, as of April 23, 1998, was:

(a) receiving a pension in respect of which there was no person eligible, as of April 22, 1998, to receive a survivor pension, and

(b) living with a person who would have qualified under the relevant provisions of the pension plan as the member's same-sex partner for purposes of eligibility for a survivor pension, other than a survivor pension provided by sections 70, 71, 72, or any predecessor thereof, if the definition of "same-sex partner" as set out in the pension plan had been in effect prior to April 23, 1998. (Last amended July 10, 2000 – Effective April 23, 1998)

Direction

(2) Subject to subsections (3) and (4), a member described in subsection (1) may direct the administrator to pay a survivor pension to the person described in subsection (1) for the person's lifetime commencing the month following the member's date of death. (Last amended July 10, 2000 – Effective April 23, 1998)

Idem

(3) Where the member dies prior to providing the direction referred to in subsection (2), such direction may be provided by the person described in subsection (1). (Last amended July 10, 2000 – Effective April 23, 1998)

Deadline

(4) The direction provided in accordance with subsection (2) or (3) shall be provided to the administrator. (Last amended September 8, 2006 - Effective April 23, 1998)

Entitlement

(5) Subject to subsection (6), the amount of the annual survivor pension, before adjustment for inflation, payable under this section shall be 50 per cent of the pension, before adjustment for inflation,

(a) that was being paid to the member at the date of death, if the member was at least sixty-five years of age on that date, or

(b) that would have been paid to the member as of the first day of the month next following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death. (Last amended July 10, 2000 - Effective April 23, 1998)

Offset

(6) The survivor pension described in subsection (5) shall be actuarially reduced by any amounts paid to any person, including the member's estate, as a result of the member's death. (Last amended July 10, 2000 - Effective April 23, 1998)

(7) No survivor pension is payable under this section if the person described in subsection (1) dies prior to providing the direction in accordance with subsections (3) and (4). (Last amended July 19, 2007 – Effective April 23, 1998)

(8) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007).

Survivor pension, predecessor Acts

71. (1) This section applies with respect to a member who, before the 1st day of September, 1984, ceased to be employed in education within the meaning of a predecessor of this Act and who became the spouse of a person after ceasing that employment.

Direction re survivor pension

(2) A member described in subsection (1) may direct the administrator to provide a survivor benefit for the member's spouse and section 70 applies with respect to the direction with necessary modifications.

Time limit

(3) A direction under this section shall be delivered to the administrator on or before the latest of,

(a) the 31st day of March, 1990;

(b) ninety days after the date on which the member becomes a spouse; or

(c) if on the 1st day of January, 1990 there is a child who would be entitled upon the death of the member to receive a survivor allowance under a predecessor of this Act, ninety days after the date on which the child ceases to be eligible to receive the survivor allowance.

Idem

(4) The administrator shall act on a direction delivered after the deadline specified in subsection (3) if the administrator is satisfied that the member is in good health having regard to the member's age.

Deemed direction

(5) A member described in subsection (1) who dies on or before the 31st day of March, 1990 without having given a direction under this section shall be deemed to have given it on that date and shall be deemed to have directed the administrator to pay a 50 per cent survivor pension.

Survivor pension (prior inquiry)

72. (1) This section applies with respect to a person who became the spouse of a member described in subsection 71 (1) after the member ceased to be employed in education within the meaning of a predecessor of this Act.

Idem

(2) This section does not apply unless the member has ceased to be a member before the 1st day of January, 1990 because he or she has died.

Survivor pension

(3) A spouse described in subsection (1) is entitled to a survivor pension calculated from the date of a written inquiry respecting a survivor pension,

(a) made to the Teachers' Superannuation Commission before the 1st day of January, 1990; or

(b) made to the administrator on or after the 1st day of January, 1990.

Amount of pension

(4) The amount of the survivor pension is 50 per cent of the amount of the member's retirement pension on the date of the member's death adjusted for inflation as if it were a pension for the period from the date of the member's death to the date the spouse becomes entitled to the survivor pension.

(5) Prior to calculating the payment described in subsection (4), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Child's pension

73. (1) This section applies with respect to the dependent children of a member who died while receiving a retirement or disability pension and,

(a) who had a spouse who died after becoming entitled to a survivor pension; or

(b) who did not have a spouse entitled to a survivor pension.

Entitlement to child's pension

(2) Each dependent child of a member, upon the death of the spouse or the member, as the case may be, is entitled to a child's pension while remaining a dependent child.

Amount of child's pension

(3) The amount of the annual child's pension is the amount of the survivor pension to which a spouse of the member was or would have been entitled after the death of the member, shared equally among the dependent children.

Share accrues to others

(4) The share of the child's pension of each of the children who ceases to be a dependent child accrues to the remaining dependent children, if any.

Beneficiary's pension, R.S.C. 1952, c. 148

74. (1) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Time limit

(2) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Idem

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Amount of beneficiary's pension

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Adjustment of member's pension

(5) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Revocation of direction

(6) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Direction void

(7) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Benefit to estate

75. The estate of a member who was receiving a pension on the date of death is entitled to a refund of the amount by which the member's contributions together with interest thereon exceeds the sum of the amount paid to the member and the amount, if any, paid to every other person who was entitled to a benefit on the member's death, together with interest thereon.

10 year guarantee

75a. (1) Notwithstanding any other provision of the plan, but subject to this section, where a member dies while receiving a retirement pension or a disability pension, but prior to receiving the equivalent of 120 monthly pension payments, the remaining balance of such pension payments shall be paid:

(a) as a pension to the person who remains otherwise eligible for benefits under the plan as a result of the member’s death, or

(b) to the member’s estate, if there is no person eligible as described in (a), in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Direction

(2) If a member has a spouse eligible for a survivor pension at the commencement of payment of the member’s pension, subsection (1) shall only apply if the member has delivered a written direction to the administrator prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(3) A direction provided in accordance with subsection (2) may be revoked by the member provided that a written revocation is delivered to the administrator prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(4) A direction provided in accordance with subsection (2) is void if the member dies prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Adjustment of member's pension

(5) The pension of a member who provides a direction in accordance with subsection (2) shall be reduced to allow for payment of the benefits in accordance with subsection (1). (Last amended April 2, 2001 – Effective April 1, 2001)

Offset

(6) Subject to subsection (11), the payments made in accordance with subsection (1) shall be paid in lieu of any other amounts otherwise payable under the plan as a result of the member's death. (Last amended April 2, 2001 – Effective April 1, 2001)

CPP Reduction

(7) The payments made in accordance with subsection (1) shall be reduced immediately upon the member's death to reflect any reduction described in section 81 that was not applicable immediately prior to the member's death. (Last amended April 2, 2001 – Effective April 1, 2001)

More than one beneficiary

(8) Where there is more than one person eligible as described in clause (1)(a), then the pension payable in accordance with that provision shall be shared equally among such persons. (Last amended April 2, 2001 – Effective April 1, 2001)

Upon death of beneficiary

(9) Where any person eligible as described in clause (1)(a) dies prior to completion of the pension payments under that provision, the remaining payments shall be shared equally among any remaining eligible persons or, if none, shall be paid to the person's estate in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Upon ineligibility of beneficiary

(10) Where any person eligible as described in clause (1)(a) ceases to be a person eligible as described in clause (1)(a) prior to completion of the pension payments under that provision, the remaining payments shall be shared equally among any remaining eligible persons or, if none, shall be paid to the member's estate in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Completion of 10 year guarantee

(11) Upon completion of the pension payments in accordance with clause (1)(a), the person or persons described in that provision shall be entitled to receive, on a prospective basis only, the pension that they would otherwise be receiving as a result of the member's death but for this section, except that any reduction that was applied pursuant to subsection (5) shall continue to apply. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to existing pensions

(12) This section shall apply, with necessary modifications, to a member who is receiving a pension as of April 1, 2001 except that, for the purposes of subsection (2) only, spousal eligibility for a survivor pension shall be determined as of April 1, 2001 and the direction required in accordance with (2) must be delivered to the administrator by May 1, 2001. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to deferred pensions

(12a) This section shall apply, with necessary modifications, to a member who ceased employment in education on or after January 1, 1990 but prior to April 1, 2001 and who is entitled to a deferred pension. (Last amended June 19, 2012 – Effective April 1, 2001)

Application to suspended pensions

(13) For the purposes of this section, references to a member who is receiving a pension shall include a member whose pension is suspended. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to TSA pensions

(14) This section shall apply, with necessary modifications, to a member who ceased employment in education prior to January 1, 1990 and who is either entitled to a deferred pension or receiving a pension as of April 1, 2001. (Last amended May 5, 2010 – Effective April 1, 2001)

Application to deferred pensions post-June 30, 2012

(15) This section shall apply, with necessary modifications, to a member who ceased employment in education prior to July 1, 2012 and who was not entitled to a deferred pension under section 30 as it read on June 30, 2012. (Last amended June 19, 2012 – Effective July 1, 2012)

D. Payment of Death Benefits

Commencement of pension

76. (1) A pension that is payable immediately on the death of a member who was not receiving a retirement or disability pension on the date of death shall begin as of the day after the day the member dies.

Idem

(2) A pension that is payable on the death of a member who was receiving a retirement or disability pension on the date of death shall begin as of the first day of the month after the month in which the member dies.

Interest payable

(3) Interest shall be paid on pension payments due under a pension mentioned in this section if the administrator does not begin paying the pension by the end of the month in which the beneficiary becomes entitled to receive it. (Last amended June 28, 1990 - Effective June 28, 1990)

Interest Payable

(4) Interest on each overdue monthly pension payment, calculated at the standard rate, shall be paid from the date the payment was due to the day before it was made. (Last amended February 28, 1992 - Effective January 1, 1992)

Payments to estate

77. (1) If the administrator is unable to locate a personal representative of the estate of a deceased member, the administrator may pay into court any payments that under the pension plan are required to be made to the estate.

Missing beneficiary

(2) If the administrator is unable, after making reasonable inquiries, to locate an individual who is entitled to a death benefit under the pension plan or a beneficiary designated by the deceased member under the *Pension Benefits Act*, the administrator shall pay to the estate of the deceased member one year after the date of death the amount to which the estate is otherwise entitled when no other person is entitled to a benefit on the death of the member.

Missing beneficiary found

(3) If an individual entitled to a death benefit under the pension plan or a beneficiary designated by the deceased member under the *Pension Benefits Act* applies for the benefit after the administrator makes a payment under subsection (2), the administrator shall pay the individual the amount of the benefit to which the individual is entitled less the amount paid to the estate by the administrator.

Transitional

(4) This section applies with respect to a person with credited service under a predecessor of this Act who dies before the 1st day of January, 1990, as if that person were a deceased member of the pension plan.

Discharge

(5) The administrator is discharged on making a payment in accordance with this section.

Interpleader, more than one applicant

78. (1) Revoked. (Last amended September 8, 2006 – Effective September 1, 2006)

Court may order

(2) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Application to court

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Application of R.S.O. 1980, c. 488, s. 62

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

PART VIII
BENEFITS AND PAYMENTS - GENERAL

A. Adjustments for Inflation

Inflation adjustment, pensions

79. (1) Every retirement pension, disability pension, survivor pension, child's pension and beneficiary's pension shall be adjusted for inflation in accordance with section 80.

Idem, deferred pensions

(2) Every deferred pension payable under the pension plan shall be adjusted for inflation in accordance with section 80 for the period beginning at the end of the last month for which the member has credit under the plan and ending when the pension begins.

Limitation

(3) No pension or deferred pension shall be adjusted under this section for inflation in respect of a period before the 1st day of January, 1990.

Adjustment of pensions for cessations prior to May 31, 1982

79a. (1) For pension instalments payable for periods on or after June 1, 2001, the annual pension of a member, or of the survivor of a member, who ceased to be employed for purposes of the plan prior to May 31, 1982, shall be adjusted in accordance with salary adjustments determined by the actuary with reference to the year in which the member ceased to be employed for purposes of the plan. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(2) Subsection (1) shall also apply to the pension payable to the survivor of a member where the member:

(a) ceased to be employed for purposes of the plan on or after May 31, 1982 but prior to September 1, 1984, and

(b) died prior to receiving a pension calculated on the basis of the average of the member's annual pensionable salary for the five school years during which it was highest,

but only to the extent that the survivor is not already receiving a survivor pension equivalent to that calculated on the basis described in (b). (Last amended April 2, 2001 – Effective April 1, 2001)

Applicability

(3) This section shall not apply to the retirement pension or benefits upon death of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended December 13, 2012 – Effective July 1, 2012)

Calculation of inflation adjustments

80. (1) In the formulas in this section,

"A" is the carry forward determined for the immediately preceding year,

"B" is the basic ratio for the year,

"C" is the adjustment ratio for the year,

"D" is the basic ratio for the year after the last year for which the member has credit in the pension plan, and shall be calculated to a maximum of 1.080 or to a minimum of 1.000, and (Last amended October 9, 2008 – Effective January 1, 2009)

"E" is the number of full months in the year that are after the month in the last year for which the member has credit in the pension plan. (Last amended October 9, 2008 – Effective January 1, 2009)

Definitions

(2) In this section,

"accumulated adjustment ratio", for a person's pension, means the product of the multiplication of all adjustment ratios for the years in the period commencing with the last year for which the member has credit in the pension plan and ending with the year for which the accumulated adjustment ratio is being determined; (Last amended October 9, 2008 – Effective January 1, 2009)

"adjustment ratio", for a person's pension, means,

(a) for any year before the year 1976 and for the last year for which the member has credit in the pension plan, 1.000,

(b) if the member for whose credit in the plan the pension is payable ceased to be employed in education in or after the year 1975, for the year after the last year for which the member has credit in the pension plan, the ratio determined by the formula "[(D - 1.000) × E / 12] + 1.000", and

(c) for the later of the year 1976 and the second year after the last year for which the member has credit in the pension plan and for any subsequent year, the ratio determined by the formula "A + B" calculated to a maximum of 1.080 or to a minimum of 1.000; (Last amended October 9, 2008 – Effective January 1, 2009)

"basic ratio", for a year, means the ratio expressed to three decimal places that the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year bears to the average for the Consumer Price Index over the first twelve months of that period;

"carry forward", with respect to the pension of a person, means,

(a) for any year before the year 1976, for the last year for which the member has credit in the pension plan and for the year after that year, nil, and

(b) for the later of the year 1976 and the second year following the last year for which the member has credit in the pension plan and for any subsequent year, the positive or negative number determined by the formula "A + B - C"; (Last amended October 9, 2008 – Effective January 1, 2009)

"Consumer Price Index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);

"member" means the person in respect of whose credit in the pension plan the pension, to which the formula is applied under this section, is payable, and includes a contributor within the meaning of the *Teachers' Superannuation Act*, *1983* or a predecessor Act; (Last amended October 9, 2008 – Effective January 1, 2009)

"pension" means a pension to which a person is entitled from the plan other than the adjustment for inflation provided by this section, and an allowance, annuity, deferred annuity or other periodic payments to which a person has become entitled under the *Teachers' Superannuation Act*, *1983* or a predecessor Act;

"plan" includes the pension plan established under the *Teachers' Superannuation Act*, *1983* and any predecessor Act.

Payment of inflation adjustment

(3) The annual amount of pension payable to a person from the pension fund shall, commencing with the year when payment of the pension is to commence and in each subsequent year that the pension continues to be payable, be adjusted for inflation by multiplying the annual amount of the pension by the accumulated adjustment ratio for the pension of the person for that year, and the amount by which the pension thus adjusted exceeds the annual amount of pension before the adjustment in each year shall be paid to the person entitled to receive the pension for which it is calculated at the same times, in the same manner and subject to the same terms and conditions as apply to the pension in respect of which it is paid.

Conditional inflation adjustment for post-2009 credit

(3a) Notwithstanding subsections (1), (2) and (3), but subject to subsection (3b), benefits payable in respect of credit accrued under the pension plan for periods after 2009 shall only be adjusted for inflation under this section to the extent that sufficient funds are available to provide for such adjustments without creating a going concern unfunded liability. (Last amended October 9, 2008 – Effective January 1, 2009)

50% guaranteed inflation adjustment for post-2009 credit

(3b) Benefits payable in respect of credit accrued under the pension plan for periods after 2009 shall be adjusted for inflation under this section such that the adjustment made each year is not less than one half of the adjustment that would have been made for the year in accordance with this section as it read on December 31, 2008. (Last amended October 9, 2008 – Effective January 1, 2009)

Inflation adjustment for benefits payable after 2011

(3c) Revoked. (Last amended September 17, 2013 – Effective January 1, 2014)

0% guaranteed inflation adjustment for post-2013 credit

(3d) Notwithstanding subsection (3b), benefits payable in respect of credit accrued under the pension plan for periods after 2013 may be further adjusted for inflation under this section such that the total adjustment made each year is less than one half of the adjustment that would have been made for the year in accordance with this section as it read on December 31, 2008. (Last amended September 17, 2013 – Effective January 1, 2014)

Determination of inflation adjustment for post-2009 and post-2013 credit

(3e) For purposes of subsections (3a), (3b) and (3d), the inflation adjustments for benefits payable each year, in respect of credit accrued under the pension plan for periods after 2009 and after 2013 respectively, shall be determined by the co-sponsors of the pension plan, the Executive of the Ontario Teachers' Federation and the Minister of Education. (Last amended September 17, 2013 – Effective January 1, 2014)

Ratio not to apply

(4) The ratio determined for the year 1990 under the *Superannuation Adjustment Benefits Act* does not apply to a pension to which this section applies.

Effect of re-employment

(5) For the purpose of determining an accumulated adjustment ratio for benefits that commence to be paid on or after May 10, 2007, for members who cease to be employed in education on or after September 1, 1995:

(a) the last school year in which the member accumulated more than ten days of credited service during the period from January 1, 1997 onward, or, if the member did not accumulate more than ten days of credited service in a school year during this period, then

(b) the last school year in which the member accumulated more than twenty days of credited service during the period from September 1, 1990 to December 31, 1996,

is deemed to be the last year for which the member has credit in the pension plan. (Last amended December 21, 2007 – Effective May 10, 2007)

(6) Revoked. (Last amended July 19, 2007 – Effective May 10, 2007)

B. CPP Reduction

CPP reduction for pensions

81. (1) If a member has contributed to the *Canada Pension Plan* or the *Quebec Pension Plan*, the amount of the member's retirement pension, full disability pension or partial disability pension shall be reduced by the amount calculated under subsection (3).

Commencement, retirement pension

(2) A reduction of a member's pension shall apply with respect to pension payments due the month after the earlier of,

(a) the month in which the member reaches sixty-five years of age; or

(b) the month in which the first instalment of the member's disability pension, if any, under the *Canada Pension Plan* or the *Quebec Pension Plan* is due.

Amount of reduction

(3) The amount of the reduction in an annual pension payable for periods on or after January 1, 1997 and prior to January 1, 1999 is calculated using the formula,

0.0068 x A x B,

and the amount of the reduction in an annual pension payable for periods on or after January 1, 1999 and prior to January 1, 2002 is calculated using the formula,

0.0060 x A x B,

and the amount of the reduction in an annual pension payable for periods on or after January 1, 2002 is calculated using the formula,

0.0045 x A x B

in which,

"A" is the lesser of,

(a) the member's average salary, and

(b) the amount determined under subsection (4), and

"B" is the number of years of the member's credited service for employment on or after the 1st day of January, 1966 in respect of which the member made contributions under the *Canada Pension Plan* or the *Quebec Pension Plan*. (Last amended April 2, 2001 – Effective April 1, 2001)

(3a) For pension instalments due on or after January 1, 1997, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0068 for 0.007 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension will not be recalculated. (Last amended February 20, 1997 - Effective January 1, 1997)

(3b) For pension instalments payable for periods on or after January 1, 1999, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule "1" of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0060 for 0.0068 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension will not be recalculated. (Last amended May 27, 1998 - Effective June 1, 1998)

(3c) For pension instalments payable for periods on or after January 1, 2002, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0045 for 0.0060 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension or a 10 year guaranteed pension will not be recalculated. (Last amended September 8, 2006 – Effective April 1, 2001)

Average YMPE

(4) The amount is the average of the Year's Maximum Pensionable Earnings for the year in which the member ceases to be employed in education and for each of the two preceding years, except that for an annual pension payable for periods on or after January 1, 2002 the amount is the average of the Year's Maximum Pensionable Earnings for the year in which the member ceases to be employed in education and for each of the four preceding years. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(4a) For pension instalments payable for periods on or after January 1, 2002, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated using the five year average of the Year's Maximum Pensionable Earnings, as described in subsection (4), in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension or a 10 year guaranteed pension will not be recalculated. (Last amended September 8, 2006 – Effective April 1, 2001)

(5) Where a reduction is applied as provided in subsection 81(2)(b) and the member's *Canada Pension Plan* or *Quebec Pension Plan* disability pension is terminated before the member reaches sixty-five years of age, the reduction will be suspended, effective the month following the month of the termination, until the payment of pensions due the month after the earlier of,

(a) the month in which the member reaches sixty-five years of age; or

(b) the month in which the first instalment of the member's disability pension, if any, under the *Canada Pension Plan* or the *Quebec Pension Plan* is due.

(Last amended April 15, 1998 - Effective January 1, 1997)

C. Payment of Benefits

Application for benefit

82. (1) No benefit under the plan shall be paid before the administrator receives an application for it in the form provided by the administrator.

Election or direction

(2) An election available under the plan or a direction that may be given to the administrator shall be made or given in the form provided by the administrator.

Repayment

82a. A person who receives payments to which the person is not entitled shall repay the amounts so received, together with interest thereon calculated at the standard interest rate. (Last amended May 5, 2010 – Effective January 1, 2002)

Multiple pensions

83. No member is entitled to payment of more than one pension under the plan during the same month or other payment period in respect of the member's credited service.

Commutation of pensions

84. The administrator shall pay the commuted value of a pension, other than a disability pension or dependent child pension, in accordance with subsections 44 (7) and (7.1), or clause 50 (1) (a), of the *Pension Benefits Act.* (Last amended January 15, 2014 – Effective January 1, 2014)

Shortened life expectancy

84a. (1) Upon application by a member, the administrator shall pay the commuted value of a pension or deferred pension in such circumstances of shortened life expectancy as may be prescribed under subsection 49(2) of the *Pension Benefits Act*, provided the prescribed conditions under that Act are satisfied. (Last amended June 17, 2003 – Effective March 3, 2000)

Amount

(2) Subject to subsections (3) and (4), the amount payable under subsection (1) shall be determined in accordance with the *Pension Benefits Act* and accepted actuarial practice. (Last amended September 8, 2006 – Effective March 3, 2000)

Idem

(3) The commuted value of a deferred pension shall be determined as if the member had a normal life expectancy. (Last amended June 17, 2003 – Effective March 3, 2000)

Idem

(4) The commuted value of a pension shall be determined based on the member having a shortened life expectancy. (Last amended June 17, 2003 – Effective March 3, 2000)

Application void

(5) An application made under this section is void if the member dies before the benefit under subsection (1) is paid. (Last amended June 17, 2003 – Effective March 3, 2000)

Deemed cessation

(6) A member who makes an application under this section and who satisfies the evidentiary requirements of the *Pension Benefits Act* is deemed to have ceased employment in education for the purposes of membership in the pension plan, on the date the member's physician signs the statement required under the *Pension Benefits Act*. (Last amended June 20, 2012 – Effective January 1, 2007)

(7) If a direction under section 70 regarding a "new spouse" has been delivered to the administrator, the benefit under subsection 84a (1) shall not be paid unless the "new spouse" provides to the administrator a signed statement waiving any entitlement under section 70. (Last amended June 20, 2012 – Effective March 3, 2000)

Deductions from pensions

85. (1) Despite section 65 of the *Pension Benefits Act*, a person receiving a pension under the pension plan or an allowance under a predecessor Act may direct the administrator to deduct and remit from the pension or allowance on behalf of the person,

(a) premiums payable under the Ontario Health Insurance Plan by the person;

(b) premiums for life, medical, dental or health-related insurance payable by the person under a contract of group insurance approved by the administrator for the purpose of this section; and

(c) membership fees payable to The Retired Teachers of Ontario (RTO)/Les enseignantes et enseignants retraités de l'Ontario (ERO). (Last amended September 8, 2006 – Effective January 1, 1999)

Conditions

(2) The administrator may impose and require compliance with such conditions as the administrator considers appropriate before acting upon a direction.

Revocation of direction

(3) A person making a direction may revoke it by written notice to the administrator.

Termination of pension

86. Every pension terminates as of the end of the month in which the event that terminates the pension occurs.

No assignment etc.

86a. No pension or benefit shall be capable of being assigned, charged, anticipated, given as security or surrendered except as provided for in the *Pension Benefits Act*. (Last amended September 8, 2006 - Effective January 1, 1992)

D. Administration

Appeal of decision

87. (1) A person who is aggrieved by a decision of an employee of the administrator respecting the person's entitlement to, or the amount of, a pension benefit may appeal the decision to a committee of the administrator designated for the purpose of this section and the committee of the administrator shall determine the appeal. (Last amended April 15, 1998 - Effective October 1, 1997)

Idem

(2) An appeal shall be made in accordance with the procedures established by the administrator.

Determination of commuted value

88. The commuted value of a benefit shall not be less than the amount calculated in accordance with the *Recommendations for Minimum Transfer Values of Pensions* published from time to time by the Canadian Institute of Actuaries and shall be calculated using the rate of interest specified by, and such actuarial tables as may be adopted by, the administrator.

Calculation of interest

89. (1) Unless otherwise indicated, interest shall be calculated at the standard interest rate. For a given year, the standard interest rate attributable to a transaction is a rate equal to the average yield for the 12 month period, ending on the 31st day of October in the preceding calendar year, of five-year personal fixed term chartered bank deposit rates as determined from the Canadian Socio-Economic Information Management (CANSIM) Series V 122515 published monthly in the Bank of Canada Review and interest is compounded annually each December 31st. (Last amended September 8, 2006 - Effective September 1, 2006)

Idem, transitional

(2) For 1990 the standard interest rate attributable to a transaction is the weighted average effective annual yield of the debentures held by the Teachers' Superannuation Fund under the *Teachers' Superannuation Act, 1983* as at the 31st day of December, 1989.

Idem, transitional

(3) Interest payable in respect of a period before the 31st day of December, 1989 shall be calculated up to that date at the applicable rate in effect under the *Teachers' Superannuation Act, 1983* and at the applicable standard rate in effect thereafter. (Last amended June 1, 1995 - Effective June 1, 1995)

Interest on contributions

(4) Interest credited under the pension plan on contributions shall be calculated in accordance with the *Pension Benefits Act* and credited to the member as at the 31st day of December in each year.

Interest on lump sums

(5) Interest is payable in accordance with the *Pension Benefits Act* on a lump sum payment of the commuted value of a benefit from the effective date of the determination of the commuted value to the day before the lump sum is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Report re employment in education

90. (1) Revoked. (Last amended May 6, 2010 – Effective September 1, 2012)

Failure to report

(2) Revoked. (Last amended May 6, 2010 – Effective September 1, 2012)

Prior refund re multiple pensions

91. Revoked. (Last amended April 15, 1998 - Effective January 1, 1992)

PART IX
PURCHASE OF CREDIT FOR SERVICE

A. General

Purchases, general

92. (1) A member may purchase or receive a maximum of five years of credited service,

(a) under sections 10 (2a), 10 (2f), 10 (4), 12a, 94 and 96, and

(b) for any unpaid portion of a period under subsections 10 (2e) and 10 (2g) in respect of which compensation is prescribed in accordance with Regulation 8507 (1) (a) of the *Income Tax Act* (Canada),

for absences after the 31st day of December, 1990.

(Last amended July 21, 2014 – Effective September 1, 2014)

Idem

(2) Subject to section 28, a member may not purchase credited service for a period of time for which the member has credited service under the plan. (Last amended December 20, 1999 - Effective September 1, 1998)

Past service pension adjustment

92a. (1) The purchase of credited service by a member who requires certification of a Past Service Pension Adjustment under the *Income Tax Act* (Canada) is not complete until the administrator has obtained a certificate from the Minister of National Revenue. (Last amended February 28, 1992 - Effective January 1, 1992)

Idem

(2) Credited service in respect of which certification has been obtained from the Minister of National Revenue shall not be included in the credited service maximums in subsections 92 (1) and 94 (15). (Last amended February 28, 1992 - Effective January 1, 1992)

Purchases, transitional

93. (1) The purchase of credited service by a member who delivers a completed application to the administrator before the 1st day of January, 1992 shall be made in accordance with sections 9, 10, 36, 45 and 48 of the *Teachers' Superannuation Act, 1983* and with sections 7 to 14 of Ontario Regulation 423/84 as those sections read on the 31st day of December, 1989.

Idem

(2) The *Teachers' Superannuation Act, 1983* as it reads on the 31st day of December, 1989 continues to apply for the purpose of determining a purchase of credited service under subsection (1).

Idem

(2a) Despite subsections (1) and (2) a member who has delivered a completed application to the administrator before the 1st day of January 1992 who fails to pay all of the contributions required to complete the purchase of credited service applied for before the 31st day of December, 1994 shall receive credited service in an amount based upon the contributions plus interest which he or she has actually made. (Last amended June 28, 1990 - Effective June 28, 1990)

Transitional

(3) Sections 95, 96 and 99 apply with respect to a member's application before the 1st day of January, 1992 in the circumstances described in those sections.

End of transitional period

(4) A person is not eligible after the 31st day of December, 1994 to make or complete a purchase of credited service to which a predecessor Act applies.

Interest rate

(5) For the purpose of a purchase of credited service described in subsection (1) for a period on or after the 1st day of January, 1990, references to the applicable rate of interest in Ontario Regulation 423/84 shall be read as if they were references to the standard interest rate.

Idem

(6) Subsection 89 (3) (calculation of interest, transitional) does not apply with respect to a purchase of credited service described in subsection (1) for a period before the 1st day of January, 1990.

B. For Employment in Education

Absences

94. (1) In this section,

"absence" means either an employer-approved leave of greater than five consecutive school days or a break in service;

"break in service" means a period when a member is not employed in education or is absent from employment without the employer's consent.

(Last amended July 21, 2014 – Effective September 1, 2014)

Purchase re break in service

(2) A member may purchase credited service for a break in service approved by the administrator for a period of disability immediately following a period of employment in education, where the member ceases to be employed in education as a result of the disability and meets the definition of "disabled" as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada). (Last amended August 4, 2011 – Effective December 2, 2010)

Application for purchase re break in service

(2a) A member shall apply to purchase credited service for a break in service within two years after the date when the member ceases, as a result of the disability, to be employed in education. (Last amended August 4, 2011 – Effective December 2, 2010)

Idem

(2b) The administrator shall accept an application to purchase credited service for a break in service that is made after the time described in subsection (2a) if the administrator is satisfied,

(a) that the delay in making the application resulted from a delay in diagnosing the disability; or

(b) that the member was unable, because of the effects of the disability, to make the application within the time described in subsection (2a).

(Last amended August 4, 2011 – Effective December 2, 2010)

Proof of disability

(2c) No application to purchase credited service for a break in service shall be considered by the administrator until the administrator has received the certificate of a medical doctor licensed in Ontario certifying that the applicant became mentally or physically disabled while employed in education and indicating the nature and degree of the disability. (Last amended August 4, 2011 – Effective December 2, 2010)

Ongoing proof of disability

(2d) The administrator may at any time require a member who has applied to purchase credited service for a break in service to furnish evidence, in such form as the administrator directs, that the member was disabled, as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada), throughout the break in service. A member's entitlement to purchase credited service for a break in service shall terminate if the administrator is not satisfied that the member is disabled. (Last amended August 4, 2011 – Effective December 2, 2010)

Limit

(2e) Despite subsections 92 (1) and 92a (2), no member may purchase credited service for a break in service in respect of a period that is after the fifth anniversary of the start of the break in service. (Last amended August 4, 2011 – Effective December 2, 2010)

Application

(3) A member may apply to purchase credited service for an absence by notifying the administrator of the member's intent to purchase. (Last amended December 30, 2009 - Effective September 1, 2010)

(3a) A member may only purchase credit for an absence for service outside of Canada, where that service was arranged by the member's employer, if the purchase is made on an ongoing basis during the period of the leave. (Last amended April 2, 2001 – Effective September 1, 2001)

Purchase re absence

(4) A member may purchase credited service for all or part of an absence. (Last amended April 2, 2001 – Effective September 1, 2001)

(4a) Despite subsection (4) a member on an absence from other than a full-time position is entitled to purchase credit under this section only for the time that, in the opinion of the administrator, the member would have been employed for compensation but for the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(5) No member may purchase credited service for an absence for the purpose of service in political office if the member is contributing to or is entitled to a pension under another registered pension plan other than the *Canada Pension Plan* or the *Quebec Pension Plan* in respect of the service.

Amount of contribution

(6) A member who purchases credited service on a monthly basis during the period of the absence shall contribute,

(a) the required contributions, based on the pensionable salary that the member's employer advises the administrator that the member would have earned, if the member were not absent, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) for any late monthly payments, interest thereon calculated at the standard interest rate from the date each contribution would have been made and ending on the day before the payment is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(6a) A member who purchases credited service other than on a monthly basis during the period of the absence shall contribute, on or before the end of the month in which the fifth anniversary of the end of the absence occurs, a lump sum which is equal to,

(a) the required contributions, based on the pensionable salary that the member's employer advises the administrator that the member would have earned, if the member were not absent, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) interest thereon calculated at the standard interest rate from the date each contribution would have been made and ending on the day before the payment is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(6b) Despite subsections (6) and (6a), a member who purchases credited service on or after the 1st day of September, 2010, shall contribute, on or before the end of the month in which the fifth anniversary of the end of the absence occurs,

(a) the required contributions, based on the pensionable salary as determined in accordance with section 14, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) interest thereon calculated at the standard interest rate from the first day of the month following the month in which the end of the absence occurs and ending on the day before the payment is made. (Last amended December 30, 2009 - Effective September 1, 2010)

Transition

(6c) Subsection (6b) shall only apply where the member has not previously completed payment for the purchase of the entire eligible absence period. (Last amended October 19, 2012 - Effective September 1, 2010)

Transition: Interest calculation for the portion of an absence previously considered complete

(6d) Despite subsections (6b) and (6c), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the interest applicable to that portion of the absence shall be calculated in accordance with subsection (6) (b) or (6a) (b). (Last amended October 19, 2012 - Effective September 1, 2010)

Due date

(7) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Return date

(8) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Matching contributions for purchases

(9) A contribution under subsection (6), (6a) or (6b) is considered to be a required contribution for the purpose of sections 25 and 26, and the required matching contribution shall be paid by the employer making the employer contributions in respect of the member immediately before the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(9a) Despite subsection (9), where a member was employed by a designated private school or a designated organization immediately before the absence and the employer is dissolved or in receivership at the time of the member's application to purchase credited service, the required matching contribution for a purchase of credited service for a break in service shall be paid by the member. (Last amended August 4, 2011 – Effective December 2, 2010)

Amount of contribution, delayed election

(10) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Advance payments

(11) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(12) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

No refund

(13) A member who makes contributions for an absence is not entitled to a refund of those contributions at any time, except to the extent that the member's purchase is not completed in accordance with subsection 92a.(1). (Last amended April 2, 2001 – Effective September 1, 2001)

Proportionate credit

(14) A member who does not complete payment for the full period of an absence shall receive proportionate credit. (Last amended April 2, 2001 – Effective September 1, 2001)

Maximum purchase, birth or adoption

(15) Despite subsection 92 (1) a member may also purchase a maximum of three years of credited service in respect of absences after the 31st day of December, 1990 taken at the birth or adoption of the member's children. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(16) For the purposes of subsection (15) a member may purchase a maximum of one year of credited service for an absence taken at the birth or adoption of the member's child or if more than one child is born or adopted at once, in respect of one such birth or adoption. (Last amended April 2, 2001 – Effective September 1, 2001)

Eligibility for purchase

(17) Revoked. (Last amended May 5, 2010 – Effective September 1, 2009)

Lump sum payments

(18) Revoked. (Last amended June 28, 1990 - Effective June 28, 1990)

End Date

(19) For the purposes of this section, the end of an absence occurs on the last day that, in the opinion of the administrator, the member could have worked if not for the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

End date

(20) Despite subsection (19), the end of an absence for a member who purchases credited service for a break in service shall be no later than the fifth anniversary of the start of the break in service. (Last amended October 19, 2012 - Effective September 1, 2010)

Transitional rules

94a. (1) A member whose absence ended prior to September 1, 2001 and who,

(a) returned to employment in education, following the absence, on or after September 1, 1996 but prior to September 1, 2001, or

(b) did not return to employment in education, following the absence, prior to September 1, 2001,

shall have until December 31, 2004 to complete a purchase of the absence. (Last amended April 2, 2001 – Effective September 1, 2001)

(2) A member who completes a purchase in accordance with subsection (1) shall contribute a lump sum on a contributions plus interest basis calculated in accordance with subsection 94 (6a). (Last amended April 2, 2001 – Effective September 1, 2001)

(3) A member whose absence ended prior to September 1, 2001 and who returned to employment in education, following the absence, prior to September 1, 1996 shall have until December 31, 2002 to complete a purchase of the absence by notifying the administrator by that date and by making the purchase within 90 days of the provision of a purchase cost quotation. (Last amended April 2, 2001 – Effective September 1, 2001)

(4) A member who completes a purchase in accordance with subsection (3) shall contribute a lump sum which is, on the date of the purchase, equal to the actuarial cost of the expected pension improvement. (Last amended April 2, 2001 – Effective September 1, 2001)

(5) This section shall only apply where the member has not previously completed a purchase of the absence, in which case the member may complete the purchase in accordance with this section without having to meet the requirements of subsection 94 (3) as it read on August 31, 2001. (Last amended April 2, 2001 – Effective September 1, 2001)

Transitional application deadline re: breaks in service

94b. (1) A member may purchase credited service for a break in service in accordance with subsection 94 (2) as it read on the 1st day of December, 2010, if the member delivers to the administrator a completed application to purchase credit, in the form provided by the administrator, including all supporting documents, by the 31st day of August, 2011. (Last amended August 4, 2011 – Effective December 2, 2010)

Transitional payment deadline re: breaks in service

(2) Despite subsections 94 (6) to (6c), a member described in subsection (1) shall have until the 30th day of December, 2011 to complete payment of the amount required under subsection 94 (6b). (Last amended August 4, 2011 – Effective December 2, 2010)

Absence during a school year

95. (1) Revoked. (Last amended June 20, 2012 – Effective January 1, 2012)

Amount of contribution

(2) Revoked. (Last amended June 20, 2012 – Effective January 1, 2012)

Interest payable

(3) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Status of contributions

(4) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Due date

(5) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Required contribution

(6) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Absence re strike or lockout

96. (1) A member may contribute for days that the member is absent from employment in education for the purpose of participating in a legal strike or because of a lockout. (Last amended April 2, 2001 – Effective September 1, 2001)

Amount of contribution

(2) The member shall contribute the amount of the member's required contribution for each day of absence plus the amount of the corresponding employer's contribution.

Interest payable

(3) The member shall pay interest, calculated at the standard rate, on any contribution received by the administrator more than one month after the end of the absence. (Last amended June 1, 1995 - Effective June 1, 1995)

For former membership

97. (1) This section applies with respect to a member who previously received a refund of required contributions under the pension plan. (Last amended April 2, 2001 – Effective September 1, 2001)

Eligibility

(2) No member may purchase credited service under this section until the member has accumulated, through employment in education, seventy days of credited service in one school year after returning to active membership.

Election within one year

(3) A member who elects to purchase credited service on or before the later of the first anniversary of the member's return to active membership and the 1st day of January, 1994 shall contribute the amount previously refunded together with interest thereon from the date the refund was made to the first day of the month in which the contribution is paid, calculated at the standard interest rate in effect on the date the refund was made. (Last amended April 2, 2001 – Effective September 1, 2001)

Limit

(4) No member may purchase more days of credited service under subsection (3) than the number of days in respect of which the member received the refund.

Due date

(5) A contribution under subsection (3) shall be paid as a lump sum before the later of the third anniversary of the member's return to active membership and the 1st day of January, 1995.

Required contribution

(6) A member who elects to purchase credited service after the deadline referred to in subsection (3) or who fails to make the payment before the deadline in subsection (5) shall contribute a lump sum which is, on the date of the purchase, equal to the actuarial cost of the expected pension improvement.

Repurchase of credited service

97a. (1) A member referred to in section 37 who becomes re-employed in education for more than 20 days in one school year may purchase credited service in an amount not greater than the credited service in respect of which a transfer and refund were made under that section. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(2) A member who elects to purchase credited service under subsection (1) shall contribute a lump sum equal to the greater of,

(i) the amounts transferred and refunded under section 37 together with interest thereon calculated at the standard rate from the day of the transfer or refund to the day before the payment is made; or

(ii) the actuarial cost, on the date of the purchase, of the expected pension improvement. (Last amended February 28, 1992 - Effective January 1, 1992)

Approved service outside Ontario

98. (1) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Idem

(2) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Limit

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(4) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Transitional re designated private schools

99. (1) This section applies to an active member,

(a) who is employed in an organization designated under the *Teachers' Superannuation Act, 1983* or in a school within the meaning of section 1 of the *Education Act*;

(b) who was employed before the 1st day of September, 1986 in a private school designated under a predecessor of this Act;

(c) who was employed on the 1st day of September, 1986 and for at least twenty days during the school year beginning on that date in an organization designated under the *Teachers' Superannuation Act, 1983* or in a school within the meaning of section 1 of the *Education Act*; and

(d) who elected before the 1st day of September, 1986 to be excluded from the benefits and obligations of the predecessor Act.

Purchase

(2) An active member may purchase credited service in accordance with subsections 13 (4), (6) and (7) of Ontario Regulation 423/84 as they read on the 31st day of December, 1989, with necessary modifications, for past teaching service in a private school designated under a predecessor of this Act.

Idem

(3) No member is entitled to apply to purchase credited service under this section after the 31st day of December, 1991.

C. For other Employment

For war service

100. (1) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

Idem

(2) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

For teaching special subjects

101. (1) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

Idem

(2) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

For foreign service as an educator

102. (1) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Eligibility

(2) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Limit

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(4) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

For other employment, R.S.C. 1952, c. 148

103. (1) A member may purchase credited service in the pension plan for employment not otherwise described in this Part if the employment was pensionable service under another pension plan registered under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective September 1, 2001)

Transfer from other plan

(2) For service prior to January 1, 1992, all funds associated with the service under the other plan shall be transferred to the pension plan and applied to the cost of the member's expected benefit improvement. Where no funds remain in the other plan, the member is not entitled to purchase pre-1992 credited service under this section. (Last amended September 8, 2006 - Effective January 1, 1992)

Amount of contribution

(3) For service after December 31, 1991, the member shall contribute an amount equal to the actuarial cost of the expected benefit improvement. (Last amended June 29, 1994 - Effective January 1, 1992)

(4) If the amount transferred under subsection (2) is less than the actuarial cost of the expected benefit improvement, the member shall contribute a lump sum which, on the date of the purchase, is equal to the difference. (Last amended June 29, 1994 - Effective January 1, 1992)

D. Reciprocal Agreements

Reciprocal agreements

104. (1) The administrator may enter into an agreement with the authorized representative of another pension plan respecting the terms upon which persons may transfer benefits and contributions between that plan and the pension plan.

Idem

(2) A reciprocal agreement must provide that a person transferring benefits and contributions to the pension plan acquires a benefit under the plan based upon the actuarial cost of the expected benefit on the date of the transfer.

(3) If a reciprocal agreement provides that a person may elect to pay directly to the administrator part or all of the difference between the required amount and the amount transferred (the "shortfall"), and provides the administrator with the authority to establish a deadline by which a person must complete payment of the shortfall, a person who elects to pay the shortfall shall complete such payment on or before the end of the month in which the fifth anniversary of the date the application to transfer was received by the administrator occurs. (Last amended June 20, 2012 – Effective September 1, 2001)

Reciprocal agreements, transitional

105. (1) Subject to subsection (2), reciprocal agreements entered into before the 1st day of January, 1990 by the Teachers' Superannuation Commission under section 49 of the *Teachers' Superannuation Act, 1983* are continued and expire on the 31st day of December, 1996.

Idem

(2) Reciprocal agreements referred to in subsection (1) do not expire on the 31st day of December, 1996 if, before that date, the reciprocal agreement is amended to include a term described in subsection 104 (2) or if the agreement includes such a term.

E. Administration

Application for purchase

106. An application to purchase credited service shall be made in a form provided by the administrator and shall be delivered to the administrator.

Applicability

106a. (1) Subsections 11 (6) to (9), 14 (1a) to (1i), 15 (2b), 94 (4a), (6b), (6c) and (9), as they read on the 1st day of September, 2010 apply to members who cease to be employed in education before the 1st day of September, 2010. (Last amended August 4, 2011 – Effective September 1, 2010)

Idem

(2) Subsections 94 (2) to (2e) and section 94b, as they read on the 2nd day of December, 2010 apply to members who cease to be employed in education before the 2nd day of December, 2010. (Last amended August 4, 2011 – Effective December 2, 2010)

Idem

(3) Section 84, as it read on the 1st day of January, 2014, applies to members who cease to be employed in education before the 1st day of January, 2014. (Last amended January 15, 2014 – Effective January 1, 2014)

Employed in education

106b. For a member who ceases to be employed in education before, on or after the 1st day of January, 2011, credited service purchased in accordance with subsection 94 (2) in respect of a period on or after the 1st day of January, 2011 is considered to be employment in education for the purposes of determining benefits. (Last amended August 4, 2011 – Effective January 1, 2011)

Effective date of purchase

107. A purchase of credited service is effective on the day the payment in relation to the purchase is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Purchase of partial credit

108. A member who is entitled to purchase credited service for a period of employment or an absence may purchase credited service for a part of the employment or absence. (Last amended April 2, 2001 – Effective September 1, 2001)

Contribution by spouse, etc.

109. A member who dies before completing a purchase of credited service shall receive credited service in an amount based upon the contributions plus interest which he or she has made. (Last amended June 29, 1994 - Effective January 1, 1992)

Idem

(2) Revoked. (Last amended June 29, 1994 - Effective January 1, 1992)

Lump sum payments

109a. A lump sum payment under this Part may consist of,

(a) a partial payment by means of a transfer permitted under the *Income Tax Act* (Canada); and

(b) a second payment of the balance of the amount required to pay for the credited service being purchased by the lump sum. (Last amended June 28, 1990 - Effective June 28, 1990)

Eligibility for purchase

109b. A member is not eligible to purchase credited service while receiving a pension. (Last amended May 5, 2010 – Effective September 1, 2009)

PART X
ADMINISTRATION OF THE PLAN

A. General

Extension of time

110. The administrator may extend any time limit under the pension plan before or after the expiration of the time if the administrator is satisfied that there are reasonable grounds for the extension, and may give such directions as the administrator considers appropriate consequent upon the extension.

Provision of information

111. (1) The administrator shall provide to each member of the pension plan the information and documents required under this Act or any other Act.

Idem, to administrator

(2) A member, a person who applies for, or receives, a pension, refund or other payment from the pension fund, a board of education or an employer of a member shall provide the administrator, upon request, with such information as the administrator may require to administer the pension plan.

(2a) The administrator may conduct an audit of the records of a board of education or an employer for the purpose of validation of information required for administration of the pension plan. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem, to members

(3) The administrator shall provide within a reasonable time to a member, upon written request, all information relating to the member's contributions and entitlements under the pension plan.

Fiscal year

112. The fiscal year of the pension plan is the twelve-month period that begins on the 1st day of January.

Actuarial calculations

113. Actuarial calculations and determinations required under the pension plan shall be made using such actuarial assumptions, principles and methods as may be required or adopted by the administrator.

B. Pension Fund

Payments from pension fund

114. A payment required under the pension plan must be paid from the pension fund.

Requirement to invest

115. Moneys in the pension fund that are not required to be paid out must be invested to meet the obligations of the pension plan.

C. Surplus and Deficiency

Actuarial gain

116. Revoked. (Last amended January 24, 1992 - Effective January 1, 1992)

Surplus

117. Revoked. (Last amended January 24, 1992 - Effective January 1, 1992)

Requirement to contribute to deficit

118. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

PART XI
DESIGNATION OF PRIVATE SCHOOLS AND ORGANIZATIONS

Private schools

119. (1) The Partners' Committee by notice to the administrator may designate a school, college, academy or other educational institution as a designated private school for the purpose of the pension plan,

(a) if it gives instruction equivalent to that given in elementary or secondary schools in Ontario;

(b) if it is not supported in any way by school taxes or by provincial or municipal grants; and

(c) if it meets the criteria set out in subsection (3). (Last amended June 1, 1995 - Effective January 1, 1992)

Organizations

(2) The Partners' Committee by notice to the administrator may designate an organization as a designated organization for the purpose of the pension plan,

(a) if it provides services related to elementary or secondary education; and

(b) if it meets the criteria set out in subsection (3). (Last amended June 1, 1995 - Effective January 1, 1992)

Criteria

(3) The school, college, academy or other educational institution or the organization,

(a) must not be operated for profit or gain and any profits must be used to carry out its objects; and

(b) by its governing body must undertake in writing to make the reports described in subsection (5), to pay the amounts described in subsection (6), and to perform all administrative functions required of an employer for the purposes of the pension plan.

Effective date of designation

(4) A notice of designation under subsection (2) shall specify the effective date. (Last amended April 15, 1998 - Effective January 1, 1992)

Reports

(5) The administrator may require a designated private school or designated organization to make annual reports for the purpose of the administration of this Act and the pension plan and to supply such information as to its constitution, operations, teaching staff and otherwise as the administrator may require.

Payments under the plan

(6) A designated private school or designated organization shall, in accordance with the pension plan, make the employer contributions and collect and remit the contributions by its employees who become active members of the pension plan.

Past service in prescribed schools and institutions

119a.(1) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

(2) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

Termination of designation

120. (1) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

Grounds

(2) The Partners' Committee by notice to the administrator may terminate the designation of a designated private school or a designated organization,

(a) if the designated private school or designated organization, by its governing body, has requested the termination of the designation;

(b) if the designated private school or designated organization is not complying with its undertakings; or

(c) if there is a change in the objects or mode of carrying out the objects of the designated private school or designated organization. (Last amended June 1, 1995 - Effective January 1, 1992)

Notice and submissions

(3) The Partners' Committee shall give notice of the termination to the governing body and to the employees of the designated private school or designated organization who are active members of the pension plan. (Last amended June 1, 1995 - Effective January 1, 1992)

Effective date

(4) A notice of termination of designation shall specify the effective date. (Last amended June 1, 1995 - Effective January 1, 1992)

Effect of termination of designation

(5) Upon the termination of a designation, the employees of the private school or the organization cease to be eligible to be active members of the pension plan.

Idem

121. (1) Revoked. (Last amended December 21, 2007 - Effective September 1, 2008)

Effective date

(2) Revoked. (Last amended December 21, 2007 - Effective September 1, 2008)

Designations, transitional

122. The designation of a designated private school, designated organization and a designated capacity under the *Teachers' Superannuation Act, 1983* that is in effect on the 31st day of December, 1989 shall have effect as a designation made under this Part.

PART XII-ONTARIO TEACHERS' PENSION PLAN BOARD (REVOKED)

(Last amended January 24, 1992 - Effective January 1, 1992)

.....

ONTARIO TEACHERS' PENSION PLAN

AMENDMENT TO THE ONTARIO TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on September 22, 2015;

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

WIND UP

1. Section 118a is added to the Plan:

Wind Up

118a. If the pension plan is wound up within the meaning of the *Pension Benefits Act*, the assets of the pension fund shall first be used to pay or satisfy properly incurred liabilities to creditors, following which the remaining assets of the pension fund shall be used to pay or satisfy the accrued benefit entitlements of members, former members, retired members and any other persons entitled to a benefit under the pension plan in respect of a member, former member, or retired member before any other distribution is made.

Effective on the date this agreement is countersigned by both Partners.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Date: Sept 28/15

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Date: 27 September, 2015

TEACHERS' PENSION PLAN

AMENDMENT TO THE TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on July 21, 2014; and

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

Credit for Service

1. Effective April 20, 2015, subsection 10 (4) of the Plan is revoked and replaced with the following:

Limitation

10. (4) Except for periods of lockout or legal strike or the strikes declared illegal by the Ontario Labour Relations Board on May 26, 2015 for the following periods:

(a) Durham District School Board – April 20, 2015 - May 26, 2015
(b) Rainbow District School Board – April 27, 2015 - May 26, 2015
(c) Peel District School Board – May 4, 2015 - May26, 2015,

a person shall not receive credited service for employment unless contributions in respect of the employment are made by or on behalf of that person.

For Employment in Education

2. Effective April 20, 2015, subsection 96 (1) of the Plan is revoked and replaced with the following:

Absence re strike or lockout

96. (1) A member may contribute for days that the member is absent from employment in education for the purpose of participating in a legal strike or the strikes declared illegal by the Ontario Labour Relations Board on May 26, 2015 for the following periods:

(a) Durham District School Board – April 20, 2015 - May 26, 2015
(b) Rainbow District School Board – April 27, 2015 - May 26, 2015
(c) Peel District School Board – May 4, 2015 - May26, 2015,

or because of a lockout.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Dated at Toronto this 22nd day
of September, 2015.

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Dated at Toronto this ____ day
of _____, 2015.

ONTARIO TEACHERS' PENSION PLAN

AMENDMENT TO THE ONTARIO TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on September 28, 2015; and

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

Re-employment

1. Effective September 1, 2010, subsection 46 (5) of the Plan is revoked and replaced with the following:

"Re-employed pensioner" limitation

46. (5) The term "re-employed pensioner" shall include a member who provides services, other than as a teacher, to a ministry of the Government of Ontario only if:

(a) the ministry is the Ministry of Education, and

(b) the member's retirement pension under the plan begins after September 1, 2010.

2. Effective September 1, 2010, subsection 46(6) of the Plan is amended by adding the words "Despite subsection 46(5)," at the beginning of the subsection.

3. Effective September 1, 2015, subsection 46 (6) of the Plan is revoked.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Date: Nov 28/15

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Date: Nov. 23, 2015

This is an AGREEMENT

BETWEEN:

Her Majesty the Queen
in right of the Province of Ontario
represented by the Minister of Education and Training
("the Minister")

and

The Ontario Teachers' Federation
represented by its Executive
("the OTF")

These are the terms to which the Minister and the OTF agree;

Introduction

1. The Minister and the OTF have agreed to establish a partnership for the purpose of designing and administering the Ontario Teachers' Pension Plan and managing the Ontario Teachers' Pension Fund.

2. It is the intention of the partners that this partnership will start on the 1st day of January, 1992.

3. In this agreement,

(a) the Minister and the OTF will be referred to as the "partners" or the "partnership",

(b) the Ontario Teachers' Pension Plan Board continued by the *Teachers' Pension Act, 1989* will be referred to as "the Board",

(c) the Ontario Teachers' Pension Plan continued by the *Teachers' Pension Act, 1989* will be referred to as the "pension plan" or the "plan" and,

(d) the Ontario Teachers' Pension Fund continued by the *Teachers' Pension Act, 1989* to provide benefits in respect of the pension plan will be referred to as the "pension fund" or the "fund".

4. The partnership established by this agreement is intended to govern all aspects of the plan and the fund. Wherever this agreement differs with any law, that part of the agreement is of no effect but the rest of the agreement continues to govern the plan and the fund.

5. The Minister agrees to do everything possible to make sure that the Teachers' Pension Plan Board will not be considered a Scheduled Agency under the Guidelines of the Management Board of Cabinet.

6. The Minister agrees to do everything possible to have subsection 43(3) of Ontario Regulation 708/87 amended to provide that the pension fund is no longer exempted from the application of subsection 23(1) of the *Pension Benefits Act.*

7. The Minister may designate one or more persons to act in the Minister's place under this agreement. The OTF may designate one or more persons to act in its place under this agreement.

Role of the partners

8. The partners will be responsible for designing the plan structure, setting the benefits of the plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the plan, this agreement or other plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the Board, and defining the role of the Board.

9. The partners will enter into a memorandum of understanding with the Board setting out,

(a) the duties of the Board,

(b) the process for consultation in the preparation of valuations,

(c) the process for consultation on the amount of money to be paid to members of the Board, including the Chair and to members of committees appointed by the Board,

(d) the actuarial methods which the Board will use in valuing the plan and,

(e) any other terms of the relationship between the partners and the Board to which the partners agree.

10. The partners agree that every three years they will follow the procedure described in this agreement to meet and negotiate changes to the plan.

11. Either partner may ask the other to meet at any time to discuss changes to any of the matters referred to in paragraph 8 and the partners agree to make their best efforts to do so.

11a. The partners agree to meet as required to discuss the amount of the Minister's contribution due on the first business day of January that is to be deferred to the first business day of April of the same year and to determine the interest rate to be applied for the period of the deferral; determination of such interest rate to be guided by the principle that the Teachers' Pension Plan not be disadvantaged by the deferral. (Last amended May 29, 1992 - Effective May 29, 1992)

11b. The partners agree that the payment of a portion of the Minister's contribution that is due on the first business day of January of 1994 and a portion of the Minister's contribution that is due on the first day of January of 1995 may be deferred to March 31 of each respective year; the amount of the deferral, with interest, to equal $200 million in 1994 and $125 million in 1995; amounts to be adjusted to reflect payments authorized under Paragraph 65. (Last amended November 15, 1993 - Effective November 15, 1993)

12. If the Board advises the partners that a change must be made to the plan to comply with any law the partners agree that they will meet as soon as possible to discuss it.

13. The partners will establish a Partners Committee by each appointing three members. Either partner may refer to the Committee any matter referred to in paragraph 8 or 12 when no agreement results from discussion of the matter.

14. The Partners Committee may by agreement use the services of the manager of negotiations referred to in paragraph 76 to resolve any dispute. The Committee may by agreement use any dispute resolution mechanism including voluntary arbitration to resolve any dispute.

15. Either partner may ask the actuary hired by the Board to provide or prepare any information which that partner thinks it needs in discussing changes to the plan. The cost of the actuary in preparing that information will be paid out of the fund. The information will be provided to both partners.

15a. The partners may initiate, with the Board, discussions, reviews and research regarding the funded status of the plan including the design of conditional inflation protection, the reasonable costs of such reviews and research to be paid out of the fund subject to the prior approval of the Board. (Last amended October 9, 2008 – Effective January 1, 2009)

16. Either partner may audit the plan and the fund at any time at the expense of that partner. The Board will cooperate in the audit.

Role of the Board

17. The Board is responsible for the administration of the pension plan, the management of the pension fund and all other matters set out in this agreement.

18. The Board may exercise every power necessary to administer the pension plan, manage the pension fund and fulfil every other task which the partners assign to it.

19. The responsibilities of the Board include,

(a) investing and managing the pension fund to do all things possible so that the obligations of the pension plan will be met,

(b) preparing a valuation at least every three years to comply with the *Pension Benefits Act,*

(c) preparing annual valuations if the Board decides it is appropriate and providing preliminary results to the partners as soon as they are available,

(d) deciding on the actuarial assumptions used in administering the plan and in preparing valuations of the plan,

(e) consulting with the partners during the preparation of a valuation and making its best effort to respond to any comments and recommendations of the partners. The content of a final valuation is the decision of the Board,

(f) giving a copy of every valuation prepared for the Board to each partner and giving any information requested by a partner to each partner as quickly as possible,

(g) having the plan and the fund audited every year,

(h) preparing a report at the end of every fiscal year that tells how the plan and the fund have been doing in that year,

(i) holding a meeting with both partners at least once each year to explain the annual report to them and to answer any questions about the plan and fund,

(j) making sure that the plan and the fund are administered and managed to comply with all laws that affect them,

(k) advising the partners about any changes to the plan that need to be made to comply with the law,

(l) advising the partners about changes that would improve the administration of the plan,

(m) interpreting the plan and determining benefit entitlements,

(n) developing an investment policy and giving a copy to each partner and to the Financial Services Commission of Ontario,

(o) making rules regarding the conduct of its business,

(p) appointing or electing a vice Chair and any other officers that the Board feels are necessary for the conduct of its business.

The Board

20. The Board will have a maximum of nine members. The partners will each appoint four members.

21. The ninth member of the Board will be the Chair. The process for appointing a Chair is set out in the next section of this agreement.

22. The Minister and the OTF will each appoint two members to the Board to terms ending on the 31st day of December, 1992.

23. The Minister and the OTF will each appoint two members of the Board whose terms will end on the 31st day of December, 1993.

24. If a person appointed under paragraph 19 or 20 is a member of the Board when the partnership starts, the Lieutenant Governor in Council will make an Order changing the length of that person's term.

25. After the expiry of the term of a member of the Board who holds office on the 1st day of January, 1992 the partner who recommended to the Lieutenant Governor in Council the appointment of that member will fill the vacancy by appointing or re-appointing.

26. Unless a member cannot complete his or her term, is removed or is appointed after a member whose term was extended because of a delay in the appointment of his or her successor, the term of all members appointed after the 1st day of January, 1992 will be two years.

27. No person may be a member of the Board for more than four consecutive terms. The initial term of a member who is appointed as a successor under paragraph 29, or as a new member under paragraph 30 or 31, shall not be counted in the number of consecutive terms a member may serve. (Last amended January 15, 2014 – Effective January 1, 2014)

28. If no appointment is made to fill the vacancy at the end of a member's term, the member will continue in office until an appointment is made.

29. When a successor is appointed to a term after his or her predecessor's term has been extended for failure to appoint a successor, the successor's term will end two years after the predecessor's term would have ended but for the delay in appointment.

30. If a member of the Board cannot finish his or her term then the partner who appointed the member may appoint a new member for a term ending on the date when the term of the departing member would have ended.

31. At any time either partner may remove a board member whom that partner has appointed and appoint a new member for a term ending on the date when the term of the departing member would have ended.

The Chair

32. The partners may decide together on the person to be appointed as Chair of the Board. The partners agree to meet six months before the term of the Chair of the Board expires to discuss candidates, and attempt to agree upon the Chair.

33. Either partner may initiate the selection of a Chair in the following way as an alternative to the discussion referred to in paragraph 32,

(a) The partners will each prepare a list of at least three persons that they would like to be Chair. The partners will give each person named a number indicating priority. The lowest priority will be indicated by the number equal to the number of persons on the list.

(b) The partners will then examine the list prepared by the other.

(c) If one name appears on both lists that person will be appointed Chair.

(d) If two or more persons appear on both lists the priority ratings given to those persons by each partner will be added together. The person whose priority rating adds to the lowest number will be appointed Chair.

(e) If no name appears on both lists the partners agree to consult together and to prepare and exchange lists until a name does appear on lists prepared by each.

34. The person selected by the partners will be the Chair for a term of two years beginning on the 1st day of January of the year following selection.

35. No person may be Chair for more than four consecutive terms. Previous terms served by a Chair as a board member shall not be counted in the number of consecutive terms a Chair may serve. (Last amended December 16, 1994 - Effective December 16, 1994)

36. The Lieutenant Governor in Council will make an order making the term of the current Chair of the Board end on the 31st day of December, 1991.

37. If no appointment is made to fill the vacancy at the end of a Chair's term then the Chair will continue in office until an appointment is made.

38. If the Chair cannot finish his or her term then the Minister and the OTF will select a new Chair. The new Chair will be appointed for a term ending on the date when the term of the departing Chair would have ended.

39. The Chair may vote on any matter the Board is considering.

Operation of the Board

40. The Board may appoint committees and delegate to them any function of the Board. The Board may appoint persons who are not Board members to sit on any committee.

41. Committee members will be appointed for a term of up to two years.

42. A quorum of the Board or a Committee is a majority of the members. No meeting of the Board or a Committee may conduct any business unless a member appointed by each partner is present.

43. The Board will decide on a reasonable amount of money to be paid to the Board members, Committee members and the Chair for time and effort spent on Board business. The money will be paid out of the pension fund.

44. If any Board or Committee member is a public servant of Ontario that person will only be paid for any income the person loses as a result of time spent on Board business and for his or her expenses of doing Board business.

45. Any expenses that the Board must pay to operate and to administer the pension plan and manage the pension fund will be paid out of the pension fund.

46. The Board will employ a Chief Executive Officer and such other staff as are necessary to carry out its responsibilities.

47. The Board may decide which of its employees will be able to participate in the Public Service Pension Plan established under the *Public Service Pension Act, 1989* and the Minister agrees to do all things possible to ensure that those employees are covered.

48. The Board may employ persons to provide it with professional, technical or other help.

49. The Board must employ an external actuary and an external auditor.

50. The Board's employees will be paid out of the pension fund.

Indemnification

51. (a) Subject to subsection (e), the Board shall indemnify a person or his or her heirs or legal representatives (the "Indemnee") against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment (collectively "Expenses"), reasonably incurred by the person in respect of any civil, criminal, administrative or investigative action or proceeding (collectively a "Proceeding") to which the person is made or threatened to be made a party by any person including the Board, by reason of being or having been a member, committee member, officer or employee of the Board or a person who acts or acted at the Board's direction as a member, director, officer, employee, partner or agent of another corporation, partnership, joint venture, trust or other enterprises (collectively "enterprise"), if,

i) the person acted honestly and in good faith with a view to the best interests of the Board or such other enterprise; and

ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the person had reasonable grounds for believing that his or her conduct was lawful.

(Last amended August 4, 2011 – Effective September 1, 2000)

(b) In furtherance of its obligations under subsection (a) the Board may purchase and maintain insurance for the benefit of any person referred to in subsection (a) in relation to any Expenses that may be indemnifiable under subsection (a). (Last amended August 4, 2011 – Effective September 1, 2000)

(c) The Board's indemnification of a person referred to in subsection (a) and any cost of purchasing and maintaining insurance for the benefit of such person are expenses of operating and administering the pension plan and managing the pension fund and may be paid out of the pension fund. (Last amended August 4, 2011 – Effective September 1, 2000)

(d) The Board or a person referred to in subsection (a) may apply to the court for an order approving an indemnity under this section and the court may so order and make any further order it thinks fit. (Last amended August 4, 2011 – Effective September 1, 2000)

(e) An indemnity given pursuant to subsection (a) extends only to Expenses that exceed amounts otherwise recoverable (and, in fact, recovered) by the Indemnee under any indemnity or policy of insurance applicable in respect of a Proceeding, and is to be regarded specifically as excess to any such amounts. An indemnity given pursuant to subsection (a) shall be subject to the condition that, in the event any indemnor or insurer against whom an Indemnee may have a claim for indemnity shall decline to pay, deny liability or otherwise contest either a claim by a person or the due amount thereof, the Indemnee must, if so requested by the Board, co-operate with and assist the Board in pursuing any claim against the other indemnor or insurer as the case may be, in such manner and to the extent that counsel to the Board may recommend or advise in the circumstances. (Last amended August 4, 2011 – Effective September 1, 2000)

(f) In any case where the Board reasonably considers that a person has fulfilled the conditions set out in clauses (a)(i) and (ii), above, and that it is otherwise appropriate to do so, prior to any settlement or judgment the Board may make an advance to an Indemnee in respect of a person referred to in subsection (a) to defray Expenses incurred or to be incurred by the Indemnee in relation to a Proceeding on such conditions as the Board considers appropriate and necessary. Any advance made under this subsection (f) shall be repayable by the Indemnee if the Indemnee fails to meet the conditions set out in clauses a(i) and (ii), above, in respect of such person. (Last amended August 4, 2011 – Effective September 1, 2000)

(g) Where the Board considers it appropriate, the Board may enter into an indemnity agreement with any person and such agreement shall reflect the limitation of this provision. (Last amended August 4, 2011 – Effective September 1, 2000)

(h) The application of paragraph 51 is effective as of September 1, 2000. (Last amended August 4, 2011 – Effective September 1, 2000)

52. The Board may buy, sell or lease real estate either as an investment or to provide a place to carry on business.

53. The Board may delegate any of its powers or duties to a committee or to an employee. It may impose conditions on any delegation it makes.

54. A committee of the Board may delegate any of its tasks to an employee of the Board if the Board approves.

Initial unfunded liability

55. The going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund as at the 1st day of January, 1990 will be paid by the Treasurer of Ontario out of the Consolidated Revenue Fund according to Schedule 2 of the *Teachers' Pension Act, 1989*.

56. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Gains and losses

57. A valuation which is prepared for filing with the Superintendent of Financial Services shall be actuarially balanced so that the present value of,

(a) benefits and costs to be paid out of the fund, and

(b) any contingency reserve,

are equal to the sum of the value of the plan's assets, including

(c) the present value of,

(i) the members' contributions,

(ii) the employers' contributions,

(iii) the outstanding balance of special payments to liquidate the going concern unfunded actuarial liability disclosed by the valuation as at January 1, 1990, and

(iv) any outstanding payments required to discharge a solvency deficiency. (Last amended March 5, 2002 - Effective April 2, 2001)

The IUL Settlement

57a. Notwithstanding any other provision in this agreement, and including without limitation, paragraphs 10, 55, 59, 60, 60a and paragraphs 73 to 101, during the IUL settlement period this paragraph shall apply to the application of actuarial gains.

(i) In this paragraph,

(a) the "initial unfunded liability settlement period" (the "IUL settlement period") means the period between January 1, 1998 and December 31, 2002 and includes any period of extension pursuant to subparagraph (v).

(b) the "initial unfunded liability" means the going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund referred to in paragraph 55 of the agreement.

(ii) Notwithstanding subparagraph 19(c), during the IUL settlement period, an actuarial valuation for funding purposes of the pension fund shall be prepared by the Board's actuary as at the 1st day of January and filed annually with the Superintendent of Financial Services, unless the partners jointly agree to instruct the Board not to file the valuation.

(iii) Effective with the valuation as at January 1, 1998, any actuarial gains disclosed in a valuation prepared in accordance with subparagraph (ii) will be applied in the following order of priority:

(a) (1) to provide an early retirement pension calculated in accordance with subsection 43(4) of Schedule 1, to members who have accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals eighty-five years (the "factor 85 entitlement"), provided that such member so qualifies on or after June 1, 1998, and on or before December 31, 2002;

(2) to provide early retirement reductions measured from 85 points rather than 90 points for benefits calculated under sections 44 and 52 of Schedule 1 for members who cease to be employed in education between June 1, 1998 and December 31, 2002;

(b) to provide for a permanent reduction in the amount of the Canada Pension Plan or Quebec Pension Plan reduction for pension instalments payable on or after January 1, 1999 as provided for in subsection 81(3) of Schedule 1 by substituting "0.0060" for "0.0068" in the formula;

(c) to provide to members on an absence, as defined in subsection 94(1) of Schedule 1, that commences during the period from the 1st day of June, 1998 to the 31st day of December, 2002, an exemption from the requirement in subsection 94(3)(b) of Schedule 1 where the member is otherwise eligible to purchase credited service under that section, and where the member, at the beginning of the leave,

(1) was at least 60 years of age;

(2) has accumulated at least that number of years qualifying service that, when added to the member's age, totals 75 years; or

(3) has credited service which totals at least 30 years; and

(d) to eliminate the obligation on the Minister of Finance to make special payments on account of the initial unfunded liability, in accordance with this agreement.

(iv) Subject to subparagraphs (v) and (vi), if there are any actuarial gains remaining after providing for (iii) (a), (b), (c) and (d), such gains disclosed in the annual actuarial valuations for funding purposes up to and including the valuation as at January 1, 2002, will be available for benefit enhancements including, but not limited to, the renewal on a permanent or temporary basis of the factor 85 entitlement, member contribution rate reductions, or to be allocated to a contingency reserve, as determined by the OTF in its sole discretion. (Last amended March 5, 2002 - Effective April 2, 2001)

(v) (a) The sum of the actuarial gains available to the OTF under subparagraph (iv), including the actuarial gains disclosed in the valuation as at January 1, 2002, shall be equal to the present value of the special payments, before the application of actuarial gains pursuant to subparagraph (iii)(d), required to amortize the initial unfunded liability as determined by the Board's actuary and disclosed in the valuation as at January 1, 1998 (the "IUL amount"), and the increase in the going concern liabilities required to provide the benefits conferred by (iii)(a), (b) and (c) as determined by the Board's actuary as at January 1, 1998, (the "benefit cost amount"). The partners agree that, effective April 3, 2001, after recognition of plan changes adopted to that time, there remains $76 million in actuarial gains available to the OTF under subparagraph (iv). (Last amended March 5, 2002 - Effective April 2, 2001)

(b) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, all actuarial gains disclosed in any actuarial valuation for funding purposes subsequent to the valuation as at January 1, 2002, will be available for such benefit enhancements, member contribution rate reductions, or to be held in a contingency reserve, as determined by the OTF in its sole discretion, until the sum of the actuarial gains available to the OTF for such purposes equals the difference between the IUL amount and the benefit cost amount.

(c) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, the IUL settlement period shall be extended to the date that the sum of the actuarial gains available to the OTF under subparagraph (iv) and (v) equals the difference between the IUL amount and the benefit cost amount.

(vi) (a) Prior to April 1, 2001, if actuarial gains are available after provision has been made for (iii)(a) to (d), and the OTF wishes to apply such gains pursuant to subparagraph (iv) for benefit enhancements or member contribution rate reductions, the partners shall meet to determine the effective date for the implementation of such benefit enhancements or contribution rate reductions.

(b) Subsequent to April 1, 2001, the OTF may, at its sole discretion, determine when such benefit enhancements or contribution rate reductions, are to be implemented. The Minister agrees to waive his consent to the plan amendments necessary to implement such benefit enhancements or member contribution rate reductions, provided these amendments are not filed by the OTF prior to April 1, 2001. Pursuant to paragraphs 8 and 104 of this agreement, the partners agree that Schedule 1 shall be amended by the OTF, to implement such benefit enhancements or contribution rate reductions, and the OTF shall promptly deliver the amendment(s) to the Board, and the Board shall promptly file the amendment(s) with the Superintendent of Financial Services upon receipt of same from the OTF.

(vii) The Minister of Finance will continue to make special payments out of the Consolidated Revenue Fund in accordance with paragraph 55 of the agreement during the IUL settlement period until the obligation to make special payments on account of the initial unfunded liability is eliminated in accordance with this agreement. The amount of the special payments payable pursuant to this subparagraph shall be in accordance with the schedule of payments set out in Appendix H to the Report on the Actuarial Valuation for Funding Purposes for the plan as at January 1, 1996 ("Appendix H") until December 1, 2001, and in accordance with Schedule 2 subsequent to December 1, 2001, if the Minister of Finance continues to be obligated to make special payments on account of the initial unfunded liability beyond this date. If subsection 3(12) of Schedule 2 to the *Teachers' Pension Act* is applicable with respect to any actuarial gains disclosed in a valuation pursuant to subparagraph (ii), the Minister of Finance shall not exercise his discretion in subsection 3(12) of Schedule 2 to reduce the remaining special payments as set out in Appendix H, until the obligation of the Minister of Finance to make special payments on account of the initial unfunded liability is eliminated.

(viii)The issue raised in the "part-time leave" case pending before the Ontario Court of Appeal shall be referred to mediation by Mr. M. Stanley Beck. Mr. Beck will be asked to provide a non-binding opinion on the merits of the case by no later than July 15, 1998. The cost of the mediation pursuant to this subparagraph shall be paid from the fund.

(ix) The partners shall establish a committee to deal on a priority basis with accounting matters relating to joint pension plan sponsorship, and agree to contact the Public Sector Accounting and Auditing Board (PSAAB) to raise issues of concern to the partners. The committee shall report to the Partners by May 1, 1999. The reasonable costs of the committee shall be paid from the fund.

(x) Subject to any extension of the IUL settlement period pursuant to subparagraph (v), at the end of the IUL settlement period, the provisions of this agreement respecting the use of actuarial gains or losses, other than this paragraph 57a, will apply. The next triennial negotiation pursuant to paragraphs 73 to 101 will be based on the actuarial valuation for funding purposes as at January 1, 2002, unless the IUL settlement period is extended beyond this date, or the partners agree otherwise.

(xi) Any dispute regarding the interpretation, application, administration and implementation of the provisions in this paragraph 57a may be resolved in accordance with paragraph 14 of the agreement, and/or through such other proceedings as are otherwise available to either partner.

58. If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate a need to increase the contribution rate the partners agree to meet as soon as possible to discuss how to adjust for that need on an equally shared basis. If the partners cannot agree on how to adjust they will refer the issue to the mediation and arbitration procedures described elsewhere in this agreement to adjust the contribution rate and/or benefits. (Last amended November 15, 1993 - Effective November 15, 1993)

59. If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate that the contribution rate can be decreased the implicit actuarial gain disclosed by the valuation will be applied to reduce and, if possible, eliminate the payments required to liquidate any unamortized balance of a solvency deficiency. (Last amended November 15, 1993 - Effective November 15, 1993)

60. An implicit actuarial gain remaining after the elimination of a deficiency mentioned in paragraph 59, will be used to establish a contingency reserve in an amount agreed upon by the partners or for any of the following purposes upon which the partners have agreed or which an arbitrator has awarded,

(i) to reduce contributions which members and employers are required to pay, and/or

(ii) to improve benefits payable to members.

60a. The portion of the gain disclosed by the January 1, 1996 valuation remaining after the implementation of the benefit improvements contained in the December 30, 1996 arbitration award shall be placed in a contingency reserve called the Rate Stabilization Fund for the period January 1, 1996 to December 31, 1998. (Last amended February 20, 1997 - Effective January 1, 1996)

60b. The $76 million of actuarial gains that, effective April 3, 2001, remain available to the OTF under the subparagraph 57a (iv) shall be allocated to a contingency reserve until such time as the OTF, in its sole discretion, may determine, at which time such gains shall be used toward the provision of future benefit enhancements and/or member contribution rate reductions as determined by the OTF, in its sole discretion. (Last amended March 5, 2002 – Effective April 2, 2001)

60c. The portion of the actuarial surplus disclosed by the January 1, 2001 valuation that remains after providing for,

(a) the benefit improvements contained in the plan amendments dated April 2, 2001, and

(b) the contingency reserve pursuant to paragraph 60b,

shall be allocated to a contingency reserve called the Rate Stabilization Fund for the period January 1, 2001 to December 31, 2001, or until such later date agreed to by the partners. (Last amended March 5, 2002 – Effective April 2, 2001)

60d. The partners acknowledge that the $76 million referred to in paragraph 60b will be used towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3% and that this application will fully discharge the credit owing the Ontario Teachers' Federation under paragraph 60b. (Last amended December 21, 2006 – Effective January 1, 2007)

60e. The partners agree that $7 million shall be allocated to a contingency reserve, to the credit of the Minister, to reflect the additional $7 million that was used, in addition to the $76 million referred to in paragraph 60d, towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3%. (Last amended December 21, 2006 – Effective January 1, 2007)

61. The valuation as at January 1, 1992 that was prepared and provisionally filed with the Pension Commission of Ontario shall be considered invalid. (Last amended November 15, 1993 - Effective November 15, 1993)

62. The board will prepare a valuation of the plan as at the 1st day of January, 1993. (Last amended November 15, 1993 - Effective November 15, 1993)

63. A portion, in the amount of $1.2 billion, of the gain disclosed by the January 1, 1993 valuation is to be applied to reduce the Minister's scheduled special payments under Schedule 2 of the Act, in the period from January 1, 1993 until the entire amount is exhausted. (Last amended November 15, 1993 - Effective November 15, 1993)

64. A further portion, in the amounts of $200 million as at March 31, 1994 and $125 million as at March 31, 1995, of the gain disclosed by the January 1, 1993 valuation, is to be applied to reduce scheduled government payments to the plan on or before the 31st of March, 1995. (Last amended November 15, 1993 - Effective November 15, 1993)

65. The partners may authorize the use of an additional portion of the gains from the 1993 valuation to offset social contract targets for those members of the plan who are not covered by the Teachers' Sub-Sectoral Framework Agreement and who meet the set of principles agreed on by the partners; these gains will be allocated in the same proportion as members of the plan who are covered by the Teachers' Sub-Sectoral Agreement. (Last amended November 15, 1993 - Effective November 15, 1993)

66. Any residual portion of the gain disclosed by the January 1, 1993 valuation is to be placed in a contingency reserve for rate stabilization until at least January 1, 1996. (Last amended November 15, 1993 - Effective November 15, 1993)

67. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

68. If a solvency valuation of the plan, conducted as at a date on or before the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,

(1) The members will during each of the fifteen years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).

(2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the fifteen years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through fifteenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

69. If a solvency valuation of the plan, conducted as at a date after the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,

(1) The members will during each of the ten years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).

(2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the ten years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through tenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

70. If a valuation done after one which showed a solvency deficiency discloses that there is no solvency deficiency or one that is less than would be expected based on the first valuation, the partners agree to adjust on an equally shared basis for any payments that have been made under paragraphs 68 or 69. (Last amended November 15, 1993 - Effective November 15, 1993)

71. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Triennial negotiation of changes to the plan

72. The Board will prepare a valuation of the plan as at the 1st day of January, 1996 as soon as possible after that date. This will be the valuation to be used for the first set of negotiations. (Last amended November 15, 1993 - Effective November 15, 1993)

73. The subject of the negotiations and of all subsequent triennial negotiations will be any of the matters referred to in paragraphs 8 and 12.

74. As soon as preliminary results of the valuation are available the partners will meet to bargain in good faith and make every reasonable effort to reach an agreement on the changes, if any, that will be made to the plan.

75. The partners will advise the Board what changes affecting benefits and contribution rates they are proposing and the Board will provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

76. There will be a manager of negotiations whose fees and expenses shall be paid by the fund. The manager will be appointed by agreement of the partners or if they cannot agree the Chief Executive Officer of the Board will act as manager. When the manager is appointed, the partners may give the manager any role in the negotiation process in addition to the role described in this agreement. (Last amended March 27, 1996 - Effective January 1, 1996)

77. At any time after the preliminary results of a valuation are available the partners may agree to appoint a mediator. The mediator will be chosen by the agreement of the partners or by a method to which they agree at that time.

78. If no agreement is reached on all proposed changes by the 1st day of May, 1996 and no mediator has been appointed by agreement the manager will appoint a mediator to mediate proposed changes to the contribution rate or benefits under the plan. The manager will do so by preparing a list of five persons willing to act as mediator and asking each partner to select three names from the list. The manager will appoint one of the persons chosen by both partners. (Last amended November 15, 1993 - Effective November 15, 1993)

79. Any proposed changes to the plan not involving the contribution rate or benefits which remain unresolved on the 1st day of May, 1996 will be referred to the Partners Committee established under paragraph 13. The Partners Committee will make every effort to resolve those issues referred to it. (Last amended November 15, 1993 - Effective November 15, 1993)

80. If the partners agree, the mediator may be appointed as a mediator/arbitrator in which case the appointee will decide on the process and time frame for conducting mediation/arbitration.

81. If the partners do not agree on mediation/arbitration the mediator will meet with them and try to mediate an agreement.

82. Within 30 days of appointment the mediator will prepare a confidential report setting out his or her views on the positions of the two partners and containing a recommendation. The report will be delivered to the partners.

83. The mediator may extend the deadline for delivering the report by 14 days if he or she is of the opinion that the partners are likely to reach an agreement during the extension.

84. If the partners do not accept the report within 14 days of its being delivered to them it will be destroyed and an arbitration board will be appointed.

85. At any time after a mediator has been appointed the partners may agree to appoint a board of arbitration.

86. If the partners agree to appoint a board of arbitration or if 14 days have passed since the mediator's report each partner will appoint one person to the board of arbitration and the two appointees will select a final member who will be the umpire.

87. This agreement together with a referral to a board of arbitration constitutes a submission under the *Arbitrations Act*, R.S.O. 1980, c. 25, as amended.

88. If the persons appointed by the partners to a board of arbitration do not appoint an umpire within 14 days of the appointment of the latter of them, the manager will prepare a list of five persons who are willing to act as umpire and ask each partner to select three names from the list. The manager will appoint as umpire one of the persons chosen by both partners.

89. The umpire will establish the procedure for conducting the arbitration but will allow each partner an opportunity to present evidence and make representations. The persons appointed by the partners will consult with the appointing partner during the arbitration.

90. The board of arbitration will hold a hearing within 30 days of its appointment and make an award within 60 days of the conclusion of the hearing. The board of arbitration will provide reasons for its award.

91. The board of arbitration in making an award will consider prevailing economic conditions and the overall state of the provincial economy.

92. The award made by the board of arbitration will,

(a) deal only with the contribution rate and/or benefits of the pension plan and otherwise maintain the plan as it is set out in Schedule 1,

(b) comply with the laws of Ontario,

(c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,

(d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,

(e) ensure that any increase in benefits is adequately funded,

(f) not impair the ability of the Board to fulfil its fiduciary responsibilities,

(g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). (Last amended March 26, 2003 – Effective January 1, 2003)

92.1 In the event that a board of arbitration is appointed pursuant to any provision of the agreement, other than paragraph 57a, to determine the application of actuarial gains disclosed in a valuation for funding purposes where a portion of the actuarial gains disclosed in such valuation is subject to the provisions of paragraph 57a, the board of arbitration shall not issue an award regarding that portion of the actuarial gains which is subject to the provisions of paragraph 57a. (Last amended May 27, 1998 - Effective April 18, 1998)

93. The board of arbitration will give the partners a copy of the award and reasons as soon as they are prepared.

94. The Board will prepare a final valuation of the plan which implements all of the changes to the plan which have been awarded or agreed to by the partners. The changes will take effect on the 1st day of January, 1997 or on such earlier date to which the partners have agreed. (Last amended November 15, 1993 - Effective November 15, 1993)

95. The final valuation will be filed with the Financial Services Commission of Ontario and Schedule 1 will be amended to reflect the changes agreed to and the award if any.

96. Every three years, after January 1, 1996, the process described in this section will be repeated unless the partners agree that no changes will be made to the plan. (Last amended November 15, 1993 - Effective November 15, 1993)

97. The manager and the umpire may agree to extend the timelines set out by this agreement if they think it will help the partners reach an agreement.

98. The partners may agree to change the procedure described in this agreement, either for one round of negotiations or for all future negotiations.

99. The costs of mediation and arbitration will be paid out of the fund. (Last amended March 27, 1996 - Effective January 1, 1996)

100. The mediator or the umpire may employ experts to assist her or him. The cost of employing experts will be shared equally by the partners. The mediator or umpire will consult with the partners about a reasonable budget for such costs.

101. Revoked. (Last amended March 26, 2003 – Effective January 1, 2003)

General

102. Schedule 1 to the *Teachers' Pension Plan, 1989* as amended is adopted by the partners as part of this agreement.

103. The partners agree that this agreement forms part of the plan documents of the pension plan and that they will file a copy of this agreement with the Pension Commission of Ontario.

104. The partners may at any time agree to change any of the provisions of Schedule 1. A change to Schedule 1 will be effected when it is filed with the Financial Services Commission of Ontario by the partners.

105. The partners will not make any change to Schedule 1 which is contrary to the laws of Ontario. Any change which is inconsistent will be void to the extent of the inconsistency.

106. Sections 116, 117, 118 and all of Part XII of Schedule 1 are revoked.

107. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

108. The Board will print a new consolidation of Schedule 1 as soon as possible after any changes to it have been filed with the Financial Services Commission of Ontario.

109. The Minister will submit a copy of Schedule 1 and the annual report to the Lieutenant Governor in Council and lay it before the Assembly at the first opportunity after the report is prepared by the Board.

110. The partners agree that the Funding Management Policy attached hereto, and as amended from time to time, forms part of this agreement. (Last amended June 3, 2009 – Effective January 1, 2009)

July 15, 1991

APPENDIX "A"

Funding Management Policy

Article I. Application

Section 1.01 *Best Estimates Assumptions*: For the purposes of this Funding Management Policy, except as otherwise provided herein, the Board shall provide the required reports using the Board's best estimates assumptions including, in the case of the discount rate, a margin for adverse deviation. The Board's best estimate economic assumptions may be based on market data, smoothed data, the reference rate or the Board's expectation if the Board believes future experience may differ from market data. The Board's assumptions shall be used only if they would be consistent with accepted actuarial practice. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.02 *Escalated Adjustments Indices*: The Board shall also maintain indices to record escalated adjustments for post-2009 service. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.03 *Different Discount Rate*: If a preliminary valuation uses a discount rate lower than the restoration basis for valuations prepared under Article III and Article VI, lower than the temporary basis for valuations prepared under Article IV, or lower than the distribution basis for valuations prepared under Article V, then the Board shall notify the partners and the partners shall meet with the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.04 *Exit Provision*: The provisions in Article II to Article IX shall expire twelve months after the notification referred to in Section 1.03 unless both partners otherwise notify the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.05 This Funding Management Policy shall be applied as follows:

(a) *If there is a restoration basis excess when current contributions exceed basic contributions and/or current benefits are less than run-rate benefits, the excess can be used to reduce contributions and/or increase benefits in accordance with Article III*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.04, then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(b) *If there is a restoration basis deficit using current contributions and current benefits, contributions must be increased and/or benefits must be reduced in accordance with Article III to eliminate the deficit*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.09, then Section 3.10, Section 3.11, Section 3.12, Section 3.13, and Section 3.14 shall apply;

(c) *If there is a restoration basis excess when contributions are less than or equal to basic contributions and benefits are greater than or equal to run-rate benefits, prepare a temporary basis valuation in accordance with Article IV*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, either:

(i) do not satisfy the conditions in either Section 3.04 or Section 3.09; or

(ii) satisfy the conditions in Section 3.04, and

1) the present value of revised benefits is equal to the present value of run-rate benefits, and

2) the present value of revised contributions is equal to the present value of basic contributions;

then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02;

(d) *Temporary and Distribution Basis Valuations*:

(i) *If there is a temporary basis excess, prepare a distribution basis valuation in accordance with Article V*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the distribution basis, the definitions in Section 5.01 and the proviso in Section 5.02, and

1) *If there is a distribution basis excess, the distribution basis excess can be used to make plan improvements in accordance with Article V*: if the results of that preliminary valuation satisfy the conditions in Section 5.03, then Article V shall apply;

2) *If there is a distribution basis deficit but a temporary basis excess, the temporary basis excess can be used to make temporary plan improvements in accordance with Article IV*: if the results of that preliminary valuation do not satisfy the conditions in Section 5.03, then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, and Article IV shall apply;

(ii) *If there is a temporary basis deficit, the restoration basis valuation will apply in accordance with Article III*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, do not satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, and Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(e) *Post-December 30, 2017 Valuations*: If the results of a preliminary valuation prepared as of a date after December 30, 2017, using the restoration basis and the definitions in Section 6.01, satisfy the conditions in Section 6.02, then Section 6.03 shall apply;

(f) *2013 Term Sheet Precedence*: The provisions of the 2013 Term Sheet shall take precedence over this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.06 *Actions Subject to Pension Legislation*: Prior to the commitment of a surplus distribution or a contribution decrease, the partners shall ensure such distribution or contribution decrease is in accordance with the *Income Tax Act* (Canada), the *Pension Benefits Act* (Ontario) and their respective regulations. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.07 *Conditions on Temporary Improvements*: Any commitment to provide temporary improvements shall be made conditional on the results of a preliminary valuation for each year of the commitment period indicating that the conditions in Section 3.04(a) are met prior to and after such temporary improvement. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.08 *Headings*: Headings are underlined and are for convenience only and shall not affect the interpretation or meaning of any provision of this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Article II. Definitions

Section 2.01 For the purposes of this Funding Management Policy:

(a) "2013 Term Sheet" means the March 13, 2013 OTPP Term Sheet entered into by the partners;

(b) "basic contributions" are the contributions required by subsections 19(1) or (2) of Schedule 1 as it read on January 1, 2012;

(c) "commitment period" means the three-year period during which a temporary improvement is provided;

(d) "commitment value" means the present value of the portion of the temporary improvement value provided during the commitment period;

(e) "Consumer Price Index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);

(f) "CPI adjustment" means the ratio between 1.000 and 1.080 of the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year to the average for the Consumer Price Index over the first twelve months of that period - 1. If the ratio would have been less than 1.000 or greater than 1.080, but for those limits, the difference shall be carried forward in a manner consistent with that set out in section 80 of Schedule 1;

(g) "current accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all current ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the current accumulated adjustment ratio is being determined. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(h) "current benefits" are the pension benefits, current escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read at the current valuation date without taking into account any amendment made, or changes agreed to by the partners, on or after the current valuation date;

(i) "current contributions" are the contributions required by Schedule 1 as it read at the current valuation date without taking into account any amendment made on or after the current valuation date;

(j) "current escalated adjustments" are the escalated adjustments in respect of post-2009 service that were applied prior to the January 1st following the current valuation date and assumed thereafter at the rate set out in the most recent filed valuation;

(k) "current ratio", for a year, means 1 + the proportion of the CPI adjustment granted as agreed to by the partners, and as may have been revised from time to time, provided that the proportion shall not be less than 50% in respect of service accrued before 2014, but not including any revision agreed to by the partners in relation to the current valuation;

(l) "current valuation date" in respect of a valuation is the date provided in Section 7.01;

(m) "distribution basis" is the reference rate with a positive adjustment of 0.5% together with the Board's best estimate actuarial assumptions for all other factors;

(n) "freeze period" means the period from December 31, 2012 to December 30, 2017;

(o) "going concern liabilities" are the going concern liabilities within the meaning of Regulation 909 made under the *Pension Benefits Act* and must also include the present value of the pension benefits and escalated adjustments that both accrued prior to the valuation date and that will accrue on or after the valuation date to the persons who were members of the plan on the valuation date and the present value of the ancillary benefits for which the eligibility requirements will be satisfied on or after the valuation date by the persons who were members of the plan on the valuation date;

(p) "preliminary valuation" means a valuation referred to in Section 7.01;

(q) "reference rate" means the interest rate chosen by the Board representing the Government of Canada long bond yield (currently, CANSIM Series V39056 nominal and CANSIM Series V39057 real, or their reasonable respective replacements) that may be based on market data or smoothed data;

(r) "remaining amortization value" means the difference between the temporary improvement value and the commitment value;

(s) "restoration basis" is the reference rate with a positive adjustment of 1.55% together with the Board's best estimate actuarial assumptions for all other factors;

(t) "revised accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the current accumulated adjustment ratio, as modified by an agreement between the partners to change the proportion of the CPI adjustment in respect of post-2009 service prior to the year following the current valuation date. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(u) "revised benefits" are the current benefits including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation;

(v) "revised contributions" are the current contributions including any amendment made on or after the current valuation date based on that valuation;

(w) "revised escalated adjustments" are the current escalated adjustments including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation and assumed thereafter at the rate set out in that valuation;

(x) "run-rate accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all run-rate ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the run-rate accumulated adjustment ratio is being determined;

(y) "run-rate benefits" are the pension benefits, run-rate escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read on January 1, 2009, together with any benefits provided by amendments described in Article IX;

(z) "run-rate escalated adjustments" are the escalated adjustments in respect of post-2009 service that would have applied at the rate of 100% of the CPI adjustment prior to the January 1st following the current valuation date and that would be assumed thereafter at the rate of 100% of the CPI adjustment;

(aa) "run-rate ratio", for a year, means 1 + the CPI adjustment for the year;

(bb) "temporary basis" is the reference rate with a positive adjustment of 1.25% together with the Board's best estimate actuarial assumptions for all other factors;

(cc) "temporary improvement" means an improvement provided in accordance with Section 4.05;

(dd) "temporary improvement value" is the present value of a contribution decrease, a distribution of surplus and/or a benefit improvement that is amortized over a period of up to ten years, but is committed to for the duration of the commitment period only, provided that at the establishment of the commitment:

(i) the partners may elect an amortization period between three and ten years; and

(ii) for amortization periods of less than ten years, any temporary improvement for a given year shall be limited such that the present value of that given year's temporary improvement is not greater than the present value of basic contributions, calculated using the temporary basis, to be paid in the same year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article III. **<u>Funding Zone - Restoration</u>**

Section 3.01 *<u>Definitions</u>*: For the purposes of Article III, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.02 *Restoration Basis Plus an Adjustment*: For the purposes of Article III, current liabilities and revised liabilities may be calculated as at the current valuation date using the restoration basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.03 *CPI Adjustment*: For the purposes of Article III, and subject to a subsequently filed valuation, the proportion of the CPI adjustment for the period covered by the current valuation, in respect of each applicable period of service, will be the same for each year in that period and assumed at the same rate thereafter. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.04 *Restoration Basis Excess, but Basic Contributions and/or Run-Rate Benefits Not Restored*:

(a) If assets are greater than current liabilities; and

(b) if:

(i) the present value of current contributions is greater than the present value of basic contributions, or

(ii) the present value of current benefits is less than the present value of run-rate benefits, or

(iii) both (i) and (ii);

then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.05 *Restoration Basis Excess Report*: The Board shall report to the partners:

(a) the excess of assets over current liabilities; and

(b) the extent to which the excess can be used to provide the changes specified in Section 3.06.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.06 *Application of Restoration Basis Excess*: For purposes of clarity, excesses identified pursuant to Section 3.05 shall be applied in the following order, provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors:

(a) *Bring Escalated Adjustments to 50% for Post-2013 Service*: to provide escalated adjustments up to 50% of the CPI adjustment in respect of service accrued after 2013 for the period covered by the valuation, and assumed thereafter at the same rate;

(b) *Bring Escalated Adjustments to 100%*: to provide escalated adjustments up to 100% of the CPI adjustment for the period covered by the valuation, and assumed thereafter at the same rate;

(c) *Restore Escalated Adjustments for Post-2013 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2013, to the current accumulated adjustment ratio for the period from 2010 to 2013, beginning with the first year in which current escalated adjustments were less than 50% of the run-rate escalated adjustments;

(d) *Restore Escalated Adjustments for Post-2009 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2009 to the run-rate accumulated adjustment ratio, beginning with the first year in which current escalated adjustments were less than run-rate escalated adjustments;

(e) *Provide Benefit Increases or Contribution Rate Reductions*: to provide the following:

(i) an increase in benefits, where the present value of current benefits is less than the present value of run-rate benefits,

(ii) a reduction in contribution rates, where the present value of current contributions exceeds the present value of basic contributions, or

(iii) a combination of (i) and (ii).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.07 *Conditions on Application of Excess*: Subject to Section 3.06 and Section 3.08 or any mutual agreement to the contrary, the partners shall apply the excess of assets over current liabilities to change benefits, contributions, or both, provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities;

(b) the revised accumulated adjustment ratio is equal to or less than the run-rate accumulated adjustment ratio;

(c) the revised accumulated adjustment ratio is equal to or greater than the current accumulated adjustment ratio;

(d) the present value of revised benefits is equal to or less than the greater of the present value of current benefits and the present value of run-rate benefits;

(e) the present value of revised benefits is equal to or greater than the lesser of the present value of current benefits and the present value of run-rate benefits;

(f) the present value of revised contributions is equal to or greater than the lesser of the present value of current contributions and the present value of basic contributions; and

(g) the present value of revised contributions is equal to or less than the greater of the present value of current contributions and the present value of basic contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.08 *2013 Term Sheet Limits*: As set out in further detail in the 2013 Term Sheet, during the freeze period:

(a) The partners may provide escalated adjustments pursuant to Section 3.06(a), Section 3.06(b), Section 3.06(c) and Section 3.06(d) only if the assets are greater than 100% of the current liabilities and do not fall below 100% of the revised liabilities after the adjustment; and

(b) The partners may agree to improve benefits, or to restore benefits that were reduced during the freeze period, pursuant to Section 3.06(e) only if the net assets available for benefits (as such term is used in the preliminary valuations) are equal to or greater than 105% of the current liabilities and do not fall below 105% of the revised liabilities after the benefit improvement or restoration.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.09 *Restoration Basis Deficit*: If current liabilities are greater than assets, then Section 3.10, Section 3.11, Section 3.12, Section 3.13 and Section 3.14 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.10 *Restoration Basis Deficit Report*: The Board shall report to the partners:

(a) the excess of current liabilities over assets; and

(b) the amount required to change current benefits, current contributions, or both, to eliminate the excess referred to in Section 3.10(a) above, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.11 *Conditions on Elimination of Deficit*: Subject to Section 3.12 and Section 3.14, the partners may change benefits, contributions, or both, to eliminate the excess referred to in Section 3.10(a), provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities; and

(b) revised member contributions shall be limited to 15% of pensionable salaries above the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.12 *Restrictions on Benefit Reductions*: Current benefits shall not be reduced unless:

(a) the partners agree on the terms and conditions of any reduction in current benefits;

(b) the partners have entered into a written agreement governing the manner in which contributions by the Minister and the Employers will be adjusted to offset any reduction in benefits; and

(c) the revised accumulated adjustment ratio, in respect of each year, is equal to or greater than the current accumulated adjustment ratio for the year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.13 *Restrictions on Contribution Increases*: Subject to Section 3.14, the partners have the authority to set the level of contributions that must be reached before current benefits are reduced below run-rate benefits, subject to the commitment that member contributions will not exceed 15% of pensionable salaries above the Year's Maximum Pensionable Earnings (as prescribed under the Canada Pension Plan). (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.14 *Further Restrictions on Contribution Increases*: As set out in further detail in the 2013 Term Sheet, during the freeze period there will be no employer contribution increases except as provided under the 2013 Term Sheet. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IV. Funding Zone – Temporary Improvements

Section 4.01 *Definitions*: For the purposes of Article IV, as at the current valuation date, using the temporary basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(d) The reference rate for purposes of determining the temporary basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.02 *Temporary Basis Plus an Adjustment*: For the purposes of Article IV, current liabilities and revised liabilities may be calculated as at the current valuation date using the temporary basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.03 *Temporary Basis Excess*: If assets are greater than current liabilities, then Section 4.04, Section 4.05 and Section 4.06 shall apply, provided that no temporary improvements may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.04 *Temporary Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets exceed current liabilities;

(b) the commitment value;

(c) the extent to which the commitment value can be used to provide a reduction to current contributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(d) the extent to which the commitment value can be used to provide annual surplus distributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(e) the extent to which the commitment value can be used to provide a temporary benefit improvement, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period; and

(f) the extent to which the commitment value can be used to provide a combination of Section 4.04(c), Section 4.04(d) and Section 4.04(e).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.05 *Conditions on Application of Excess*: Subject to Article VI and Section 4.06, the partners may apply all or part of the commitment value to change temporarily current contributions, provide surplus distributions on a temporary basis, or provide a temporary benefit improvement, provided that no amendment shall be made unless, after such amendment, the excess of assets over revised liabilities is equal to or greater than zero. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.07 *Temporary Basis Deficit*: If assets are equal to or less than current liabilities, then Section 4.08 and Section 4.09 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.08 *Temporary Basis Deficit Report*: The Board shall report to the partners the amount by which current liabilities exceed assets. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.09 *No Action on Temporary Basis and Return to Restoration Basis*: Subject to Article VI, the partners shall not provide new temporary improvements and Article III shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article V. Funding Zone – Permanent Improvements

Section 5.01 *Definitions*: For the purposes of Article V, as at the current valuation date, using the distribution basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "current targeted funding amount" is 10% of current liabilities;

(d) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(e) The reference rate for purposes of determining the distribution basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(f) "revised targeted funding amount" is 10% of revised liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.02 *Distribution Basis Plus an Adjustment*: For the purposes of Article V, current liabilities and revised liabilities may be calculated as at the current valuation date using the distribution basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.03 *Distribution Basis Excess*: If the excess of assets over current liabilities is greater than the current targeted funding amount, then Section 5.04 and Section 5.05 shall apply, provided that no changes pursuant to Section 5.05 may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.04 *Distribution Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets minus current liabilities exceed the current targeted funding amount; and

(b) the amount required to change current benefits, current contributions, or both, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.05 *Conditions on Application of Excess*: Subject to Article VI, the partners may apply all or part of the amount by which assets minus current liabilities exceed the current targeted funding amount to change current benefits, current contributions, or both, provided that no amendment shall be made unless:

(a) after such amendment the excess of assets over revised liabilities is equal to or greater than the revised targeted funding amount; and

(b) the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any change in current benefits that is reflected in the value of the liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.06 *Distribution Basis Deficit*: If:

(a) the excess of assets over current liabilities is less than the current targeted funding amount;

(b) the present value of current contributions is equal to or less than the present value of basic contributions;

(c) the present value of current benefits is equal to or greater than the present value of run-rate benefits; and

(d) the current accumulated adjustment ratio is equal to the run-rate accumulated adjustment ratio;

then Section 5.07 and Section 5.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.07 *Distribution Basis Deficit Report*: The Board shall report to the partners the amount by which assets minus current liabilities are less than the current targeted funding amount. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.08 *No Action on Distribution Basis and Return to Temporary Basis*: Subject to Article VI, the partners shall not apply, pursuant to this Article V, any part of the amount by which assets exceed current liabilities, and Article IV shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VI. Post December 30, 2017 Valuations

Section 6.01 *Definitions*: For the purposes of Article VI, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.02 *Post-2017 Excess*: Notwithstanding any other provision of this Funding Management Policy, as set out in further detail in the 2013 Term Sheet, after the end of the freeze period, if a valuation report with a valuation date after December 30, 2017 provides that assets are greater than current liabilities as at the date of the current valuation, then Section 6.03 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.03 *2013 Term Sheet Provisions*:

(a) the OTF will have 'first call' on 100% of the value of the excess of the assets over the current liabilities (to take the form of "surplus credits") up to a cumulative total of the value of the lesser of:

(i) the value of the benefit reductions made during the freeze period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (1) the value of benefit reductions for which matching contributions are made by the Minister and the Employers, and (2) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full conditional inflation protection for post-2013 service and the resulting change to the discount rate, and

(ii) the benefit reduction limit as calculated under the 2013 Term Sheet;

(b) if inflation protection is invoked below 50% during the freeze period, surplus credits will include an amount equal to the actual foregone pension payments during and after the freeze period that arise from the reduction in inflation protection invoked during the freeze period until such time as that inflation protection is restored at 50% or more during or after the freeze period; and

(c) the OTF may apply all or part of surplus credits to change current benefits, current contributions, or both, provided that no amendment shall be made unless assets are equal to or greater than revised liabilities after such amendment.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article VII. Valuation Frequency and Timing

Section 7.01 The Board shall require the actuary to prepare a preliminary valuation of the plan as of January 1, 2003 and each January 1 thereafter and, in addition, on such other date as the partners mutually agree. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.02 Subject to the requirements of the *Pension Benefits Act*, the partners agree that valuations shall be filed with the Superintendent of Financial Services only by their mutual agreement. The partners shall direct the Board, no later than seven months following the valuation date, whether to file. No such filing shall affect the timing of triennial negotiations between the partners referred to in paragraph 96. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.03 The seven-month notice requirement referred to in Section 7.02 shall not apply to the January 1, 2005 valuation and shall not apply to the January 1, 2012 valuation. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VIII. Arbitration

Section 8.01 Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.02 The limitations on amendments set out in Section 3.07, Section 4.05, Section 4.06, Section 4.09, Section 5.05, and Section 5.08 shall apply to an award made by a board of arbitration pursuant to paragraph 92. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.03 Subject to the 2013 Term Sheet, nothing in Article II to Article IX affects the timing of the triennial negotiation, mediation and arbitration process referred to in paragraphs 72 to 100. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IX. **Limitations**

Section 9.01 The limitations on amendments in this Funding Management Policy shall not apply to amendments:

(a) made pursuant to paragraphs 60b, 60d, or 60e;

(b) that are required to comply with provincial law or, where both partners agree, to maintain registration as a registered pension plan under the *Income Tax Act (Canada*); or

(c) made by mutual agreement of the partners that do not increase liabilities by more than 0.5%.

(Last amended May 27, 2015 – Effective March 6, 2015)

AMENDMENT TO THE TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS the Partners' Agreement was most recently amended on January 15, 2014; and

WHEREAS the Partners wish to amend the Partners' Agreement further;

NOW THEREFORE the Partners agree as follows:

The Board

1. Effective January 1, 2016, paragraphs 20 and 21 of the Partners' Agreement are revoked and replaced with the following:

    20. The Board will have a maximum of eleven members. The partners will each appoint five members.

    21. The eleventh member of the Board will be the Chair. The process for appointing a Chair is set out in the next section of this agreement.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Dated at Toronto this 21st day
of May, 2015.

The Ontario Teachers' Federation
as represented by its Executive

Rian McLaughlin
OTF President

Dated at Toronto this 6 day
of May, 2015.

From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Fw: OTPP question
Date: Friday, September 16, 2016 13:24:10

I can't do 2pm but can debrief afterwards if that works

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Friday, September 16, 2016 1:18 PM
To: Killoch, Alex (MOF); Paul, Joshua (EDU); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)
Subject: RE: OTPP question

Does 2 pm work?

From: Killoch, Alex (MOF)
Sent: September-16-16 1:17 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)
Subject: RE: OTPP question

Any update on this?

From: Paul, Joshua (EDU)
Sent: Friday, September 16, 2016 9:36 AM
To: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU)
Subject: Re: OTPP question

I agree w Alex that we should discuss and delegate together to make most use of time

and get you what you need when you need it.

How is 11?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Friday, September 16, 2016 9:28 AM

To: Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)

Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF)

Subject: RE: OTPP question

Hi Cindy

Can we do a call today at some point and discuss this issue, along with the request from last night that we obtain a letter covering the partner's approach to surplus.

Rather than various one-offs, I think it would be helpful, especially for our EDU colleagues, to have a conversation about what we need and to what purpose various materials would be used.

I know that Josh is in negotiations at the moment, so perhaps we can start with EDU availability. I am headed into a meeting now, but the rest of the day has flex.

Alex

From: Veinot, Cindy (TBS)
Sent: Friday, September 16, 2016 8:54 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Paul, Joshua (EDU)
Cc: Petsche, Nadine (TBS)
Subject: OTPP question

Good morning – another question on OTPP:

– if the sponsors of the plan were to decide to increase the benefits under the OTPP (something other than conditional inflation indexation), how would that impact the Province's share of the surplus in the plan.

– With the change in conditional inflation indexation, the impact to the surplus in the plan is a reduction that is tied to (a) increased payment to the teachers and (b) reduced future payments from the province, but I think that is unique to the conditional inflation indexation

Thanks,

Cindy

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: OTPP
Date: Wednesday, September 14, 2016 19:31:02
Attachment 1: Key Funding Decisions.pdf
Attachment 2: AnnRepCommentary2000 (1).pdf
Attachment 3: Financials2000.pdf

From: Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>
Sent: Wednesday, September 14, 2016 7:24 PM
To: Killoch, Alex (MOF)
Subject: FW: OTPP

From: Sekaly, Gabriel (EDU)
Sent: September 14, 2016 5:11 PM
To: Hughes, Karen (TBS)
Cc: Paul, Joshua (EDU)
Subject: OTPP

Karen,

Please find attached some additional info on the OTPP as discussed.

From the 2000 Financials – p. 17-18

Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;

(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost

of $8.45 billion; and

(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008.

From this summary of Key funding Decisions

A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

From the Annual Report 2000 (pg. 6)

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability.

This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion. The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to

improve benefits.

Hope this is helpful

Gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

Key Funding Decisions Since 1990

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the provincial pension regulator at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Ontario Teachers' pension plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

YEAR	VALUATION STATUS AND KEY DECISIONS
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.

YEAR	VALUATION STATUS AND KEY DECISIONS
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.

YEAR	VALUATION STATUS AND KEY DECISIONS
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	Some of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Teachers' Pension Plan Board

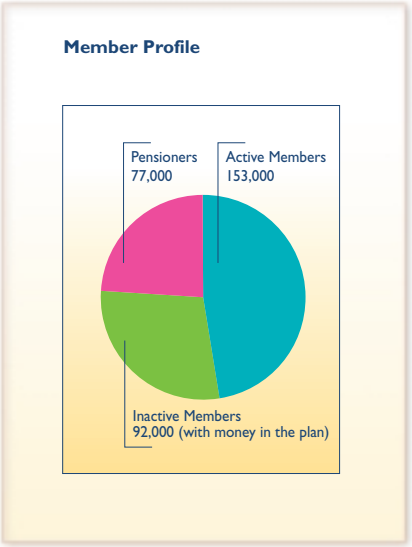
Conseil du régime de retraite des enseignantes et des enseignants

Ontario

2000 ANNUAL REPORT

CORPORATE VISION

OUTSTANDING SERVICE TODAY, RETIREMENT SECURITY TOMORROW



CORPORATE PROFILE

The Ontario Teachers' Pension Plan Board is responsible for the future retirement income of 153,000 elementary and secondary school teachers, 77,000 retired teachers and their survivors, and 92,000 former teachers with entitlements in the plan. The plan is sponsored by a partnership between the Ontario government and the plan members, represented by the Ontario Teachers' Federation. The co-sponsors negotiate the use of surplus and have an equal say in the plan's design, including changes in benefits.

The pension board's current asset-mix policy is 60 percent equities, such as shares in public and private companies and equity-return derivative contracts; 22 percent inflation-sensitive assets such as real estate, real-rate bonds and commodities; and 18 percent fixed-income securities, largely federal and provincial government bonds.

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CORPORATE DIRECTORY

FINANCIAL HIGHLIGHTS

AS AT DECEMBER 31

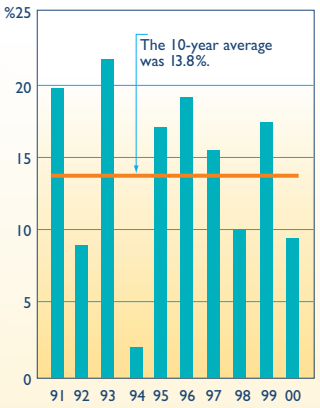
INVESTMENT PERFORMANCE

Rate of return on investments (%)	2000	1999
Annual	**9.3%**	17.4%
Composite benchmark	**5.3**	17.6
Four-year average	**13.0**	15.4
Four-year benchmark	**12.5**	15.8

Average annual compound rates of return (%)

	1 yr	4 yr	5 yr	10 yr	SINCE INCEPTION
Our return	9.3	13.0	14.2	13.8	13.1
Benchmark	5.3	12.5	13.6	12.7	10.7

Rates of Return



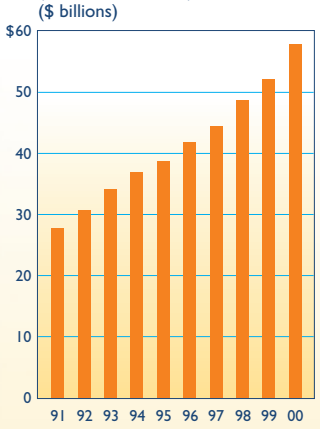
FINANCIAL OVERVIEW

($ Billions)	2000	1999[2]
Net investments	**$ 72.0**	$ 67.1
Net receivables	**1.1**	1.2
Net assets	**73.1**	68.3
Smoothing reserve[1]	**4.3**	8.3
Actuarially adjusted net assets	**68.8**	60.0
Cost of future pensions	**58.6**	52.1
Surplus	**$ 10.2**	$ 7.9

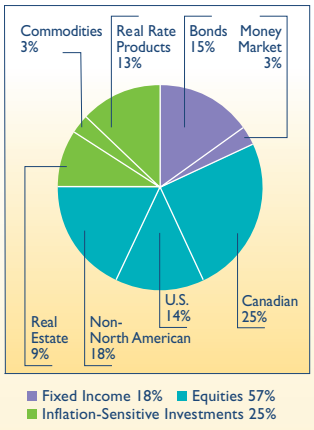
[1] We smooth equity gains (or losses) over five years to reduce the impact of market volatility on plan surplus. The smoothing reserve consists of investment gains in excess of the rate of return assumptions used in the financial statement valuation.

[2] Restated

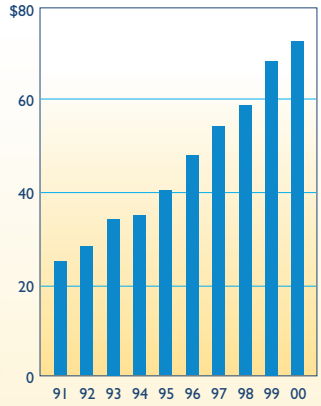
Cost of Future Pensions
(as at December 31)
($ billions)



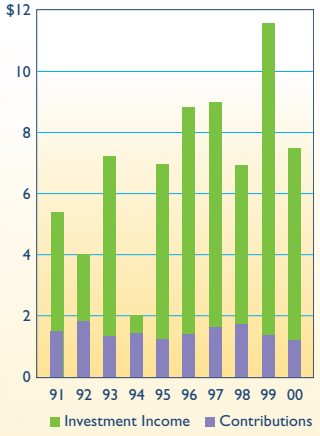
Asset Mix
(as at December 31, 2000)



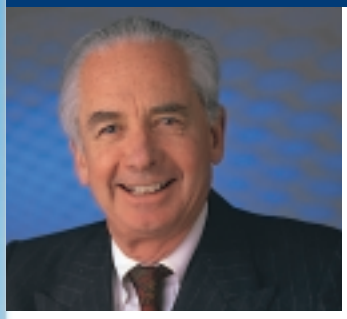
Net Assets
(as at December 31)
($ billions)



Income
($ billions)



CHAIR'S REPORT



ROBERT W. KORTHALS
CHAIR

Financial markets were highly volatile in 2000, a trend we expect to continue. Despite the less reliable investment climate, the pension board's investment staff have done a great job of creating value by exceeding market returns.

Since 1990, strong stock markets around the world have helped the fund grow faster than the increase in the cost of future pension benefits. However, what has really made the difference are deliberate decisions that allowed us to do better than the market.

Over the past decade we have gained exposure to foreign markets through equity-based derivatives and partnerships with external managers to earn value-added returns from active equity selection. We have built one of the largest merchant banks in Canada to earn premium returns from private equity markets. We have introduced innovative portfolio management techniques to earn above-market returns from equity and fixed-income index funds. Most recently, we purchased The Cadillac Fairview Corporation, making us one of the largest Canadian owners of North American real estate.

BEST-EVER VALUE ADDED

These and other initiatives paid off handsomely in 2000, with portfolio managers achieving $2.6 billion in value added. This amount is the difference between the total fund return of 9.3 percent and the 5.3 percent return for the composite benchmark. All this confirms the importance of actively managing the asset base and rewarding investment managers and senior executives for their effort.

Looking back at the value added to the fund over the last four years, the investment team averaged 13 percent against a benchmark of 12.5 percent. Since inception, they averaged 13.1 percent, beating the benchmark of 10.7 by 2.4 percent. In dollar terms, that means our investment team has created $6 billion in value added since 1990.

On behalf of the Board of Directors, I want to congratulate our entire investment team for their professionalism, foresight and innovation to meet the growing needs of the pension plan with value added investment income. It has been, and continues to be, a job well done.

AVOIDING UNDUE LOSS

The emphasis on maximizing returns also means trying to avoid unnecessary losses when markets turn for the worse. It is difficult, of course, for a large investment fund to predict short-term trends. Nevertheless, the pension board is attentive to prudent opportunities.

A good example in 2000 concerned technology stocks. Going into the year, we believed that most technology stocks were overvalued. The pension board took proactive action by reducing its technology holdings in Canadian and American stocks. As a result, we avoided substantial losses that would otherwise have occurred.

Managing Our Technology Exposure

(percent)	Q1	Q2	Q3	Q4
Technology Stocks % of TSE 300 Index	31.1	41.5	38.4	26.0
% Underweight in our portfolios	3.4	4.8	5.8	3.6

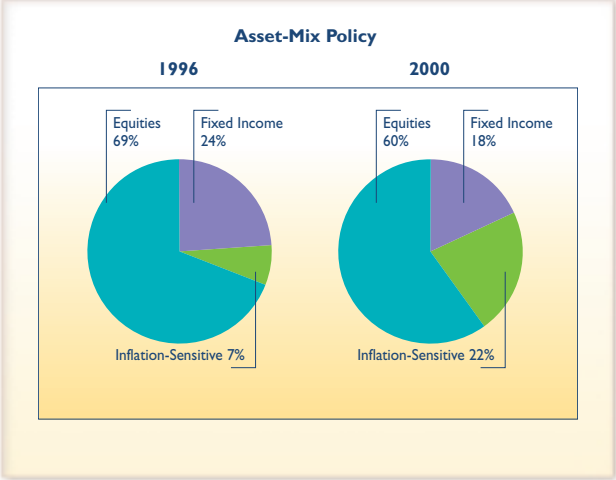
We reduced our exposure to technology stocks as a percentage of the TSE 300 Index throughout 2000.

PROTECTING THE FUND

Finding ways to add value by maximizing returns without incurring undue loss is a priority in view of the increasing number of pensioners. Since the mid-1990s, we have modified our investment approach to meet the changing needs of the pension plan.

Our asset mix continues to shift from equities and bonds to inflation-sensitive assets, especially commercial real estate properties, real-rate bonds and

commodities. These investment classes have been chosen specifically for their ability to rise in value with inflation, mitigating the long-term cost impact of inflation on growing liabilities, and safeguarding the fund if current expectations of lower returns from investment in stocks over the next decade are realized.



The asset-mix policy has changed over the past five years as we strive to better match assets that react to inflation with the indexed nature of pension benefits.

ACKNOWLEDGEMENTS

We are pleased with the investment performance of the pension fund in 2000 and prior years, and remain confident that our investment strategy, implemented by innovative portfolio managers, will continue to add value to the fund. We are impressed with the progress made to provide members of the plan with faster, more personalized service.

We are also pleased that both partners recognize the need for a strong and independent Board of Directors to oversee the pension board. We thank them for appointing directors with the skills and knowledge relevant to governing both a large investment and customer service organization.

ROBERT W. KORTHALS

CHAIR

BOARD OF DIRECTORS

ROBERT W. KORTHALS
Former President of the Toronto-Dominion Bank
Chair of the Board and Chair of Human Resources and Compensation Committee

JALYNN H. BENNETT
President of Jalynn H. Bennett & Associates Ltd., a consulting firm specializing in strategic planning and organizational development
Chair of the Investment Committee and member of the Governance Committee

GEOFFREY W. CLARKSON
Fellow of the Institute of Chartered Accountants of Ontario and former senior partner with Ernst & Young
Chair of the Benefits Adjudication Committee and member of the Audit and Actuarial Committee

ANN FINLAYSON
Journalist, speaker, freelance editor and consultant, author of three books, including *Whose Money is it Anyway? The Showdown on Pensions* (1988)
Member of the Audit and Actuarial Committee

LUCY G. GREENE
Former Vice-President of Human Resources with Sun Life Assurance Company of Canada
Chair of the Governance Committee and Vice-Chair of the Benefits Adjudication Committee

JOHN S. LANE
Former Senior Vice-President of Investments for Sun Life Assurance Company of Canada, and a Chartered Financial Analyst
Member of the Audit and Actuarial Committee

RALPH E. LEAN, Q.C.
Senior partner with the law firm Cassels Brock & Blackwell in Toronto
Member of the Governance Committee

DAVID J. LENNOX
Former Secretary of the Ontario Public School Teachers' Federation, former school principal
Chair of the Audit and Actuarial Committee

GARY PORTER
Chartered accountant and founding partner of the accounting firm Porter Hétu International, and a past president of the Certified General Accountants Association of Ontario
Member of the Audit and Actuarial and Governance Committees

All board members serve on the Investment and the Human Resources and Compensation Committees.

CLAUDE LAMOUREUX
PRESIDENT AND CHIEF EXECUTIVE OFFICER

The pension plan enjoyed another strong year in 2000, despite the negative performance of foreign equity markets, where we had about one-third of our assets invested. The total fund return of 9.3 percent produced $6.2 billion in investment income, increasing the value of net assets to $73.1 billion at year end. These results compared with a 17.4 percent total fund return and $10.1 billion in investment income in 1999.

IMPORTANCE OF THE FUNDING SURPLUS

As most readers of annual reports know, the most important number is often hidden in a footnote in the back of the report. This report is no exception – if you look at page 41, you'll find the surplus based on the funding valuation. I want to explain its significance and the resulting funding surplus. It is this figure – the funding surplus – that is particularly important to active and retired teachers because it is the amount available to the co-sponsors for plan changes.

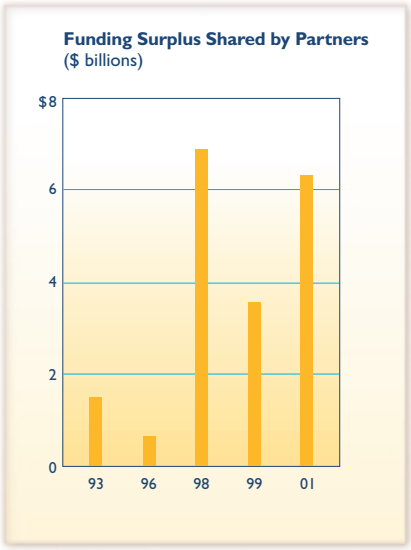
However, in our annual report, we focus on the "financial surplus" for financial statement purposes (sometimes called "management's best-estimate"). Both the annual and funding valuations look to the future, estimating the length of a teaching career, inflation and salary increases, and how long teachers will live. However, the annual valuation only looks at the financial situation at year-end and does not include the benefits that members will accrue in the future. For example, if a teacher taught for 10 years, the financial statement surplus takes into account that the plan has enough money to pay the pension equivalent for 10 years' credit.

The funding valuation, used to determine the funding surplus available to spend on benefit improvements, is a different calculation. In addition to the factors already mentioned, the funding valuation takes into account the pension that will be earned in the future, not just what has been earned up to the end of last year. In comparison, if a teacher taught for 10 years, the funding valuation includes 10 years of credit plus estimates how much money will be needed to pay the pension if he or she teaches to the 85 factor in 20 more years. It also includes how much more the teacher and the government will contribute over that time, and how much investments will grow.

USE OF SURPLUS

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability. This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion.

The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to improve benefits.



The partners will have used $18.7 billion in surplus by April 2001 to pay off the pre-1990 unfunded liability and make benefit improvements, including early retirement incentives.

A funding valuation by an independent actuary is required at least every three years. It determines whether the plan has sufficient funds to meet all future pension obligations resulting in a funding surplus or deficit, and is used as a guide to set contribution rates.

The funding valuation is a comprehensive calculation about the pension plan's financial future. It estimates the length of a teaching career, inflation and salary increases, teacher and government contributions over the length of a career, how long teachers will live, and how much investments will grow in the future.

The accompanying chart demonstrates how the funding valuation surplus is calculated.

Funding Valuation Results (before surplus allocation)

($ Billions) (at January 1)	**2001**	2000	1999	1998	1996	1993	1990
Net assets	**73.1**	68.3	59.1	54.5	40.1	29.4	21.0
Smoothing reserve	**4.3**	7.3	5.1	6.0	1.8	—	—
Value of assets	**68.8**	61.0	54.0	48.5	38.3	29.4	21.0
Future contributions	**14.4**	13.4	12.0	12.6	14.5	14.3	12.2
Future special payments*	**—**	—	3.7	8.5	8.4	8.4	—
Actuarial assets	**83.2**	74.4	69.7	69.6	61.2	52.1	33.2
Future benefits	**76.4**	69.8	66.2	62.8	60.5	50.6	41.0
Surplus (deficit)	**6.8**	4.6	3.5	6.8	0.7	1.5	(7.8)

* Payments by the government toward the pre-1990 unfunded liability.

Most of the surplus will be used in April 2001 to improve benefits, including a permanent 85 factor.

Value of assets is the value of net assets minus the smoothing reserve.

Actuarial assets refers to the value of assets as determined by the market plus the present value of future contributions by existing plan members.

Future benefits is an actuarial estimate of what it will cost to pay promised pensions over the lifetime of all current members. The cost fluctuates with market conditions and is not smoothed.

Surplus refers to the "funding surplus" (or deficit) above the cost of all future pension benefits for current members.

ASSUMPTIONS

Underlying the valuation are economic and demographic assumptions. The three most important assumptions are identified in the accompanying table.

Funding Valuation Assumptions

(percent) (at January 1)	**2001**	2000	1999	1998	1996	1993	1990
Discount rate	**6.25**	6.5	7.5	7.5	8.0	8.0	8.5
Salary escalation	**3.20**	3.25	4.5[2]	4.5[1]	5.0	5.0[1]	5.75
Inflation rates	**2.20**	2.25	3.5[3]	3.5[1]	4.0	4.0[1]	4.5

[1] except 2% for 2 years.
[2] except 2% for 2 years, 3.25% for 1 year
[3] except 2% for 2 years, 2.75% for 1 year

Salary changes affect the cost of future benefits because pension calculations are based on each member's best five years' salary. Pensions are fully indexed to inflation, which also increases pension costs.

Starting in 2000, we use the same assumptions for the annual valuation included in the financial statements.

Discount rate refers to the long-term market rate of return used to determine the present value of all future pension benefits and assets. It is assumed, as shown in the chart, that the discount rate will exceed inflation by approximately four percent.

Salary escalation and inflation rates It is assumed that, over the long term, increases in teachers' salaries will exceed inflation by one percent.

Even a seemingly small economic or demographic change can have a major impact on the plan's funding position. For example, a male teacher retiring at 57 years of age in 1995 had a life expectancy of 24.0 years, compared with 25.1 years for a similarly aged male teacher retiring in 2000. Changing the assumptions to reflect this improvement in the mortality experience of male retirees increases the plan's liability costs by $800 million.

PARTNERSHIP

As sole plan sponsor from 1917 until 1992, the Ontario government was responsible for all funding deficits and entitled to all funding surplus.

In 1992, the Ontario Teachers' Federation negotiated a partnership with the government. Teachers are now responsible for half of any surplus or deficit. As stated earlier, the partners negotiate the use of surplus and also have an equal say in the plan's design, including changes in benefits. The past use of actuarial surplus is discussed in note 9 to the financial statements.

NEED FOR A SURPLUS POLICY

Since 1990, whenever a funding surplus has existed, it has been used to eliminate special contributions or increase benefits.

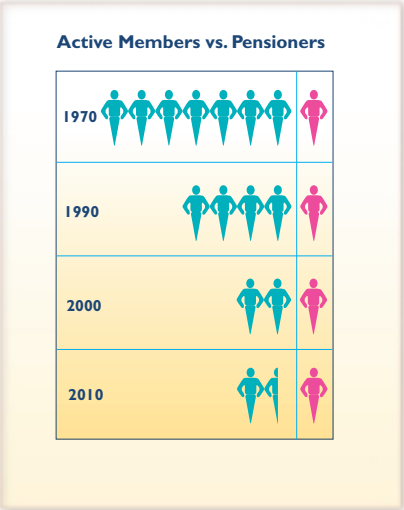
The partners know this level of yearly surplus creation is not sustainable. We are very concerned that current contribution rates will not be sufficient to cover the cost of future benefits, particularly if our current market forecasts for the next 10 years prove correct.

We encourage the partners to create a surplus policy, and we will commit resources to assist them. This policy would include the level above which the funding surplus would be used, and would be similar to the legislated capital reserve policies for banks and insurance companies. This would help to ensure some stability for contribution rates.

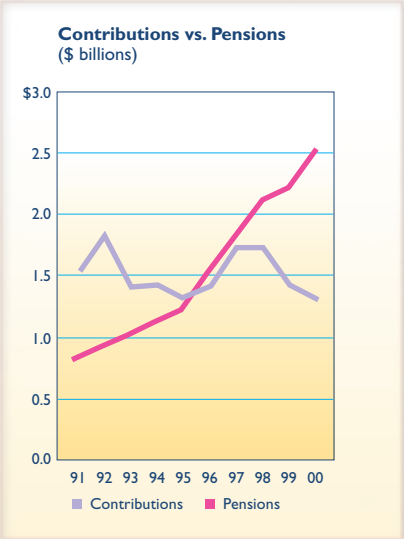
We believe it is essential to begin working today on a policy for the future because, if the plan is underfunded at a statutory valuation in the future, it will be the responsibility of the partners to make up the shortfall.

Small surplus The present value of all pensions is rising rapidly as the plan matures, totalling $76.4 billion at January 1, 2001. Sufficient assets were in place to meet these obligations with actuarially valued assets of $68.8 billion and future contributions valued at $14.4 billion, leaving a surplus of $6.8 billion. After these funds are assigned to plan improvements in April 2001, the plan will have only a small surplus of $600 million, less than one percent of liabilities.

Changing profile The profile of the plan has changed leaving fewer contributors while the number of teachers on pension continues to grow. Therefore, even an increase in contribution rates will have a reduced ability to compensate for a deficit. Ten years ago, future contributions were sufficient to cover about one-third of future benefits. Today, those contributions would only cover 19 percent.

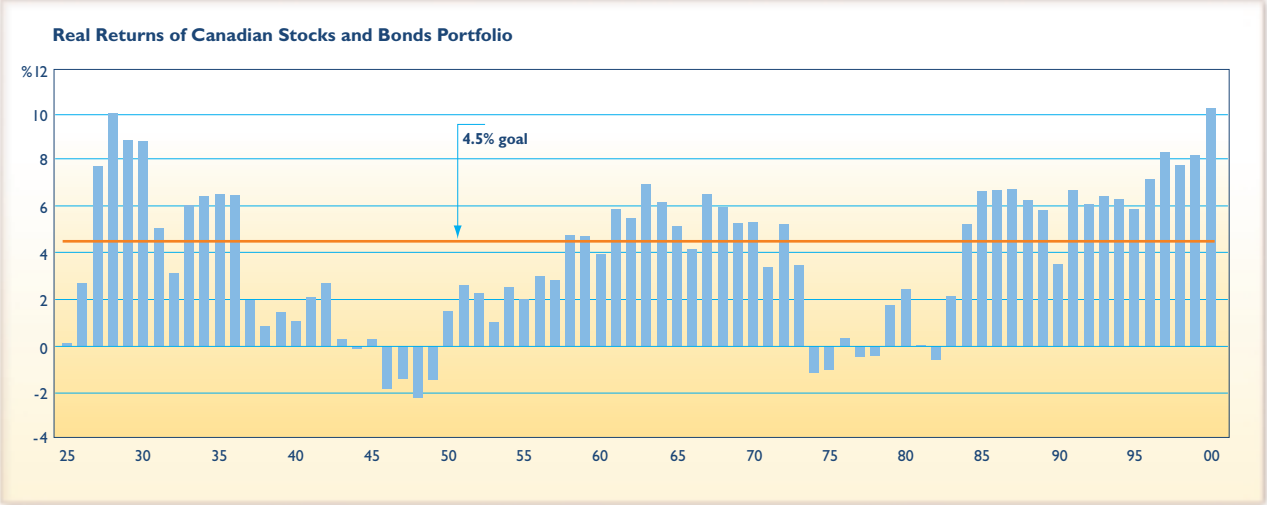


With only two active members for every pensioner today, there are half as many contributors per retiree as there were 10 years ago.



The gap between contributions and pension payments continues to widen. In 2000, 153,000 teachers and the government contributed $1.3 billion and we paid out $2.5 billion in benefits.

Increased risk In future, we expect modest real rates of return from stock and bond markets compared with the past 10 years. If history repeats itself, low or negative real-rate returns are possible over multiple years, as the accompanying chart illustrates. We are more concerned now about the impact of short-term market volatility on our ability to keep contributions stable than we were 10 years ago.



This chart tracks the rolling 10-year average real rate performance of an index-based portfolio consisting of two-thirds Canadian stocks and one-third Canadian bonds. The portfolio would reach our long-term investment target of 4.5% less than half the time.

WORKING WITH THE PARTNERS

Based on current valuation assumptions and the benefit improvements on April 1, the plan could require at least a 1.5 percent increase (matched by the government) in the contribution rates from the current average of 8 percent of salary. In the absence of such an increase in contribution rates, the plan must rely on investment returns above the actuarial assumption to make up the difference.

Our job as investment managers is to ensure that teachers receive the pensions they are promised. In the interest of prudent management, we will support the partners in developing a policy on surplus because we believe a large increase in the contribution rate would be unacceptable to plan members. Having a surplus policy in place would also help us plan our investment strategy, allowing us to build the most appropriate asset mix and investment programs around the policy.

In the meantime, we assure plan members that the pension board is committed to maximizing investment returns so that asset values have a better chance of keeping pace with the rising value of promised pensions.

STRIVING FOR EFFICIENCY

In seeking above-average investments, as well as providing timely and personalized member services, we strive to be an efficient organization. Last year, it cost $133 million to operate the pension board. Ongoing administrative costs were $106 per member. Investment expenses at 14 cents per $100 of net assets were low compared with many other institutional investors. These costs are tabulated in note 12 to the financial statements.

ACKNOWLEDGEMENTS

Our bi-annual employee survey showed that the pension board continues to be an attractive place to work. The positive attitudes and professionalism of staff are behind our standing as one of the consistent top investment performers in the pension fund industry as well as our highest-ever customer satisfaction rating from teachers and retirees. We remain committed to doing an even better job in the future.

CLAUDE LAMOUREUX

PRESIDENT AND CHIEF EXECUTIVE OFFICER

The challenge of faster, better and friendlier service

We are a customer-focused organization with a broad mandate that covers dozens of benefit entitlements and we serve more than 300,000 clients. Our services extend far beyond calculating and paying pensions; we respond to the ever-changing needs of our plan members and pensioners.

Member Services Volumes

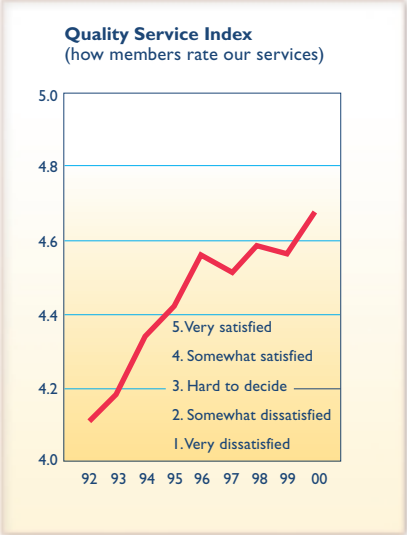
	2000	1999
Telephone calls	**94,296**	78,654
Purchase of credit	**12,541**	18,021
Pension inceptions	**7,034**	6,397
Pension estimates	**5,880**	6,331
Changes to survivor benefits	**3,358**	3,455
Termination estimates	**2,512**	2,736
Death benefits	**2,656**	2,713
Plan transfers	**2,019**	2,208
Marriage breakdown calculations	**806**	836
Commuted value payouts	**761**	612

Last year, we advised more than 2,800 teachers on their options at retirement planning workshops throughout Ontario, sent out 153,000 personalized annual benefit statements to active members, and collected $615 million in pension contributions from teachers through their employers. We paid out benefits of $2.5 billion to approximately 77,000 pensioners and members who left the plan.

HIGHEST-EVER CUSTOMER SATISFACTION

Our commitment to providing outstanding immediate and personalized service to all plan members and pensioners earned us the highest-ever customer satisfaction rating in 2000. The strongest improvements were in satisfaction with our services in providing pension inceptions, estimates, transfers, terminations and purchases of credit.

In 2001, we will replace the satisfaction survey, based on written member responses collated by staff, with an extensive random telephone survey conducted by an independent market research firm. The new approach

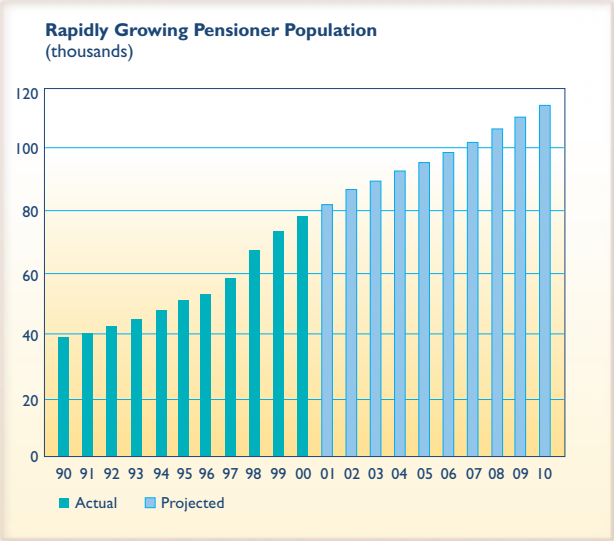


will measure a broader range of customer interactions, with the emphasis on services and service levels. This should provide a more informative evaluation of our personalized relationship with members.

EXPANDING PENSIONER POPULATION

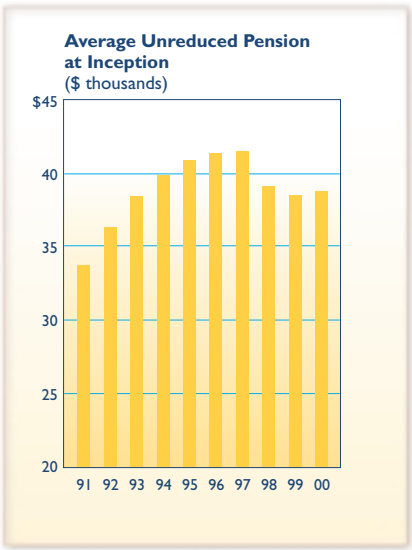
In the past three years, 21,800 teachers retired with two out of three taking advantage of the 85 factor. This increased the pensioner population to 77,000 at the end of 2000.

A large proportion of teachers is in the 45 to 55 age range and will retire in the current decade. As they consider their retirement options, these teachers will require frequent interaction with the pension board by telephone, e-mail, the Internet and one-on-one meetings.



The pension board is positioned to handle the influx of personal service needs from an expected 50,000 retirements over the current decade.

To provide better and faster customer service, we believe we have put in place some of the best technology and information management systems of any pension plan in North America. Personal service is delivered by 60 pension benefit specialists, who deal with situations ranging from members coping with the death of a spouse to requests for information on commuted value pay-outs. Staff are continuously retrained on best business practices, and we closely track our performance based on member feedback.

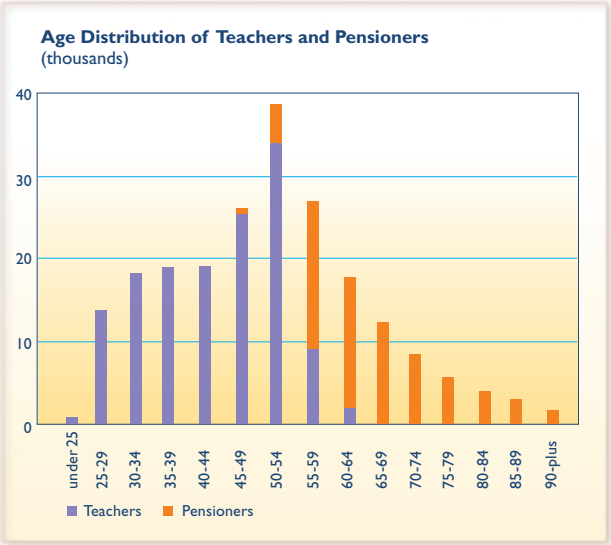


The average unreduced pension has declined from $42,000 in 1997 to $38,400 in 2000 due to early retirements under the 85 factor.

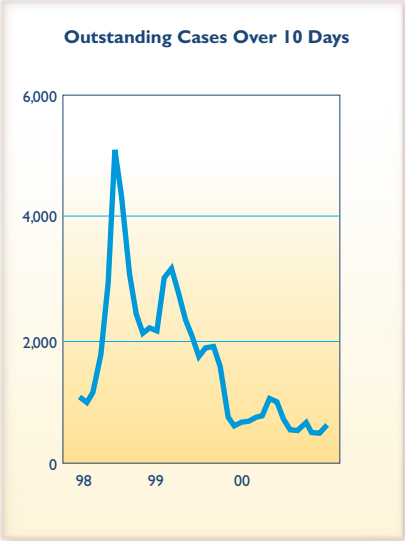
IMPROVED SERVICES

An example of how we use technology to improve service is our Computer Telephone Integration system that automatically recognizes a member's telephone number. By the time the member talks to a pension benefit specialist seconds later, the member's file is open on the specialist's computer.

The friendliness of our specialists is one reason why our customer satisfaction level is so high. Another reason for higher satisfaction is our new easier-to-read member's annual personal statement of benefits, including greater disclosure such as commuted value (the lump sum required to replace the individual's future entitlements).

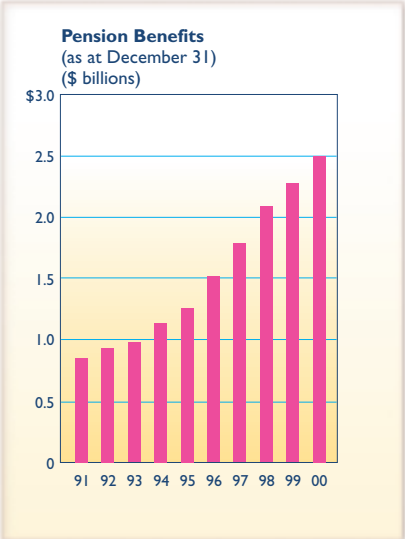


Over the past 10 years, retirees in their 50s have increased as a percentage of the pensioner population. The average pensioner age has decreased to 66.5 years.



Introduction of the 85 factor in 1998 caused a backlog in our workload. Our goal is to handle all member requests, no matter how complex, within 10 working days.

The commitment to outstanding service is evident in the time it takes to handle and complete requests from members. Outstanding requests more than 10 days old peaked at 5,000 in June 1998, following introduction of the 85 factor, and have remained well below 1,000 for most of the past year.

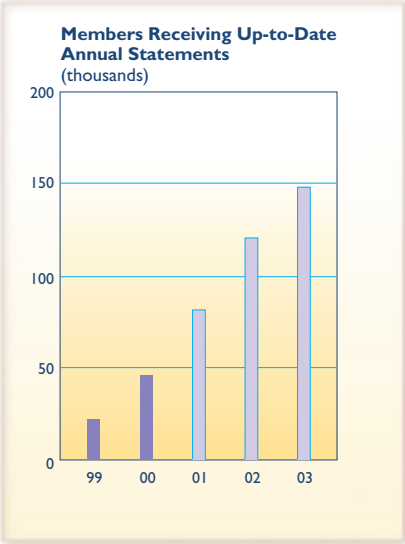


Benefits paid to retirees and their survivors continue to rise rapidly as a large number of teachers enter normal retirement or opt for early retirement.

We are also working with 218 employers to improve the quality and timeliness of member information we receive, including service credit and salary information on each active teacher.

By the end of 2000, 17 percent of employers, with more than 75,000 members, had been transferred from annual to payroll-based reporting. This also means that 75,000 members will now get annual statements that are one to two years more up to date than before.

With the continued cooperation of school boards, we expect to complete the transfer of all plan members to payroll-based reporting – and thus to up-to-date annual statements – by the end of 2003.

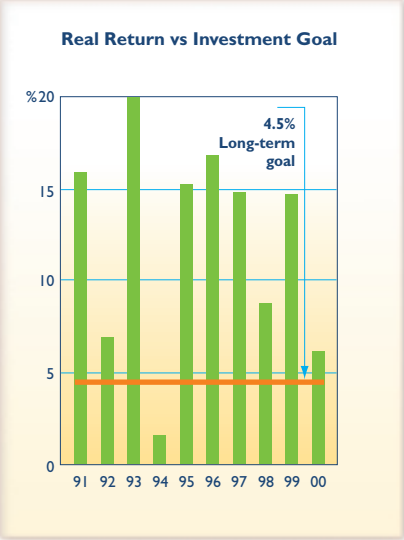


Typically, statements are only current as of August of the previous year, a situation we expect to correct for all members by the end of 2003.

The challenge of earning above-market returns

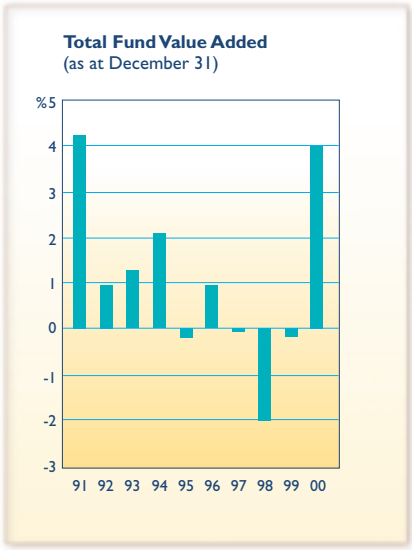
Our long-term goal is to create a surplus by growing assets faster than pension liabilities. To match average liability growth, assets must generate an annual real return of 4.5 percent (that is, 4.5 percent above the rate of inflation).

Over the long term, we believe that investing mostly in stocks will earn the level of real returns the plan needs. Consequently, our asset-mix policy has always been weighted much more to equities, a strategy that has paid off since 1990 with real returns substantially above the long-term goal. However, equity returns over the current decade could be below our target of 4.5 percent.



Because of exceptional investment markets, we exceeded the long-term investment objective in the 1990s, an achievement that will be more difficult over the next decade.

Because it will be more difficult to earn the required level of returns from passive investing alone – that is, by replicating market indices for stocks, bonds and commodities – we have reduced our index funds by shifting capital to active portfolios where we can add value. Over the past 10 years, active management and tactical asset allocation improved the returns we would otherwise have received from passive index investing by 1.1 percent.



Active management produces higher returns than the markets in which we invest can produce on their own. In 2000, this approach created $2.6 billion in value added.

INVESTMENT MANAGEMENT TEAM

We employ about 95 investment professionals, from portfolio managers, bond traders and stock analysts to foreign exchange managers, merchant bankers, and derivative traders. In addition, we employ a large staff at our wholly owned real estate subsidiary, The Cadillac Fairview Corporation Limited.

About 60 finance professionals support our investment effort. They ensure compliance with rigorous operational controls, policy guidelines and risk management limits. Every day, they settle transactions, forecast liquidity requirements, and report on investment positions, portfolio risk and returns.

Approximately 35 information technology professionals maintain and enhance our trading, risk management and reporting systems. They are developing a system that instantly routes orders from portfolio managers to various trading desks and allows for electronic execution and settlement of trades.

MAXIMIZING INVESTMENT RETURNS

To maximize returns, we actively manage 36 percent of invested assets. Even the indexed equity and fixed-income portfolios are partially actively managed through quantitative, arbitrage and other performance-enhancing strategies. We also use derivative products to manage risk and maximize returns. As a result, we are one of the largest international traders of equity-based swaps, futures and options. Many of our active strategies are independent of market direction.

We allocate a risk capital budget to each investment portfolio with the expectation of earning a minimum 10 percent return on this risk capital. The budget allocation varies among portfolios and is proportionately smaller, for example, for fixed-income securities than for merchant banking. In aggregate, the risk capital budgets are approximately 5 percent of invested assets.

We also macro-manage the total fund through "overlay" programs. For example, the asset-mix policy allows equity exposure to vary between 50 and 70 percent of net assets relative to a target of 60 percent. In 2000, we under-weighted equities and reallocated capital to fixed-income securities and real-rate bonds.

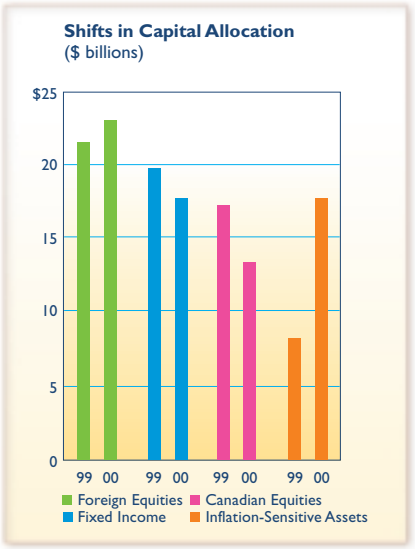
When we invest abroad, we earn a return on the investment and incur a gain or loss as a result of currency fluctuations. To reduce the volatility of returns from foreign currency fluctuations, we hedge 50 percent of investments in major foreign currencies that have a low correlation to the Canadian dollar.

Portfolio managers are rewarded for optimizing total assets and not just their own portfolios. An investment planning committee meets every two weeks to review the asset-mix policy and develop a tactical asset allocation response to current market conditions.

INDEX BANKING

We believe in being fully invested, and consider cash a drag on investment returns. Excess cash is normally invested in equity and fixed-income index funds until we identify opportunities that can earn above-market returns.

For example, to improve returns above the Canadian market benchmark, we have developed quantitative portfolios that invest in TSE 300 stocks based on models that attempt to identify strategies and stocks that should outperform the index. These portfolios have exceeded the TSE 300 returns for eight consecutive years. We account for about 4 percent of the value of trading volume in TSE 300 companies and have minimized transaction costs by trading large blocks of individual stocks or baskets of different stocks in a single transaction. Greater use of electronic trading is further reducing costs.



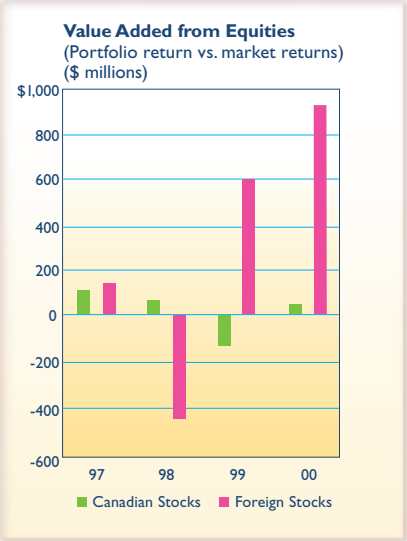
We reduced most asset classes as we transferred capital to inflation-sensitive assets such as real estate, real-rate bonds and commodities.

In the case of foreign equity index funds, our staff invest entirely in equity-based derivatives to earn market returns. Since the correlation of these investments to market performance is extremely high, these portfolios achieve market returns on a consistent basis.

ACTIVELY MANAGED EQUITY PORTFOLIOS

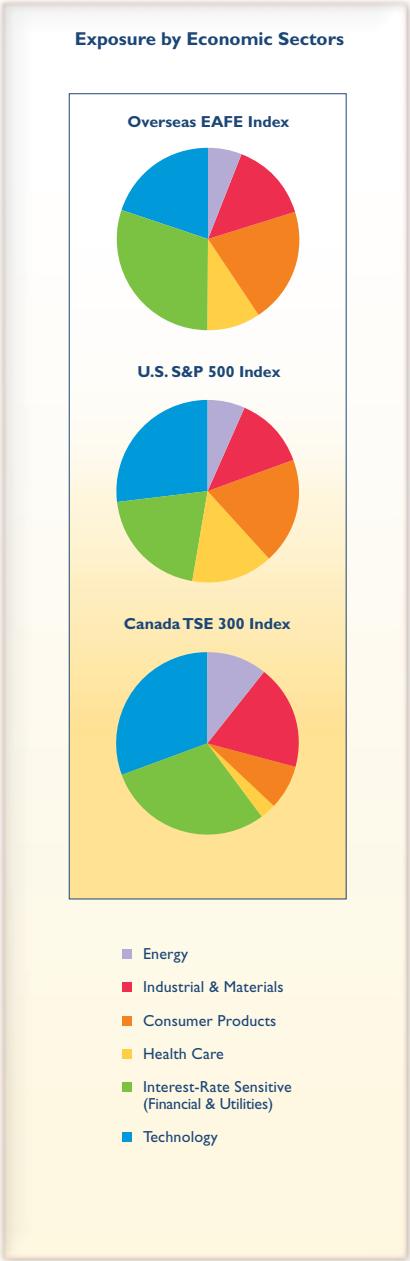
Stocks We have considerable experience as an active equity investor in Canada. In 2000, we began to expand this expertise to the global marketplace by transferring capital from foreign equity index funds to internally managed global equity programs. At the end of 2000, our staff managed more than $640 million of a total $8.3 billion in global equities.

At the same time, we remain committed to external foreign equity managers who have earned exceptional returns for the plan for many years. Building our skills in active global investing will strengthen our relationships with these managers and improve our understanding of their investment decisions.



In Canada, we have added value above equity benchmarks (indicated as zero). Outside Canada, the value-added has been more volatile and more spectacular.

Opportunities to invest in public companies in Canada are limited. The Canadian market is relatively small compared to the capital held by large institutional investors. For this and other reasons, it is important to look beyond Canada for additional investment opportunities. Focusing on global opportunities should reduce fund risks and enhance returns because global markets provide a greater diversity of economic sectors. A more global focus also allows us to select companies that are world competitors with strong performance prospects.



Greater economic diversification outside Canada offers investment opportunities that should reduce risk and improve long-term returns.

Corporate governance We attempt to improve shareholder value in public companies by voting our shares, encouraging boards of directors to practice good corporate governance, and being more involved in certain companies.

We now publish our proxy voting record on our web site **www.otpp.com**. Sharing our voting inten-

tions with management, shareholders and plan members in advance of shareholder meetings increases the transparency of our decisions and strengthens our corporate relationships with the companies in which we invest.

2000 Proxy-Voting Record

	For	Against
Employee Stock Options	46	89
Shareholder Rights Plans	1	36
Other	246	135

The most contentious issue is excessive stock options that dilute shareholders' value. In our view, the cost of options should be recorded in financial statements so that shareholders know the full financial impact of these awards.

The proxy voting record shown in the table has changed little over the past three years. We intend to be more active in working with other large investors to bring about change.

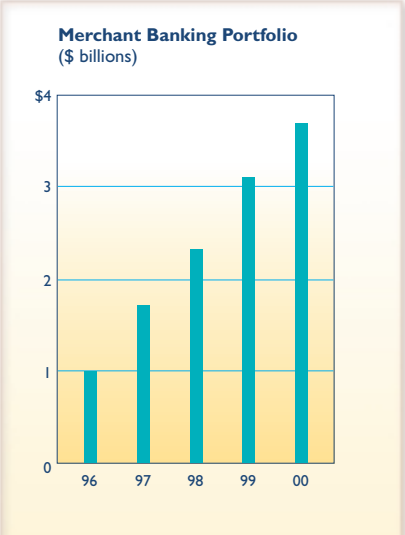
Our involvement with select companies is intended to support their boards of directors in requiring management to develop a value-added strategy with growth targets. In 2000, we made direct investments in four such companies in telecommunications, energy and industrial products. The investments are 10 to 20 percent of each firm's outstanding shares and totalled $810 million. These commitments doubled the value of our relationship investing portfolio to $1.5 billion with direct and indirect investments in eight U.S., seven Canadian and 21 U.K. companies.

Merchant banking We have developed expertise in all facets of merchant banking and ended 2000 with $3.9 billion in over 100 investments in the consumer products, communications, industrial products, entertainment & media, financial services, retail, and energy industries. We invest directly in Canadian firms, which represent 40 percent of the merchant banking portfolio. In the United States and Europe, we invest both directly and indirectly through limited partnerships.

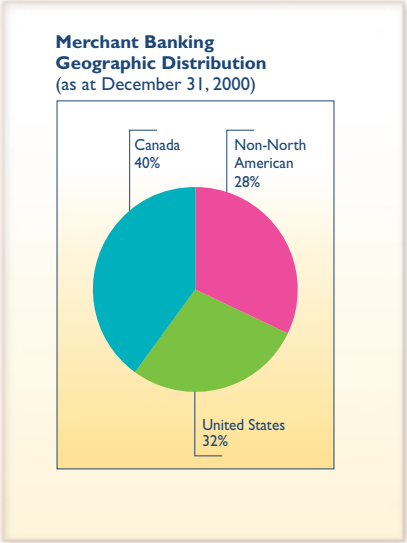
There are many opportunities to earn premium returns in the private market, where we are specialists in identifying value-added prospects. For example, we invested $14.8 million in a Canadian technology company in 1992 as part of a management buyout. In late 1993, the refinanced and refocused company was taken public. We divested our interest in stages and, by the time the last shares were sold in 2000, had realized $131 million in gains. In 2000, we sold positions in eight companies acquired for $201 million to realize net proceeds of $310 million.

Our equity and mezzanine debt investments facilitate management buyouts, business expansions, acquisitions, financial restructurings, ownership changes and taking companies private or public. In 2000, we participated with four U.S. funds in the management buyout of Shoppers Drug Mart and acquired a significant minority interest.

We first offered mezzanine debt in 1999 and had $244 million invested by the end of 2000. This product appeals to many companies as an alternative to equity and senior debt, filling the void in Canada served by the high-yield market in the U.S.



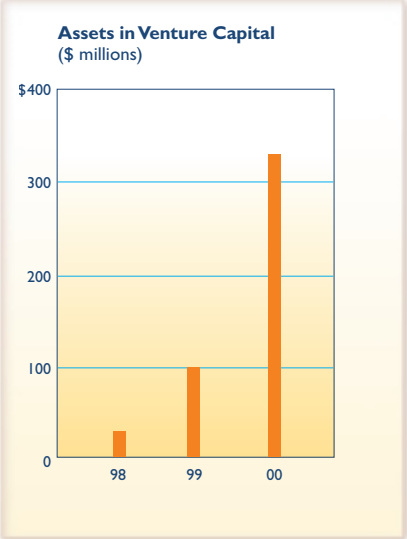
Our merchant bank has grown to be one of the largest in Canada, earning annual returns in excess of 23% since 1991.



We are increasingly adopting a global perspective in our search for premium investment returns from merchant banking.

Our merchant banking portfolio includes a venture capital fund launched three years ago that ranks among the top sources of early-stage capital in Canada. Investing in start-up enterprises carries higher risks in the expectation of higher rewards. Our size, long-term investment perspective and diverse asset base allow us to take risks in the most promising opportunities on the assumption that the successes will exceed the costs of failures.

At the end of 2000, we had $329 million invested in 24 companies and 12 venture capital funds, principally in life sciences and information technology. These investments typically involve multiple rounds of financing of $3 million to $20 million each. Approximately 54 percent of our venture capital investments are in Canada and 46 percent in the United States.

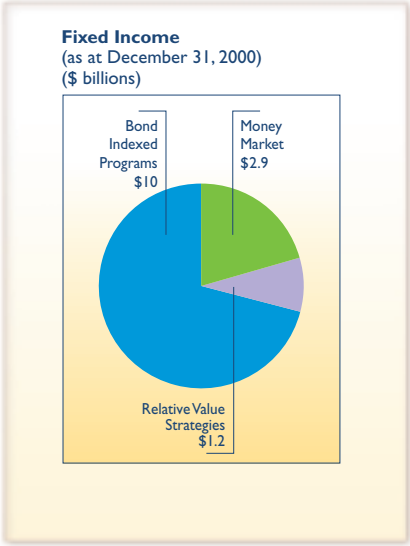


We are committed to Canadian venture capital investments where there are reasonable prospects of earning good returns for the risks involved.

FIXED-INCOME PORTFOLIOS

During the past two years, our consolidated bond portfolios have been among the top quartile of fixed-income performers.

Our basic approach is to invest the majority of fixed-income assets in bond indexed programs to replicate the Scotia Capital Canada Universe, which contains federal government bonds. Our portfolio contains substantial holdings in Government of Canada bonds, more than three percent of the Bank of Canada's domestic public debt. However, we use relative value strategies to attempt to earn returns 20 to 30 basis points above this benchmark.



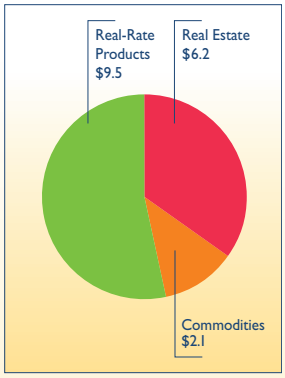
The fixed-income group manages $14.1 billion in assets.

Fixed income includes $2.9 billion allocated to the money-market portfolio and $1.2 billion in programs where we use relative value strategies to enhance returns. We have also expanded the relative value approach to include Canadian high-yield corporate securities that are well diversified by industry and economic segment. At year-end, this portfolio totalled $286 million. We are targeting the high-yield U.S. market for future expansion. We also continue to develop quantitative techniques to improve analytics, capture mispricing, and find other relative value opportunities in both bond and money markets. In this way we benefit from diversification by implementing strategies where expected returns have a low correlation to the fixed-income market overall.

INFLATION-SENSITIVE INVESTMENTS

The assets that best match the plan's liabilities have stable real returns and a high correlation with inflation. Nominal bonds are only a good fit during periods of stable inflation. Stocks have high average returns and a positive long-term correlation with inflation, but are highly volatile in the short run. Real estate, real-rate bonds and commodities are highly sensitive to inflation.

Inflation-Sensitive Investments
(as at December 31, 2000)
($ billions)



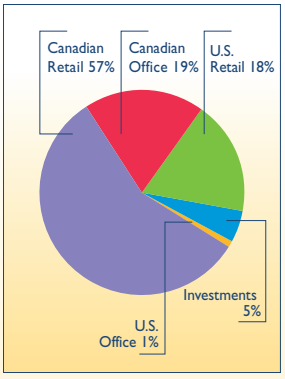
To better match inflation-indexed pensions, we are building up ownership of inflation-sensitive investments.

Since late 1998, we have managed these investments as a separate asset class. While we strive to maximize long-term real returns from these assets, their primary role is to shield the fund's surplus from the short-term risks we experienced in 2000 – a rapid rise in liabilities due to higher inflation from 2.6 to 3.2 percent and falling real interest rates from 4 to 3.4 percent.

Real estate We own a $10.4 billion real estate portfolio ($6.2 billion net of liabilities), managed by Cadillac Fairview, our wholly owned subsidiary. Approximately 95 percent of the portfolio consists of full or partial ownership of 69 shopping centres and 48 office buildings in Canada and the United States.

Our current strategy is to reposition the North American office and retail assets through a combination of redevelopment, acquisitions and dispositions with the goal of owning premier properties in key markets. This strategy is being implemented by Cadillac Fairview. We previously owned 22 percent of this company and acquired full ownership in March 2000 for $2.4 billion. As a result, we own Canada's best property portfolio and the industry's top property management company.

Real Estate Portfolio
(as at December 31, 2000)

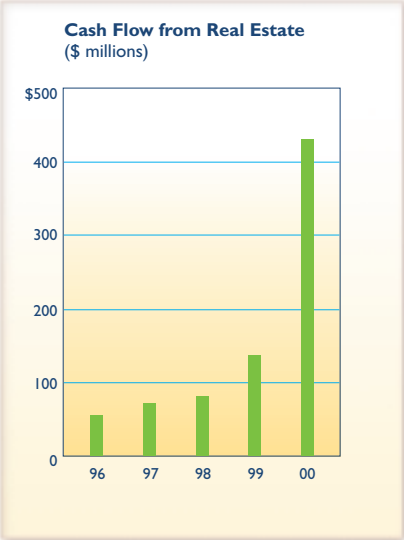


Our plan is to increase ownership of high-quality office buildings and large shopping centres in North America.

The Canadian portfolio includes premier properties, such as the Toronto Eaton Centre, Vancouver's Pacific Centre and the Toronto-Dominion Centre complex in Toronto. We recently purchased full ownership of these properties from the previous co-investor. We also strengthened our retail ownership in the Toronto area by acquiring Sherway Gardens. In the United States we own 23 shopping centres in the major markets of 10 states.

Owning Cadillac Fairview provides exclusive access to the expertise of 1,750 employees dedicated to maximizing the value of the plan's real estate assets. The Cadillac Fairview brand is internationally renowned and the company is the first call for major American and European retailers seeking a presence in the leading shopping centres. A testament to the market-draw of our shopping centres was the decision by Sears in 2000 to open five of its seven new Eatons stores in our properties.

The size and quality of our real estate portfolio provides large and predictable income. In 2000, the portfolio generated approximately $427 million in cash flow from operations.



The cash flow from real estate in 2000 was equivalent to paying close to 13,000 annual pensions.

Real-rate bonds Real-rate bonds are an excellent match against plan liabilities and, along with index-linked mortgages, are risk free with respect to inflation. As a result, we continue to be a keen buyer of these securities. In 2000, we increased our holdings of Canadian real-rate products from $4.2 billion to $5.8 billion and entered the U.S. market by acquiring $3.7 billion of U.S. Treasury Inflation-Protected Securities (TIPS). At year- end, our consolidated portfolio of real-rate securities totalled $9.5 billion.

Commodities Commodities generally have high real returns when there is unanticipated inflation and provide a hedge against short-term inflation risks in the value of the plan's liabilities. We invest through derivatives in the Goldman Sachs Commodity Index, which is heavily weighted to oil and gas, and doubled the plan's holdings to $2.1 billion in 2000.

This section of the annual report provides an overview of our operations and provides a more detailed explanation of the consolidated financial statements. It should be read in conjunction with the financial statements. Our objective is to present readers with a view of the pension board through the eyes of management by interpreting the material trends and uncertainties that affected the operating results, liquidity or financial condition of the pension plan in the last fiscal year. In addition to historical information, this section contains forward-looking statements that reflect management's objectives and expectations as at the date of this report, which involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.

YEAR-END FINANCIAL POSITION

The plan's accrued pension liabilities increased from $52.1 billion to $58.6 billion during 2000. The actuarial assumptions used to determine these liabilities for financial statement purposes reflect management's best estimate of teachers' salaries, inflation, demographic factors, and market-based yields. These estimates at the end of 2000 were in line with the markets.

Valuation Assumptions

(as at December 31) (percent)	2000	1999
Discount rate	**6.25**	6.75
Salary escalation	**3.20**	3.25
Inflation rate	**2.20**	2.25

Both the financial statement and funding valuations now use the same assumptions.

Benefit payments In 2000, the plan paid $2.5 billion in benefits, an increase of $200 million over the previous year. The increase principally reflected 6,200 teachers retiring, bringing to 77,000 the number of retired members and their survivors receiving benefits.

Accrued Pension Benefits

($ Billions)	2000	1999
Accrued pension benefits, beginning of year	**$ 52.11**	$ 49.63
Interest on accrued pension benefits	**3.48**	3.49
Benefits earned	**1.36**	1.30
Benefits paid	**(2.54)**	(2.28)
	54.41	52.14
Changes in actuarial assumptions	**3.89**	0.77
Experience gains	**0.26**	(0.80)
Accrued pension benefits, end of year	**$ 58.56**	$ 52.11

The 2000 payments included $164 million in commuted value transfers (versus $108 million in 1999) and a 1.5 percent cost-of-living adjustment. To calculate the inflation adjustment rate, we average the annual change in inflation for 12 months ending in September each year. The inflation adjustment paid in January 2001 was 2.5 percent.

Change in net assets The plan began 2000 with $68.3 billion in net assets available for benefits. During the year, the plan gained $7.5 billion of income – $6.2 billion from investments, compared with $10.1 billion in 1999, and $1.3 billion from contributions, compared with $1.4 billion a year earlier.

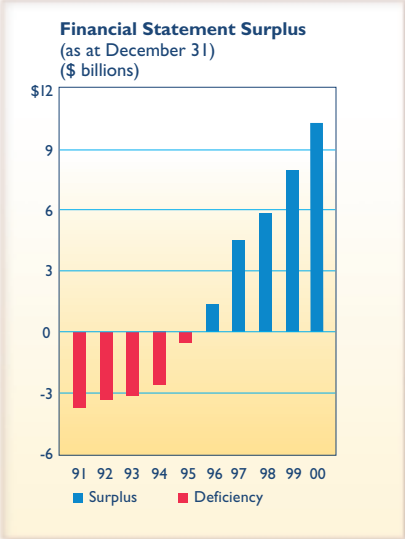
Changes in Net Assets

($ Billions)	2000	1999
Income		
Investment income	**$ 6.21**	$ 10.12
Contributions	**1.28**	1.41
	7.49	11.53
Expenditures		
Benefits	**2.54**	2.28
Operating expenses		
Member services	**0.03**	0.03
Investments	**0.10**	0.09
	2.67	2.40
Increase in net assets	**$ 4.82**	$ 9.13

Expenditures, including benefits paid to members and survivors, totalled $2.5 billion and $133 million to operate the pension board.

As a result of these changes, net assets available for benefits grew by $4.8 billion to $73.1 billion by the end of 2000.

Surplus The plan had a surplus for financial statement purposes of $10.2 billion at December 31, 2000. This compared with $7.9 billion a year earlier on a restated basis.



The year-end surplus, based on the financial statements, quantifies the plan's financial position from an accounting perspective.

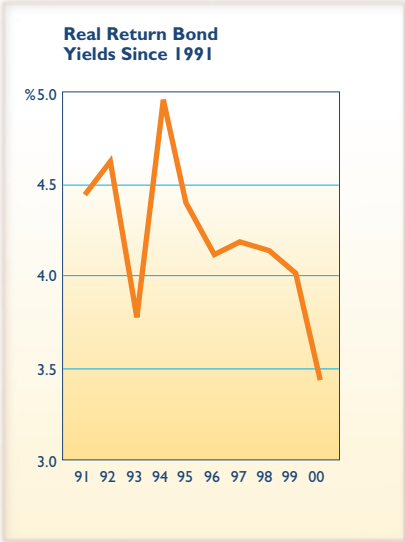
In the past, management used its best estimate of the long-term rate of return to determine the present value of all future pension benefits and assets. Net asset gains that exceed the actuarial assumptions were amortized over five years to smooth out the impact of market volatility from one year to the next.

Beginning in 2000, and as explained in note 2 to the financial statements, a market interest rate is now used to determine fair value for both fixed-income assets and accrued pension benefits. The value of equities (including real estate and commodities) continues to be adjusted for actuarial purposes to reflect the difference between the actual equity asset returns at year-end and management's best estimate of future equity returns. The difference in dollar terms (the actuarial asset value adjustment) is then amortized over five years. Strong performance by fixed-income assets increased our financial statement surplus.

MATCHING ASSETS AND LIABILITIES

To create a funding surplus we manage the relationship between investment assets and pension liabilities. Our goal is an asset mix that balances risks and rewards, avoids excessive volatility, and maintains stable contribution rates.

Because both assets and liabilities are sensitive to interest rate changes, one of our goals is to reduce the risk that liabilities will increase more than assets in response to lower real interest rates. Unfortunately,



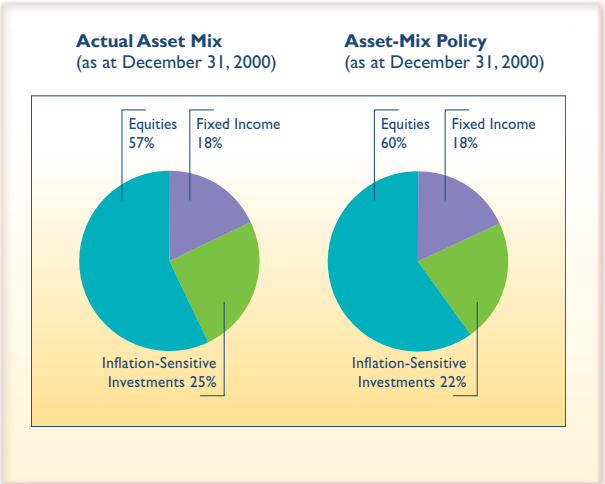
Real return yields declined by 59 basis points in 2000, after remaining within a 10 basis point range for the three previous years.

that is what happened in 2000. The sharp decline in real rates of return increased the value of total liabilities by $3 billion. During the year, we shifted assets from fixed-income and equity portfolios to real-rate products and real estate. Debt securities, along with inflation-sensitive assets, outperformed total equities to produce the healthy accounting surplus.

ASSET-MIX POLICY

The asset-mix policy is reviewed annually by management and the board of directors and changes are made as necessary to reflect changes in our asset/liability model. The asset mix is crucial to long-term performance. Studies show that approximately 90 percent of the variability of returns over time is driven by the asset-mix decision with the remaining 10 percent influenced by active management. In recent years, we have reduced our exposure to both stocks and fixed-income securities and created an asset class of inflation-sensitive assets that correlate well with the inflation-sensitive nature of our liabilities. The change in asset-mix policy also recognized that stock markets, especially in Canada, were overvalued on both a short-term and long-term basis.

Our current asset-mix policy, set in early 2000, is 60 percent equities, 22 percent inflation-sensitive assets (specifically real estate, real-rate products, and commodities), and 18 percent fixed-income securities. This asset-mix policy has a high probability of ensuring assets grow at least as fast as the liabilities over the long term. We estimate that the change in asset-mix policy contributed $600 million of value added during 2000 in addition to the $2.6 billion in benchmark outperformance.



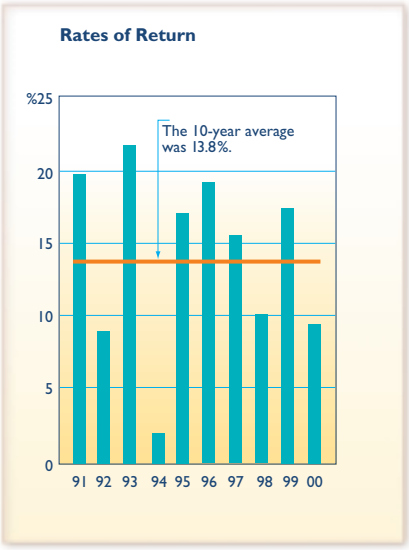
In 2000, we reduced equity investments below policy and ended the year overweight in inflation-sensitive investments compared with the new policy level.

INVESTMENT PERFORMANCE

Net investments increased to $72 billion in 2000, compared with $67.1 billion at the end of 1999.

2000 total fund performance During a year of volatile and generally negative stock markets, we achieved a 9.3 percent total fund rate of return in 2000, compared with 17.4 percent the prior year. After inflation of 3.2 percent, the real return was 6.1 percent, compared with 14.8 percent in 1999. The 2000 return generated $6.2 billion in investment income, compared with $10.1 billion a year earlier. Approximately one-third of equities are exposed to foreign markets, which had negative returns in 2000.

Four-year return We calculate average performance on a four-year cycle to produce a less volatile and more reliable measure than a single year's results. Our four-year average return was 13.0 percent, compared with 12.5 percent for the benchmark. The real rate of return (after inflation of 1.9 percent) was 11.1 percent – well in excess of the investment objective of 4.5 percent on average over the long term.



Over the current decade, returns are expected to revert to historical performance levels, which are closer to the long-term goal.

Rates of Return Compared to Benchmarks

(percent)	Investment returns	Benchmark return	Composite Benchmark
Fixed income and short-term securities	15.6	13.7	Scotia Capital Treasury Bills (91 days) Scotia Capital Canada Universe Scotia Capital Long Bond
Canadian equity	13.5	7.4	TSE 300
U.S. equity	(4.1)	(5.5)	S&P 500
Non-North American equity	(8.5)	(13.5)	Morgan Stanley EAFE, EMF National Index
Inflation-sensitive	19.9	18.0	Scotia Capital Real Return Bond Custom US Treasury Inflation-Protected Securities Goldman Sachs Commodities CPI plus 4%
Total Plan	9.3	5.3	Benchmark weighted by the policy asset mix

Ten-year return The average annual compounded rate of return for the past 10 years was 13.8 percent. The real return (after inflation of 1.9 percent) of 11.9 percent was substantially above the long-term goal.

PERFORMANCE VS. BENCHMARKS

The **total fund benchmark** aggregates the benchmark returns for each asset class, using our asset-mix policy weights. In 2000, the 9.3 percent total fund return compared with 5.3 percent for the benchmark. As a result, our portfolio managers created $2.6 billion of value above the returns that the markets in which we invested would have produced on their own. This was our largest one-year gain in value added. Included in our total fund return is our global tactical asset allocation program, which generated $519 million of value above the composite benchmark. (Performance incentives are based on the results achieved versus the benchmark, less 34 basis points for implementation and overhead costs).

Fixed income securities returned 15.6 percent, a dramatic turnaround from two percent a year earlier. These assets exceeded their benchmark of 13.7 percent to earn $229 million of value added.

Canadian equities (actively managed, enhanced index, and merchant banking) posted a 13.5 percent return versus 7.4 percent for the Canadian equity benchmark. Our enhanced quantitative index funds portfolio beat its benchmark for the eighth consecutive year to earn value added of $252 million. Our actively managed Canadian equity portfolios earned $21 million above their benchmark.

Merchant banking earned a 21.8 percent return – almost three times its benchmark to generate $427 million in value added. This $3.9 billion portfolio has contributed considerable value to total returns over the past 10 years.

Foreign equities (actively managed and enhanced index) returned a negative 4.1 percent in the U.S. and negative 8.5 percent for Non-North America (including $30 million in implementation costs) compared with negative 5.5 percent and 13.5 percent for their respective benchmarks. We increased our exposure to foreign stock markets during the year and ended 2000 with $23.1 billion in these assets. We also shifted capital from foreign equity index funds to actively managed programs. As a result, our actively managed programs produced $894 million above benchmark.

Inflation-sensitive investments of real-rate products, commodities and real estate earned 19.9 percent versus 18 percent for the composite benchmark. Real-rate bonds had a return of 17.3 percent, or $15 million better than the benchmark return. Commodities returned an exceptional 54.4 percent, though $15 million less than the benchmark due to unavoidable implementation costs. Our real estate portfolio had one of its best years, earning 13.0 percent, versus 7.2 percent for its benchmark to add $288 million in value.

RISKS AND RISK MANAGEMENT

We manage **surplus risk** using a Value at Risk (VaR) methodology. VaR has forced us to think of surplus risk as the aggregate of liability risk, asset-mix policy risk, and active management risk, taking into account correlation and diversification between the components.

The main source of **liability risk** is a drop in real interest rates, which increases the present value of future pensions accumulated up to that point. It makes new pension liabilities more difficult to finance, and puts upward pressure on contribution rates. Higher real interest rates have the opposite effect.

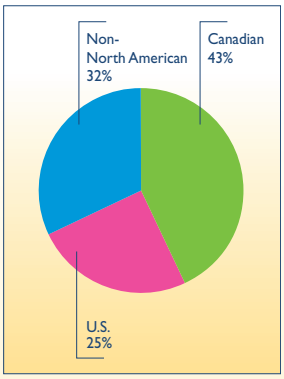
Asset-mix policy risk would be the mirror image of liability risk, and surplus risk would be zero, if investments perfectly matched the plan's long-term objective that asset growth will average a real rate of about 4.5 percent plus inflation. Real return bonds come close, but fall a bit short on yield.

The absence of a perfectly matching asset forces us to consider assets that individually do not always behave like our pension promise, but collectively give us the best trade-off between longer term expected surplus return and acceptable short-term surplus risk. Consequently, our asset mix is heavily weighted to equities because they meet our long-term goals, while our inflation-sensitive investments give more modest real returns but dampen surplus risk.

Active management risk is the potential risk of under-performing the benchmark by trying to improve on the return we get from passive implementation of asset-mix policy. The incremental surplus risk from active management is small. We control active risk through policy guidelines and procedures. Again using VaR, we assign each manager "risk capital" to go along with that manager's value added target with an expectation of a specific return on that risk capital. Risk from active positions is measured daily against the risk limits. One additional benefit from these risk measures has been an improvement in operational risk management.

Changes in the value of the Canadian dollar relative to foreign currencies can increase or decrease returns on our foreign investments, creating **foreign exchange risk**. We hedge 50 percent of our exposure to the main currencies in our asset-mix policy, and had $11.8 billion of foreign currency hedges in place at the end of 2000 to reduce volatility.

Equities
(as at December 31, 2000)



Through global diversification, we aim to reduce **excessive sensitivity to Canadian asset returns** by investing in foreign stocks and equity derivative contracts. Overall, Canada remains our primary equity market, where the plan had $17.7 billion invested in equities in 2000, followed by $10.1 billion in the United States, $2.8 billion in the United Kingdom, and $2.3 billion in Japan. However, we are concerned about the limited availability of stocks on the TSE 300. Many leading

Canadian corporations are closely owned, or listed in the U.S., further diminishing the investment pool in Canada.

With respect to **liquidity risk**, after payment of pension benefits and operating costs, the increase in net assets available for benefits totalled $4.8 billion in 2000. Cash flow came from $6.2 billion of investment income (dividends, interest income, rental income, and realized and unrealized gains) and $1.3 billion in contributions.

The cash needs for pension payments and operating expenses are predictable. On the investment side, our major liquidity risk is associated with our equity derivative contracts. A drop in foreign equity markets sustained for more than three months would require us to pay more cash to counterparties than we would otherwise expect.

We regularly assess the fund's ability to withstand the liquidity effects of a catastrophic 25 percent drop in all markets. Because the equity contracts have been profitable, we currently hold $493 million in net cash collateral from counterparties. This cash collateral, along with marketable short-term securities, annual cash flow, and other liquid assets, is more than sufficient to cover the fund's liquidity risk.

Every investment exposes us to the risk that a security issuer could default on payments or become insolvent. **Credit risk** exists with security issuers, such as governments and corporations, as well as with financial institutions and investment dealers with whom we have investment contracts. The largest credit exposure (note 3e) is to the Province of Ontario, which owes the plan $12.2 billion of non-marketable debentures valued at $15.7 billion, and $1.3 billion in contributions receivable. The next largest credit exposure is to the Government of Canada at $14.5 billion.

In the case of security issuers and derivative counterparties, we continuously monitor credit risk and, depending on the credit rating, restrict debt and equity investment in a single corporation or financial institution to between one and five percent of total fund assets.

In the case of swap counterparties, we deal primarily with 19 financial institutions rated Single A or better. Unrealized gains and losses on equity swaps are exchanged every three to six months. We exchange cash flows on interest rate swaps every six months, reducing the potential impact of a counterparty defaulting on its contractual obligations.

OUTLOOK

Our current expectation is that returns will not be as strong in the future as they have been in the past 10 years. We will continue to monitor financial markets and adjust our asset mix to achieve the best possible performance in the coming years. In the meantime, we assure all members that our first priority is to maximize returns without incurring undue risk.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgements. The accounting policies followed in the preparation of these consolidated financial statements conform with Canadian generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by internal audit programs which are subject to scrutiny by the external auditors.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the consolidated financial statements and recommends them for approval by the board.

The plan's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal control systems.

CLAUDE LAMOUREUX
PRESIDENT AND CHIEF EXECUTIVE OFFICER

ANDREW JONES
VICE-PRESIDENT, FINANCE

FEBRUARY 14, 2001

AUDITORS' REPORT TO THE ADMINISTRATOR

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Teachers' Pension Plan as at December 31, 2000 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These consolidated financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2000 and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS
TORONTO, CANADA

FEBRUARY 14, 2001

ACTUARIES' OPINION

William M. Mercer Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 2000, for inclusion in the Plan's consolidated financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at December 31, 1999;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- real and nominal interest rates on long term Canada bonds at the end of 2000;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events;
- information obtained from the Ontario Ministry of Labour and published reports on negotiated wage settlements in the 1999/2000 and 2000/01 school years; and
- an estimate of the salary grid increase for the 2000/01 school year based on the information above, along with input from the Partners.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan on December 31, 2000 as a going concern. This is different from the statutory valuation [the actuarial valuation required by the *Teachers' Pension Act* and the *Pension Benefits Act [Ontario]*], which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements represent the Board's best estimate of future events and market conditions at the end of 2000, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.

LESTER J. WONG, F.C.I.A.

MALCOLM P. HAMILTON, F.C.I.A.

FEBRUARY 14, 2001

CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND SURPLUS

AS AT DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 3)	**$85,117**	$73,872
Receivable from the Province of Ontario (note 4)	**1,251**	1,252
Receivable from brokers	**37**	210
Cash	**40**	42
Fixed assets	**8**	8
	86,453	75,384
Liabilities		
Investment-related liabilities (note 3a)	**13,074**	6,780
Due to brokers	**166**	230
Accounts payable and accrued liabilities	**92**	71
	13,332	7,081
Net assets available for benefits	**73,121**	68,303
Actuarial asset value adjustment (note 1e)	**(4,341)**	(8,316)
Actuarial value of net assets available for benefits	**$68,780**	$59,987
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits (note 5)	**$58,556**	$52,105
Surplus	**10,224**	7,882
Accrued pension benefits and surplus	**$68,780**	$59,987

ON BEHALF OF THE BOARD

CHAIR

BOARD MEMBER

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999
Net assets available for benefits, beginning of year	**$68,303**	$59,171
Investment operations		
Investment income (note 7)	**6,211**	10,121
Investment expenses (note 12a)	**(100)**	(91)
Net investment operations	**6,111**	10,030
Member service operations		
Contributions (note 10)	**1,281**	1,413
Benefits (note 11)	**(2,541)**	(2,278)
Member service expenses (note 12b)	**(33)**	(33)
Net member service operations	**(1,293)**	(898)
Increase in net assets	**4,818**	9,132
Net assets available for benefits, end of year	**$73,121**	$68,303

CONSOLIDATED STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
Accrued pension benefits, beginning of year	**$52,105**	$49,626
Increase in accrued pension benefits		
Interest on accrued pension benefits	**3,478**	3,493
Benefits accrued	**1,359**	1,301
Changes in actuarial assumptions (note 5a)	**3,893**	766
	8,730	5,560
Decrease in accrued pension benefits		
Benefits paid (note 11)	**2,541**	2,278
Experience (losses) gains (note 5b)	**(262)**	803
	2,279	3,081
Net increase in accrued pension benefits	**6,451**	2,479
Accrued pension benefits, end of year	**$58,556**	$52,105

CONSOLIDATED STATEMENT OF CHANGES IN SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
Surplus, beginning of year	**$7,882**	$4,381
Increase in net assets available for benefits	**4,818**	9,132
Change in actuarial asset value adjustment (note 1e)	**3,975**	(3,152)
Increase in actuarial value of net assets available for benefits	**8,793**	5,980
Net increase in accrued pension benefits	**(6,451)**	(2,479)
Surplus, end of year	**$10,224**	$7,882

FOR THE YEAR ENDED DECEMBER 31, 2000

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act* (the TPA) as amended.

(a) General The Plan is governed by the TPA. It is a contributory defined benefit pension plan co-sponsored by the Partners who are the Province of Ontario (the Province) and Plan members, represented by the Ontario Teachers' Federation (the OTF). The terms of the Plan are set out in the *Partners' Agreement.*

The Plan is registered with the Financial Services Commission of Ontario and with the *Income Tax Act (Canada)* (registration number 0345785) as a Registered Pension Plan not subject to income taxes.

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.

(b) Funding Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (note 9).

(c) Retirement pensions A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced retirement pension is available at age 65 or at any age if the member has 35 years' credit or if the sum of a member's age and qualifying service equals 90. An early retirement window covering the period between June 1, 1998 and December 31, 2002 is currently provided, during which time a member can retire with an unreduced pension if the sum of the member's age and qualifying service equals 85 rather than 90.

(d) Disability pensions A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits Death benefits are available on the death of an active member and may be available on the death of a retired member. The benefit may take the form of a survivor pension, lump sum payment or both.

(f) Escalation of benefits Pension benefits are adjusted annually for inflation at 100 percent of the Consumer Price Index, subject to a limit of 8 percent in any one year with any excess carried forward.

(g) Retirement Compensation Arrangement The Retirement Compensation Arrangement (RCA) has been created by agreement between the Partners as a supplementary plan to provide the members of the Plan with benefits that, due to limitations imposed by the *Income Tax Act (Canada)* and its regulations, cannot be provided under the Registered Pension Plan. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits of the RCA are not included in these financial statements (note 13).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements present the financial position and the results of operations of the Plan and are prepared in accordance with Canadian generally accepted accounting principles.

The financial statements of wholly-owned subsidiary companies are consolidated as part of the Plan's financial statements.

Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Investments and investment-related assets and liabilities

Fair Value Investments and investment-related assets and liabilities are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Where ascertainable, fair values are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not ascertainable, fair values are derived using methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate.

Trade date reporting Purchases and sales of investments and derivative contracts are recorded as of the trade date (the date upon which the substantial risks and rewards have been transferred).

Investment income Dividend income is recognized based on ex-dividend date and interest income and real estate operating income is recognized on the accrual basis as earned. Investment income also includes realized and unrealized gains and losses.

(c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included in investment income.

(d) Accrued pension benefits

The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made as at the start of the year and then extrapolated to year-end. It uses the projected benefit method prorated on service and management's best estimate, as at valuation date, of various economic and non-economic assumptions (note 5).

(e) Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined by reference to market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents the difference between the actual and management's best estimate of return on the Plan's equity investments (including real estate and commodities) amortized over five years. Fixed income securities are valued at fair value on a basis consistent with the discount rate used to value the Plan's accrued pension benefits.

The year-over-year change in the actuarial asset value adjustment is reflected in the Consolidated Statement of Changes in Surplus.

(f) Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions that primarily affect the reported values of assets and liabilities, related income and expenses and related disclosures.

2. CHANGES IN ACCOUNTING POLICY– ACCRUED PENSION BENEFITS

Consistent with a new Canadian Institute of Chartered Accountants standard on Employee Future Benefits, the Board changed its method of determining the best estimate assumptions used in valuing the accrued pension benefits. The Board now uses a market interest rate to discount the accrued pension benefits, in order to arrive at the fair value of the Plan's liabilities. In prior years, the Board used a rate which reflected management's best estimate of the expected long-term asset rate of return.

With this change to the determination of the discount rate, the method for calculating the actuarial asset value adjustment has also been modified. In prior years, the adjustment represented the difference between the actual and management's best estimate of return on all Plan assets, amortized over five years. The actuarial asset value now values fixed income securities at fair value, consistent with the measurement of the Plan's liabilities at fair value. For the Plan's equity investments, an actuarial asset value adjustment is calculated as the difference between the actual and management's best estimate of return on the Plan's equity assets, amortized over five years.

The changes in accounting policy referred to above have been applied retroactively in the financial statements and have the following impact on 1999 figures previously reported:

($ Millions)	1999 Reported	1999 Restated
Net assets available for benefits	$68,303	$68,303
Actuarial asset value adjustment	(7,264)	(8,316)
Actuarial value of net assets available for benefits	$61,039	$59,987
Accrued pension benefits – opening	$48,636	$49,626
Changes during the year	3,469	2,479
Accrued pension benefits – closing	52,105	52,105
Surplus, beginning of year	5,747	4,381
Increase in net assets available for benefits	9,132	9,132
Change in actuarial asset value adjustment (note 1e)	(2,476)	(3,152)
Increase in actuarial value of assets available for benefits	6,656	5,980
Net increase in accrued pension benefits	(3,469)	(2,479)
Surplus, end of year	8,934	7,882
Accrued benefits and surplus	$61,039	$59,987

3. INVESTMENTS

The Plan invests directly or through derivatives in fixed income, equities and inflation-sensitive investments in accordance with its policy of asset diversification. The purpose of such diversification is to minimize the likelihood of an overall reduction in surplus and maximize the opportunity for gains across the investment portfolio.

(a) Investments[1] before allocating the effect of derivative contracts and investment-related receivables and liabilities

The schedule below summarizes the Plan's investments, including net accrued interest and dividends of $388 million (1999 – $454 million), before allocating the effect of derivative contracts and investment-related receivables and liabilities, as at December 31:

($ Millions)	2000		1999	
	Fair Value	**Cost**	Fair Value	Cost
Fixed income				
Debentures	**$15,715**	**$12,205**	$16,328	$12,991
Bonds	**13,218**	**12,696**	13,303	13,198
Money market securities	**4,273**	**4,238**	2,153	2,153
Alternative investments[2]	**2,162**	**1,720**	1,326	1,166
	35,368	**30,859**	33,110	29,508
Equities				
Publicly traded				
Canadian	**13,487**	**9,618**	17,125	11,195
United States	**1,885**	**1,565**	516	559
Non–North American	**6,415**	**5,455**	8,149	5,591
Non–Publicly traded				
Canadian	**1,110**	**856**	464	446
United States	**769**	**671**	699	510
Non–North American	**1,196**	**1,188**	984	852
	24,862	**19,353**	27,937	19,153
Inflation-sensitive investments				
Real estate (note 6)	**10,393**	**9,711**	3,508	3,220
Real rate products				
Canadian	**5,822**	**5,054**	4,656	4,349
United States	**4,424**	**4,190**	391	404
	20,639	**18,955**	8,555	7,973
	80,869	**69,167**	69,602	56,634
Investment-related receivables				
Securities purchased under agreements to resell	**1,948**	**1,946**	992	990
Derivative-related, net	**2,300**	**493**	3,278	409
Investments	**85,117**	**71,606**	73,872	58,033
Investment-related liabilities				
Securities sold under agreements to repurchase	**(3,578)**	**(3,572)**	(2,883)	(2,879)
Securities sold but not yet purchased	**(1,592)**	**(1,606)**	(973)	(992)
Real estate (note 6)	**(4,192)**	**(4,002)**	(693)	(710)
Derivative-related, net	**(3,712)**	**(1,199)**	(2,231)	(2,294)
Net investments (note 3c)	**$72,043**	**$61,227**	$67,092	$51,158

(1) For additional details, refer to the Schedule of Investments for our holdings over $50 million on page 45.

(2) Comprised of hedge funds, managed futures accounts and fund of funds programs.

(b) Derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter market or on regulated exchanges. The Plan utilizes derivatives to manage its asset mix, as well as its exposure to interest rates, foreign currencies, and credit. Derivatives are also utilized for trading purposes in a manner consistent with the Plan's investment objectives.

Notional amounts of derivative contracts serve as the basis upon which the returns from, and the fair value of, the contracts are determined.

The following schedule summarizes the Plan's derivative contracts as at December 31:

($ Millions)	**2000**		1999	
	Notional	**Fair Value**	Notional	Fair Value
Asset conversion				
Interest rate swaps	**$6,353**	**$(933)**	$ 6,091	$(763)
Equity and commodity swaps	**17,436**	**(215)**	13,719	3,257
		(1,148)		2,494
Interest rate management				
Interest rate swaps	**1,330**	**4**	1,104	1
Futures	**6,962**	**(1)**	4,238	(1)
Exchange traded options				
Purchased	**2,509**	**5**	3,041	4
Written	**2,644**	**(4)**	3,771	(4)
Over-the-counter options				
Purchased	**40**	**1**	97	3
Written	**100**	**(1)**	169	(4)
		4		(1)
Foreign currency management				
Currency swaps	**499**	**(10)**	553	10
Forwards	**13,347**	**24**	13,567	343
Futures	**708**	**1**	—	—
		15		353
Trading				
Interest rate swaps	**2,427**	**(7)**	2,836	28
Volatility swaps	**967**	**34**	66	1
Futures	**18,484**	**(17)**	13,715	(161)
Forwards	**5,899**	**175**	3,791	53
Exchange traded options				
Purchased	**454**	**14**	313	22
Written	**816**	**(5)**	441	(32)
Over-the-counter options				
Purchased	**1,964**	**38**	2,062	43
Written	**1,153**	**(22)**	1,042	(19)
		210		(65)
		(919)		2,781
Less: Net cash collateral received under derivative contracts		**(493)**		(1,734)
Net fair value of derivative contracts		**$(1,412)**		$1,047

The net fair value of derivative contracts as at December 31 on page 33 are represented by:

($ Millions)	**2000**	1999
Derivative-related receivables	**$2,562**	$4,755
Cash collateral paid under derivative contracts	**428**	324
Derivative-related liabilities	**(3,481)**	(1,974)
Cash collateral received under derivative contracts	**(921)**	(2,058)
	$(1,412)	$1,047

Securities with a fair value of $320 million (1999 – $246 million) have been deposited with various financial institutions as margin to effect derivatives transactions.

The derivative contracts on page 33 mature within one year except for the following, which have a weighted average maturity (in years) of:

	2000		1999	
	Notional *($ millions)*	**Maturity *(years)***	Notional *($ millions)*	Maturity *(years)*
Asset conversion				
Interest rate swaps	**$6,119**	**8.4**	$5,487	6.6
Equity and commodity swaps	**2,468**	**1.4**	5,155	1.6
Interest rate management				
Interest rate swaps	**1,004**	**8.2**	993	4.4
Over-the-counter options	**140**	**1.9**	—	—
Foreign currency management				
Currency swaps	**493**	**5.7**	553	7.1
Forwards	**182**	**1.5**	57	2.2
Trading				
Interest rate swaps	**2,155**	**5.1**	2,536	5.1
Volatility swaps	**221**	**3.2**	66	3.1
Over-the-counter options	**83**	**1.6**	102	2.1
Forwards	**23**	**1.4**	—	—

(c) Investment asset mix

The Plan has established a long-term asset-mix policy of approximately 60 percent equities, 18 percent fixed income and 22 percent inflation-sensitive investments.

The Plan's investments, after allocating the effect of derivative contracts and investment-related receivables and liabilities, as at December 31 are summarized below:

	2000		1999	
	Effective Net Investments at Fair Value *($ millions)*	**Asset Mix *%***	Effective Net Investments at Fair Value *($ millions)*	Asset Mix *%*
Fixed income				
Bonds	**$10,771**	**15%**	$14,926	22%
Money market and equivalents	**2,548**	**3**	2,378	4
	13,319	**18**	17,304	26
Equities				
Canadian	**17,739**	**25**	19,885	30
United States	**10,119**	**14**	8,191	12
Non–North American	**13,022**	**18**	13,568	20
	40,880	**57**	41,644	62
Inflation-sensitive investments				
Commodities	**2,098**	**3**	1,090	2
Real estate (note 6)	**6,201**	**9**	2,815	4
Real rate products	**9,545**	**13**	4,239	6
	17,844	**25**	8,144	12
Total net investments	**$72,043**	**100%**	$67,092	100%

(d) Interest rate risk

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to long-term market interest rates as well as expectations for salary escalation.

The Plan's primary exposure is to a decline in the long-term real rate of return which may result in higher contribution rates required to meet pension obligations. As at December 31, 2000, holding the inflation and salary escalation assumptions constant, a 1 percent decrease in the assumed real long-term rates of return would result in an increase in the pension liabilities of approximately 13 percent (1999 – 16 percent).

After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 3b, a 1 percent increase in nominal interest rates would result in a decline in the value of the fixed income securities of 6.6 percent (1999 – 7.7 percent).

(e) Credit risk

At December 31, 2000, the Plan's most significant concentration of credit risk is with the Government of Canada and the Province of Ontario. This concentration relates primarily to the holding of $14.5 billion of Government of Canada-issued securities and $15.7 billion of non-marketable Province of Ontario Debentures, a receivable from the Province of $1.3 billion and future provincial funding requirements of the Plan.

The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher, and by utilizing an internal credit limit monitoring process, as well as through the use of credit mitigation techniques such as master netting arrangements and obtaining collateral where appropriate.

(f) Foreign currency risk

Foreign currency exposure arises from the Plan's holdings of foreign currency-denominated investments and related derivative contracts.

The Plan uses a currency overlay program to hedge a portion of its asset-mix policy allocation to U.S. and Non-North American equities. The Plan also takes trading positions in foreign currencies with the objective of adding incremental returns. The Plan's net foreign currency exposure in Canadian dollars after giving effect to the related policy hedge, as at December 31, is as follows:

($ Millions)	**2000**			1999
	Foreign Currency Exposure	**Net Foreign Currency Hedge**	**Net Foreign Currency Exposure**	Net Foreign Currency Exposure
United States Dollar	**$12,021**	**$5,389**	**$6,632**	$4,854
Euro	**5,920**	**2,528**	**3,392**	2,245
British Pound Sterling	**3,370**	**1,405**	**1,965**	1,537
Swiss Franc	**1,561**	**483**	**1,078**	252
Japanese Yen	**2,489**	**1,774**	**715**	1,280
Other	**2,165**	**187**	**1,978**	1,532
	$27,526	**$11,766**	**$15,760**	$11,700

(g) Securities lending

The Plan lends securities as a means of generating incremental income or supporting other investment strategies. As at December 31, 2000, the Plan's investments included loaned securities with a fair value of $3,402 million (1999 – $3,280 million). The fair value of collateral in respect of these loans was $3,590 million (1999 – $3,444 million).

4. RECEIVABLE FROM THE PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

($ Millions)	**2000**	1999
Contributions receivable	**$1,194**	$1,194
Accrued interest receivable	**57**	58
	$1,251	$1,252

The receivable from the Province consists of $636 million to be received in 2001 and $615 million to be received in 2002.

5. ACCRUED PENSION BENEFITS

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $58.6 billion (1999 – $52.1 billion), reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality, withdrawal rates and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. As discussed in note 2, the discount rate is now set at the market rate, as at the valuation date, of debt obligations with characteristics similar to the Plan's liabilities. The inflation rate is the difference between the yield on federal long-term nominal bonds and federal real return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2000	1999
Discount rate	**6.25%**	6.75%
Salary escalation rate	**3.20%**	3.25%
Inflation rate	**2.20%**	2.25%

The main economic assumptions were changed as a result of changes in capital markets during 2000. These changes resulted in a net increase in the value of accrued pension benefits of $3,297 million. In addition, a change was made to the assumed post-retirement mortality rates to better reflect the Plan's experience. This change increased the value of accrued pension benefits by a further $596 million. In 1999, changes to the actuarial assumptions resulted in a net increase in the value of accrued pension benefits of $766 million.

(b) Experience gains and losses

An experience loss of $262 million (1999 – gain of $803 million), arising from differences between the actuarial method and assumptions and actual results, relates primarily to current experience for members' salary and inflation rates.

6. INVESTMENT IN REAL ESTATE

(a) Acquisition of Cadillac Fairview Corporation ("CFC")

On March 17, 2000, pursuant to a plan of arrangement, the Plan acquired the remaining 78.2 percent of the common shares that it did not previously own of CFC, a fully integrated commercial real estate operating company, and $100 million of CFC convertible debentures for total consideration of $2,355 million.

The fair value of CFC's net assets acquired is summarized below:

($ Millions)	
Real estate properties	$5,730
Other assets	403
	6,133
Debt on real estate properties	(2,892)
Other liabilities	(324)
Net assets of CFC	2,917
Less: Investment in CFC previously held	(562)
Total consideration	**$2,355**

(b) Investment in Real Estate

The Plan's investment in real estate, which is comprised of real estate–related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited, as at December 31, is as follows:

($ Millions)	**2000**		1999	
	Fair Value	**Cost**	Fair Value	Cost
Assets				
Real estate properties	**$9,635**	**$8,901**	$2,454	$2,411
Investments	**526**	**577**	485	498
Other assets	**232**	**233**	7	7
Investment in CFC	**—**	**—**	562	304
Total assets	**10,393**	**9,711**	3,508	3,220
Liabilities				
Debt on real estate properties	**3,833**	**3,694**	693	710
Other liabilities	**359**	**308**	—	—
Total liabilities	**4,192**	**4,002**	693	710
Net investment in real estate	**$6,201**	**$5,709**	$2,815	$2,510

(c) Real Estate Income[1]

The Plan's real estate income for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Revenue		
Rental	**$1,140**	$263
Investment	**41**	24
	1,181	287
Expenses		
Property operating	**447**	101
Interest	**242**	41
Management	**42**	7
Other	**23**	—
	754	149
Operating income	**427**	138
Realized gain (loss)	**14**	(16)
Unrealized gain	**187**	190
Net income	**$628**	$312

(1) Operating income, on a fair value basis, excludes a charge for depreciation and amortization.

7. INVESTMENT INCOME

(a) Investment income, before allocating the effect of derivative contracts

Investment income, before allocating the effect of derivative contracts and before allocating the realized and unrealized net gains/losses, for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Fixed income interest		
Debentures (net of interest incurred on swap contracts of $1,039 million; 1999 – $753 million)	**$386**	$762
Money market securities	**197**	104
Bonds	**720**	633
	1,303	1,499
Equity dividend income		
Canadian equity	**222**	271
United States equity	**13**	13
Non–North American equity	**234**	241
	469	525
Inflation-sensitive investments		
Real estate operating income (note 6c)	**427**	138
Real rate products interest income		
Canadian	**189**	152
United States	**92**	14
	708	304
	2,480	2,328
Net gain on investments [1]	**3,731**	7,793
	$6,211	$10,121

(1) Includes net unrealized gains (losses) of $(4,145) million (1999 – $1,075 million).

(b) Investment income

Investment income by asset class, after allocating the effect of the derivative contracts and net gains, including foreign currency losses of $71 million (1999 – $1,106 million gain), for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Fixed income	**$1,689**	$(347)
Canadian equity	**2,523**	4,475
United States equity	**316**	1,559
Non–North American equity	**(694)**	3,697
Inflation-sensitive investments	**2,377**	737
	$6,211	$10,121

8. INVESTMENT RETURNS AND RELATED BENCHMARK RETURNS

Investment returns and related benchmark returns by investment asset class for the year ended December 31 are as follows:

	2000		1999	
	Investment Returns	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income	**15.6%**	**13.7%**	2.0%	2.8%
Canadian equity	**13.5**	**7.4**	30.4	32.0
United States equity	**(4.1)**	**(5.5)**	12.7	14.1
Non–North American equity	**(8.5)**	**(13.5)**	27.7	21.6
Inflation-sensitive investments	**19.9**	**18.0**	12.0	9.8
Total Plan	**9.3%**	**5.3%**	17.4%	17.6%

Investment returns have been calculated in accordance with the acceptable methods set forth by the Association for Investment Management and Research and the Pension Investment Association of Canada.

The Plan identifies benchmarks to evaluate the performance of the investment management process. The performance of each asset class is measured against a benchmark that simulates the results of the markets in which the managers invest, except that the inflation-sensitive investments composite benchmark includes real estate which is measured against an inflation-related benchmark.

The total return of the Plan is measured against a Canadian dollar denominated composite benchmark produced by aggregating Canadian dollar equivalent returns from each of the policy asset class benchmarks, using the Plan's asset mix policy weights. The total return incorporates the Plan's tactical asset allocation decisions.

9. FUNDING POLICY

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding requirements of the Plan. Active members are currently required to contribute 7.3 percent of the portion of their salaries covered by the Canada Pension Plan and 8.9 percent of salaries above this level. Aggregate member contributions are matched by the Province and other employers.

The actuarial assumptions and methods used to determine statutory pension liabilities are different than those used to calculate the amounts disclosed in these financial statements. The statutory valuations use a more conservative approach than the valuations used in these financial statements (note 5) and also take into account benefits to be earned and contributions to be made after the valuation date.

The initial statutory valuation of the Plan, prepared by William M. Mercer Limited as at January 1, 1990 disclosed an unfunded liability of $7.8 billion which was the amount by which the Plan's liabilities exceeded its assets. This liability was the responsibility of the Province and was to be paid off with interest by a series of special payments over a 40 year period, which began January 1, 1990. Subsequent statutory valuations have treated the present value of the remaining special payments as an asset.

The statutory valuation as at January 1, 1998 disclosed the present value of special payments to be $8.45 billion, with an actuarial gain of $6.78 billion. Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;
(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost of $8.45 billion; and
(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008. These changes consumed the actuarial gain. The present value of the remaining special payments after application of gains was $3.91 billion as at January 1, 1998.

The statutory valuation as at January 1, 1999 disclosed the present value of the remaining special payments to be $3.65 billion with an actuarial gain of $3.52 billion. Pursuant to the 1998 agreement noted above, all of this gain was used to eliminate the obligation of the Province to make special payments after April 1999.

The statutory valuation as at January 1, 2001 disclosed an actuarial gain of $6.78 billion (2000 – $4.54 billion).

10. CONTRIBUTIONS

($ Millions)	**2000**	1999
Members		
Current service	**$604**	$612
Optional credit	**11**	8
	615	620
Province of Ontario		
Current service	**601**	592
Interest	**42**	43
Optional credit	**5**	11
Special payments (note 9)	**—**	128
	648	774
Other employers	**9**	9
Transfer from other pension plans	**9**	10
	18	19
	$1,281	$1,413

11. BENEFITS

($ Millions)	**2000**	1999
Retirement pensions	**$2,215**	$2,016
Disability pensions	**31**	30
Death benefits	**102**	93
Refunds	**18**	16
Commuted value transfers	**164**	108
Transfers to other plans	**11**	15
	$2,541	$2,278

12. ADMINISTRATIVE EXPENSES

(a) Investment expenses

($ Millions)	**2000**	1999
Salaries and benefits	**$40.5**	$31.8
External investment management fees	**34.3**	34.8
Custodial fees	**6.6**	6.4
Premises and equipment	**6.6**	6.5
Professional consulting services	**5.0**	4.3
Information services	**3.7**	3.6
Communication and travel	**2.1**	1.8
Statutory audit fees	**0.3**	0.3
Other	**1.0**	1.1
	$100.1	**$90.6**

(b) Member service expenses

($ Millions)	**2000**	1999
Salaries and benefits	**$20.9**	$21.2
Premises and equipment	**6.2**	6.1
Professional and consulting services	**2.4**	2.2
Communication and travel	**2.1**	1.9
Board and committee remuneration	**0.2**	0.2
Statutory audit fees	**0.2**	0.2
Other	**0.7**	0.8
	$32.7	$32.6

(c) Executive compensation

The compensation table represents full disclosure of base salary, annual bonus, long-term incentives and other compensation earned in 1998, 1999 and 2000 by the Chief Executive Officer and the four other most highly compensated executives.

Name and Principal Position	Year	Base Salary	Annual Bonus[1]	Long-term Incentive Plan[3]	Group Term Life Insurance	Other Compensation
Claude Lamoureux	2000	$389,169	$504,500	$790,100	$1,119	$9,600[4]
President & CEO	1999	357,637	196,100	131,900	1,033	9,600
	1998	349,077	177,600	0	964	9,600
Robert Bertram	2000	$302,800	$404,000	$627,000	$ 870	$13,962[5]
Executive V.P. Investments	1999	276,309	102,600	101,800	798	13,343
	1998	269,053	63,200	0	777	13,209
Neil Petroff	2000	$196,130	$338,500	$451,900	$ 561	$ 0
Sr. V.P. International Equity Indexes, Fixed Income & Foreign Exchange	1999	175,444	202,800	51,400	507	0
	1998	170,606	124,700	0	490	0
Morgan McCague	2000	$186,384	$323,800	$460,000	$ 533	$ 0[6]
Sr. V.P. Quantitative Investments	1999	164,863	188,000	53,200	476	3,218
	1998	155,037	162,900	0	448	3,009
Allan Reesor	2000	$237,976	$319,200[2]	$280,100	$ 682	$ 4,808[6]
Executive V.P., Member Services and C.I.O.	1999	195,619	100,900	40,797	564	3,792
	1998	188,736	94,400	59,600	545	3,654

[1] Bonuses for investment professionals are based on a combination of total fund, asset class, and individual performance, measured in dollars of value added. Performance versus benchmark is measured over four annual performance periods.

Bonuses for other executive staff are based on achievement of annual corporate and divisional objectives.

[2] Includes deferred annual incentive for 1999.

[3] The investment long-term incentive program was restructured in 1999 following a review of competitive market practices. The new program continues to be based on four-year performance periods. Initial grants are adjusted by the four-year total fund rate of return and by a performance modifier, based on total fund dollar value-added over a composite benchmark.

[4] Automobile allowance.

[5] Includes an automobile allowance of $8,000 per annum plus unused vacation cashout.

[6] Unused vacation cashout.

13. RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement (RCA) is established pursuant to an agreement between the Province of Ontario and the Ontario Teachers' Federation (the Partners), to provide to the members of the Plan certain benefits that would have been provided under the Registered Pension Plan, but for amendments made to the *Income Tax Act (Canada)* and its Regulations that restrict benefits that may be provided under a registered plan for periods of service after 1991 and for certain periods before 1992 that are credited after 1991.

The RCA is administered under a trust separate from the assets of the Registered Pension Plan. The Board has been appointed by the Partners to act as the trustee of the RCA.

Because the RCA is a separate trust, the net assets available for benefits and the value of accrued benefits and deficiency, referred to below, have not been included in the accompanying financial statements of the Registered Pension Plan on pages 26 to 28.

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Board by teachers, the Province of Ontario and designated private schools and organizations. The portion is based on a rate determined periodically by the Board's independent actuary in a manner that is expected to be sufficient to pay the benefits over the next 12 months. Due to the funding policy adopted by the Partners, the assets will continue to be substantially less than the liabilities.

In addition, since it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and the contributions raised in order to fund the payments that are due under the RCA.

A summary of the balance sheet for the RCA as at December 31 is as follows:

($ Thousands)	**2000**	1999
Net assets available for benefits		
Assets	**$2,200**	$1,799
Liabilities	**(408)**	(655)
	$1,792	$1,144
Accrued benefits and deficiency		
Accrued benefits	**$305,900**	$238,768
Deficiency	**(304,108)**	(237,624)
	$1,792	$1,144

The actuarial assumptions used in determining the value of accrued benefits are consistent with the assumptions used in the Plan except that the assumed discount rate has been adjusted to reflect the impact of the 50 percent refundable tax under the RCA.

The estimate of the value of accrued benefits is highly sensitive to salary increases, both actual and assumed. Any changes to the salary assumptions will have a significant impact on the liabilities for future benefits. In addition, significant uncertainty exists in projecting the liabilities of the RCA due to changes in the number of future participants as well as changes to the income tax regulations relating to pensions.

14. COMMITMENTS

The Plan has committed to enter into investment transactions, which will be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2000, these commitments totalled $2,824 million (1999 – $1,634 million).

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

FIXED INCOME

($ Millions)

Type	Year of Maturity	Coupon (%)	Fair Value	Cost
Government of Canada bonds	2001–2029	4.50–13.00	$9,516	$9,467
Canadian corporate bonds	2001–2049	0.00–16.00	1,988	1,997
Canadian treasury bills	2001–2002	5.41–5.97	1,839	1,819
Commercial paper	2001	5.71–5.93	549	548
International corporate bonds	2003–2012	5.74–10.00	317	305
Provincial bonds	2002–2016	5.50–9.75	267	270
Foreign denominated Canadian bonds	2001–2085	4.40–13.00	213	220
Term deposits	2001	5.50–5.70	133	133
Discount instruments	2001	5.47–5.80	113	111
Securities purchased under agreements to resell	2001	2.00–6.30	1,948	1,946
Securities sold under agreements to repurchase	2001	5.75–6.45	(3,578)	(3,572)

PROVINCE OF ONTARIO DEBENTURES

($ Millions)

Maturity Date	Coupon (%)	Fair Value	Cost
2001 to 2006	9.00–15.00	$6,186	$5,170
2007 to 2012	10.00–16.00	9,155	6,661
Total debentures net of accrued interest		15,341	11,831
Accrued interest		374	374
Total		$15,715	$12,205

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

CORPORATE SHARES

(Millions)

Security Name	Shares	Fair Value $
Nortel Networks Corporation	37.8	1,823.9
Nexen Inc.	21.4	791.4
Royal Bank of Canada	9.4	476.7
Toronto-Dominion Bank, The	8.4	366.4
Encal Energy Ltd.	31.1	331.6
Bank of Montreal	4.2	328.4
BCE Inc.	7.6	328.1
Bank of Nova Scotia, The	7.5	326.1
Manulife Financial Corporation	6.8	317.8
AT&T Canada Inc.	6.9	299.7
Maple Leaf Foods Inc.	37.9	299.2
Enron Corp.	2.2	279.1
Canadian Imperial Bank of Commerce	5.7	263.3
Sun Life Financial Services of Canada Inc.	6.2	248.7
Alcan Aluminium Limited	4.7	242.4
Canadian Pacific Limited	5.5	234.5
Petro-Canada	5.1	194.1
WestJet Airlines Ltd.	8.3	192.8
Alberta Energy Company Ltd.	2.6	184.9
Celestica Inc.	2.2	177.3
Talisman Energy Inc.	2.8	155.6
Bombardier Inc.	6.3	146.7
Barrick Gold Corporation	5.9	145.3
Thomson Corporation, The	2.5	144.8
Suncor Energy Inc.	3.6	136.1
Gulf Canada Resources Limited	17.8	135.9
Canadian National Railway Company	3.1	135.5
TELUS Corporation	2.9	117.9
TransCanada PipeLines Limited	6.6	112.9
HSBC Holdings	5.0	110.2
Total Fina SA	0.6	109.3
Ballard Power Systems Inc.	1.1	103.3
Canadian Natural Resources Limited	2.4	101.6
Enbridge Inc.	2.3	101.2
Shaw Communications Inc.	2.9	99.0
Potash Corporation of Saskatchewan Inc.	0.8	97.1
Abitibi-Consolidated Inc.	7.0	95.9
ENI SpA	9.7	93.2
United Dominion Industries Limited	5.1	91.0
Imperial Oil Limited	2.3	89.6
Power Corporation of Canada	2.4	89.1
Akzo Nobel NV	1.1	86.7
Inco Limited	3.2	86.4
ING Groep NV	0.7	86.4
Research In Motion Limited	0.7	85.5
BAE Systems PLC	9.9	84.8
NewPower Holdings, Inc. (Warrants)	5.7	83.2

CORPORATE SHARES

(Millions)

Security Name	Shares	Fair Value $
XTRA Corporation	1.1	81.7
Veba AG	0.9	80.8
Placer Dome Inc.	5.5	79.2
Clarica Life Insurance Company	1.9	78.4
C-MAC Industries Inc.	1.2	77.4
Anderson Exploration Ltd.	2.3	77.4
BioChem Pharma Inc.	1.6	76.7
Hitachi Ltd.	5.6	75.2
Kirby Corporation	2.3	73.6
Bayer AG	0.9	73.5
Telefonos de Mexico SA	1.1	73.3
Westcoast Energy Inc.	2.0	73.2
Magna International Inc.	1.2	72.6
Loblaw Companies Limited	1.4	70.4
Seagram Company Ltd., The	0.9	70.3
Zurich Financial Services Group, The	0.1	69.8
National Bank of Canada	2.6	69.5
Power Financial Corporation	2.0	69.1
Telecom Italia SpA	5.8	68.4
Matsushita Electric Works, Ltd.	1.9	67.6
Telefonica, SA	1.5	65.5
NOVA Chemicals Corporation	2.3	65.0
Shell Transport & Trading Company	5.1	63.3
Novartis AG	0.02	61.9
Portugal Telecom SA	4.5	61.5
Unilever PLC	4.8	61.4
Aventis SA	0.5	59.4
TransAlta Corporation	2.7	59.3
Lindsay Manufacturing Co.	1.7	58.9
Nokia OYJ	0.9	58.1
Mackenzie Financial Corporation	2.1	57.3
George Weston Limited	0.7	56.2
Daiichi Pharmaceutical Co., Ltd.	1.2	55.7
Rogers Communications Inc.	2.2	55.2
Deutsche Bank AG	0.4	54.6
Australia & New Zealand Banking Group Limited	4.5	54.1
Trizec Hahn Corporation	2.3	53.4
Allied Irish Banks plc	3.1	53.3
Jardine Strategic Holdings PLC	12.2	53.2
Wolters Kluwer	1.3	52.4
Cheung Kong (Holding) Ltd.	2.7	52.3
Quebecor World Inc.	1.4	51.3
Shell Canada Limited	1.3	50.4
Royal Bank of Scotland Group	1.4	50.1
Alcatel	0.6	50.1

Note: For a complete list of companies, please see our website at **www.otpp.com.**

CONVERTIBLE AND EXCHANGEABLE DEBENTURES

(Millions)

Security Name	Par Value ($)	Fair Value ($)
Power Financial Corporation 8.0% Due April 30, 2014	85.5	529.8
PDFB Investments Inc. 3.25% Due March 12, 2018	89.1	254.6

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

REAL ESTATE PORTFOLIO

Property	Total Square Footage	Effective % Ownership
	(in thousands)	
Canadian Regional Shopping Centres		
Cataraqui Town Centre, Kingston	580	50%
Champlain Place, Dieppe	729	100%
Chinook Centre, Calgary	1,056	100%
Don Mills Shopping Centre, Toronto	420	100%
Eastgate Square, Hamilton	578	100%
Erin Mills Town Centre, Mississauga	759	50%
Fairview Mall, Toronto	883	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,044	50%
Georgian Mall, Barrie	533	100%
Hillcrest Mall, Richmond Hill	558	100%
Intercity Shopping Centre, Thunder Bay	455	100%
Le Carrefour Laval, Montreal	1,183	100%
Les Galeries D'Anjou, Montreal	1,011	50%
Les Promenades St. Bruno, Montreal	1,036	100%
Lime Ridge Mall, Hamilton	827	100%
Market Mall, Calgary	754	50%
Markville Shopping Centre, Markham	954	100%
Masonville Place, London	684	100%
McAllister Place, St. John	471	100%
Midtown Plaza/Village, Saskatoon	687	100%
New Sudbury Centre, Sudbury	496	100%
Pacific Centre, Vancouver	1,348	50%*
Polo Park Mall, Winnipeg	1,197	100%
Regent Mall, Fredericton	446	100%
Richmond Centre, Vancouver	488	100%
Rideau Centre, Ottawa	692	31%
Sherway Gardens, Toronto	979	100%
Southland Mall, Regina	423	100%
The Promenade, Toronto	693	50%
Toronto Eaton Centre, Toronto	1,559	100%
Victoria Eaton Centre, Victoria	406	100%
Woodbine Centre, Toronto	682	60%

Property	Total Square Footage	Effective % Ownership
	(in thousands)	
Canadian Office Properties		
1 Queen Street East and 20 Richmond Street East, Toronto	503	50%
Granville Square, Vancouver	398	100%
Pacific Centre Office Complex, Vancouver	1,537	50%*
Shell Centre, Calgary	681	50%
Toronto Dominion Centre Office Complex, Toronto	4,437	50%*
Toronto Eaton Centre Office Complex, Toronto	1,899	100%
Waterfront Centre, Vancouver	395	100%
Yonge Corporate Centre, Toronto	661	50%
US Regional Shopping Centers		
Broward Mall, Fort Lauderdale, Florida	1,000	100%
Dover Mall, Dover, Delaware	834	100%
Galleria at White Plains, White Plains, New York	885	100%
Golden East Crossing, Rocky Mount, North Carolina	584	100%
Gwinnett Place, Duluth, Georgia	1,249	33%
Kitsap Mall, Silverdale, Washington	715	49%
Lakewood Center, Lakewood, California	2,044	49%
Los Cerritos Center, Cerritos, California	1,302	49%
Northpark Mall, Ridgeland, Mississippi	958	100%
Redmond Town Center, Redmond, Washington	1,119	49%
Stonewood Mall, Downey, California	929	49%
The Esplanade, Kenner, Louisiana	911	100%
Town Centre at Cobb, Kennesaw, Georgia	1,273	33%
Washington Square, Tigard, Oregon	1,239	49%

* Ownership increased to 100% subsequent to year end

PRIVATE COMPANIES AND PARTNERSHIPS

Absolute Return Fund Ltd.
Apaquogue Limited
ARC Canadian Energy Venture Fund
BC European Capital V
BC European Capital VI
BC European Capital VII
CACF Limited
DLJ Merchant Banking Partners II, L.P.
Exxel Capital Partners V, L.P.
Friedrich Grohe AG
Hicks, Muse, Tate & Furst Latin America Fund, L.P.
Magnatrax Corp.
Maple Leaf Sports & Entertainment
Maple Partners Financial Group
Morgan Stanley Real Estate Fund III International L.P.
Newcastle Capital Management Inc.
Providence Equity Partners Fund II, L.P.
Providence Equity Partners Fund III, L.P.
Schroder Asian Properties L.P.
Shoppers Drug Mart Inc.
The Macerich Company
The Third Hermes UK Focus Fund
Trimac Corporation

ELEVEN-YEAR REVIEW

FOR THE YEAR ENDED DECEMBER 31

($ Millions)	**2000**	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
CHANGE IN NET ASSETS											
Income											
Investment income	**6,211**	10,121	5,137	7,246	7,436	5,656	528	5,907	2,145	3,843	1,031
Contributions											
Members/transfers	**624**	630	612	591	620	636	732	689	711	651	559
Province of Ontario	**657**	655	653	649	673	669	704	712	740	663	587
– special payments	**—**	128	492	456	152	—	—	—	438	270	187
Total Income	**7,492**	11,534	6,894	8,942	8,881	6,961	1,964	7,308	4,034	5,427	2,364
Expenditures											
Benefits paid	**2,541**	2,278	2,103	1,802	1,520	1,261	1,130	1,001	921	829	760
Investment expenses	**100**	91	67	59	40	30	25	20	14	7	1
Member service expenses	**33**	33	32	31	29	27	26	24	23	18	19
Distribution of gain	**—**	—	—	—	—	—	—	325	—	—	—
Total Expenditures	**2,674**	2,402	2,202	1,892	1,589	1,318	1,181	1,370	958	854	780
INCREASE IN NET ASSETS	**4,818**	9,132	4,692	7,050	7,292	5,643	783	5,938	3,076	4,573	1,584
NET ASSETS											
Fixed income	**13,319**	17,304	11,476	10,276	10,622	12,509	11,409	17,569	19,007	19,199	18,129
Equities – Canadian	**17,739**	19,885	17,613	19,433	17,367	12,218	9,943	7,510	3,217	2,618	520
– Foreign	**23,141**	21,759	24,015	19,955	16,005	12,287	10,714	7,035	3,253	1,796	807
Inflation-sensitive investments											
– Commodities	**2,098**	1,090	401	126	—	—	—	—	—	—	—
– Real Estate	**6,201**	2,815	1,582	1,561	1,272	925	694	608	451	180	—
– Real Rate Products	**9,545**	4,239	3,019	1,597	1,066	1,064	653	548	457	16	—
Net Investments	**72,043**	67,092	58,106	52,948	46,332	39,003	33,413	33,270	26,385	23,809	19,456
Receivable from											
Province of Ontario	**1,251**	1,252	1,233	1,262	1,286	1,308	1,338	1,362	1,323	1,190	945
Other assets	**13,159**	7,040	5,391	8,537	3,293	1,586	622	36	72	10	—
Total assets	**86,453**	75,384	64,730	62,747	50,911	41,897	35,373	34,668	27,780	25,009	20,401
Liabilities	**(13,332)**	(7,081)	(5,559)	(8,268)	(3,482)	(1,760)	(879)	(957)	(7)	(312)	(277)
Net Assets	**73,121**	68,303	59,171	54,479	47,429	40,137	34,494	33,711	27,773	24,697	20,124
Smoothing reserve	**(4,341)**	(8,316)	(4,788)	(5,578)	(4,416)	(1,907)	(252)	(2,947)	(414)	(883)	709
Actuarial value of net assets	**68,780**	59,987	54,383	48,901	43,013	38,230	34,242	30,764	27,359	23,814	20,833
Accrued pension benefits	**58,556**	52,105	48,636	44,457	41,833	38,744	36,848	33,998	30,781	27,479	24,391
Surplus (Deficiency)	**10,224**	7,882	5,747	4,444	1,180	(514)	(2,606)	(3,234)	(3,422)	(3,665)	(3,558)
PERFORMANCE (%)											
Rate of return	**9.3**	17.4	9.9	15.6	19.0	16.9	1.7	21.7	8.9	19.6	5.6
Benchmark	**5.3**	17.6	11.9	15.6	18.1	17.2	(0.3)	20.5	8.0	15.4	(7.8)
Long-term goal	**7.7**	7.1	5.5	5.2	6.7	6.2	4.7	6.2	6.6	8.3	9.5

CORPORATE DIRECTORY

President & Chief Executive Officer
Claude Lamoureux

Investments
Robert Bertram, Executive Vice-President

Active Equities
Brian Gibson, Senior Vice-President

Relationship Investing
Roy Graydon, Vice-President

International Equity Indexes, Fixed Income & Foreign Exchange
Neil Petroff, Senior Vice-President

Fixed Income
Sean Rogister, Vice-President

International Equity Indexes
Barbara Trott, Vice-President

Quantitative Investments
Morgan McCague, Senior Vice-President

Canadian Core Portfolios
Marcus Dancer, Vice-President

Research & Economics
Leo de Bever, Senior Vice-President

New Business Development
Russ Bruch, Vice-President

Merchant Banking
Dean Metcalf, Vice-President

Member Services
Allan J. Reesor, Executive Vice-President & Chief Information Officer

Client Services
Rosemarie McClean, Vice-President

MIS Member Services
Phil Nichols, Vice-President

Finance
Andrew Jones, Vice-President

Human Resources & Public Affairs
John Brennan, Vice-President

Internal Audit
Peter Maher, Vice-President

Law
Roger Barton, Vice-President, General Counsel & Secretary

THE CADILLAC FAIRVIEW CORPORATION LIMITED
Real Estate Portfolio

President & Chief Executive Officer
Peter Sharpe

Portfolio Operations
Brian Muzyk, Executive Vice-President & Chief Operating Officer

Eastern Canada Portfolio
Normand Blouin, Senior Vice-President

Greater Toronto Area Portfolio
Tony Grossi, Senior Vice-President

Ontario Portfolio
Linda Gray, Senior Vice-President

U.S. Portfolio
Alan Carlisle, Senior Vice-President

Western Portfolio
Ron Wratschko, Senior Vice-President

E-business
Ronald Peddicord, Executive Vice-President

Technology
Scot Adams, Senior Vice-President and Technology Officer

Finance and Taxation
Ian MacKellar, Executive Vice-President and Chief Financial Officer

Law
Peter Barbetta, Executive Vice-President, General Counsel and Secretary

Office and Retail Development
Michael Kitt, Executive Vice-President

Architecture and Design
Rudy Adlaf, Senior Vice-President

Office Development
John Sullivan, Senior Vice-President

Project Management and Environmental Services
David Handley, Senior Vice-President

Investments
Andrea Stephen, Senior Vice-President

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please call Lee Fullerton, Communications Manager, at 416-730-5347. e-mail: communications@otpp.com

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From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Fw: OTTP -- history re: use of surplus
Date: Saturday, September 10, 2016 08:36:24
Attachment 1: Key Funding Decisions.pdf

I forgot about this site. It has a lot of historical information.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Saturday, September 10, 2016 7:16 AM
To: Hatzis, Len (TBS); Kaufman, Paul (TBS); Petsche, Nadine (TBS); Killoch, Alex (MOF); Raymond, Martin (CA - Montreal)
Cc: Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: OTTP -- history re: use of surplus

I think may be a very useful document re: the past – summarizes use of surplus going back to 1990.

I found this document on a website www.mypensionhub.com

The description of the website is below and I think its legit.

“This website houses information to help affiliate pension representatives educate members on plan funding and other key pension matters.

This website is maintained by the Ontario Teachers’ Pension Plan on behalf of a communications working group (CWG) made up of representatives of: l’Association des enseignantes et des enseignants franco-ontariens (AEFO), Elementary Teachers’ Federation of Ontario (ETFO), Ontario English Catholic Teachers’ Association (OECTA), Ontario Secondary School Teachers’ Federation (OSSTF), Ontario Teachers’ Federation (OTF), Ontario Government and Ontario Teachers’ Pension Plan.

Key Funding Decisions Since 1990

Plan Funding

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the provincial pension regulator at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Teachers' pension plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

Year	Valuation status and key decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

Year	Valuation status and key decisions
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.

Year	Valuation status and key decisions
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	$6.8 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes go into effect in January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: OTTP -- history re: use of surplus
Date: Monday, September 12, 2016 08:37:54
Attachment 1: Key Funding Decisions.pdf

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Saturday, September 10, 2016 7:16 AM
To: Hatzis, Len (TBS); Kaufman, Paul (TBS); Petsche, Nadine (TBS); Killoch, Alex (MOF); Raymond, Martin (CA - Montreal)
Cc: Fong, Pauline (TBS); Patel, Bharat (TBS)
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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: OTTP Asset options
Date: Tuesday, November 22, 2016 09:41:22

From: Duffy, Paul (EDU) <Paul.Duffy@ontario.ca>
Sent: Monday, November 21, 2016 6:57 PM
To: Killoch, Alex (MOF)
Subject: OTTP Asset options

Alex,

We're working through the potential range of options to explore the possible and access the OTPP surplus and wanted to touch base about some of the potential options that were raised at the last meeting with TBS. We're fleshing out some considerations around negotiating an agreement with the OTF, or going so far as legislating, but wondering if your team is working up the details around a shared asset model (along the lines of OMERS), or other potential JSPP structures that may exist that could be considered?

Cindy was at a session with Josh today and raised those two options in particular as things they expect to discuss at this Thursday's meeting with Karen.

I'm available in the morning if you want to discuss before meeting with Josh - otherwise, we can chat then.

Thanks,

Paul

From: Thompson, Scott (MOF) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Fw: Our discussion
Date: Saturday, September 17, 2016 08:14:06
Attachment 1: CF6E4966-0C0D-4C3D-A7BC-0D12629BB011.png

Fyi. Discussions happening with Jim Leech for context/history.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Orencsak, Greg (TBS) <Greg.Orencsak@ontario.ca>
Sent: Saturday, September 17, 2016 7:33 AM
To: jim@jimleech.ca
Cc: Orsini, Steve (CAB); Hatzis, Len (TBS); Kearney, Sean (TBS); Veinot, Cindy (TBS); Thompson, Scott (MOF)
Subject: Re: Our discussion

Hi Jim,

Steve passed your note along. Thanks for sharing your view on an issue that has proved vexing for the Province, given that our Auditor General has taken a sudden opposing view to recognizing the surplus as an asset.

We are in the midst of finalizing an external legal opinion through Oslers this weekend. They are looking to render advice on how the government can have access to the surplus, and your knowledge and expertise about OTPP would be valuable to ensure a sound understanding of not only the co-sponsors' fundamental rights, but also the role of the FMP.

I am hoping that you may be amenable to having a chat with our internal/external legal team about this. Sean Kearney and Len Hatzis are the respective director and deputy director of my legal team, who can connect you through to Oslers as well, and would most benefit from your advice.

I'm also happy to connect if you'd like and can be reached on cell at 416 508 8065.

Thanks for your help and hope that this is not a huge imposition on your weekend.

Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

The contents of this email may be confidential and/or commercially sensitive. If received in error or you are not the intended recipient, please notify sender and delete any copies immediately.

---------- Forwarded message ----------
From: Jim Leech <jim@jimleech.ca>
Date: Sep 16, 2016 7:24 PM
Subject: Our discussion
To: "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>
Cc:

Speaking as a “non- accountant”, I think that you have a defendable position.

I think PS3250.050 (the italics which indicate that it is the over riding para) gives you the right to recognize the asset.

AG hangs its hat on the gov’t not having unilateral right to use surplus because gov’t needs the agreement of the OTF. But they fail to recognize the raison d’etre for the Funding Management Policy between the gov’t and OTF that sets out exactly how any surplus is to be used (reduce future contributions or apply against future deficits) if there is no other agreement. In other words there is no question that gov’t will realize the benefit – only a question of when and in what form. I believe that is what PS3250.052/055 is trying to say.

The discussion around PS3250.059 whether of not the surplus is ”withdrawable” is

simply a red herring.

So it really turns on the enforceability of the FMP.

Jim Leech I +416 930 2006 I @QUChancellor

Two Old Mill Drive I Toronto I ON I M6S 0A2

TBS

From: Killoch, Alex (MOF) []
To: Patel, Lesley (MOF) [Lesley.Patel@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: Fw: PAEAP Report QA_MOF_20170206
Date: Tuesday, February 07, 2017 15:54:14
Attachment 1: PAEAP Report QA_MOF_20170206.docx

Hi Lesley

Here are the q and a's.

Alex

Questions and Answers
Pension Asset Expert Advisory Panel Report

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.
- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans it co-sponsors should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.
- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to $3.5B, from the $5B originally reported in the 2015-16 Public Accounts.
- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.
- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

Commented [KA(1]: Not sure that the panel recommendation applies to all JSPPs, it does apply to the two that are co-sponsored by the government but there are two other JSPPs still to be considered.

QUESTIONS AND ANSWERS – MOF REVIEW

1. What does this mean for the upcoming Budget?

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. ~~We will have more details to share about the Budget in the coming weeks.~~

In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

DRAFT

2. **What do you say to the credit rating agencies who are watching all of this unfold?**

   We have been impressed with the level of cooperation and understanding of the credit rating agency community.

   I would say we have achieved clarity on this complex accounting issue.

   We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

Ontario's Financial Position:

3. **Some have said your government has a spending problem, not a revenue problem. What do you say to that?**

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

   The government is projecting ~~a~~ to balance~~d~~ the budget by 2017-18, and remaining balanced in 2018-19.

   The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

   Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

   Key elements of the government's plan to eliminate the deficit are:

   - Program Review, Renewal and Transformation
   - Managing compensation costs
   - Maintaining tax fairness and a level playing field for business

DRAFT

- Strengthening government transparency, financial management and fiscal accountability

4. **The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?**

   The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

   Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

   Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

5. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

   The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

   Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

DRAFT

Legislated Accounting:

6. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

DRAFT

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: PAEAP info
Date: Monday, February 06, 2017 15:03:50
Attachment 1: Minister Statement - PAEAP report (before Q3 release) v3.docx

---

From: Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>
Sent: Monday, February 6, 2017 11:31 AM
To: Killoch, Alex (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: RE: PAEAP info

Hi Alex,

Sharing a draft Minister statement on the potential release of the PAEAP as an **fyi only** at this point. It's with the MO, but as your team was planning to review the report, any input you have is welcome.

Please note that at this point there is no consensus around if this statement will be necessary or if another comms approach will happen as TBS is leading this announcement. I'm meeting with TBS at end of day and hopefully things will be firmed up by then. That means that the statement attached could potentially change as well.

Also, the release date is still up in the air, it might be moved up to this week which is why we are being proactive with the attached statement should TBS decide this is the way to go.

I will keep you posted on what the outcome of the meeting is and what MOF will be moving forward with in support of the announcement.

Thanks,

Lesley

From: Killoch, Alex (MOF)
Sent: January-26-17 10:07 AM
To: Patel, Lesley (MOF)
Subject: Re: PAEAP info

I don't see a negative reaction from the otf.

The report will confirm that the cost of the pension plan is less than the cash contributions made by the government.

I have asked edu about the OTF, as they will have better idea if any reaction. I will let you know what they say.

From: Patel, Lesley (MOF)

Sent: Thursday, January 26, 2017 9:56 AM

To: Killoch, Alex (MOF)

Subject: FW: PAEAP info

Hi Alex,

Catherine forwarded your response re: stakeholders reaction to the release of the PAEAP report. I understand that you're going to reach out to TBS to review the report and after that time, you'll have a better sense of what potential issues may be.

In the meantime, I'm connecting with TBS communications on products, as they are the lead, and was hoping you could explain a bit more about the potential negative reaction of the Teacher's Federation.

Much appreciated,

Lesley

From: Mah, Catherine (MOF)
Sent: January-26-17 9:49 AM
To: Patel, Lesley (MOF)
Subject: FW: PAEAP info

FYI

From: Killoch, Alex (MOF)
Sent: January 26, 2017 9:00 AM
To: Mah, Catherine (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: Re: PAEAP info

I don't see there being any reaction from stakeholders (saying that, I have not seen the report to know if there is anything to be concerned about).

Only exception might be Teachers Federation, but that would not be a public reaction. Only discussion would be at the partner's table.

I will ask if I can see report.

Alex

From: Mah, Catherine (MOF)

Sent: Wednesday, January 25, 2017 5:57 PM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: FW: PAEAP info

Hi you two,

TBS is looking for any insight into stakeholder reaction to the outcome of the forthcoming report. Can you help with this?

Thanks,

Catherine

From: Myers, Leah (MOF)
Sent: January 25, 2017 5:53 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Please follow up with Alex. Thanks.

From: Mah, Catherine (MOF)
Sent: January-25-17 5:26 PM
To: Myers, Leah (MOF)
Subject: FW: PAEAP info

Hi Leah,

I know this is a TBS lead – is this something we should be commenting on?

Thanks,

Catherine

From: Patel, Lesley (MOF)
Sent: January 25, 2017 4:43 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Hi Catherine,

As a follow up to our conversation. TBS is looking for any insight into stakeholder reaction to the outcome of the report — if they think they would be neutral? Any input/feedback you or your colleagues could provide would be helpful.

We can touch base tomorrow morning if you need a bit more context.

Talk soon,

Lesley

From: Patel, Lesley (MOF)
Sent: January-25-17 4:03 PM
To: Mah, Catherine (MOF)
Subject: PAEAP info

Hi Catherine,

Following up on the voicemail I left earlier today — looking to touch base on a few items, including the Pension Asset Expert Advisory Panel.

Could you please give me a call when you have a chance.

Much appreciated,

Lesley

Ontario

NEWS

Ministry of Finance

Statement by Finance Minister Charles Sousa on the Pension Asset Expert Advisory Panel's Recommendations

February 13, 2017

Today, Charles Sousa, Ontario Minister of Finance, issued the following statement on the release of the Pension Asset Expert Advisory Panel Report.

"Ontario welcomes the Expert Advisory Panel's report and their final recommendations.

With President of the Treasury Board Liz Sandals, we are accepting all of the panel's recommendations, including recognizing the Province's net pension assets for jointly-sponsored plans in its financial statements. This accounting approach will be used on any future provincial financial reports.

Ontario's deficit is lower than originally reported, sitting at $3.5 billion compared to $5 billion noted in the 2015-16 Public Accounts. This revised deficit figure highlights our government's commitment to eliminating the deficit, which is key to Ontario's long-term economic growth.

We have beaten our deficit targets for seven straight years while making strategic investments to create jobs and help people in their everyday lives. In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

I would like to thank the Pension Asset Expert Advisory Panel for its work on this complex issue. With the panel's recommendations in place, it is clear we are on track to balance the budget next year and the year after."

For Media Inquiries only:
Kelsey Ingram, Minister's Office
416-326-1409
Scott Blodgett, Ministry of Finance
416-325-0324

Available Online
Disponible en Français

From: Killoch, Alex (MOF) []
To: Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Fw: PAEAP info
Date: Monday, February 06, 2017 15:04:22
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Any concerns?

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To: Patel, Lesley (MOF)
Subject: Re: PAEAP info

I don't see a negative reaction from the otf.

The report will confirm that the cost of the pension plan is less than the cash contributions made by the government.

I have asked edu about the OTF, as they will have better idea if any reaction. I will let you know what they say.

From: Patel, Lesley (MOF)

Sent: Thursday, January 26, 2017 9:56 AM

To: Killoch, Alex (MOF)

Subject: FW: PAEAP info

Hi Alex,

Catherine forwarded your response re: stakeholders reaction to the release of the PAEAP report. I understand that you're going to reach out to TBS to review the report and after that time, you'll have a better sense of what potential issues may be.

In the meantime, I'm connecting with TBS communications on products, as they are the lead, and was hoping you could explain a bit more about the potential negative reaction of the Teacher's Federation.

Much appreciated,

Lesley

From: Mah, Catherine (MOF)
Sent: January-26-17 9:49 AM
To: Patel, Lesley (MOF)
Subject: FW: PAEAP info

FYI

From: Killoch, Alex (MOF)
Sent: January 26, 2017 9:00 AM
To: Mah, Catherine (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: Re: PAEAP info

I don't see there being any reaction from stakeholders (saying that, I have not seen the report to know if there is anything to be concerned about).

Only exception might be Teachers Federation, but that would not be a public reaction. Only discussion would be at the partner's table.

I will ask if I can see report.

Alex

From: Mah, Catherine (MOF)

Sent: Wednesday, January 25, 2017 5:57 PM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: FW: PAEAP info

Hi you two,

TBS is looking for any insight into stakeholder reaction to the outcome of the forthcoming report. Can you help with this?

Thanks,

Catherine

From: Myers, Leah (MOF)
Sent: January 25, 2017 5:53 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Please follow up with Alex. Thanks.

From: Mah, Catherine (MOF)
Sent: January-25-17 5:26 PM
To: Myers, Leah (MOF)
Subject: FW: PAEAP info

Hi Leah,

I know this is a TBS lead – is this something we should be commenting on?

Thanks,

Catherine

From: Patel, Lesley (MOF)
Sent: January 25, 2017 4:43 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Hi Catherine,

As a follow up to our conversation. TBS is looking for any insight into stakeholder reaction to the outcome of the report — if they think they would be neutral? Any input/feedback you or your colleagues could provide would be helpful.

We can touch base tomorrow morning if you need a bit more context.

Talk soon,

Lesley

From: Patel, Lesley (MOF)
Sent: January-25-17 4:03 PM
To: Mah, Catherine (MOF)
Subject: PAEAP info

Hi Catherine,

Following up on the voicemail I left earlier today — looking to touch base on a few items, including the Pension Asset Expert Advisory Panel.

Could you please give me a call when you have a chance.

Much appreciated,

Lesley

Ontario

NEWS

Ministry of Finance

Statement by Finance Minister Charles Sousa on the Pension Asset Expert Advisory Panel's Recommendations

February 13, 2017

Today, Charles Sousa, Ontario Minister of Finance, issued the following statement on the release of the Pension Asset Expert Advisory Panel Report.

"Ontario welcomes the Expert Advisory Panel's report and their final recommendations.

With President of the Treasury Board Liz Sandals, we are accepting all of the panel's recommendations, including recognizing the Province's net pension assets for jointly-sponsored plans in its financial statements. This accounting approach will be used on any future provincial financial reports.

Ontario's deficit is lower than originally reported, sitting at $3.5 billion compared to $5 billion noted in the 2015-16 Public Accounts. This revised deficit figure highlights our government's commitment to eliminating the deficit, which is key to Ontario's long-term economic growth.

We have beaten our deficit targets for seven straight years while making strategic investments to create jobs and help people in their everyday lives. In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

I would like to thank the Pension Asset Expert Advisory Panel for its work on this complex issue. With the panel's recommendations in place, it is clear we are on track to balance the budget next year and the year after."

For Media Inquiries only:
Kelsey Ingram, Minister's Office
416-326-1409
Scott Blodgett, Ministry of Finance
416-325-0324

Available Online
Disponible en Français

From: Killoch, Alex (MOF) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: PSAB ITC
Date: Thursday, March 15, 2018 14:00:49
Attachment 1: Comments on Questions Responding to PSAB Invitation to Comment on Discou....docx

---

Attached is Allan's suggestions on the accounting issue.

Let me know if you would like to arrange a call.

Alex

From: Allan Shapira <allan.shapira@aon.com>
Sent: Thursday, March 15, 2018 1:39 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Jason Malone
Subject: PSAB ITC

Attached is a document which provides our thoughts/comments from our review of the draft responses to the ITC.

Would be pleases to have a call tomorrow if that would be helpful.

Thanks

Allan

Allan H. Shapira, FSA, FCIA | Managing Director
Aon
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2

t 416.227.5800 | m 416.704.0225 | f 416.227.5750
allan.shapira@aon.com | aon.com

PLEASE NOTE: My email has changed to allan.shapira@aon.com

****
This communication (and any attachments) is directed in confidence to the addressee(s) listed above, and may not otherwise be distributed, copied or used. The contents of this communication may also be subject to privilege, and all rights to that privilege are expressly claimed and not waived. If you have received this communication in error, please notify us by reply e-mail or by telephone and delete this communication (and any attachments) without making a copy. Thank you.

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Comments on Questions Responding to PSAB Invitation to Comment on Discount Rate Guidance

One of the items we discussed including was as paragraph that differentiates public and private sector pension plans to provide some context. The following is suggested wording if you want to include this. Given that you are responding to specific questions, I don't see an obvious place to put this so that may be part of the decision to include this.

Nature of Public Sector Pension Plans in Canada

The nature of pension plans in the public sector in Canada is often very different from pension plans in the private sector, and for that matter public sector pension plans in other countries:

- Most public sector pension plans require member contributions, with member and employer contributions at or close to 50/50;
- Many public sector pensions plan have levers to share cost/risk with members, including increased member contributions or reduction in future benefits; they have demonstrated the ability to self-adjust over time;
- Governance structures are very robust, with the investment management and risk management of the pension funds often performed by an external Board that is separate from the Plan Sponsor(s); and
- Most of the public sector pension plans are not subject to solvency funding requirements and in fact for many of the plans, in the highly unlikely event of plan wind-up, the benefits can be reduced if there are insufficient assets.

Question 4a

Here is a possible response to the question on how the discount rate is set.

Significant analysis is done to develop the expected rate of return used to determine the obligation to ensure it is a reasonable expectation in the long-run. The assumption used takes into account in detail the asset allocation of the particular pension plan and the expectation of the long-term return for each of the asset classes. Each asset class expectation is carefully analyzed with the assistance of experts to ensure that this is a reasonable assumption of the return on assets classes.

(NTD: may want to consider adding the following on the comparability issue)

A view could be made to provide more guidance or change the philosophy of the assumption if there were significant variability in the assumption used by various entities which would reduce comparability between them. We do not believe that it is necessary for public entities to have a goal to be able to compare results between them. A user looking to invest in a company in the private sector or judge the performance of an entity may want to compare between peers in an industry, thus it is critical that an objective of consistence between entities' assumptions should be included in the standards. We do not believe this is the case in the public sectors. Nevertheless, we have observed that discount rates used in the provincial sectors are comparable and a user looking to better understand the financial health of pension plans in the various provinces will observe great consistency in Canada.

Question 6

In the first paragraph, we have some concern about asking for the guidance to be more explicit. Once you go down the road of more guidance, then there is a risk that you have to create more specificity around what expected return means and what the borrowing rate means. It may be sufficient to just have the first sentence in supporting the basis to use.

There is a paragraph that starts off: Most of Ontario's pension plans are at least 100% funded. We don't think that is a relevant point. If the point is that the pension plans are funded plans that is a different point. Whether your plans are 95% funded or 105% funded would not be a factor on which basis to use. In fact, even referring to the funded status brings the discount rate back into play because of the question of what discount rate is that funded status based on.

We also have some concern over the last paragraph trying to differentiate from the private sector. We definitely agree that the purposes are different but there are some landmines in that paragraph, including the issue of taxing power, the funded status of private sector pension plans (again don't view the funded status as a reason for a basis) and the description of the high-quality debt basis as conservative (those in favour of that basis would not call it conservative).

There may be a reason in this question or elsewhere to expand on the purpose of financial statements in the private sector and public sector. The purpose of financial statements for a commercial enterprise in the private sector is to focus on the pricing of that enterprise at a particular point in time. The purpose of financial statement in the public sector is….. (I am assuming you are better to finish this thought than we are).

The following paragraph in question 6, may also be appropriate for question 13, the key issue being that there is typically no asset pool in trust for non-pension obligations. Instead of referring to "current pension obligation" we refer to "current obligation":

For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government can obtain for its debt. It reflects the amount the government would need to borrow to finance its current obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3250, PS 3270 and PS 3310. We believe that this methodology is appropriate and consistency in practice exists across the sector.

Question 13

See reference above in question 6.

Question 14

The following is a possible answer to question 14, given that PSAB really needs to understand the thinness of the Canadian market.

A table showing the prevalence of discount rate methodologies in other equivalent standards was provided in the invitation to comment. The overwhelming prevalence of the use of “market yields of high-quality debt instruments at the reporting date” is shown in other standards including IASB, US FASB, UK ASB and IPSASB. What is not noted in the document is the difficulty of the applicability of that methodology in most major markets as well as the lack of guidance. In the late 1980’s, a position statement by a staff of the SEC defined high quality debt as a debt that was of higher quality than Aa and from that point, regardless of the standard, that opinion has been the guiding principle in establishing the accounting discount rate. The economic environment has changed significantly since the late 1980’s that opinion was published such that the number of AA corporate bonds at longer durations decreased significantly but the methods to rate these bonds has also changed. The main issue facing the Canadian as well as most major economies is the lack of depth of the Aa market past the 10 year maturity mark. In Canada, only one Corporate Aa bond exits past 10 years. Under IASB and US FASB, issuers extrapolate rates from existing market information to determine the “pseudo” Aa rate past the 10 year mark for an obligation with cash flows that stretches more than 100 years. In the wake of these issues that spreads beyond Canada, standard setters have tried to resolve the imperfect methodology that relies on market yields on high-quality debt and continue to question the validity of that methodology. We should be mindful of these difficulties in thinking about implementing that methodology and the potential of other standard setters eventually moving away from it

From: Killoch, Alex (MOF) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]; Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: PSAB ITC
Date: Thursday, March 15, 2018 14:00:49
Attachment 1: Comments on Questions Responding to PSAB Invitation to Comment on Discou....docx

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Sent: Thursday, March 15, 2018 1:39 PM
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Allan

Allan H. Shapira, FSA, FCIA | Managing Director
Aon
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2

t 416.227.5800 | m 416.704.0225 | f 416.227.5750
allan.shapira@aon.com | aon.com

PLEASE NOTE: My email has changed to allan.shapira@aon.com

****
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From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: PSAB's ITC: Discount Rates
Date: Friday, March 02, 2018 10:17:19
Attachment 1: image001.jpg
Attachment 2: BN_Employment Benefits Discount Rate ITC December 2017.docx
Attachment 3: Ontario Response to PSAB on ITC - Employment Benefits Discount Rate December 2017.doc

---

Hi Allan

Please see the attached request

Is the 15th doable?

Thanks for the help

Alex

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Sent: Thursday, March 1, 2018 10:12 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: FW: PSAB's ITC: Discount Rates

Hi Alex

It was nice meeting you. In the attach please find the responses we have put together.

As discussed, can you please get Allan to:

1. Review and update the QA based on his experience with the plans

2. Develop an overall discussion on high-level differences between private vs public sectors and discount rate implications

I would appreciate to have something back from Allan by March 15, so that Cindy has sufficient review time. Please let me know if you foresee challenges with the date.

Thanks again for assisting us with this deliverable.

Thank you
Khal

Sent with BlackBerry Work
(www.blackberry.com)

From: Provis, Ian (TBS) <Ian.Provis@ontario.ca>
Date: Tuesday, Feb 27, 2018, 1:55 PM
To: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Subject: FW: PSAB's ITC: Discount Rates

Ian Provis, OPCD

' 416.327.2722 | 8 ian.provis@ontario.ca

From: Keates, James (TBS)
Sent: Wednesday, February 21, 2018 10:22 AM
To: Provis, Ian (TBS)
Subject: PSAB's ITC: Discount Rates

Hi Ian, attached is the draft briefing note and response letter for your review.

The parts highlighted in yellow are the areas where we need someone more involved in the calculations to provide input.

Thanks

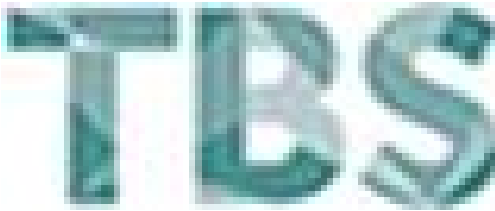
Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 325-8082


TBS

Briefing Note

Office of the Provincial Controller Division
Accounting Policy and Financial Reporting

PSAB's Invitation to Comment "Employment Benefits: Discount Rate Guidance in Section PS 3250"

Issue:

The Public Sector Accounting Board (PSAB) has requested comments on an *Invitation to Comment (ITC) on Employment Benefits: Discount Rate Guidance* due March 9, 2018.

Project Status:

- RETIREMENT BENEFITS, Section PS 3250 was revised and issued in September 2001 (replacing the prior EMPLOYEE PENSION OBLIGATIONS, Section PS 3250 which was based on Accounting Statement No. 5). POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255 was issued in May 2002. The requirements in Section PS 3255 were developed to be consistent with the recommendations in Section PS 3250. No changes have been made to either Section PS 3250 or Section PS 3255 since 2001 and 2002, respectively, other than those of an editorial nature.
- This project is directed at developing a new, comprehensive Handbook Section for the CPA Canada Public Sector Accounting (PSA) Handbook on employment benefits which will replace existing Sections PS 3250 and PS 3255. Due to the complexity of the issues involved, PSAB decided to undertake this project in two phases. Phase I will address specific issues related to the measurement of employment benefits, including the deferral provisions and the discount rate guidance in the standards.
- The scope of this ITC is the discount rate guidance in Section PS 3250. A prior Invitation to Comment on the guidance in the standards on the deferral provisions was issued in November 2016. The next stage of the project (Phase 2) will be a third Invitation to Comment on the accounting for plans with risk-sharing features, the accounting for multi-employer defined benefit plans and sick leave benefits, and other improvements to existing standards.

Background:

- The Province sponsors several pension plans. It is the sole sponsor of the Public Service Pension Plan (PSPP) and joint sponsor of the Ontario Public Service Employees Union (OPSEUPP) Pension Plan and the Ontario Teachers' Pension Plan (OTPP). In addition to the Provincial sponsored plans, pension benefits for employees in the hospital and colleges sectors are provided by the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of

Applied Arts and Technology Pension Plan (CAATPP) respectively, and are included in the Province's financial statements.

- Ontario's pension plans are all substantially funded as at December 31, 2016. The percentage for each of Ontario's pension plans is as follows:

Pension plan	Funded %
PSPP	103%
OPSEUPP	110%
OTPP	93%
HOOPP	122%
CAATPP	113%

- The Province of Ontario complies with the requirements in Section PS 3250. In the 2016-17 Public Accounts for Ontario (note 6), it is indicated the discount rate used to calculate pension benefits is based on the expected rate of return on pension assets. While Section PS 3250 does not provide specific guidance, paragraph .044 does provide two examples.

> *Paragraph PS 3250.044 states: For example, when a government determines its discount rates by reference to its plan asset earnings, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the short-term forecast of rates of return on assets currently held in the fund. When a government determines its discount rates by reference to its cost of borrowing, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the specific rates of interest and the periods committed to by the government on amounts borrowed.*

- There is also guidance on discount rates in other sections of the PSA Handbook as follows:

Section	Guidance on discount rates
PS 3250 Loans Receivable	.23 Present value techniques would be used to quantify the portion of a loan transaction that is, in substance, a grant. The government's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the loan. The grant portion would be the difference between the face value of the loan and its present value.

PS 3260 Liability for Contaminated Sites	.67 The notes to the financial statements would disclose the basis of recognition and measurement of the liability. Disclosures would include the significant assumptions underlying the reported amount. If a present value technique is used to estimate the liability, the estimated total future expenditures for settlement of the liability and the discount rate would be disclosed. When possible, the anticipated timing of future expenditures would also be disclosed. Additional disclosures are encouraged when the disclosures will enhance the financial statement users' understanding of the estimate of the liability.
PS 3270 Solid Waste Landfill Closure and Post-Closure Liability	.16 The estimated total expenditure represents the sum of the discounted future cash flows associated with closure and post-closure care activities. The government's average long-term borrowing rate, determined on a consistent basis, may be appropriate to use as the discount rate.
PS 3310 Loan Guarantees	.16 Present value techniques may be used to measure the provision. The government's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the estimated loss.

- In accordance with the requirements in Section PS 3250, other Provinces and their sponsored plans similarly use the expected return on plan assets as the discount rate with the exception of OTPP which uses the market rate of provincial bonds in their standalone financial statements (see appendix A – this analysis was prepared in November 2016). The range of discount rates used in Ontario varied from 5.65% to 6.25% (with the exception of OTPP which was 3.25%). This range of discount rates in Ontario was consistent with the rates used in other provinces. The use of a consistent basis for determining discount rates supports comparability amongst public sector pension plans and Provincial financial statements.

- A conference call with the other Comptroller Offices was held on January 31, 2018. Generally, other Provinces use the expected return on plan assets for funded plans and the average cost of borrowing for unfunded plans. There was general support for the status quo although the Federal government considered that valuation of the pension obligation should be independent of any pension asset.

- Typically, a government’s cost of borrowing will be lower than its expected return on plan assets. A lower discount rate results in a higher pension benefit obligation and higher unfunded obligation. The ITC in paragraph .022 indicates a 1% change in the discount rate may result in a 12 to 18% change in the value of the accrued benefit obligation and a 15 to 25% change in the current service cost.

- PSAB’s ITC indicates the requirements of other private and public sector standard setters regarding the discount rate. Market yield of high-quality debt instruments (the most commonly used basis for the discount rate) is required to be used by:

- private sector standard setters: IASB, U.K. Accounting Standards Board and U.S. FASB (which also allows the effective settlement rate to be used); and
- public sector standard setters: IPSASB, South Africa Accounting Standards Board and U.S. FASAB (which also allows the average historical rate for marketable treasury securities to be used).

- Expected return on plan investments is an option under Part II of the CPA Canada Handbook-Accounting (along with market yield of high-quality debt instruments or the effective settlement rate) for private sector entities; and under U.S. GASB (along with market yield of high-quality debt instruments) for public sector entities.

Analysis:

- The ITC includes a list of alternative discount rate bases as follows:
  - Expected return on plan assets
  - Expected return of an effective hedge portfolio
  - Market yield of high-quality debt instruments
  - Market yield of risk-free debt instruments
  - Entity's cost of borrowing
  - Effective settlement rate

- Two options not being considered in the below analysis are:
  1. Expected return of an effective hedge portfolio – This alternative is not being considered as it represents the return of a hypothetical fictional portfolio with assets that match the economic risk factors of the benefit obligation. It is not representative of the segregated assets held by the pension plan. Practically, developing such a portfolio would be subjective and challenging. It is not a bases of discounting allowed by other standard setters.
  2. Effective settlement rate – This alternative is not being considered as it not a practical alternative for governments. This is the rate implicit in the total costs involved in releasing the entity/government from its accrued benefit obligation. Releasing governments from their benefit obligations is not a realistic alternative. It would consider costs (for example, profit margins which would need to be paid to the acquiring party) which are not expected to be incurred. Although it is an alternative allowed under US FASB and Part II of the CPA Canada Handbook-Accounting (both private sector standard setters), practically estimating settlement costs would be subjective, challenging and time consuming.

- The two general alternatives being considered in the below analysis for the discount rate are:
  1. The expected return on plan assets; and/or
  2. A debt rate (either the market yield of high-quality debt instruments, market yield of risk-free debt instruments or the entity's cost of borrowing).

- A primary objective of government financial statements is to demonstrate accountability by the government to the public and its legislature. Financial statements are a vehicle by which governments demonstrate whether they did or did not do what they intended and why or why not. Government financial statements should therefore be clear and understandable to the public. Pension plans are long-term in nature. Because of the long-term nature of pension

plans, government's long-term accountability should be demonstrated to the public with respect to pension plans. Standards on retirement benefits in the PSA Handbook should consider the long-term accountability of government to the public.

- For public sector pension plans, the public is interested in knowing whether the assets segregated for pension purposes are sufficient to meet the government's current pension obligations. If not, how much of a pension shortfall exists.

- As presented previously, most of Ontario's pension plans are at least 100% funded. The Province does not need to borrow or raise additional funds to pay for their current pension obligations. The pension assets set aside by government are expected to earn a certain rate of return over future years, as the pension obligations come due.

- Discounting the future pension payments to be made by the expected return on plan assets (projected over the period of the pension plan) represents the plan assets required to be held by the government to fully fund the pension plan. The expected return on plan assets represents the cost of funding the pension obligation and best reflect the current obligation of the Province.

- If a government has set aside sufficient assets to fund its current pension obligations, it is very questionable the benefit of treating the pension obligation as if it needed to be debt financed. Recording the pension obligation assuming the government will need to borrow to fund the obligation will result in reporting an obligation and an unfunded balance not reflective of the current needs of government. It does not accurately reflect the future financial needs of the government; it does not accurately reflect how well the government has been in funding its long-term obligations.

- For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government can obtain for its debt. It reflects the amount the government would need to borrow to finance its current pension obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3250, PS 3270 and PS 3310. A consideration of using the cost of borrowing as the discount rate, as noted in the ITC, is it inappropriately results in an improvement in the financial position of the government from a deterioration in its credit rating (and therefore an increase in the cost of borrowing). This does not seem appropriate and would not be easily understood by financial statement users.

- Therefore the Province supports the status quo regarding guidance in PS 3250 on the discount rate. PSAB should continue to allow public sector entities to use either the expected return on plan assets or the entities cost of borrowing. PSAB should be more explicit in its guidance that the expected return on plan assets is appropriate for funded plans and the cost of borrowing for unfunded plans, with a blended rate for partially funded plans.

- The objective and users of government financial statements are different from those in the private sector. In the private sector, going concern of the entity is more of an issue. Pension plans are often not sufficiently funded. The ability to generate additional revenues to meet future pension obligations is limited relative to the public sector. Users of financial statements in the private sector are significantly investors and creditors. Reporting a conservative obligation calculated based on a lower discount rate is therefore more appropriate in the private sector to demonstrate the potential exposure of the entity. Therefore independent

conservative rates such as the market yield of high-quality debt instruments and market yield of risk-free debt instruments are more appropriate for consistency purposes in the private sector.

- Volatility resulting from the different discount rates is not considered a factor as all alternatives can result in fluctuations on the statement of operation as a result of a change in the discount rate. Under all alternatives, the discount rate will be reviewed on an annual basis.

Other Questions in the ITC

- How is the discount rate calculated – who calculates the discount rate and how
- Challenges in calculating the expected return on plan assets – Consistency with assumptions made with respect to other financial statement components – difficulty in projecting future conditions / events – determining the best estimate in a range – assessing the reasonability of the projection?
- Applicable for non-pension benefit obligations – Are assets set aside to fund these obligations? Do other standard setters have a different discount rate for these obligations? Have we historically discounted these amounts at a different rate than the pension benefits?

Additional matters to communicate to PSAB

PSAB requested in the prior Invitation to Comment whether there were additional issues the Employment Benefits Task Force should address in this project. As Ontario did not respond to the prior Invitation to Comment, the following additional issues for PSAB to consider will be communicated. These issues were raised by the Independent Pension Asset Expert Advisory Panel:

- Inconsistencies between the employment benefit standards and other standards in the PSA Handbook. For example, the deferral mechanisms in Section PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in Section PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when Section PS 3250 is not clear on a particular issue or different interpretations could be made.
- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.
- Significant differences that can exist between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. Significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are

made publicly available sometimes in the same document. PSAB's Employment Benefits Task Force should consider whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.

- A review should be performed of the valuation allowance guidance in the standards to ensure the guidance is clear and complete.
- A review should be performed of the guidance on accounting for multi-employer plans in the standards to ensure the guidance is clear and complete.

Prepared by:
Reviewed by:
Approved by:
Date:

Appendix 1: Discount rates used by pension plans and governments in Canada

Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
  - the Ontario Teachers' Pension Plan (OTPP) is the only plan were the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
  - OTPP stand-alone financial statements use the market rate of Provincial bonds.

- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.

2

Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	ON 1	3.25%	Market rate of Provincial Bonds

4

Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	ON 2	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	ON 3	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	ON 4	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	ON 5	5.95%	LT return on plan assets
Alberta					
Teachers' Post-1992 Pension Plan	6.80%	LT return on plan assets	AB 1	7.00%	LT return on plan assets
Universities Academic Pension Plan	6.00%	LT return on plan assets	AB 2	5.95%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)					
Local Authorities Pension Plan	5.60%	LT return on plan assets	AB 3	5.60%	LT return on plan assets
Public Service Pension Plan	6.00%	LT return on plan assets	AB 4	6.00%	LT return on plan assets
Management Employees Pension Plan	6.10%	LT return on plan assets	AB 5	6.10%	LT return on plan assets
Provincial Judges and Master in Chambers Pension Plan	5.40%	LT return on plan assets	AB 6	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.00%	LT return on plan assets	AB 7	6.00%	LT return on plan assets
Special Forces Pension Plan	5.90%	LT return on plan assets	AB 8	5.90%	LT return on plan assets

8

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan					
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.50%	LT return on plan assets	SK 1	6.50%	LT return on plan assets
British Columbia					
Public Service Pension Plan	6.50%	LT return on plan assets	BC 1	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	BC 2	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	BC 3	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	BC 4	6.50%	LT return on plan assets

10

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec					
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	QC 1	6.40%	LT return on plan assets less inflation
Newfoundland					
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	NF 1	5.80%	LT return on plan assets
Nova Scotia					
Nova Scotia Public Service Superannuation Plan (PSSP)	6.70%	LT return on plan assets	NS 1	6.15%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TPP)	6.75%	LT return on plan assets	NS 2	6.25%	LT return on plan assets

12

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba					
Civil Service Superannuation Plan	6.00%	LT return on plan assets	MB 1	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.25%	LT return on plan assets	MB 2	6.00%	LT return on plan assets
New Brunswick					
Provincial Court Act and Provincial Court Judges Pension Act (JUDGE)	6.15%	LT return on plan assets		No individual financial statements	
Pension Plan for Management Employees of New Brunswick School Districts (Sch-Mgt)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (GLTS)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for Full-Time CUPE 2745 Employees fo New Brunswick School Districts (CUPE 2745)	6.05%	LT return on plan assets		No individual financial statements	

14

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
New Brunswick					
NH-Mgt, NH-G&S, NH-N&P (i.e NH Nursing Home)	6.20%	LT return on plan assets		No individual financial statements	
CUPE Employees of New Brunswick Hospital (shared risk)	5.45%	LT return on plan assets		No individual financial statements	
Certain Bargaining Employees of New Brunswick (shared risk)	5.70%	LT return on plan assets		No individual financial statements	
Public Service Shared Risk Pension Plan	6.00%	LT return on plan assets		No individual financial statements	
New Brunswick Teachers' Pension Plan (shared risk)	6.15%	LT return on plan assets		No individual financial statements	

16

1. **Do you agree that PSAB needs to consider whether the discount rate guidance in RETIREMENT BENEFITS, Section PS 3250, is appropriate and sufficient?**

   Yes. Ontario supports PSAB's efforts to review Sections PS 3250 and PS 3255 considering these standards have been in effect for over 15 years and it is important to ensure that Canadian public sector pension plans remain current and reflect additional experience gained since original implementation.

   It is however a challenge to review and comment on elements of Sections PS 3250 and PS 3255 in isolation without consideration as to the overall direction being taken by PSAB. Responding to this Invitation to Comment while PSAB continues to review the reporting model through its Concepts Underlying Financial Performance is also challenging.

   It will therefore be important for PSAB after issuance of Invitation to Comments on specific matters and after the conceptual framework project is complete to allow the public sector community an opportunity to comment on the matters being covered collectively to ensure consistency between recommendations and with the underlying concepts in the Handbook.

2. **What challenges do you have, if any, in applying the discount rate guidance in Section PS 3250?**

   There is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates. Specific to the discount rate guidance in PS 3250, challenges in calculating the expected return on plan assets include:
   - Ensuring consistency between assumptions made in calculating the discount rate with assumptions made with respect to other financial statement components;
   - Difficulty in projecting future conditions / events;
   - Determining the best estimate in a range; and
   - Assessing the reasonability of the projection.

3. **What discount rate bases do you use in estimating accrued benefit obligation? If different discount rate bases are used for fully funded, partially funded and unfunded benefit plans, please identify them separately.**

   All of Ontario's pension plans are substantially funded therefore the expected return on plan assets is used.

4. **If you use the expected return on plan assets as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?**

   a. How is the discount rate calculated – who calculates the discount rate and how
   b. As mentioned, there is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates.
   c. Additional guidance should be provided on:

   - Accounting for funded versus unfunded versus partially funded plans; and
   - Determining the best estimate in a range of possible discount rates.

5. **If you use the entity's cost of borrowing as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?**

   Not applicable. Ontario uses the expected return on plan assets as the discount rate as plans are substantially funded.

6. **Which of the discount rate bases identified in paragraphs .052-.092 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.**

   Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. PSAB should be more explicit in its guidance that the expected return on plan assets is appropriate for funded plans, the cost of borrowing for unfunded plans, with a blended rate for partially funded plans.

   A primary objective of government financial statements is to demonstrate accountability by the government to the public and its legislature. Financial statements are a vehicle by which governments demonstrate whether they did or did not do what they intended and why or why not. Government financial statements should therefore be clear and understandable to the public. Pension plans are long-term in nature. Because of the long-term nature of pension plans, government's long-term accountability should be demonstrated to the public with respect to pension plans. Standards on retirement benefits in

the PSA Handbook should consider the long-term accountability of government to the public.

For public sector pension plans, the public is interested in knowing whether the assets segregated for pension purposes are sufficient to meet the government's current pension obligations. If not, how much of a pension shortfall exists.

Most of Ontario's pension plans are at least 100% funded. The Province does not need to borrow or raise additional funds to pay for their current pension obligations. The pension assets set aside by government are expected to earn a certain rate of return over future years, as the pension obligations come due.

Discounting the future pension payments to be made by the expected return on plan assets (projected over the period of the pension plan) represents the plan assets required to be held by the government to fully fund the pension plan. The expected return on plan assets represents the cost of funding the pension obligation and best reflect the current obligation of the Province.

If a government has set aside sufficient assets to fund its current pension obligations, it is very questionable the benefit of treating the pension obligation as if it needed to be debt financed. Recording the pension obligation assuming the government will need to borrow to fund the obligation will result in reporting an obligation and an unfunded balance not reflective of the current needs of government. It does not accurately reflect the future financial needs of the government; it does not accurately reflect how well the government has been in funding its long-term obligations.

For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government can obtain for its debt. It reflects the amount the government would need to borrow to finance its current pension obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3250, PS 3270 and PS 3310.

The objective and users of government financial statements are different from those in the private sector. In the private sector, going concern of the entity is more of an issue. Pension plans are often not sufficiently funded. The ability to generate additional revenues to meet future pension obligations is limited relative to the public sector. Users of financial statements in the private sector are significantly investors and creditors. Reporting a conservative obligation calculated based on a lower discount rate is therefore more appropriate in the private sector to demonstrate the potential exposure of the entity. Therefore independent conservative rates such as the market yield of high-quality debt

instruments and market yield of risk-free debt instruments are more appropriate for consistency purposes in the private sector.

7. **Which of the discount rate views identified in paragraphs .093-.106 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.**

   As pension plans are long term in nature and to be funded through assets set aside to generate returns, projected rates of return on plan assets are most appropriate for funded plans. The current borrowing rate is most appropriate for unfunded plans, the current rate being the best estimate of future borrowing costs.

8. **Are there any discount rate bases that may be used to estimate accrued benefit obligation that have not been identified in paragraphs .052-.092?**

   None noted.

9. **If you support a discount rate basis that includes adjustments for risks, which risks should be included in determining the discount rate (paragraphs .040-.046 and .080-.082)?**

   Not applicable. Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans.

10. **Are there any practical issues related to determining discount rates for which further guidance may need to be considered that have not been identified in the Invitation to Comment (specifically in paragraphs .065, .070, .076, .101, .105 and .107-.110)?**

    See the response to question 4c.

11. **Do you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans? If yes, should it be based on: (a) the entity's funding policy as described in paragraph .116; or (b) the benefit plan's funding level as described in paragraph .121?**

    Yes. Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. The

discount rate should be based on the funding level of the plan which best demonstrates the funding source of the pension obligation.

12. **If you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans, which of the discount rate basis/view (paragraphs .050-.106) is most appropriate for estimating the fulfillment value of the accrued benefit obligation of: (a) a fully funded benefit plan; (b) a partially funded benefit plan; and (c) an unfunded benefit plan?**

    Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. Additionally see the response to question 7.

13. **Are there any reasons that a discount rate approach taken for estimating accrued pension benefit obligation would not be appropriate for estimating accrued non-pension benefit obligation?**

    Applicable for non-pension benefit obligations – Are assets set aside to fund these obligations? Are there differences that warrant a different accounting? Do other standard setters have a different discount rate for these obligations? Have we historically discounted these amounts at a different rate than the pension benefits?

14. **As shown in Chart 2, market yields of high-quality debt instruments at the reporting date is a discount rate used in most other equivalent standards reviewed by PSAB. Are there any reasons that can justify that the public sector in Canada is different from the others?**

    Yes. See response to question 6.

15. **ADDED QUESTION (Include response in opening comment section on the online response form): Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?**

    Ontario would additionally like to highlight the follow areas which should be addressed by PSAB's Employment Benefits Task Force:

- Inconsistencies between the employment benefit standards and other standards in the PSA Handbook. For example, the deferral mechanisms in Section PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in Section PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when Section PS 3250 is not clear on a particular issue or different interpretations could be made.
- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.
- Significant differences that can exist between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. Significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. PSAB's Employment Benefits Task Force should consider whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.
- A review should be performed of the valuation allowance guidance in the standards to ensure the guidance is clear and complete.
- A review should be performed of the guidance on accounting for multi-employer plans in the standards to ensure the guidance is clear and complete.

From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: PSAB's ITC: Discount Rates
Date: Wednesday, March 14, 2018 11:35:26
Attachment 1: image001.jpg

Hi Allan

OPCD is inquiring about our accounting submission. Do you have an update?

Alex

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Sent: Wednesday, March 14, 2018 10:08 AM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: RE: PSAB's ITC: Discount Rates

Hi Alex,

Hope you are doing well. I have my 1/1 with Cindy later today, can you please confirm that we are still on track with below for tomorrow?

Thanks

Khal

From: Noor, Khalida (TBS)
Sent: March 1, 2018 10:13 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: FW: PSAB's ITC: Discount Rates

Hi Alex

It was nice meeting you. In the attach please find the responses we have put together.

As discussed, can you please get Allan to:

1. Review and update the QA based on his experience with the plans

2. Develop an overall discussion on high-level differences between private vs public sectors and discount rate implications

I would appreciate to have something back from Allan by March 15, so that Cindy has sufficient review time. Please let me know if you foresee challenges with the date.

Thanks again for assisting us with this deliverable.

Thank you

Khal

Sent with BlackBerry Work
(www.blackberry.com)

From: Provis, Ian (TBS) <Ian.Provis@ontario.ca>

Date: Tuesday, Feb 27, 2018, 1:55 PM

To: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>

Subject: FW: PSAB's ITC: Discount Rates

Ian Provis, OPCD

' 416.327.2722 | 8 ian.provis@ontario.ca

From: Keates, James (TBS)
Sent: Wednesday, February 21, 2018 10:22 AM
To: Provis, Ian (TBS)
Subject: PSAB's ITC: Discount Rates

Hi Ian, attached is the draft briefing note and response letter for your review.

The parts highlighted in yellow are the areas where we need someone more involved in the calculations to provide input.

Thanks

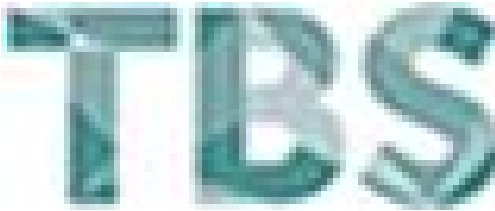
Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 325-8082


TBS

From: Killoch, Alex (MOF) []
To: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: Fw: Pension Assets
Date: Thursday, March 16, 2017 08:52:34
Attachment 1: image002.png

Fyi only

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Wednesday, March 15, 2017 7:08 PM
To: Hosick, Sarah (TBS); Tam, Nelson (TBS); Keates, James (TBS); Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: Pension Assets

Hi everyone -- We have a meeting with the FAO on Friday re: pension accounting.

Re the questions in the email below:

Alex/Rob – do you have the data that shows the percentage of the OTPP contributions as a percentage of salary on a historical basis – there is a comment below that it has never gone down – not sure I've seen that data.

Nelson/Jim – we have all the data re: past uses of surpluses for OTPP and OPSEU – can you pull together what we need to show the FAO how past surpluses have been used (e.g. may not have reduced future contributions, but has been used to eliminate extra payments, etc.)

Sarah – see the request re: updated pension information – can you check with Patrick re: whether this is something we will share at this point? If so, we'll need slide – expect there may be one in the pension deck that Pauline had prepared that was shared upstairs while I was away.

Thanks all,

Cindy

From: Hughes, Karen (TBS)
Sent: March-13-17 3:03 PM
To: Veinot, Cindy (TBS)
Cc: Laughton, Patrick (TBS)
Subject: Fw: Pension Assets

Further to our conversation.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: David West <dwest@fao-on.org>

Sent: Monday, March 13, 2017 2:25 PM

To: Hughes, Karen (TBS)

Cc: Laughton, Patrick (TBS); Peter Harrison; Schuurman, Tim (MOF)

Subject: Pension Assets

Hello Karen,

Following our telephone call last week and your offer of assistance (I think you offered! J), there are two areas that we are hoping your staff could provide some assistance.

Specifically,

- Are there any precedents (perhaps with OPSEUPP) where the government benefited from a contribution holiday? If so, what agreement existed in these circumstances?

Our understanding is that the government has never taken a contribution holiday with the OTPP and in fact the government's OTPP contribution rates have only ever increased.

- Can the FAO obtain updated values for the impact of the pension adjustment on expense and net debt over the next four years – as was provided on page 141 of the 2016 FES?

We haven't determined (yet) how we will reflect the debate on the appropriate accounting treatment of net pension assets in the budget projections included in the FAO's next Economic and Fiscal Outlook report. However, it seems likely that we will want to present the budget balance both with and without the valuation allowance that was used in the 2016 FES presentation – which would require this updated information. (By the way, we plan to release our next EFO post Budget.)

As always, we greatly appreciate your assistance.

Cheers,

David

----------David West

Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

t.416.579.1465 | dwest@fao-on.org

www.fao-on.org

Financial
Accountability
Office of Ontario

From: Schuurman, Tim (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Fw: Pension and Fiscal Planning.pptx
Date: Wednesday, September 28, 2016 17:48:24
Attachment 1: Pension and Fiscal Planning.pptx

We also just got this from them.....

From: Provis, Ian (TBS) <Ian.Provis@ontario.ca>
Sent: Wednesday, September 28, 2016 5:11 PM
To: McGrath, Tara (MOF)
Cc: Schuurman, Tim (MOF); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Patel, Bharat (TBS); Fong, Pauline (TBS); Birks, Ryan (MOF)
Subject: Pension and Fiscal Planning.pptx

Here is a deck on the impact of the pension accounting

Attachment Pension and Fiscal Planning.pptx (360960 Bytes) cannot be converted to PDF format.

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Fw: Please review
Date: Friday, September 23, 2016 21:40:58

Fyi

I will have to read a few times

It is referring to our work on discount rates. I am not sure that we can say we consult actuaries, although actuaries do the calculations.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: Friday, September 23, 2016 8:57 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Subject: Please review

Alex/Rob,

We haven't bothered you in at least an hour, so thought we'd send a request on this beautiful Friday nightJ

Below is an extract from the draft Management Letter of Representation that Greg, Scott and I will have to sign off on and provide the AG, possibly as early as Monday.

Please advise by Monday am if you have any comments or concerns with the scope and wording.

Thanks in advance for your feedback.

Nadine

P.s. wondering if you had any luck finding the additional details on the earlier indexation increases?

Employee future benefit obligations, costs and assets are determined, accounted for and disclosed in accordance with the requirements of PS 3250, *Retirement Benefits* (PS 3250) and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits* (PS 3255).

In particular:

o The Province is applying PS 3250 and PS 3255 accurately and completely in the consolidated financial statements.

o Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

o The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.

o The discount rate used to determine the accrued benefit obligation was determined by reference to the expected rate of return on pension assets based on the Government's best estimate.

o The economic assumptions included in the actuarial valuation are those that management provided to the pension plan boards (i.e. Ontario Pension Board, OPSEU Pension Trust, Ontario Teachers' Pension Plan Board, Healthcare of Ontario Pension Plan and Colleges of Applied Arts & Technology Pension Plan) in a letter requesting actuarial and financial information, to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3250.

o In arriving at these assumptions, management has obtained the advice of the actuaries, but has retained the final responsibility for them The data provided to the actuaries for non-pension post-retirement benefits, severance pay and other post-employment benefits was sufficient for the purpose of the valuation,

the actuarial assumptions were appropriate; and,

o the methods used were in accordance with sound actuarial principles.

o All significant changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuaries.

o The extrapolations are accurate and properly reflect the effects of significant changes and events that occurred subsequent to the most recent valuation and that had

a material effect on the extrapolation.

o We agree with the findings of Mercer as management's expert in evaluating the valuation of employee future benefits and have adequately considered the qualifications of the expert in determining the amounts and disclosures used in the financial statements and underlying accounting records.

From: Schuurman, Tim (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Fw: Preliminary pension and other retirement benefit expenses
Date: Wednesday, February 22, 2017 10:41:12
Attachment 1: Pension Expense and Retirement Benefits 2017-18 PRRTv7.xlsx

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From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Friday, February 17, 2017 4:45 PM
To: Hughes, Karen (TBS); Petsche, Nadine (TBS); Dutton, Andrea (TBS); Cook, Tim (TBS); Schuurman, Tim (MOF); Dodbiba, Teuta (TBS)
Cc: Hosick, Sarah (TBS); Laughton, Patrick (TBS); Fong, Pauline (TBS); Li, Wendy (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS)
Subject: Preliminary pension and other retirement benefit expenses

Attached is a preliminary estimate of the pension expense for 2016-17 and beyond.

There are two tables of numbers – the first is the full expense/income for each plan, the second (shaded in blue) is the change from the numbers being tracked for MMMP that has no valuation allowance for OPSEUPP or OTPP and full valuation allowances for HOOPP and CAATPP. The current working assumption is a full valuation allowance for HOOPP and CAATPP, although the Panel has not completed its work on these plans and so that assumption is subject to change.

Also, in light of the spotlight that pensions are currently under, we engaged an advisor (EY) to review OPCD's work. The box at the bottom of this table includes a list of outstanding items that OPCD is working through with EY. Should there be changes resulting from these items, we'll let you know.

Have a good weekend,

Cindy

Summary of Pension and Other Retirement Benefit Expense

PRRT 2017-18 - Preliminary Pension Expense Forecast For Discussion Purposes Only

	2014-15 Actual	2015-16 Actual	2016-17 Interim	2017-18 Plan	2018-19 outlook	2019-20[(1)] outlook	2020-21[(1)] outlook
Forecast for 2017 Budget *(updated: February 17th, 2017)*							
Teachers' Pension Plan	**564**	***110***	**-502**	**-531**	**-778**	**-995**	**-995**
Public Service Pension Plan	641	*535*	518	675	593	579	579
Public Service Supplementary Plan (PSSP)	-27	*31*	56	26	25	25	25
OPSEU Pension Plan	219	*177*	131	152	142	157	157
Consolidation Adjustment - Enterprises Pension Expense	-46	*-47*	-30	-30	-30	-30	-30
OPS - Other Retirement Benefits	319	*393*	283	312	323	333	361
Sub-Total OPS Pension & Retirement Benefits Plans	**1,106**	**1,089**	**958**	**1,135**	**1,053**	**1,064**	**1,092**
Healthcare of Ontario Pension Plan	843	*747*	628	553	1,124	1,197	1,197
Colleges of Applied Arts and Technology Pension Plan	209	*190*	202	233	246	261	261
Total Pension and Other Retirement Benefits	**2,722**	**2,136**	**1,286**	**1,390**	**1,645**	**1,527**	**1,555**

Increase/(Decrease) from REVISED 2016 Pension and Other Retirement Benefit Expense Forecast (including Valuation Allowance for HOOPP and CAATPP)					
Teachers' Pension Plan	**-50**	**289**	**332**	**115**	**115**
Public Service Pension Plan	-6	228	190	176	176
Public Service Supplementary Plan (PSSP)	33	3	2	2	2
OPSEU Pension Plan	-4	54	53	68	68
Consolidation Adjustment - Enterprises Pension Expense	0	0	0	0	0
OPS - Other Retirement Benefits	-67	-46	-47	-49	-50
Sub-Total OPS Pension & Retirement Benefits Plans	**-44**	**239**	**198**	**197**	**196**
Healthcare of Ontario Pension Plan	**-3**	**-3**	**4**	**11**	**11**
Colleges of Applied Arts and Technology Pension Plan	**-7**	**-12**	**-18**	**-25**	**-25**
Total Net Increase/(Decrease) from 2016 Pension and Other Retirement Benefit Expense Forecast (with Valuation allowance already built in Plan for HOOPP & CAATPP)	**-104**	**513**	**516**	**298**	**297**
Impact of Change in HOOPP contributions - Increase/(Decrease)	**9**	**3**	**-4**	**-77**	**-77**

(1) 2020-21 and beyond is flat-lined from 2019-20 for Pension

Outstanding Items:

- PSPP, HOOPP & CAATPP - Potential impact of changing the method of calculating MRVA
- HOOPP & CAATPP - E&Y review of valuation allowance calculation
- CAATPP - E&Y further review of forecasting model
- PSSP - further review of forecasting model after suggested changes from E&Y
- CMM - further review of forecasting model from E&Y (lower priority as amounts will be small)

- OPSEU - impact of changing the method of calculating MRVA
- OPSEU - E&Y further review of adjustment for other employers' contribution within GRE (future consideraton)
- OPSEU - E&Y further review of amortization of difference in employer and employee contributions (immaterial; future consideration)

Note: no review of other OEFB and Other Retirement benefits from E&Y at this time

OPCD Contacts:
Pauline Fong (416) 212-4007 - Teachers' Pension Plan, Other Retirement Benefits, Consolidated Adjustments, and OEFB, Judges Pension Plan
Wendy Li (416) 325-5480 - OPSEU Pension Plan
Patricia Ma (416) 327-1408 - Healthcare of Ontario Pension Plan, Public Service Pension Plan, Public Service Supplementary Plan
Alicia Sun (416) 325-8155 - Colleges of Applied Arts and Technology Pension Plan

From: Killoch, Alex (MOF) []
To: Bessiris, Mary (MOF) [Mary.Bessiris@ontario.ca]
Subject: Fw: Public Accounts Planning
Date: Wednesday, February 01, 2017 19:13:08

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: Wednesday, February 1, 2017 6:11 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Virani, Shyrose (TBS)
Subject: RE: Public Accounts Planning

Works for me. Shyrose will help to set up some time.

Nadine

From: Killoch, Alex (MOF)
Sent: February-01-17 6:08 PM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Planning

Hi Nadine

I think it would be helpful for us to meet to discuss the role of the external actuary. I am not clear on what their role is in the process or to whom them are providing advice. Do you have some time this week?

From: Petsche, Nadine (TBS)
Sent: February 1, 2017 5:38 PM
To: Pomykacz, Rob (MOF); Killoch, Alex (MOF)
Subject: Public Accounts Planning

Rob/Alex,

We were hoping to get a status update on your team's work to compile support for assumptions used as input to the pension valuations. I understand from Cindy that the

work is likely already underway, if not complete.

Below is an extract of the OAG's current asks related to pension assumptions. We hope to have engaged our external actuarial support by early next week. Once they are on board, we would like to arrange for a meeting with you to see how they might be able to help to provide an independent perspective on our support before it is shared with the OAG.

Thanks in advance.

Nadine

1. The "assumptions binder" supporting the 2017 pension Economic Assumptions (this document is titled "Rationale for Management's Best Estimates of Long-term Economic Assumptions used for the Actuarial Valuation (for financial statement purposes) of the pension plans that are consolidated on the Province's Financial Statements) that outlines the asset allocations and the plan's expected returns for these plans

2. A more robust/detailed rationale to explain the 25 bps increase of the salary escalation rate for OTPP and PSPP

From: Schuurman, Tim (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Fw: Reg change
Date: Wednesday, September 28, 2016 13:40:00
Attachment 1: Pension accounting TB-MBC submission v5 (tracked).pptx
Attachment 2: Pension accounting TB-MBC submission v5 (clean).pptx
Attachment 3: Pensions BN v3 (clean).doc
Attachment 4: Pensions BN v3 (tracked).doc

Original Message
From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Sent: Wednesday, September 28, 2016 1:37 PM
To: Schuurman, Tim (MOF); McGrath, Tara (MOF); Tiburcio, Daniel (MOF); Laurent, Stephen (MOF)
Subject: FW: Reg change

FYI, attached is a deck and BN that outlines the propose regulatory change to the FAA treatment of pension surpluses in Public Accounts for 2015-16 in line with the AG's opinion.

Thanks,
Ryan

-----Original Message-----
From: Pearce, Christopher (MOF)
Sent: September-28-16 1:24 PM
To: Birks, Ryan (MOF)
Subject: FW: Reg change

FYI.

-----Original Message-----
From: Laughton, Patrick (TBS)
Sent: September-28-16 11:34 AM
To: Kaufman, Paul (TBS); Esmail, Selena (TBS); Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS)
Subject: RE: Reg change

See attached for revised submission and assessment note, verified through program area.

P.

-----Original Message-----
From: Kaufman, Paul (TBS)
Sent: September-28-16 11:31 AM
To: Esmail, Selena (TBS); Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS)
Subject: RE: Reg change

We won't have it that soon but will bring it there as soon as we can.

Paul Kaufman
Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat 9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3
Phone: 416-327-7012 Fax: 416-325-9404

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-----Original Message-----
From: Esmail, Selena (TBS)
Sent: September-28-16 11:28 AM
To: Kaufman, Paul (TBS); Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS)
Subject: Re: Reg change

You can give it to me in chambers. I will be there for about 1145.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Kaufman, Paul (TBS)
Sent: Wednesday, September 28, 2016 11:27 AM
To: Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS)
Subject: RE: Reg change

Once we get the revised reg and sign the back, who should we deliver it to to get it to Cabinet?

Paul Kaufman
Counsel
Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat 9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3
Phone: 416-327-7012 Fax: 416-325-9404

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-----Original Message-----
From: Hatzis, Len (TBS)
Sent: September-28-16 11:26 AM
To: MacIntyre, Kyle (TBS); Kaufman, Paul (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS); Petsche, Nadine (TBS)
Subject: Re: Reg change

Spoke again to Leg counsel - we are good on amendment to header

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Hatzis, Len (TBS)

Sent: Wednesday, September 28, 2016 11:17 AM
To: MacIntyre, Kyle (TBS); Kaufman, Paul (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS); Petsche, Nadine (TBS)
Subject: Re: Reg change

Kyle
We just spoke to Leg counsel - can we call you

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: MacIntyre, Kyle (TBS)
Sent: Wednesday, September 28, 2016 11:09 AM
To: Kaufman, Paul (TBS)
Cc: Hatzis, Len (TBS); Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS); Petsche, Nadine (TBS)
Subject: Re: Reg change

It is superfluous given the language of the section. Also there is a concern that it could seen as offending an independent officer of the legislature.

> On Sep 28, 2016, at 11:05 AM, Kaufman, Paul (TBS) <Paul.Kaufman@ontario.ca> wrote:
>
> Legislative counsel's office has asked what the rationale for the change is - these headings are generally something they done in their editorial discretion and they are concerned that the change would make the heading less descriptive. Is there something inaccurate about "....for the 2015-2016 fiscal year" that we can point to?
>
>
> Paul Kaufman
> Counsel
> Ministry of the Attorney General | Legal Services Branch |Treasury
> Board Secretariat 9th Floor, 77 Wellesley Street West, Ferguson Block,
> Toronto, ON M7A 1N3
> Phone: 416-327-7012 Fax: 416-325-9404
>
> This email contains privileged and confidential information intended only for the personal and confidential use of the recipient(s) named above. If the reader of this email is not an intended recipient, you have received this email in error and any review, dissemination, distribution or copying is strictly prohibited. If you have received this email in error, please notify the sender immediately by return email and permanently delete the copy you received. Thank you.
>
> -----Original Message-----
> From: MacIntyre, Kyle (TBS)
> Sent: September-28-16 10:58 AM
> To: Hatzis, Len (TBS); Kaufman, Paul (TBS); Kearney, Sean (TBS)
> Cc: Laughton, Patrick (TBS); Esmail, Selena (TBS)
> Subject: Reg change
>
> Hi - a slight change to the Reg, which will need to be made and then sealed:
>
> - heading: "Accounting policies and practices for the 2015 -2016 fiscal year" should be amended by deleting "....for the 2015-2016 fiscal year".
>
> The item will track to cabinet today.

>
> Patrick, I'm not sure if the deck needs amending but can you do that ASAP if needed? I need to get Greg and the Ms signature.
>
> Thx!

Update to Regulation 395/11 under the FAA and impacts to the financial results for the 2015-16 Public Accounts

Treasury Board Secretariat

Presentation to Treasury Board/ Management Board of Cabinet

September 27, 2016

President of Treasury Board

Deputy Minister of Treasury Board

Context

- Under the Financial Administration Act ("FAA") Treasury Board, subject to the approval of the LGIC, has the power to make regulations with regard to the accounting policies and practices used to prepare the Consolidated Financial Statements

- The government has used regulatory powers under the FAA in the past to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately the regulation confirmed accounting that was acceptable under Public Sector Accounting Standards.

- Our current situation is somewhat similar. In applying principled based accounting standards there is a degree of professional judgement required. In the current situation, in accounting for pension plans jointly sponsored by the Province, included in the Consolidated Financial Statements of the Province, the Province and the Auditor General have a different opinion on the application of the standards.

- The Province's position is that the asset balance (or plan surplus for accounting purposes) in Ontario Teachers' Pensions Plan (OTPP) and Ontario Public Service Employees Union Pension Plan (OPSEUPP) are an asset to the province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.

Recommendation

- In order to produce the Public Accounts with accounting that supports the Auditor General's view for jointly sponsored pension plans, it is recommended to clarify the accounting through a regulation.

- The regulation will define the accounting for the consolidated financial statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the Auditor by legislating the treatment.

- The regulation is applicable for fiscal year 2015-16 and will align with the Auditor's interpretation of PSAB without the Province needing to agree with interpretation but still achieving the Auditor's desired treatment.

- The Province will work with external consultants and the Office of the Auditor General to determine if an agreement can be reached on the appropriate accounting treatment in future years.

Proposed Minute

- Make, subject to LGIC approval, a regulation under the Financial Administration Act (amending O. Reg. 395/11) to define the accounting treatment of pension surpluses in jointly sponsored pension plans to take a valuation allowance equivalent to the plan surplus for the 2015-16 consolidated financial statements in the Public Accounts.

- Approve/Note the increase in the statutory account “Teachers' Pension Plan” of $1,479,914,043 for the Ministry of Education for an increase in Elementary and Secondary Education Program - Vote 1002

- Approve/Note the increase in the statutory account “Prior Period Obligations and Actuarial Adjustments, the Financial Administration Act” of $33,716,990 for Treasury Board Secretariat for an increase in Employee and Pensioner Benefits (Employer Share) Program - Vote 3403

Appendix 1: Draft Regulation

FINANCIAL ADMINISTRATION ACT

Amending O. Reg. 395/11

(ACCOUNTING POLICIES AND PRACTICES)

1. Ontario Regulation 395/11 is amended by adding the following section:

Accounting policies and practices ~~2015-2016 fiscal year~~

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016 shall be prepared in accordance with the following rules:

1. In determining a valuation allowance for a jointly sponsored pension plan with a surplus calculated for accounting purposes, the Province shall assume an expected future benefit of zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2015.

(2) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

Update to Regulation 395/11 under the FAA and impacts to the financial results for the 2015-16 Public Accounts

Treasury Board Secretariat

Presentation to Treasury Board/ Management Board of Cabinet

September 27, 2016

President of Treasury Board

Deputy Minister of Treasury Board

Context

- Under the Financial Administration Act ("FAA") Treasury Board, subject to the approval of the LGIC, has the power to make regulations with regard to the accounting policies and practices used to prepare the Consolidated Financial Statements

- The government has used regulatory powers under the FAA in the past to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately the regulation confirmed accounting that was acceptable under Public Sector Accounting Standards.

- Our current situation is somewhat similar. In applying principled based accounting standards there is a degree of professional judgement required. In the current situation, in accounting for pension plans jointly sponsored by the Province, included in the Consolidated Financial Statements of the Province, the Province and the Auditor General have a different opinion on the application of the standards.

- The Province's position is that the asset balance (or plan surplus for accounting purposes) in Ontario Teachers' Pensions Plan (OTPP) and Ontario Public Service Employees Union Pension Plan (OPSEUPP) are an asset to the province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.

Recommendation

- In order to produce the Public Accounts with accounting that supports the Auditor General's view for jointly sponsored pension plans, it is recommended to clarify the accounting through a regulation.

- The regulation will define the accounting for the consolidated financial statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the Auditor by legislating the treatment.

- The regulation is applicable for fiscal year 2015-16 and will align with the Auditor's interpretation of PSAB without the Province needing to agree with interpretation but still achieving the Auditor's desired treatment.

- The Province will work with external consultants and the Office of the Auditor General to determine if an agreement can be reached on the appropriate accounting treatment in future years.

Proposed Minute

- Make, subject to LGIC approval, a regulation under the Financial Administration Act (amending O. Reg. 395/11) to define the accounting treatment of pension surpluses in jointly sponsored pension plans to take a valuation allowance equivalent to the plan surplus for the 2015-16 consolidated financial statements in the Public Accounts.

- Approve/Note the increase in the statutory account “Teachers' Pension Plan” of $1,479,914,043 for the Ministry of Education for an increase in Elementary and Secondary Education Program - Vote 1002

- Approve/Note the increase in the statutory account “Prior Period Obligations and Actuarial Adjustments, the Financial Administration Act” of $33,716,990 for Treasury Board Secretariat for an increase in Employee and Pensioner Benefits (Employer Share) Program - Vote 3403

Appendix 1: Draft Regulation

FINANCIAL ADMINISTRATION ACT

Amending O. Reg. 395/11

(ACCOUNTING POLICIES AND PRACTICES)

1. Ontario Regulation 395/11 is amended by adding the following section:

Accounting policies and practices

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016 shall be prepared in accordance with the following rules:

1. In determining a valuation allowance for a jointly sponsored pension plan with a surplus calculated for accounting purposes, the Province shall assume an expected future benefit of zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2015.

(2) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

ADD-ON ITEM
TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Treasury Board Secretariat, Education	
Meeting Date:	September 27, 2016	
Agenda Class:	Discussion	
Last reviewed by: N/A		**Tracking to:** Cabinet, TBC

SUBMISSION TITLE:	Accounting Regulation under the *Financial Administration Act*

I. DECISION BEFORE THE BOARD

Treasury Board Secretariat is requesting approval of a regulation under the *Financial Administration Act* to clarify the accounting treatment of pension surpluses in jointly sponsored pension plans.

II. RECOMMENDATIONS:

• Approve a regulation under the *Financial Administration Act* to prescribe the accounting treatment of pension surpluses in jointly sponsored pension plans in the Province's Consolidated Financial Statements in the 2015-16 Public Accounts.	*Approve*
• Approve a 2015-16 statutory appropriation increase of $1.5B in the Ministry of Education (Teachers' Pension Plan) and Treasury Board Secretariat (OPSEU Pension Plan).	*Approve*

III. FINANCIAL SUMMARY

$ Millions	**2015-16**	**2016-17**	**2017-18**
Initiative cost requested	1,513.6	TBC	TBC
Initiative cost recommended	1,513.6	0.0	0.0
Program Base	0.0	0.0	0.0
Release from holdback	0.0	0.0	0.0
Total Fiscal Impact	1,513.6	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

Background

Under the *Financial Administration Act* (FAA), Treasury Board, subject to the approval of the Lieutenant Governor in Council, has the power to make regulations with respect to the accounting policies and practices used to prepare the Consolidated Financial Statements of the Province.

In the past, the government has used regulatory powers under the FAA to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately, the regulation confirmed accounting that was acceptable under Public Sector Accounting Board

(PSAB) standards.

In applying principled-based accounting standards, there is a degree of professional judgement required. Currently, the Province and the Auditor General (AG) have a different opinion on the application of accounting standards related to jointly sponsored pension plans included in the Province's Consolidated Financial Statements.

Province's Position

The asset balance (or plan surplus for accounting purposes) in both the Teachers' Pension Plan (TPP) within the Ministry of Education and the OPSEU Pension Plan (OPSEUPP) within Treasury Board Secretariat are an asset to the Province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position.

Auditor General's Position

Since the AG disagrees with the Province's position, they are requesting a valuation allowance to remove the asset value which would result in an in-year expense.

Note: A valuation allowance is an amount recorded to recognize the potential reduction in value of a recorded asset due to the recorded amount not likely to be fully recovered or fully realized.

Current Request

In order to produce the 2015-16 Public Accounts with accounting treatment that supports the AG's view for jointly sponsored pension plans, it is recommended to clarify the accounting practice to be followed through a regulation.

The regulation will define the accounting for the Consolidated Financial Statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the AG by legislating the treatment.

The regulation is applicable for fiscal year 2015-16 and will align with the AG's interpretation of PSAB and achieve the AG's desired treatment without the Province needing to agree to the interpretation. The Province would work with external consultants and the Office of the Auditor General to determine if an agreement can be reached on the appropriate accounting treatment in future years.

As a result of clarifying the accounting practice through legislation, a fiscal impact will be realized through an increase in statutory appropriations for the Ministry of Education and Treasury Board Secretariat in the amount of $1.5B.

Risks

There is a risk that the Auditor General will not react favourably to the government making this regulatory amendment.

Name of analyst:	Lenna Wichenko	**Phone number:**	416-325-6751
Date:	September 27, 2016	**Log number:**	
Branch / Division:	GGPR/PEMD		

APPENDIX A: PROPOSED MINUTE

Approve an accounting regulation under the Financial Administration Act that supports the audit of the Public Accounts for the Province.

In this regard,

- Approve a regulation, subject to Lieutenant Governor in Council approval, under the Financial Administration Act (amending O. reg. 395/11) to define the accounting treatment of pension surpluses in jointly sponsored pension plans to take a valuation allowance equivalent to the plan surplus for the 2015-16 consolidated financial statements in the Public Accounts.

- Approve an increase in statutory appropriation for the Ministry of Education of $1,479,914,000 in the Government Costs, the Teachers' Pension Act Transfer Payment (Vote/Item 1002-S), in 2015-16.

- Approve an increase in statutory appropriation for Treasury Board Secretariat of $33,717,000 in Employee Benefits – Ontario Public Service Employees' Union Pension Plan (Vote/Item 3403-S), in 2015-16.

FINANCIAL IMPACTS: CHANGES TO EXPENSE AND REVENUE					TABLE B1
		Fiscal Plan Basis			*Appropriations Basis*
$ Millions		**2015-16**	**2016-17**	**2017-18**	**2015-16**
Initiative cost recommended		1,513.6	0.0000	0.0000	
Expense changes:					
Operating item	Oper	1,513.6	0.0000	0.0000	0.0000
Capital item	Cap	0.0000	0.0000	0.0000	0.0000
Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**1,513.6**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C – DRAFT REGULATION

FINANCIAL ADMINISTRATION ACT
Amending O. Reg. 395/11
(ACCOUNTING POLICIES AND PRACTICES)

1. Ontario Regulation 395/11 is amended by adding the following section:
Accounting policies and practices

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016 shall be prepared in accordance with the following rules:

1. In determining a valuation allowance for a jointly sponsored pension plan with a surplus calculated for accounting purposes, the Province shall assume an expected future benefit of zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2015.

(2) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

ADD-ON ITEM
TREASURY BOARD / MANAGEMENT BOARD OF CABINET
REQUEST ASSESSMENT NOTE

Ministry:	Treasury Board Secretariat, Education	
Meeting Date:	September 27, 2016	
Agenda Class:	Discussion	
Last reviewed by: N/A		**Tracking to:** Cabinet, TBC

SUBMISSION TITLE:	Accounting Regulation under the *Financial Administration Act*

I. DECISION BEFORE THE BOARD

Treasury Board Secretariat is requesting approval of a regulation under the *Financial Administration Act* to clarify the accounting treatment of pension surpluses in jointly sponsored pension plans.

II. RECOMMENDATIONS:

• Approve a regulation under the *Financial Administration Act* to prescribe the accounting treatment of pension surpluses in jointly sponsored pension plans in the Province's Consolidated Financial Statements in the 2015-16 Public Accounts.	*Approve*
• Approve a 2015-16 statutory appropriation increase of $1.5B in the Ministry of Education (Teachers' Pension Plan) and Treasury Board Secretariat (OPSEU Pension Plan).	*Approve*

III. FINANCIAL SUMMARY

$ Millions	**2015-16**	**2016-17**	**2017-18**
Initiative cost requested	1,513.6	TBC	TBC
Initiative cost recommended	1,513.6	0.0	0.0
Program Base	0.0	0.0	0.0
Release from holdback	0.0	0.0	0.0
Total Fiscal Impact	1,513.6	0.0	0.0

IV. KEY COMMENTS AND CONSIDERATIONS

Background

Under the *Financial Administration Act* (FAA), Treasury Board, subject to the approval of the Lieutenant Governor in Council, has the power to make regulations with respect to the accounting policies and practices used to prepare the Consolidated Financial Statements of the Province.

In the past, the government has used regulatory powers under the FAA to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately, the regulation confirmed accounting that was acceptable under Public Sector Accounting Board

(PSAB) standards.

In applying principled-based accounting standards, there is a degree of professional judgement required. Currently, the Province and the Auditor General (AG) have a different opinion on the application of accounting standards related to jointly sponsored pension plans included in the Province's Consolidated Financial Statements.

Province's Position

The asset balance (or plan surplus for accounting purposes) in both the Teachers' Pension Plan (TPP) within the Ministry of Education and the OPSEU Pension Plan (OPSEUPP) within Treasury Board Secretariat are an asset to the Province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position.

Auditor General's Position

Since the AG disagrees with the Province's position, they are requesting a valuation allowance to remove the asset value which would result in an in-year expense.

Note: A valuation allowance is an amount recorded to recognize the potential reduction in value of a recorded asset due to the recorded amount not likely to be fully recovered or fully realized.

Current Request

In order to produce the 2015-16 Public Accounts with accounting treatment that supports the AG's view for jointly sponsored pension plans, it is recommended to clarify the accounting practice to be followed through a regulation.

The regulation will define the accounting for the Consolidated Financial Statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the AG by legislating the treatment.

The regulation is applicable for fiscal year 2015-16 and will align with the AG's interpretation of PSAB and achieve the AG's desired treatment without the Province needing to agree to the interpretation. The Province would work with external consultants and the Office of the Auditor General to determine if an agreement can be reached on the appropriate accounting treatment in future years.

As a result of clarifying the accounting practice through legislation, a fiscal impact will be realized through an increase in statutory appropriations for the Ministry of Education and Treasury Board Secretariat in the amount of $1.5B.

Risks

There is a risk that the Auditor General will not react favourably to the government making this regulatory amendment.

Name of analyst:	Lenna Wichenko	**Phone number:**	416-325-6751
Date:	September 27, 2016	**Log number:**	
Branch / Division:	GGPR/PEMD		

APPENDIX A: PROPOSED MINUTE

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In this regard,

- Approve a regulation, subject to Lieutenant Governor in Council approval, under the Financial Administration Act (amending O. reg. 395/11) to define the accounting treatment of pension surpluses in jointly sponsored pension plans to take a valuation allowance equivalent to the plan surplus for the 2015-16 consolidated financial statements in the Public Accounts.

- Approve an increase in statutory appropriation for the Ministry of Education of $1,479,914,000 in the Government Costs, the Teachers' Pension Act Transfer Payment (Vote/Item 1002-S), in 2015-16.

- Approve an increase in statutory appropriation for Treasury Board Secretariat of $33,717,000 in Employee Benefits – Ontario Public Service Employees' Union Pension Plan (Vote/Item 3403-S), in 2015-16.

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Revenue changes:					
Revenue increase/offset		0.0000	0.0000	0.0000	
Revenue decrease		0.0000	0.0000	0.0000	
Total Fiscal Impact (draw from c-funds)		**1,513.6**	**0.0000**	**0.0000**	**0.0000**

APPENDIX C – DRAFT REGULATION

FINANCIAL ADMINISTRATION ACT
Amending O. Reg. 395/11
(ACCOUNTING POLICIES AND PRACTICES)

1. Ontario Regulation 395/11 is amended by adding the following section:
Accounting policies and practices ~~for the 2015-2016 fiscal year~~

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016 shall be prepared in accordance with the following rules:

1. In determining a valuation allowance for a jointly sponsored pension plan with a surplus calculated for accounting purposes, the Province shall assume an expected future benefit of zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2015.

(2) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Fw: Review: Valuation Allowance
Date: Thursday, September 22, 2016 16:48:40

On meetings for the rest of the day. Are you able to help? N

From: lucy.durocher@ca.pwc.com
Sent: Thursday, September 22, 2016 4:30 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: FW: Review: Valuation Allowance

Thanks for sending that through Cindy. I will take a look at it.

I forgot to ask on the call whether you and Nadine had given any consideration to the impact of scheduling out anticipated (funding) surplus growth assuming that current service cost remains the same in perpetuity and minimum funding requirements are greater than current service cost under the current Schedule 1 contributions. It might take a long time, but eventually there would be a significant build up of surplus such that the cap on contributions in Schedule 1 section 19 (2a) would kick in (i.e. when the income tax act would not cap contributions). As soon as the minimum contributions under the Schedule 1 drops below the current service cost then you can start to recognize a benefit under paragraph 056 (a) calculations. The only question is, depending on the expectations of surplus growth and when the ITA caps kick in, is when does this occur, and how big is the effect. You have until perpetuity to reach the caps, but obviously the further away the cap is reached, then the lower the benefit when discounted back.

I have reached out to find the right contact in the Netherlands. Given the time difference, I am not sure I will know by tomorrow morning, but I will keep you posted on that avenue.

Regards,
Lucy

Lucy Durocher
PwC | Partner, National Accounting Consulting Services
T: +1 416 869 2311
Email: lucy.durocher@ca.pwc.com
Assistant: Tracey Whelan | T: +1 416 941 8383 ext. 14223
PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto ON M5J 0B2
http://www.pwc.com/ca

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Date: 09/22/2016 03:48 PM
Subject: FW: Review: Valuation Allowance

See line 41 of the first tab -- Cindy

From: Fong, Pauline (TBS)
Sent: September-21-16 4:37 PM
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS)
Subject: FW: Review: Valuation Allowance

Thank you.

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-21-16 4:10 PM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: Review: Valuation Allowance

Pauline

I did look into your file and seems reasonable vs the previous illustrations that we have exchanged, just one adjustment
You will see in liability sheet I have a line 29 adjustment for other unamortized (this is the transitional asset amortization that goes back to the initial application which is to be included in the test of unamortized losses) this likely affects your 2002 / 2003 valuation allowance.

Also to note is the flaw of the PS3250 that I have highlighted in previous communication :
- In 2008 we did have very bad asset returns and this creates a significant income through reduction of valuation allowance
- In opposite, the years 2010 and 2011 had good returns but you have significant expense through increase of valuation allowance

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services
Deloitte
1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada
Tel / Direct : 514-393-7367
Fax : 514-390-4104
maraymond@deloitte.ca | www.deloitte.ca

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De : Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Envoyé : 21 septembre 2016 10:36
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>

Objet : Review: Valuation Allowance

Hi Martin,

I mocked up the annual valuation allowance based on our discussion yesterday. We went through it with Cindy this morning and she would like you to take a look at the mock-up to confirm that it is consistent to your understanding. In particular bringing the unamortized gain/loss from market related values to market values. Thank you in advance.

Regards,

Pauline Fong, CPA, CA
Senior Analyst, External Reporting
Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat
7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7
Phone: (416) 212-4007
Pauline.fong@ontario.ca

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Si vous ne voulez pas recevoir d'autres messages électroniques commerciaux de Deloitte à l'avenir, veuillez envoyer ce courriel à l'adresse unsubscribe@deloitte.ca[attachment "image002.png" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "image003.png" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "OTPP (incl RCA) Calculations 2015-16 PAv3 (Basis 3) with Valuation Allowance_check.xlsx" deleted by Lucy Durocher/CA/ABAS/PwC]

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From: Petsche, Nadine (TBS) []
To: Cindy Veinot [cveinot@deloitte.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: Share the Pain
Date: Wednesday, September 21, 2016 17:02:15
Attachment 1: image001.png
Attachment 2: image002.png

Fyi
From: Paul, Joshua (EDU) <Joshua.Paul@ontario.ca>
Sent: Wednesday, September 21, 2016 4:51 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

So, as discussed, they want the actuarial analysis that is conducted or directed by the OTPP.

Presumably, she will need to go to OTPP to make sense of the actuarial stuff.

We need to let people know up the line here if we're going to support that direction for the AG's efforts.

Let us know,

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:43 PM
To: Killoch, Alex (MOF)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Subject: Re: Share the Pain

I get the impression is is the details behind the specific amounts that have been communicated (add to 8.6?)

From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 4:41 PM
To: Petsche, Nadine (TBS)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Subject: RE: Share the Pain

You mean all the assumptions that the OTPP external actuary would use to calculate this PV or the underlying model that is used to calculate the value of conditional indexation out indefinitely?

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking for all of the numbers behind the numbers to understand how they were calculated. N

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:18 PM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)

Subject: Share the Pain

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the $4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use $8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

As requested and further to our conversation this afternoon, the purpose of this email is to outline the change in the present value of the future “share the pain” contributions from the January 1, 2016 preliminary valuation results of $6.6B to the January 1, 2016 filed results of $2.3B – i.e., a reduction of $4.3B.

Conditional Inflation Protection (CIP) is a key funding lever for the Ontario Teachers' Pension Plan (OTPP). When CIP is invoked, benefits earned subsequent to December 31, 2009 are subject to inflation protection levels below 100%. CIP levels are established when a funding valuation report is filed with the regulators. The level remains unchanged until a subsequent valuation is filed at which time the plan sponsors may decide to increase or decrease the percentage. This decision is informed by the funded status of the plan as at the valuation date.

In the January 1, 2016 preliminary valuation, CIP levels were 70% (in accordance with the most recently filed valuation report). The reduction in liabilities due to providing less than 100% inflation protection was $6.6B. The vast majority of this amount was in respect of active plan members. As a reminder, the OTPP utilizes an aggregate valuation funding method where the liabilities include future pension benefits in respect of both service accrued to date and service that is projected to be earned in the future. This valuation method recognizes the potential impact of reducing CIP levels below 100% on not just service from December 31, 2009 to the valuation date but also on service projected to be earned in the future for current plan members. As an example, the valuation results assume that a member who joined the plan in 2015 will receive 70% inflation protection on the full pension entitlement they will eventually earn over their future career and that this reduction will apply each and every year for the remainder of their lifetime.

For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

The plan sponsors chose to file the January 1, 2016 valuation using some of the preliminary surplus to increase the level of inflation protection from 70% to 90%. As a result, the reduction in liabilities due to providing less than 100% inflation protection decreased to $2.3B as did the present value of future share the pain contributions. Overall, the effect was an increase in liabilities of $4.3B and a corresponding decrease in the present value of future projected share the pain contributions of $4.3B.

It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

Regards, Mary

Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk
mary_cover@otpp.com
Direct 416-730-2976
www.otpp.com

Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada

http://www.otpp.com/

ONTARIO
TEACHERS'
PENSION PLAN

From: Pomykacz, Rob (MOF) []
To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Fw: Slide Deck
Date: Thursday, December 08, 2016 16:04:50
Attachment 1: OTPP Asset Options v3.pptx

Fyi

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Di Renzo, Stephen (EDU) <Stephen.DiRenzo@ontario.ca>
Sent: Thursday, December 8, 2016 2:49 PM
To: Pomykacz, Rob (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob, attached is the approved deck with our information (it's based on the note I provided earlier).

From: Pomykacz, Rob (MOF)
Sent: December 8, 2016 11:51 AM
To: Di Renzo, Stephen (EDU)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Thanks Steve. We're hoping to give you comments by tomorrow.

Thanks for sharing the revised version!

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 8, 2016 11:38 AM
To: Pomykacz, Rob (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached an updated note reflecting Ross' comments. Please share with your group and provide edits/feedback to this document. We are still awaiting Josh's approval.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:23 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Sounds good!

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 10:16 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

I can populate the deck once its complete and approved.

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:07 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)

Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Thanks very much, Steve. We'll let you know of any comments.

Once the note has been approved, are you planning on inputting the information into the slide deck template that OPCD forwarded to us? I actually wouldn't want to leave it to them to do.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 9:48 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached draft note. It's based on direction from Josh but not yet approved by him. You will notice a few placeholders within the note that require input.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 6, 2016 2:03 PM

To: Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Hi Paul/Steve,

Just wondering how the note is going. Would you guys have anything to share with us at this point?

Thanks,

Rob

From: Duffy, Paul (EDU)
Sent: December 5, 2016 9:33 AM
To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Rob, we're meeting with Josh today to go over our note (which I think OPCD will put into a deck). We'll let you know how that goes, and how much time we'll need before we meet.

From: Pomykacz, Rob (MOF)
Sent: December 2, 2016 4:58 PM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Subject: Slide Deck

Hi guys,

Alex asked if we could get together early next week to discuss the OPCD deck you're working on. Let me know when might be a good time.

Thanks and have a great weekend!

Rob

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- To provide potential options, related risks and mitigations strategies, relating to the Province's access to the Ontario Teachers' Pension Plan (OTPP) surplus.

Background

- OTPP is a co-sponsorship plan, established in legislation, between the Ontario government (government) and the Ontario Teachers' Federation (OTF). The government has a statutory obligation to match contributions and any changes made would need to be applied equally by the plan members.
- In addition, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship and to avoid contentious unilateral funding decisions.
- Contribution reductions and/or access to the surplus is negotiated if and when the funded status of the Plan has reached a specific funding zone in the FMP.

Options

- The following options are potential strategies to access the OTPP pension surplus:
  - Leverage and/or clarify the existing Funding Management Policy (FMP); or
  - Legislative changes
- Each option and related risk will be discussed in more detail in the following slides

Note: Each of the following options has considerable operational and implementation issues, and until the OTF is approached, it is unclear whether they would be opposed. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Leverage and/or clarify existing FMP side agreement provision

- Currently, the FMP requires surplus to be applied in a specific order, first restoring Conditional Inflation Protection (CIP) for post-2009 and post-2013 service, then eliminating special contributions, followed by the option to provide temporary benefit increases, surplus distribution or contribution rate reductions.
- Sections 4.06 and 5.05 of the FMP (re: side agreements in the Temporary and Permanent Improvement Zones) provide the government with the opportunity to adjust contribution levels when surplus is being distributed if there is a written agreement in place between both parties. **(See Appendix A for FMP Framework Description)**
- The government could enter into negotiations with the OTF to strengthen these existing provisions in the FMP and explicitly reference the government's automatic right to 50 percent of the surplus should the Plan experience positive gains.

Leverage and/or clarify existing FMP side agreement provision

Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	**High Likelihood.** The current change in pension accounting has impacted the government's considerations with regard to potential surplus. Under the current framework, the government would have to consider the short-term health of the fiscal plan in addition to the long-term health of the pension plan. The OTF and the OTPP are solely focused on the long-term health of the pension plan.	Amending the FMP could satisfy the AG's concerns regarding unilateral access to surplus and would align both sponsors' interests as the sole focus would be the long-term health of the pension plan.
Financial implications to government	**Medium Likelihood.** The OTF is unlikely to accommodate any change without requesting something in return (ie. benefit improvement) given the government's need to make the change.	If the government chose to negotiate a quid pro quo with the OTF it could focus negotiations on temporary improvements as opposed to permanent changes that could have a lasting financial impact.
	PLACEHOLDER MOF Unclear how liabilities will be treated (ie. would the government be automatically be liable for 50%). Unclear whether surplus distribution or contribution reductions would have largest/smallest impact on fiscal plan.	PLACEHOLDER MOF

Leverage and/or clarify existing FMP side agreement provision

Risk	Likelihood and Impact	Mitigation Strategy
Risk of negotiating pensions as part of labour negotiations	**High likelihood**. Currently pension issues are negotiated between the government and the OTF (with affiliate representation). Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.	Emphasize the benefits of de-linking these processes (ie. partners are different, timing of the valuations and collective agreements are different, etc.).
Timing risk	**High likelihood**. The most recent review of the FMP lasted almost three years (2012-2015). If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.	Expedite or eliminate the process to assemble a committee consisting of representatives from each sponsor and the Plan. Engage the OTF and the Plan to ensure each party is privy to any and all potential changes.

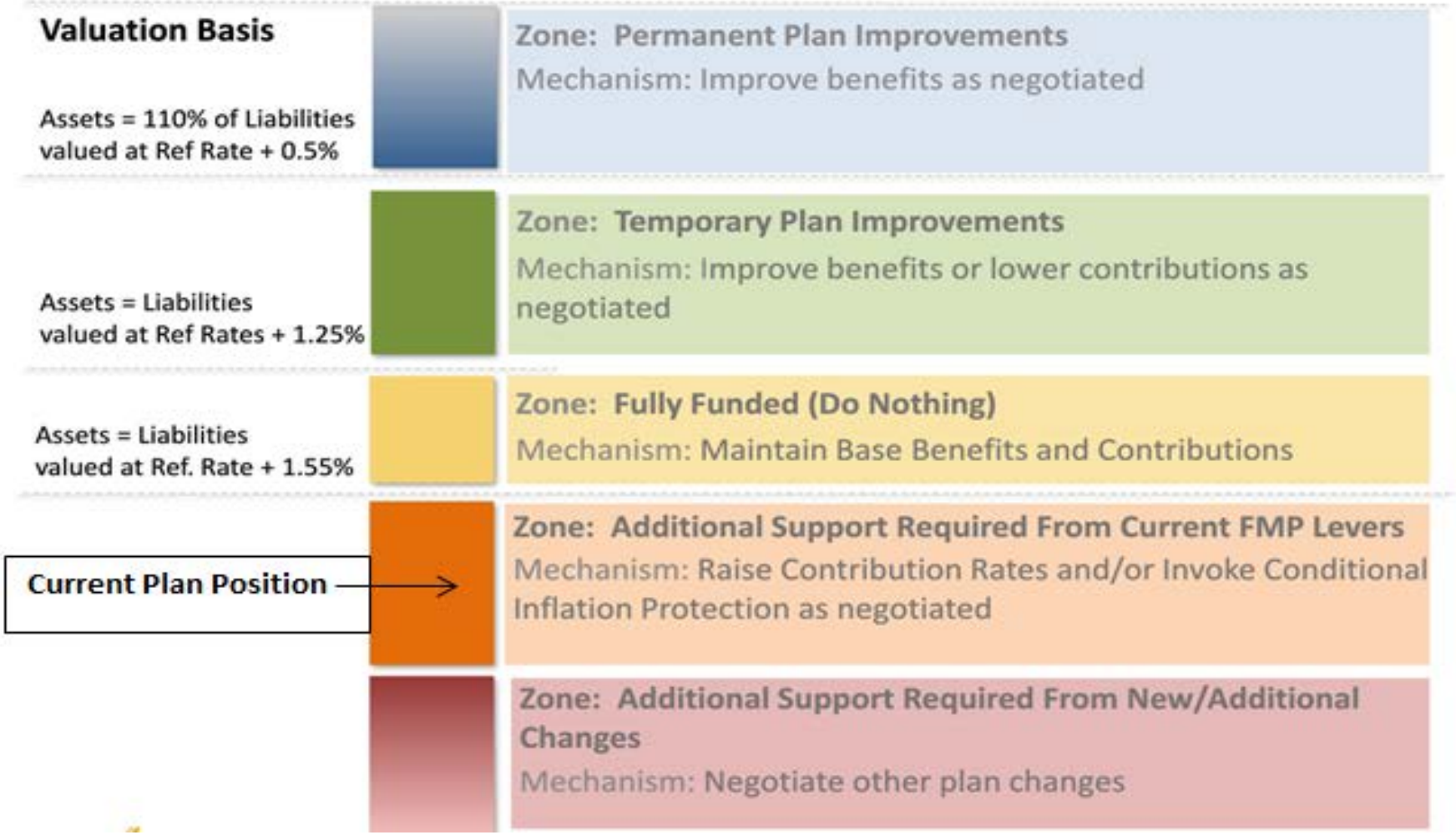
Legislative Changes

- The government could amend its legislation to guarantee its right to the pension asset through the following options:
  a) An amendment to the TPA to clearly articulate the government's right to access 50 percent of the surplus;
  b) Ending the jointly sponsored arrangement, making the government solely responsible for the Plan, as existed prior to 1990; or
  c) Implementing a shared asset model (MOF Lead).

Legislative Changes

Risk	Likelihood and Impact	Mitigation Strategy
Stakeholder relations risk	High likelihood. Should the government choose to pursue any of these unilateral options, the OTF and its affiliate members would likely be opposed. Such action may place considerable strain on the relationship between government and the Teachers' Federations.	Should the government decide to legislate the arrangement, a robust communication strategy would be essential as contributing taxpayer dollars into a well-funded plan could be deemed unnecessary by the public.
Reputational risk	Medium likelihood. The OTPP is one of Canada's largest institutional investors and has an excellent track record for investment performance. It attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan. Enabling unilateral decision making by either sponsor, effectively ending the equal partnership with teachers, could result in changes to the Plan's existing governance structure and may impact the long term sustainability of the Plans recruitment and retention strategy.	Communication between the government and the Plan to establish new legislative and funding framework (if any) to ensure changes made will not impact the ability to recruit and retain staff and board members.
Constitutional Risk	High Likelihood. Imposing employment terms through the existing legislation could be considered a constitutional risk and could be met with litigation.	PLACEHOLDER Legal opinion required.

Appendix A: FMP Framework



From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Fw: Tomorrow am
Date: Sunday, September 18, 2016 21:29:25

Hi Garima

Just an update.

There was a call with PwC today that Josh and I did. Same questions that they have been asking for a over a week. Trying to understand share the pain and other examples of government getting a share of the plan.

Oddly asking same questions that OPCD already has answers to.

Looks like the accounting opinion will be done tomorrow. It is a fact check that they are requesting. We should be able to review easily enough.

It will primarily be edu since it seems that the issue has moved to access to the funding valuation surplus. The accounting surplus is sort of a pressure balloon that holds a notional surplus until it shows in the funding val. That is when government can spend it.

They are asking a lot of questions about the relationship with otf.

Alex

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: Sunday, September 18, 2016 8:03 PM
To: Sekaly, Gabriel (EDU)
Cc: Kaufman, Paul (TBS); Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)
Subject: RE: Tomorrow am

Hi Gabe.

Sorry, I don't have any further details than in the 'am'. They are responding to a request to expedite. n

From: Sekaly, Gabriel (EDU)
Sent: September-18-16 8:01 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)
Cc: Kaufman, Paul (TBS); Veinot, Cindy (TBS)

Subject: Re: Tomorrow am

What time are we expecting the document?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Sunday, September 18, 2016 19:51

To: Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)

Cc: Sekaly, Gabriel (EDU); Kaufman, Paul (TBS); Veinot, Cindy (TBS)

Subject: Tomorrow am

Alex/Josh/Len,

I just wanted to give you a heads up that we're expecting to receive a draft 'statement of facts' from Deloitte tomorrow morning. We'll be under a tight timeline to share any comments, so just wanted to let you know in case we need your help. I'll mark any correspondence as 'URGENT' in the subject line to highlight it for your attention. Thanks in advance.

Nadine

From: Killoch, Alex (MOF) []
To: Thompson, Scott (MOF) [SOM.9Scott.Thompson@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Myers, Leah (MOF) [Leah.Myers@ontario.ca]
Subject: Fw: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 13:48:18

Hi Scott

A lot of this is accounting terminology but I have a few initial corrections for terminology with my changes in strikeout and in yellow.

In addition, I think the third paragraph reads a bit better if the points are reversed.

I am not sure how net debt is impacted but not accumulated deficit. However, I assume that Gadi is reviewing.

Greg's changes are for OPCD to consider but seem reasonable.

Alex

From: Thompson, Scott (MOF)
Sent: Monday, September 26, 2016 1:13 PM
To: Myers, Leah (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF)
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

Can you look at this and let me know if you have any issues? This would be the rationale if we took on the 1.5 billion for 15-16 deficit, but not put the whole current value of the pension asset onto our accumulated deficit.

Thanks

Scott

Sent from my iPad

Begin forwarded message:

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: September 26, 2016 at 1:00:16 PM EDT
To: "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>
Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
Subject: FW: Wording for note to f/s re: hybrid model (NPP suggested edits)

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 jointly sponsored 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~~ income earned on the assets in the plan is greater than the retirement benefit expense recognized ~~from~~ since the inception of the plan.

When a pension asset arises, under Public Sector Accounting Standards, additional analysis is required to determine whether the government is entitled to fully benefit from 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. 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.

Historically, the Province reported the full asset value on the consolidated financial statements as reflecting management's best estimate of expected future 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 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 the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Fw: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Tuesday, September 27, 2016 09:04:01

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>
Sent: Monday, September 26, 2016 3:22 PM
To: Mayman, Gadi (OFA); Thompson, Scott (MOF)
Cc: McLean, David (MOF); Talwar, Garima (MOF); Myers, Leah (MOF); Kandeepan, Ken (OFA)
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

Sounds good.

I am not an expert at how accumulated deficit works, so I just wanted to ensure that it is correct.

There is one more change in the line: " A pension asset arises when the total of the Province's contributions to the plan as well as the ~~interest~~ income earned on the assets in the plan is greater than the retirement benefit expense recognized from since the inception of the plan."

The word "interest" is not required. It is just all income earned on the plan assets.

Alex

-----Original Message-----
From: Gadi Mayman [mailto:Gadi.Mayman@ofina.on.ca]
Sent: Monday, September 26, 2016 3:13 PM

To: Thompson, Scott (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF); Talwar, Garima (MOF); Myers, Leah (MOF); Kandeepan, Ken (OFA)
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

I'm fine with the wording. I'm not sure that I understand the point that you're making on net debt and accumulated deficit, Alex, as I read them as both going up by $1.5 billion in the rationale from Cindy, which is how we would also interpret it.

Gadi

-----Original Message-----

From: Thompson, Scott (MOF) [mailto:Scott.Thompson@ontario.ca]

Sent: Monday, September 26, 2016 2:03 PM

To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>

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

Should have included you in this

Thanks

Scott

Sent from my iPad

Begin forwarded message:

From: "Killoch, Alex (MOF)" <Alex.Killoch@ontario.ca<mailto:Alex.Killoch@ontario.ca>>

Date: September 26, 2016 at 1:48:18 PM EDT

To: "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca<mailto:Scott.Thompson@ontario.ca>>

Cc: "McLean, David (MOF)" <David.McLean@ontario.ca<mailto:David.McLean@ontario.ca>>, "Talwar, Garima (MOF)" <Garima.Talwar@ontario.ca<mailto:Garima.Talwar@ontario.ca>>, "Myers, Leah (MOF)" <Leah.Myers@ontario.ca<mailto:Leah.Myers@ontario.ca>>

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

Hi Scott

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From: Thompson, Scott (MOF)

Sent: Monday, September 26, 2016 1:13 PM

To: Myers, Leah (MOF); Killoch, Alex (MOF)

Cc: McLean, David (MOF)

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

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Thanks

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Sent from my iPad

Begin forwarded message:

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>>

Date: September 26, 2016 at 1:00:16 PM EDT

To: "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca<mailto:Karen.Hughes@ontario.ca>>, "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca<mailto:Greg.Orencsak@ontario.ca>>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca<mailto:Scott.Thompson@ontario.ca>>

Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca<mailto:Kyle.MacIntyre@ontario.ca>>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>

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

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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 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 the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.

This message, including any attachments, is meant only for the use of the individual(s) to whom it is intended and may contain information that is privileged/confidential. Any unauthorized use, copying or disclosure is strictly prohibited. If you are not the intended recipient or have received this message in error, please notify us immediately by reply e-mail and permanently delete this message, including any attachments, without reading them, and destroy all copies. Thank you.

From: Killoch, Alex (MOF) []
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Allan Shapira [allan.shapira@aonhewitt.com]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Fw: auditor general and teachers' pensions
Date: Saturday, September 10, 2016 11:04:01

Hi Len, Paul

Allan has provided a good explanation of the impact of different discount rates and the long term ability to access surplus.

I hope this helps.

Alex

Original Message
From: Allan Shapira <allan.shapira@aonhewitt.com>
Sent: Saturday, September 10, 2016 10:36 AM
To: Killoch, Alex (MOF)
Subject: RE: auditor general and teachers' pensions

I am not sure why this access is an issue at all because it has actually happened in the past when the government got surplus in exchange for the 85-point rule.

Has Deloitte opined on the amount?

An accounting asset represents a future economic value that the government could get through either an actual refund of surplus or through a reduction in contributions. Both of those methods of access are available here.

One of the basic difference in the funding and account valuations is the discount rate. The funding valuation builds in a number of margins. The account valuation is the best-estimate assumption. So we have one valuation that assumes the pension fund will earn 4.80% per year and another one that assumes the pension fund will earn 6.25% per year. You can only have one result, likely neither of these, but let's assume that one result is 6.25%. The economic assets does not have to be used today. It just has to be able to be used at some point in the future. In a world where contributions are based on a 4.80% rate of return and the pension fund earns 6.25%, we are going to continue to build up surplus that will eventually result in some form of funding reduction through for example a reduction in the basic contribution rate or even a contribution holiday for the government in exchange for a temporary benefit improvement for the members.

In a world where the pension fund actually earns 4.80%, then over time, we are going to get investment losses on the accounting valuation that will lead to an accounting pension expense higher than the contributions, in which case the accounting asset will start to be reversed.

In the end there is going to only be one stream of benefit payments and one investment return on the pension fund so funding and accounting have to come together. But that happens over very long periods of time so in the short term we need all these adjustments like assets or liabilities on the government's balance sheet..

Hope that helps a little.

Thanks

Allan

From: Orencsak, Greg (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Thompson, Scott (MOF) [SOM.9Scott.Thompson@ontario.ca]; Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; MacIntyre, Kyle (TBS) [Kyle.MacIntyre@ontario.ca]
Subject: Fwd: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx
Date: Thursday, September 15, 2016 08:09:06
Attachment 1: image001.png

See below, for your advice and consideration. I think this may be as much of a pension policy as an accounting issue.

Greg

Begin forwarded message:

From: "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>
Date: September 15, 2016 at 8:05:57 AM EDT
To: "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Davidson, Steven (CAB)" <Steven.Davidson@ontario.ca>, "Betzner, Lynn (CAB)" <Lynn.Betzner@ontario.ca>
Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>
Subject: RE: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Among the options to look at, can you see if there is a rationale could justify freezing any additional incremental pension assets under the regulation pending a full review? It is one thing to prevent the reporting of new assets compared to reversing what has been accumulated. Also, what if we were to match the reported surplus TPP is filing with FSCO. It could maintain at least a $13B surplus.

From: Orencsak, Greg (TBS)
Sent: September-14-16 7:47 PM
To: Orsini, Steve (CAB); Thompson, Scott (MOF); Davidson, Steven (CAB); Betzner, Lynn (CAB)
Cc: MacIntyre, Kyle (TBS); Bromm, William (CAB)
Subject: FW: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Steve, here is a table that shows the estimate of the annual impact of not having pension assets on our books from any of the JSPPs. This is based on the pension expense numbers from the 2016 Budget. We are having this checked with our actuaries as well to confirm.

Accepting the AG's interpretation could add over $3.2B to the deficit in 17-18, and $3.9B in 19-20.

On another note, Scott and I are meeting with the AG again tomorrow to put all the issues, other than pensions, to bed with regard to the Public Accounts audit. If that's done, we will just be fighting a battle on one front. A big one.

Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

Title: TBS logo

The contents of this email may be confidential and/or commercially sensitive. If received in error or you are not the intended recipient, please notify sender and delete any copies immediately.

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: Wednesday, September 14, 2016 at 5:52 PM
To: "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>
Cc: "Chen, Raymond (TBS)" <Raymond.Chen@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Coulter, Travis (TBS)" <Travis.Coulter@ontario.ca>
Subject: Fw: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>

Sent: Wednesday, September 14, 2016 17:40

To: Veinot, Cindy (TBS)

Cc: Patel, Bharat (TBS)

Subject: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Revised for minor wording edits. I will print the copies.

Pauline

TBS

From: Thompson, Scott (MOF) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 13:13:04

Can you look at this and let me know if you have any issues? This would be the rationale if we took on the 1.5 billion for 15-16 deficit, but not put the whole current value of the pension asset onto our accumulated deficit.
Thanks
Scott

Sent from my iPad

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From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: September 26, 2016 at 1:00:16 PM EDT
To: "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>
Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
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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 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 the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.

From: Thompson, Scott (MOF) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 13:38:55

See Greg's additions/edits
Thanks

Sent from my iPad

Begin forwarded message:

From: "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>
Date: September 26, 2016 at 1:36:01 PM EDT
To: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Cc: "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
Subject: Re: Wording for note to f/s re: hybrid model (NPP suggested edits)

On the section below:

...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...

I don't think we should imply that we need additional modelling to confirm our view that there is an asset and that it is recoverable - can we soften this?

Also in the paragraph that follows, can we add the word cautious and prudent somewhere in the context of why the province would be taking a full valuation allowance?

Greg

On Sep 26, 2016, at 1:00 PM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

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 inception of the plan.

When a pension asset arises, under Public Sector Accounting Standards, additional analysis is required to determine whether the government is entitled to fully benefit from 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 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 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 the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.

From: Provis, Ian (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Smook, Nick (TBS) [Nick.Smook@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Help to understand how to express what the auditor is making us do
Date: Thursday, September 15, 2016 09:35:00
Attachment 1: image003.png

Proposed regulation to legislate our accounting to get the AG's desired outcome- I want to have people look at this as see how it is interpreted- and if it works - thanks

Accounting policies and practices to be followed to prepare the consolidated financial statements of the Province

1.0 This section applies to the consolidated financial statements of the Province as set out in the Public Accounts. O. Reg. 51/12, s. 1 (2) for the fiscal year ending March 31, 2016 and for the comparative financial results for the year ending March 31, 2015[IDP1] *(Note: needs to be explicit that this expires or only applicable to this one year of statements)*

2.0 In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit in connection with surpluses in jointly sponsored pension plans that are sponsored by the Province.

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Ian Provis, CPA C.A.

Manager

Office of the Provincial Controller Division

' 416.327.2722 | 8 ian.provis@ontario.ca

CONFIDENTIALITY NOTICE
The contents of the e-mail are confidential to the sender and ordinary user of the e-mail address to which it was addressed and may also be privileged. If you are not the addressee of this e-mail, you may not review, copy, forward, disclose or otherwise use it or any part of it in any form whatsoever. If you have received this e-mail in error, please advise the sender and delete all copies of this message.

[IDP1]Note for legal counsel: the 2015-16 public accounts has consolidated financial statements that present the current year's 2015-16 results and an updated 2014-15 financial results as comparative figures.

We do not want this regulation to impact the official 2014-15 public accounts published a year ago but only the "restated" 2014-15 numbers presented in the 2015-16 public accounts.

(i.e. there is no plan to republish the 14/15 public accounts, but for purposes of comparison in the FSD&A and f/s, they would be similarly adjusted). n

TBS

From: Noor, Khalida (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: ITC
Date: Monday, March 19, 2018 09:06:38
Attachment 1: image001.png

Hi Alex,

Hope you had a good weekend. Cindy has reviewed the document and she had some follow-up questions. Can you please help me address below?

What risks do we / should we consider in determining the following discount rates?

- Expected return on plan assets for funded plans; and
- Government's cost of borrowing for unfunded plans

Thanks

Khal

Khalida Noor, CPA, CA

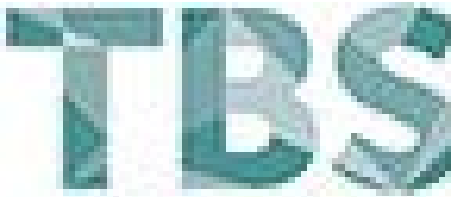
Director, Controllership Policy & Accounting Consultation

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 325-2631

Khalida.noor@ontario.ca


TBS

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Invite for meeting tomorrow
Date: Wednesday, October 19, 2016 18:44:53

Hi Alex – there is a 30 minute call tomorrow to start the conversation about whether there should be a discussions with OTF re: OTPP re: future contributions, etc. Participants include EDU, CAB, OPCD + Karen Hughes I just sent it to you. Sorry for the late notice.

Cindy

From: Roberto, Nicole (EDU) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]
Subject: JSPP term sheet - signed copy
Date: Thursday, September 15, 2016 16:53:26
Attachment 1: Signed OTPP term sheet with Appendicies.pdf

Hi Rob and Ingrid,

As requested here's a copy of the signed term sheet for the JSPP.

Please let us know if you need anything further,

Nicole

Nicole Roberto

Team Lead (A)

Funding Policy and Pensions Unit

Education Finance Branch | Ministry of Education

416.212.4384 | nicole.roberto@ontario.ca

OTPP Term Sheet – March 13, 2013

CONFIDENTIAL

This Term Sheet (the "Agreement") sets out the key terms of the agreement between the Plan Sponsors, which is effective during the "Freeze Period" (as defined below). The Government will provide a letter to the Plan Sponsors which will explain: the background of the 2012 Ontario Budget measures about jointly sponsored pension plans; the Government's plan to introduce legislation to carry out those measures, including pooling of broader public sector pension fund assets; the fact that discussions lead to this Agreement instead; and will confirm the Government Commitments which are based on those discussions and this Agreement.

A. General Principles

1. The Freeze Period runs from December 31, 2012 to December 30, 2017.

2. During the Freeze Period there will be no employer contribution increases except as provided for below. An employer contribution increase is defined as any increase in the employer contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period. Employer contribution increases already scheduled to occur during the Freeze Period as a result of valuations filed with an effective valuation date before December 31, 2012 will occur.

3. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no benefit improvements unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit improvement amendments come into effect meets or exceeds 105%, and the benefit improvement will not bring the going concern funded status below 105% as of the effective date of the amendment.

4. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no restoration of benefits reduced as a result of application of these principles unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit restoration amendments come into effect meets or exceeds 105% and the restoration will not bring the going concern funded status below 105% as of the effective date of the amendment.

5. Ad hoc/conditional indexation is not considered to be a benefit improvement or restoration and Plan amendments to provide or restore ad hoc or conditional cost of living increases to pensioners can be made provided the Plan's going concern funded status on the date that the cost of living increase is agreed upon (based on the most recently prepared valuation report with a valuation date that is no more than twelve months earlier and that uses the same valuation methodology and assumptions that would apply to a filed valuation) exceeds 100% and the cost of living increase will not

bring the going concern funded status below 100% as of the effective date of the amendment.

B. Valuations and Consequential Actions During the Freeze Period

6. Should any draft valuation prepared for filing during the Freeze Period disclose a funding circumstance in which employer contribution increases would normally be implemented (i.e., a funding shortfall) the funding circumstance must be addressed within the following Parameters. Any valuation filed during the Freeze Period will conform to the General Principles above and the Parameters as follows:

a. During the Freeze Period there will be no employer contribution increases except as provided for below. A contribution increase is defined as any increase in the contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period.

b. Any future benefit reductions determined to be required in order to meet the General Principles and these Parameters during the Freeze Period will not exceed twenty percent (20%) of the aggregate value of future benefits determined based on the Plan provisions in effect on December 31, 2011 ("the Benefit Reduction Limit"), which aggregate value the Sponsors agree is $42.590 billion. Benefit reductions implemented pursuant to the valuation as at January 1, 2012 shall be taken into account for purposes of achieving the 20% Benefit Reduction Limit. For clarity, twenty percent (20%) is measured on an cumulative basis in the Freeze Period.

c. In respect of the benefit reductions provided for under the January 1, 2012 valuation, the Sponsors agree that the reduction in the aggregate value of future benefits is $4.094 billion (9.6%). This reduction in the aggregate value of future benefits was calculated to include:

(i) the reduction in the funding shortfall from the impact of the decrease in the present value of future benefits and contributions stemming from the increase in the discount rate which resulted from the Plan amendment to remove and replace the remaining 50% guaranteed indexing with full conditional inflation protection ("CIP") for post-2013 service;

(ii) the reduction in present value of benefits from invoking an additional 10% of CIP (inflation protection from 60% to 50%) for post-2009 service effective January 1, 2014 along with the associated increase in the present value of the "share the pain payments" (matching contributions made by the Government/employers) plus the reduction in present value of benefits from invoking a further 5% of CIP (inflation protection from 50% to 45%) for post-2013 service effective January 1, 2015.

Appendix A attached hereto provides further details regarding this benefit reduction calculation.

d. Any future benefit reductions under a post-January 1, 2012 valuation, if necessary, will be implemented with an effective date that is no later than the earlier of:

i. two years following the valuation date of the filed actuarial valuation, or

ii. December 30, 2017.

e. In no case will future benefit reductions implemented as a result of the General Principles and/or Parameters affect or reduce pension benefits or ancillary benefits accrued prior to the implementation date of the benefit reduction(s). Ancillary benefits will be considered to have accrued, if, as of the implementation date of the benefit reduction, the person will have met all of the eligibility requirements to exercise the right to receive the ancillary benefits.

f. Sponsors' agreement on future benefit reductions would be effected by a Plan amendment to be prepared and filed within 60 days of agreement or outcome of the dispute resolution process.

g. Once the Benefit Reduction Limit has been reached (i.e., if the second or subsequent valuation(s) filed during the Freeze Period reduce benefits by $4.424 billion (10.4%)), the Sponsors will return to their usual process and make use of their usual tools (e.g., employer and member contribution rate increases and/or benefit reductions beyond the benefit reduction limit) to determine the steps necessary to avoid:

i. any remaining shortfall identified in the draft valuation; or

ii. a future new funding shortfall identified in a subsequent draft valuation during the Freeze Period.

After 2013, any valuation filed during the Freeze Period must be filed on or before September 30 of the year of filing.

C. Dispute Resolution

7. Any dispute with respect to the interpretation or application of this Agreement may be referred by either Sponsor to final and binding arbitration. Either of the parties may notify the other in writing of its desire to submit a difference or dispute to arbitration and the notice shall contain the names of the first party's appointment to an Arbitration Board. The recipient of the notice shall within five (5) days inform the other party of the name of its appointee to the Arbitration Board. The two (2) appointees so selected shall, within five (5) days of the appointment of the second of them, appoint a third person who shall be the Chairperson. If the recipient of a notice fails to appoint an appointee, or the two appointees fail to agree upon a Chairperson within the time limit, either party may request that the appointment shall be made by the Chief Justice for Ontario.

8. In the event that a dispute arises with respect to the interpretation or application of paragraph 6 in particular, all steps to appoint an Arbitration Board as set out in paragraph 7 will be taken on or before 60 days before September 30. The decision of the Arbitration Board shall be issued at least 20 days before September 30.

9. In the event that a dispute arises with respect to the interpretation or application of paragraph 6, in particular, including whether the Benefit Reduction Limit has been reached, the Arbitration Board's mandate will be restricted to determining the means by which the obligations in this Agreement will be carried out and will be subject to the same restrictions applicable to the Sponsors regarding the available options and for greater certainty will exclude an increase in employer contributions during the Freeze Period. The Sponsors, utilizing their usual processes may increase employer contributions once the Benefit Reduction Limit is reached.

D. End of the Freeze Period

10. At the end of the Freeze Period, this Agreement expires and any obligations to conform to this Agreement, and any measures taken in accordance with it, end with the exception of the provisions in paragraph 11.

11. After the end of the Freeze Period, if the Plan's going concern funded status (based on the most recently filed valuation report with a valuation date after December 30, 2017) exceeds 100%, the union/federation sponsors have "first call" on 100% of the surplus disclosed under a valuation report with a valuation date after December 30, 2017, up to a cumulative total of the value of either: the benefit reductions that are made during the Freeze Period; or the Benefit Reduction Limit, whichever is lower. The "first call" on surplus (to take the form of "surplus credits") would be subject to the following conditions:

(a) Surplus credits would only take into account the value of benefit reductions made during the Freeze Period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (i) the value of benefit reductions for which matching contributions are made by the Government/employer ("share the pain payments"), and (ii) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full CIP for post-2013 service and the resulting change to the discount rate (as described in paragraph 6(c)(i) above).

(b) Subject to (c) below, the surplus credits could be used as the union/federation sponsors wish (i.e., credits would not be required to be used to restore the same benefits that were reduced during the Freeze Period).

(c) The union/federation sponsors are permitted to spend the surplus credits so long as the going concern funded status of the Plan does not fall below 100% after the surplus credits are spent.

(d) This is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the government initiated Freeze Period and is without prejudice or precedent for any future situation.

(e) If inflation protection is invoked below 50% during the Freeze Period, subject to paragraph 11(a), surplus credits will include an amount equal to the actual foregone pension payments during and after the Freeze Period that arise from the reduction in indexing invoked during the Freeze Period until such time as that inflation protection is restored at 50% or more during or after the Freeze Period.

Appendix B attached hereto provides further details regarding the surplus credit calculation.

E. Other Matters

12. The Sponsors will ensure that the cooperation of the Administrator is secured in relation to all aspects of this Agreement, including but not limited to the preparation of the draft valuation, the filed valuation, and applying for any necessary extension of the timelines for filing actuarial valuations and/or Plan amendments as may be necessary to give effect to this Agreement.

13. In order for the terms of this agreement to be effective, the Ontario Government will, subject to Cabinet approval, on or before May 1, 2013, amend Regulation 909 under the Pension Benefits Act to allow for a single four-year valuation cycle for a valuation filing that would otherwise be required to be made during the Freeze Period subject to the following conditions:

a. at least one valuation is filed during the Freeze Period;

b. there are no more than four years between the valuation dates of filed valuations; and

c. any benefit reductions arising from valuations filed during the Freeze Period are implemented in accordance with the General Principles and Parameters herein.

Failing amendment of the said Regulation, this Agreement is of no force or effect.

14. The terms of this Agreement supersede all other agreements (written and oral) between the Sponsors, including the Partners' Agreement. The Sponsors shall amend the Plan, the Partners Agreement or any other documents as necessary to give effect to this Agreement.

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Date:

Terry Hamilton – President,
Ontario Teachers' Federation

March 13, 2013
Date:

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Date: Mar 14/13

Terry Hamilton – President,
Ontario Teachers' Federation

Date:

Appendix A to Term Sheet Between Government and OTF

As of January 1, 2012 (all amounts in millions)

Calculation of Benefit Reduction Limit

Present Value of Future Benefits Based on Plan Provisions as of December 31, 2011 But Including Legislated Vesting Change		$ 48,899
Less:	Reduction in Present Value of Future Benefits to Reflect Indexation for Post-2009 Service at 60% of CPI	6,309
Equals:	Present Value of Future Benefits For Purposes of Calculating Benefit Reduction Limit	$ 42,590

Benefit Reduction Limit = 20% x $42,590 = $8,518

Calculation of Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation

Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	$1,367
Plus	
Increase in Government Matching Contributions From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	1,367
Plus	
Reduction in Present Value of Future Benefits Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	1,390
Plus	
Reduction in Present Value of Future Contributions Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	(497)
Plus	
Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 50% to 45% of CPI for Post-2013 Service	467
Equals	
Portion of Benefit Reduction Limit Utilized	
$ Amount	$ 4,094
% Amount from 20%	9.6%

Remaining Benefit Reduction Limit for Plan Changes in Freeze Period

Benefit Reduction Limit		$ 8,518
Less:	Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation	4,094
Equals:	Remaining Benefit Reduction Limit For Plan Changes in Freeze Period	$ 4,424
	% Amount from 20%	10.4%

Appendix B to Term Sheet Between Government and OTF

The following are examples only. For purposes of paragraph 11(e) of the Term Sheet, the actual foregone indexing below 50% will be determined by the Plan Administrator based on the actual pension payments affected.

Subject to the above paragraph, the following example shows how the foregone pension payments in respect of which surplus credits are to be awarded (paragraph 11(e)) would be calculated in connection with invoking CIP below 50%. The example is based on:

- Inflation rate of 2.00% per year
- Retirements as of July 1st of each year
- New pensioner payments each year under the additional 50% CIP provisions for post-2013 service of $3 million times number of years of service from January 1, 2014 to mid-year retirement date
- 10-year period with no mortality reflected
- Indexation at 45% of CPI for the entire period

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,759	27
2018	$ 62,164	$ 62,099	65
2019	$ 92,786	$ 92,658	128
2020	$ 129,714	$ 129,492	222
2021	$ 173,011	$ 172,658	353
2022	$ 222,741	$ 222,212	529
2023	$ 278,968	$ 278,212	756
			$ 2,091

The following example modifies the above example to show the impact of moving from 45% of CPI to 0% of CPI (for post-2013 service) effective January 1, 2017:

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI / 0% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,582	204
2018	$ 62,164	$ 61,582	582
2019	$ 92,786	$ 91,582	1,204
2020	$ 129,714	$ 127,582	2,132
2021	$ 173,011	$ 169,582	3,429
2022	$ 222,741	$ 217,582	5,159
2023	$ 278,968	$ 271,582	7,386
			$ 20,107

From: Danek, Mary (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Jozefacki, Janette (TBS) [Janette.Jozefacki@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Smithies, Roger (TBS) [Roger.Smithies@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
Date: Thursday, October 06, 2016 16:59:37
Attachment 1: Agenda.docx

Teleconference:

(416) 212-8013

Access Code: 4950903

Chair Passcode: 1705 (Cindy moderator)

Agenda

Kick-off Meeting

Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

1. Next steps pension expert panel around pension assets

2. Further discussion on OPSEUPP and to clarify how the Province and OPSEU may utilize their pools of surplus (i.e. referred to in Koskie Minsky letter).

3. Understanding of the corporate governance of HOOPP and CAATPP and rolls of the Province if any in contribution rates or benefit changes in these plans.

4. Discussion on review of economic assumptions in upcoming PRRT process

    a. How can we get the auditors involved earlier in the review?
    b. Do we need further review of management assumptions by actuaries?
    c. Further requirements or additional information that may be needed this year's request for actuarial information.

5. Other matters - TBD

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Jozefacki, Janette (TBS) [Janette.Jozefacki@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Smithies, Roger (TBS) [Roger.Smithies@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; MacPherson, Michael (TBS) [Michael.MacPherson2@ontario.ca]
Subject: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
Date: Tuesday, October 11, 2016 13:14:49
Attachment 1: Agenda.docx
Attachment 2: Letter to Len Hatzis re Surplus Rights in regards to Ontario and BC Plan....pdf

---

Teleconference:

(416) 212-8013

Access Code: 4950903

Chair Passcode: 1705 (Cindy moderator)

Agenda

Kick-off Meeting

Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

1. Next steps pension expert panel around pension assets

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    c. Further requirements or additional information that may be needed this year's request for actuarial information.

5. Other matters - TBD

KOSKIE MINSKY

JUSTICE MATTERS

September 23, 2016

Murray Gold
Direct Dial: 416-595-2085
Direct Fax: 416-204-2873
mgold@kmlaw.ca

Via E-mail – len.hatzis@ontario.ca

Len Hatzis
Deputy Director
Legal Services Branch | Treasury Board Secretariat
77 Wellesley Street West, 9th Floor
Toronto ON M7A 1N3

Dear Mr. Hatzis:

Re: Legal Opinion Concerning Surplus Rights in regard to the Ontario Teachers' Pension Plan, the OPSEU Pension Plan, the British Columbia Municipal Pension Plan, the British Columbia Public Service Pension Plan, the British Columbia Teachers' Pension Plan and the British Columbia Colleges Pension Plan
Our File No.: 162080

You have requested our legal opinion concerning the authorities of the sponsors and plan administrators of the above-captioned Plans with respect to ongoing surpluses in those plans.

In general, the sponsors of these pension arrangements are governments and sometimes other employer associations (the employer sponsor), and trade unions (the employee sponsor, or 'partner'). The 'plan administrators' of each Plan are either boards of trustees or, in the case of the OTPP, a board of directors. Plan administrators are independent entities that owe fiduciary obligations to the members of the Plan they administer.

The constating documents for each Plan set out the respective rights of the sponsors of each arrangement, and describe as well the powers of the fiduciary administrator of each Plan. In some cases, there is a clear differentiation between the powers of the sponsors and the powers of the plan administrators; in other cases, both the sponsors and the fiduciary administrator may have powers with respect to the same issue.

Below, we briefly review the relevant provisions of the constating documents for each of these Plan arrangements. Then, we summarize our opinions concerning the respective powers of the Plan sponsors and the fiduciary administrators in regard to surpluses arising under each arrangement.

This opinion is based on the documents referenced herein. In the event that there are any other constating documents with respect to any of the Plans described below, the conclusions expressed in this opinion may change and cannot be relied upon.

In general, the Plans' constating documents sometimes refer to "surplus", and other times to "actuarial gains" or "excess assets". The term "surplus" may refer either to an ongoing surplus, or to a surplus that is crystalized upon the termination and wind-up of a plan. For the purposes of this opinion, we treat these terms as being equivalent.

I. ONTARIO PLANS

A. *Ontario Teachers' Pension Plan ("OTPP")*

The OTPP is governed by:

(a) the *Teachers' Pension Act*, R.S.O. 1990, c.T.1 (the "TPA");

(b) Plan text for the OTPP (the "Plan text");

(c) an Agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training (the "Minister") and The Ontario Teachers' Federation represented by its Executive (the "OTF"), dated July 15, 1991 (the "Partners' Agreement"), as amended; and

(d) a Funding Management Policy, attached as Appendix "A" to the Partners Agreement.

The TPA provides, at sections 5(1) and 5(1.1), that the Minister of Finance is required to pay from the Consolidated Revenue Fund contributions payable by the Minister of Education and provides that the total amount of such contributions "...shall not exceed the amount of contributions payable by or on behalf of active Plan members in respect of credited service for that year" (section 5(1.1)). The Plan text requires, at section 25, "that the Minister of Education contribute to the OTPP an amount equal to the required contributions made during the year before the preceding year by or on behalf of those members for whom the Minister is required to make employer contributions" (section 25(1)). Additional provisions of section 25 of the Plan text contain other provisions with respect to the Minister's obligation to make contributions to the OTPP.

The Partners' Agreement stipulates, at section 8 that the Partners are generally responsible for benefits and contribution rates:

> "8. The partners will be responsible for designing the plan structure, setting the benefits of the plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the plan, this agreement or other plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act,* appointing the Board, and defining the role of the Board."

By contrast, section 19 of the Partners Agreement sets out the responsibilities of the OTPP Board, and does not confer any authority on the OTPP Board to change benefits or contribution rates that are provided under the OTPP. This means that the OTPP Board has no authority to use ongoing surpluses either to improve benefits or reduce contributions. Only the partners to the OTPP have the authority to utilize ongoing surpluses.

The process governing the use of ongoing surpluses by th Partners is set out in the partners' Agreement. It anticipates that the OTPP Board will prepare an actuarial valuation of the OTPP every three years (section 73). The Partners are then required to bargain in good faith with respect to the disposition of any surpluses, or any adjustments to address Plan deficiencies (section 74). Section 77 of the Partners' Agreement anticipates that the Partners may appoint a mediator to assist them and sections 84 and 86 of the Partners' Agreement provide for the

appointment of a Board of Arbitration to make a final and binding order with respect to the utilization of an ongoing surplus disclosed by the actuarial valuation. A Board of Arbitration is empowered to change contribution rates and/or benefits under the Plan, or to keep an amount of surplus in reserve, but is subject to certain limits that are set out in section 92.

B. The OPSEU Pension Plan ("OPTrust")

The OPTrust is governed by:

(a) a Sponsorship Agreement made as of April 18, 1994 between Her Majesty the Queen in right of the Province of Ontario as represented by the Chair of the Management Board of Cabinet ("Ontario") and the Ontario Public Service Employees' Union ("OPSEU") (the "Sponsorship Agreement");

(b) an Agreement and Declaration of Trust of the Trust Fund dated October 25, 1994 (the "Trust Agreement"); and

(c) OPTrust Plan text.

Section 56 of the Sponsorship Agreement addresses the use of actuarial gains disclosed under an actuarial valuation report prepared after March 31, 1997. Section 56(d) provides that once the 'Transferred Initial Unfunded Liability' of the OPTrust has been fully liquidated (we understand that it has been liquidated), then actuarial gains disclosed by a valuation of the OPTrust are divided into two equal pools, one of which "...shall be used for the benefit of Ontario, to be applied against any special payments required to be made by Ontario and thereafter to reduce Ontario's normal costs..." and the other pool is to be used by OPSEU for the benefit of Plan Members (section 56(c) of the Sponsorship Agreement). Section 56(d) also anticipates that OPSEU and Ontario may collectively bargain an allocation of gains that is different from 50/50. This means that each of Ontario and OPSEU may utilize their pools, subject to applicable legislation, without the agreement of the other party.

The Trust Agreement provides that only the Sponsors (Ontario and OPSEU) may amend the Plan (section 4.02), and further specifies that the plan administrator, i.e. the Board of Trustees of the OPTrust, "...shall have no power to amend either the Plan or this Agreement" (section 4.03). Accordingly, under the Sponsorship Agreement and Trust Agreement, the OPTrust plan administrator has no authority to utilize actuarial gains. Rather, that authority is conferred, by section 56 of the Sponsorship Agreement on the Sponsors, being Ontario and OPSEU. Moreover, the OPTrust Board of Trustees is not able to increase OPTrust benefits using ongoing surpluses, as only the Sponsors of the OPTrust are able to amend the Plan.

II. BRITISH COLUMBIA PLANS

In British Columbia, the Municipal Pension Plan, the Colleges Pension Plan, the Teachers' Pension Plan and the Public Sector Pension Plan were all converted from employer sponsorred pension plans to jointly sponsored plans in accordance with the *Public Sector Pension Plans Act*, S.B.C. 1999, c.44 (the PSPPA").

A. *British Columbia Municipal Pension Plan (the "MPP")*

The MPP is governed by:

(a) Municipal Pension Plan Joint Trust Agreement (consolidated), updated to September 30, 2015 (the "MPP Trust Agreement"); and

(b) Municipal Pension Plan Rules effective April 1, 2000 (current to November 19, 2015).

Under the MPP Trust Agreement, the following rules govern the Sponsors of the MPP and the Board of Trustees of that arrangement in regard to Plan surpluses:

The Board of Trustees may amend the MPP to utilize surpluses under section 11.5, provided that the conditions in 11.5(a) and (b) are met. These provisions permit the Board of Trustees to utilize Plan surpluses to improve Plan benefits for Plan members, provided that the surplus is sufficient to fund the benefit improvement "based on the open group of Plan Members and using a twenty-five year amortization schedule for the Plan actuarial excess to be used to fund the benefit improvement". Any benefit improvement made by the Board of Trustees cannot result in increased contribution rates nor can it create an unfunded liability. Any such improvement must also be consistent with the Trustees' fiduciary responsibilities. Within these parameters, however, the Board of Trustees of the MPP does have the authority to utilize Plan surpluses on an ongoing basis.

The MPP Partners may also amend the MPP using ongoing surpluses in accordance with section 11.3 of the MPP Trust Agreement. This section permits the Partners to direct the Board of Trustees to amend the Plan rules and requires the Board of Trustees to comply with that direction so long as three conditions are met: (a) the Partners first receive and consider the advice of the Board respecting the proposed amendment, (b) the proposed amendment is compliant with the Trustees' fiduciary responsibilities and (c) the proposed amendment will not result in the Plan failing to be funded in accordance with the PBSA going concern funding requirements. Significantly, the MPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Accordingly, under the MPP, both the Partners and the plan administrator may utilize Plan surpluses by amending the Plan terms in regard to either or both of contribution rates and benefits.

It should be noted that, during a Transitional Period, the use of actuarial gains in the MPP is prescribed by Appendix "B" to the MPP Joint Trust Agreement. During the Transitional Period, all gains must first be used to eliminate unfunded liabilities. Then, actuarial gains must be applied to both (a) reconfigure employer contribution rates and (b) make specified benefit improvements. Employer contribution rates are to be reconfigured by eliminating the 'doubling' feature of employer contribution rates applicable to employees in certain Plan membership categories once they reach either 45 or 50 years of age (depending on the employment category). The transitional provisions prescribe the new base rates for each of the 5 categories of members in the BC, but also stipulate that employer contribution rates for two of the five

categories will be increased beyond those base rates to reflect the differential current service cost for those two groups. The surplus implications of the reconfiguration of employer contribution rates are not predictable, and depend, at least in part, on the relationship between the 'base rates' under the transitional provisions and the actual rates being paid by employers at the time of the reconfiguration. Once the employer contribution rates are reconfigured and the specified benefit improvements are made, then 50% of any additional actuarial excesses must be used to fund a contribution rate stabilization reserve, and the balance of the actuarial excess must be transferred to the Inflation Adjustment Account to an aggregate total of $1 billion. The contribution rate stabilization reserve is intended to be shared on an equal (50/50) basis between Plan members and employers in order to maintain or reduce future contribution rates. Until such time as the objectives identified for the Transitional Period are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

B. British Columbia Public Service Pension Plan ("PSPP")

The PSPP Joint Trust Agreement contains provisions regarding the authority of the Partners and the Board of Trustees to utilize ongoing surpluses that are equivalent to the provisions cited above with respect to the MPP. Accordingly, under the PSPP, both the Partners and the Board of Trustees have the authority, in the circumstances and subject to the conditions described in relation to the MPP, to utilize ongoing surpluses to reduce contributions or improve Plan Member benefits.

In this regard, section 10.3(c) of the PSPP Joint Trust Agreement expressly provides the Board of Trustees[1] with the authority to apply ongoing surpluses (the term used in the PSPP Joint Trust Agreement is "surplus assets") in one or more of the following manners:

1. transfer all or portions of surplus assets to the reserve established within the Pension Fund for stabilising contribution rates;

2. transfer all or portion of the surplus assets to the Inflation Adjustment Account;

3. apply all or a portion of the surplus assets to an equal reduction or elimination of Employer and Plan Member contributions to the Basic Account for a period of time;

4. apply all or a portion of the surplus assets to fund changes to the PSPP's benefit provisions provided that any change to benefits does not result in contribution rate increases, does not create or increase an unfunded liability, is consistent with the Trustees' fiduciary obligations and does not conflict the requirement (in s. 13.5) that, upon the termination and wind-up of the PSPP any remaining assets are to be equally shared between the employees and the employers.

At the same time, as is the case for the MPP, the Partners have the authority, pursuant to s.11.3 of the PSPP Joint Trust Agreement, to direct the Board of Trustees to amend the PSPP Plan rules and change either or both of the PSPP's contribution rates or benefits so long as the

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[1] It is noteworthy that s. 14.2(c) of the PSPP Joint Trust Agreement stipulates that the Trustees are not acting in a fiduciary capacity when they make decisions that apply ongoing surpluses, and may take account of the financial and other interests of the party that appointed them.

Partners have received and considered the advice of the Board respecting both the cost and administrative impact of any proposed amendments, the amendment is not inconsistent with the Trustees' fiduciary responsibilities or any funding policy adopted by the board and the proposed amendment will not result in the PSPP failing to be funded in accordance with British Columbia's Pension Benefits Standards Act. Significantly, the PSPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Section 15.4 of the PSPP Joint Trust Agreement provides that certain benefit improvements must be made using Plan surpluses that are identified in actuarial valuations dated March 31, 2001 and March 31, 2002. Unlike with respect to the MPP, the PSPP does not appear to have an indefinite 'Transitional Process' that commits all ongoing surpluses until the Transitional objectives are accomplished. Rather, the PSPP Trustees and Partners have had discretionary authority with respect to ongoing PSPP surpluses

C. *British Columbia Teachers Pension Plan ("TPP")*

The TPP is governed by:

(a) a Joint Trust Agreement made as of April 2, 2001 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Corporate Relations (the "Government") and the British Columbia Teachers' Federation ("BCTF");

(b) the TPP Rules.

The Joint Trust Agreement contains provisions permitting both the Partners and the TPP Board of Trustees to amend the Plan rules using ongoing Plan surpluses (section 11 of the Joint Trust Agreement). These provisions are the equivalent of the MPP Joint Trust Agreement provisions regarding the same matters, as described above. In particular, it is significant that the TPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution for either Partner in the event that the they cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

As well, Appendix "B" to the TPP Joint Trust Agreement adopts special funding rules for a "Transitional Period" during which the Board of Trustees is directed to use surpluses to achieve specified contribution and benefit improvement outcomes. The transitional objectives for the TPP are not the same as for the MPP, although they entail both contribution rate changes and benefit improvements. In the case of the TPP, however, the transitional provisions build in a 4% reduction in the employer contribution rate from its July 1, 2010 level. As with the MPP, the Transitional Period is of indefinite duration, and only ends when the transitional objectives have been satisfied. During the transitional period, all ongoing surpluses are committed to the transitional objectives and no ongoing surpluses are available for discretionary reductions in contributions or surplus withdrawals.

D. *British Columbia Colleges Pension Plan ("CPP")*

The CPP is governed by:

(c) the CPP Joint Trust Agreement made April 4, 2011; and

(d) the CPP rules, effective June 22, 2012 (current to April 1, 2016).

The CPP Joint Trust Agreement allocates powers and authorities with respect to ongoing surpluses in the same way as the other BC Plans.

The Partners have the authority (s.14(2) of the Joint trust Agreement) to direct the Board to amend the Plan rules, and the Plan Board is required to amend those rules, provided that the Partners "first receive and consider the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment" and the proposed amendment is not inconsistent with applicable law or the Trustees' fiduciary responsibilities. Significantly, the CPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the CPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses

Pursuant to subsection 14(4) of the CPP Joint Trust Agreement, the Board of Trustees is also permitted to amend the Plan rules and to utilize Plan surpluses so long as there is no resulting increased in contribution rates, there is no creation of, or increase in, an unfunded liability and the proposed amendment is consistent with the Trustees' fiduciary responsibilities. As with the other BC Plans, the Board of Trustees must use a twenty-five year period for the amortization of the Plan surplus.

Unlike the MPP, TPP and PSPP, the CPP Joint Trust Agreement has no transitional provisions that direct the Board of Trustees as to the application of ongoing surpluses during a transitional period.

III. SUMMARY AND CONCLUSIONS

A. *Ontario Plans*

OTPP - The governance arrangements with respect to the OTPP provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may utilize ongoing surpluses as they believe appropriate, subject only to the Ontario *Pension Benefits Act*, R.S.O. 1990, c.P.8 (the "Ontario PBA"). The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses. The OTPP Partners' Agreement anticipates that the Partners will, on a triennial basis, review the results of a preliminary actuarial valuation and determine whether and how they wish to adjust Plan benefits or contribution rates in view of any existing funding deficiencies or ongoing surpluses. The Partners are obliged to bargain in good faith with each other with respect to the disposition of ongoing surpluses, and may have recourse to mediation and final and binding arbitration should they not reach an agreement on their own. An arbitration panel may apply ongoing surpluses to improve benefits or reduce contributions, subject to the limitations set out in section 92 of the Partners Agreement.

OPTrust - The OPTrust governing documents also stipulate that it is the Sponsors of the OPTrust, being the Province of Ontario and OPSEU, who have the authority to utilize ongoing Plan surpluses. OPTrust's Board of Trustees, being the OPTrust administrator for purposes of the Ontario PBA, has no authority to utilize ongoing Plan surpluses. Pursuant to section 56(c) of the OPTrust Sponsorship Agreement, ongoing surpluses are divided into two equal pools (although the equal division may be altered through collective bargaining), and each of Ontario and OPSEU may utilize those pools without the agreement of the other party. In other words, Ontario may unilaterally determine the disposition of its pool, and OPSEU may unilaterally determine the disposition of its pool, subject only to Ontario's PBA. Neither OPSEU nor Ontario requires the agreement of the other party in order to utilize its allocated amount of ongoing surplus.

B. BC Plans

Ongoing Surpluses - All of the BC Plans follow the same pattern with respect to the authority to use ongoing surpluses. In the normal course, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to utilize ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules does not result in an increased contribution rate for employees or employers, does not create or increase an unfunded liability in the Plan and is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

At the same time, each of the BC Plans also permits the Plan Partners to utilize ongoing surpluses by directing the Board of Trustees to amend the Plan rules. The Partners may so direct the Board of Trustees after receiving advice from the Board with respect to the costs of any Plan amendment and the administrative implications of such an amendment, and so long as the proposed amendment is compliant with law and with the Trustees' fiduciary obligations. However, unlike for the OTPP, the BC Plans' constating documents provide neither Partner with a right of recourse to a third party for a final and binding determination concerning surplus utilization.

Transitional Period - In addition, three of the four BC Plans we have reviewed (MPP, TPP and, for only two years, the PSPP) contain special rules governing the utilization of ongoing surpluses during a "Transitional Period". In these cases, the Transitional rules require that ongoing surpluses that emerge during the Transitional Period are to be used to restructure the employer contribution obligation and improve benefits. In the cases of the MPP and TPP, the Transitional Periods do not come to an end until all of the intended uses of ongoing surplus during the Transitional Period have been fulfilled. We are not currently aware as to whether the Transitional Periods for the MPP and the TPP remain ongoing, or have terminated. Until such time as the objectives identified for the Transitional Periods are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

We trust that these comments have been of assistance to you. Should you have any questions in regard to them, please do not hesitate to contact the undersigned.

Yours truly,

KOSKIE MINSKY LLP

Murray Gold

MG:jn

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Leech
Date: Wednesday, October 19, 2016 15:45:03

Did he agree with our pension accounting?

When did he go to ag?

From: Mehanovic, Nermina (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Gilbert, Tamara (CAB) [SOM.2Tamara.Gilbert@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Myers, Leah (MOF) [Leah.Myers@ontario.ca]; Laughton, Patrick (TBS) [Patrick.Laughton@ontario.ca]; Ali, Faatima (CAB) [Faatima.Ali2@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: Materials for follow-up to Nov. 24th OTTP
Date: Thursday, December 15, 2016 15:37:43
Attachment 1: image001.jpg
Attachment 2: OTPP Asset Options v9 updated by OPCD.PPTX

Hi all,

Please see attached, thanks.

Nermina Mehanovic

Administrative Coordinator | *Associate Deputy Minister's Office*
Office of the Treasury Board

Treasury Board Secretariat
nermina.mehanovic@Ontario.ca | T: 416 325-2794
Frost Building South, 7 Queen's Park Crescent, Toronto ON M7A 1Y7

TBS

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with approaching the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms in order to meet the Auditor General's (AG) interpretation of the standard to recognize a pension asset.

Overview of AG concerns

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts.

Context

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue.
   b) The panel agrees with the AG.
      - What change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change in accounting treatment or to pension plan

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists once a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP)
2) Legislative changes (unilateral action that does not require OTF support)

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector. For example:
    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
    - The Board determines the discount rate that is used to establish the funding level.

Considerations

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This would change how the two Partners interact with each other and could affect each Partner's decision making with respect to the plan overall.
  - If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.
- This would also impact the way the Board interacts with the Partners.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.
- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, a constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Board and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Killoch, Alex (MOF) []
To: Sawosch, Mercedes (TBS) [Mercedes.Sawosch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: NB
Date: Friday, September 30, 2016 18:34:16

I agree Volume 3 of NB 2015 AG report covers the issue of DC accounting being inappropriate.

NB responded by using DB accounting including the restriction on assets on their books. The terms of the plans might be enough to be different, but I will leave it to OPCD to do the analysis of the difference and it's application to our situation.

I note that we treat HOOPP and CAATPP the same way as TPP but we have no access to the assets of the plan, or to any surplus in the plan. In fact, we are not a sponsor of either plan nor are we the employer.

Alex

From: Sawosch, Mercedes (TBS)
Sent: Friday, September 30, 2016 6:11 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: FW: NB

Understood. Ian received the following clarification from communication with NB:

The reason for the qualification last year was about excluding the plan from the financial statements and not about valuation. Basically they took the plan off the books and just expensed the cash contributions to the plan.

Now they brought the plan back on the books and with a compromised PSAB accounting where the asset valuation includes unamortized losses, the fiscal expense is approximately the same (and looks the same over the foreseeable future) as the cash contributions. (they still disagree with the accounting to include it but it does not have a fiscal impact). Both NB and their auditor felt this was a compromise they both could live

with.

External analysis is key related to our plans and comparing to their plan, however even if we see our position at risk regarding the access to the assets of the plan, the regulation would give us the accounting under PSAB, and if we are right we can bring the asset back on in the future. I think the only thing we need to worry about is how this is communicated (we are taking a conservative approach using a regulation while we assess whether it is PSAB considering we had previous clean opinions under PSAB) and this is not a problem with the numbers.

Mercedes

From: Killoch, Alex (MOF)
Sent: Friday, September 30, 2016 5:45 PM
To: Sawosch, Mercedes (TBS); Pomykacz, Rob (MOF)
Cc: Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: Re: NB

I am not comfortable with that analysis based on a paragraph in the financial statements.

The reference is to the fact that access to the assets of the plans is restricted. Access to the assets of the plan is different from the plan as an asset. The PBA in Ontario also restricts our right to the assets of the plan.

Nor am I familiar with the ability of government or members to take a contribution holiday in the NB shared risk model.

I think best to await the analysis of external lawyers who are familiar with the nature of the NB plans.

From: Sawosch, Mercedes (TBS)

Sent: Friday, September 30, 2016 5:33 PM

To: Pomykacz, Rob (MOF)

Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)

Subject: RE: NB

Ian confirmed with NB. I verbally updated on my side, but it would be good to close the loop with a response to Kyle and David. If you don't mind, I will modify your response below for circulation and ensure our DMO gets an answer.

Mercedes

From: Pomykacz, Rob (MOF)
Sent: September-30-16 3:17 PM
To: Sawosch, Mercedes (TBS)
Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: RE: NB

According to what's written in the notes to their consolidated financial statements (p. 28 of Volume 1),

"Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets."

So on this basis, it appears that they do not have a claim to the assets. (This is not the case in Ontario for the TPP and the OPSEU Pension Plan, as there is no such agreement.) That's all the information we have. I understand Ian is attempting to get more information from NB. Perhaps they will confirm this.

Rob

From: Sawosch, Mercedes (TBS)
Sent: September 30, 2016 2:47 PM
To: Pomykacz, Rob (MOF)
Subject: FW: NB

Can your folks clarify for David McLean that NB specifically doesn't have a claim to the assets? My peeps are a bit swamped today. I will close the loop here after you do that.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 2:05 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Fong, Pauline (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 2:01:21 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>

Subject: FW: NB

FYI

From: Killoch, Alex (MOF)
Sent: September 30, 2016 2:00 PM
To: McLean, David (MOF); Schuurman, Tim (MOF); Pomykacz, Rob (MOF)
Subject: RE: NB

Not sure that is entirely accurate. As the 2016 public accounts noted, they have deemed the asset to be nil for shared risk plans (which are not unlike jspp). It is true that NB was using DC accounting, but they seem to agree with AG now.

http://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html

Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets. On this basis, the Province records the value of the plan net assets as nil when these plans are in a net asset position. When these plans are in a net obligation position, the Province records a liability for its share. The plans accounted for using this method are: the Public Service Shared Risk Pension Plan, the New Brunswick Teachers' Pension Plan, the Shared Risk Plan for CUPE Employees of New Brunswick Hospitals, and the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals.

From: McLean, David (MOF)
Sent: Friday, September 30, 2016 1:55 PM
To: Schuurman, Tim (MOF); Killoch, Alex (MOF)
Cc: Pearce, Christopher (MOF); Clarke-Darshanand, Jamille (MOF)
Subject: FW: NB

OPCD's response below. Short answer – different issue.

From: MacIntyre, Kyle (TBS)
Sent: September 30, 2016 1:48 PM
To: McLean, David (MOF)
Subject: Fwd: NB

Begin forwarded message:

> **From:** "Fong, Pauline (TBS)" <Pauline.Fong@ontario.ca>
> **Date:** September 30, 2016 at 1:46:57 PM EDT
> **To:** "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Sawosch, Mercedes (TBS)" <Mercedes.Sawosch@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
> **Cc:** "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
> **Subject: RE: NB**
>
> Cindy is correct. Previously NB reported their shared risk plan as defined contribution plan and this year they have accounted for their shared risk plans as a defined benefit plan. This issue is not similar to what Ontario is facing.
>
> **From:** Veinot, Cindy (TBS)
> **Sent:** September-30-16 1:37 PM
> **To:** Sawosch, Mercedes (TBS); MacIntyre, Kyle (TBS); Petsche, Nadine (TBS)
> **Cc:** Laughton, Patrick (TBS); Fong, Pauline (TBS)
> **Subject:** RE: NB
>
> My understanding is that NB changed their plan into a shared risk plan. Government accounted for it as a defined contribution plan and the auditor said it should be accounted for as a defined benefit plan. Looks like NB now agreed to account for the plan as a defined benefit plan.

Cindy

From: Sawosch, Mercedes (TBS)
Sent: September-30-16 1:36 PM
To: MacIntyre, Kyle (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

Pauline is on it.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 1:35 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

Can folks pls review ASAP?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 1:33:05 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**
>
> Hey Kyle - have you seen this? Wondering if OPCD should look into this? Our MO is looking for background on whether this is the same or similar situation we're in and what this could mean for us. Attached email has the tweet.
>
> -----Original Message-----
> From: Mendes, Elizabeth (MOF)
> Sent: September 30, 2016 1:22 PM
> To: McLean, David (MOF)
> Subject: Fw: NB

Original Message
From: Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>
Sent: Friday, September 30, 2016 1:20 PM
To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
Subject: NB

On Twitter it says that the Auditor of New Brunswick has given their PA a clean audit based on pensions treatment. Eerily like us. Can we look into this asap? Want to know what media is saying. Liz need to know substance.

Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From: Petsche, Nadine (TBS) []
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca) [maraymond@deloitte.ca]
CC: allan.shapira@aonhewitt.com [allan.shapira@aonhewitt.com]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca) [mcolley@deloitte.ca]
Subject: New Model Output
Date: Friday, September 23, 2016 15:09:49

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

From: Tam, Nelson (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: OPSEU Contribution Level
Date: Wednesday, February 15, 2017 13:03:43

Alex, Rob

We are currrently drafting a memo for the Minister in response to the Mr. Thomas' press release regarding the Province trying to take the surplus assets out of the OPSEUPP.

We have a question – currently, is the contributions made by the Province and the employees equal? We understand that the surplus is divided equally and each sponsor can deccide how to "use" the surplus. We were wondering if the province has taken a contribution holiday.

Not sure if you will know or you have someone that may be of assistance in answering this question.

Thanks

Nelson

X20514

From: Pomykacz, Rob (MOF) []
To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: OPSEU amendments due to gains.xlsx
Date: Monday, September 19, 2016 15:32:29
Attachment 1: OPSEU amendments due to gains.xlsx

This is almost what Nadine needs. It's missing the "preliminary" valuation information. She thinks she can add that.

OPSEU Pension Plan: Summary of Going Concern Funding Status & Allocation

$ millions

Year	Actuarial Valuation Filed with FSCO	Unfunded Liability Bal	Funding Surplus / (Deficiency)	ER share of Going Concern Deficiency	Employer Sponsor Rate Stabilization Fund				Comments
					Interest on RSF	Pymt to fund deficit	Factor 80 cost allocated	Balance	
31-Dec-95	**Yes**	-710							710m represents ER Initial Unfunded Liability as at Dec 31, 1995.
31-Dec-96	**No**								No filed valuation.
31-Dec-97	**No**								No filed valuation.
31-Dec-98	**Yes**	-153							ER Initial Unfunded Liability was 820m as of Dec 31, 1998 as a result of Interest and Special payments made during 1996, 1997 and 1998. ER share of gains in 1998 of 667m were applied to this balance. Closing balance after application of 667m = 153m Unfunded Liability.
31-Dec-99	**No**								No filed valuation.
31-Dec-00	**No**								No filed valuation.
31-Dec-01	**Yes**	0	0	0			-30	298	ER Initial Unfunded Liability reduced to 63m by Dec 31, 2001 as a result of Interest and Special payments made during 1999, 2000 and 2001. The remaining 63m was retired with gains in 2001. ER share of gains for 2001 = 394m less 63m, less 3m (PDPP) = 328m applied to ER RSF . 30m spent pursuant to 2002 Collective Bargaining Agreement: the extension of Factor 80 Re-opener, and the Bridge to Factor 80.
31-Dec-02	**No**				16			314	No filed valuation.
31-Dec-03	**Yes**		-255	-127	23			337	Losses were addressed with amortized deficit payments commencing 2004.
31-Dec-04	**Yes**		-428	-214	25	-14	-72	276	14m spent on annual deficit payment; total deficit to be amortized over a period of not more than 15 yrs. 72m spent pursuant to 2005 Collective Bargaining. Agreement: Factor 80 Re-Opener extended to Dec 31, 2008.
31-Dec-05	**No**				20	-24		272	24mspent on annual deficit payment
31-Dec-06	**No**				18	-24		266	24m spent on annual deficit payment
31-Dec-07	**Yes**		0	0	18	-24		495	ER share of gains for 2007 = 235m allocated to the ER RSF. 24m spent on annual deficit payment
31-Dec-08	**Yes**		-606	-303	33		-117	411	117m spent pursuant to 2009 Collective Bargaining Agreement: Factor 80 Re-opener extended to Dec 31, 2012 (estimated cost).
31-Dec-09	**No**				27	-32	19	425	32m spent on annual deficit payment 19m repymt of Factor 80 Re-opener due to actual experience versus estimated cost.
31-Dec-10	**Yes**		-586	-293	28	-32	24	445	32m spent on annual deficit payment 24m repymt of Factor 80 Re-opener due to actual experience versus estimated cost.

$ millions

Year	Actuarial Valuation Filed with FSCO	Unfunded Liability Bal	Funding Surplus / (Deficiency)	ER share of Going Concern Deficiency	Employer Sponsor Rate Stabilization Fund				Comments
					Interest on RSF	Pymt to fund deficit	Factor 80 cost allocated	Balance	
31-Dec-11	**No**				27	-33	20	459	33m spent on annual deficit payment; total deficit amortized over a period of not more than 15 yrs. 20m repymt of Factor 80 Re-opener due to actual experience versus estimated cost.
31-Dec-12	**Yes**		-530	-265	29	-177	18	329	177m = 33m annual deficit payment + 144m Sponsors agreement for RSF draw down; lump sum pymt to reduce the plan funding status from -818m to -530m. 18m repymt of Factor 80 Re-opener due to actual experience versus estimated cost.
31-Dec-13	**Yes**		0	0	19	-239	-11	98	ER share of the preliminary deficit for 2013 was -206m. (239m) = 33m spent on annual deficit payment + 206m to retire ER share of funding deficit. 11m Surplus Factor 80 final adjustment due to actual experience versus estimated cost.
31-Dec-14	**Yes**		0	0	6			104	No gains or loss reported on filed valuation.
31-Dec-15	Planned - confirmation pending		0	0	2			110	ER share of gains for 2015 = 4m allocated to the ER RSF.
					291	-599	-149		

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; 'Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)' [mcolley@deloitte.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: OTPP
Date: Thursday, September 15, 2016 16:13:53
Attachment 1: Key Funding Decisions.pdf
Attachment 2: AnnRepCommentary2000 (1).pdf
Attachment 3: Financials2000.pdf

Hi Matt

As discussed, attached are excerpts from a few documents that might help with your analysis.

From the 2000 Financials – p. 17-18

Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;

(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost

of $8.45 billion; and

(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008.

From this summary of Key funding Decisions

A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%;

$4.6 billion to reduce the value of special payments owed by the Ontario government.

OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

From the Annual Report 2000 (pg. 6)

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability.

This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion. The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to improve benefits.

Key Funding Decisions Since 1990

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the provincial pension regulator at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Ontario Teachers' pension plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

YEAR	VALUATION STATUS AND KEY DECISIONS
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.

YEAR	VALUATION STATUS AND KEY DECISIONS
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.

YEAR	VALUATION STATUS AND KEY DECISIONS
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	Some of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Teachers' Pension Plan Board

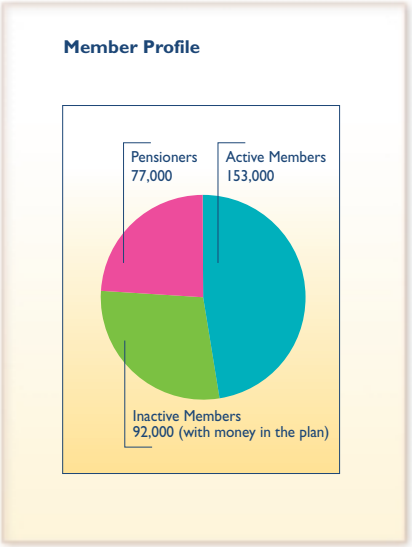
Conseil du régime de retraite des enseignantes et des enseignants

Ontario

2000 ANNUAL REPORT

CORPORATE VISION

OUTSTANDING SERVICE TODAY, RETIREMENT SECURITY TOMORROW



CORPORATE PROFILE

The Ontario Teachers' Pension Plan Board is responsible for the future retirement income of 153,000 elementary and secondary school teachers, 77,000 retired teachers and their survivors, and 92,000 former teachers with entitlements in the plan. The plan is sponsored by a partnership between the Ontario government and the plan members, represented by the Ontario Teachers' Federation. The co-sponsors negotiate the use of surplus and have an equal say in the plan's design, including changes in benefits.

The pension board's current asset-mix policy is 60 percent equities, such as shares in public and private companies and equity-return derivative contracts; 22 percent inflation-sensitive assets such as real estate, real-rate bonds and commodities; and 18 percent fixed-income securities, largely federal and provincial government bonds.

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CORPORATE DIRECTORY

FINANCIAL HIGHLIGHTS

AS AT DECEMBER 31

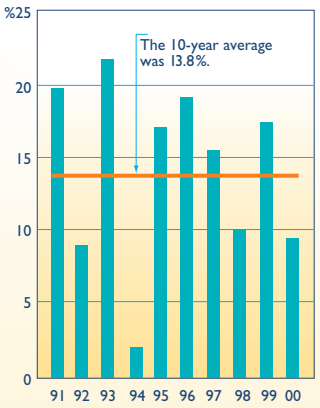
INVESTMENT PERFORMANCE

Rate of return on investments (%)	2000	1999
Annual	**9.3%**	17.4%
Composite benchmark	**5.3**	17.6
Four-year average	**13.0**	15.4
Four-year benchmark	**12.5**	15.8

Average annual compound rates of return (%)

	1 yr	4 yr	5 yr	10 yr	SINCE INCEPTION
Our return	9.3	13.0	14.2	13.8	13.1
Benchmark	5.3	12.5	13.6	12.7	10.7

Rates of Return



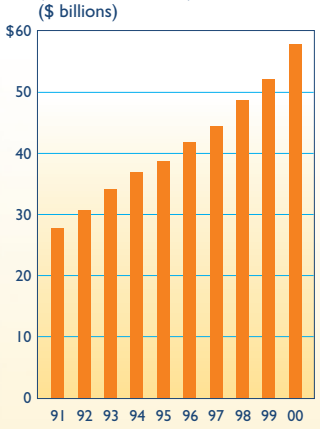
FINANCIAL OVERVIEW

($ Billions)	2000	1999[2]
Net investments	**$ 72.0**	$ 67.1
Net receivables	**1.1**	1.2
Net assets	**73.1**	68.3
Smoothing reserve[1]	**4.3**	8.3
Actuarially adjusted net assets	**68.8**	60.0
Cost of future pensions	**58.6**	52.1
Surplus	**$ 10.2**	$ 7.9

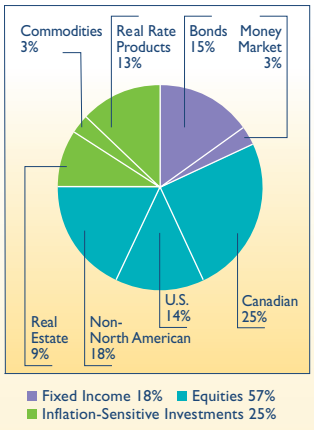
[1] We smooth equity gains (or losses) over five years to reduce the impact of market volatility on plan surplus. The smoothing reserve consists of investment gains in excess of the rate of return assumptions used in the financial statement valuation.

[2] Restated

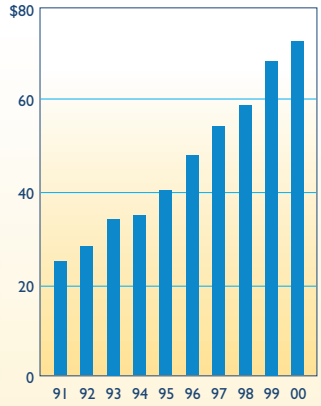
Cost of Future Pensions
(as at December 31)
($ billions)



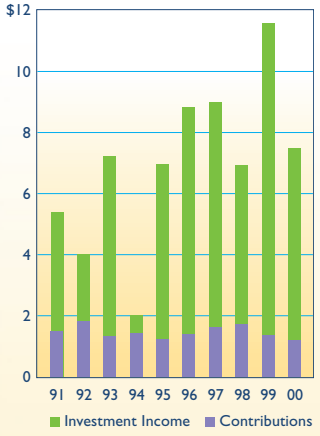
Asset Mix
(as at December 31, 2000)



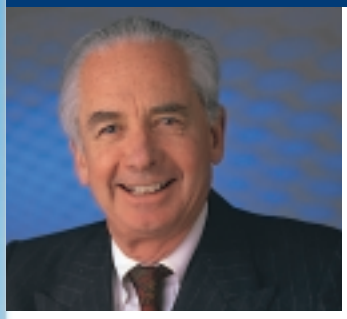
Net Assets
(as at December 31)
($ billions)



Income
($ billions)



CHAIR'S REPORT



ROBERT W. KORTHALS
CHAIR

Financial markets were highly volatile in 2000, a trend we expect to continue. Despite the less reliable investment climate, the pension board's investment staff have done a great job of creating value by exceeding market returns.

Since 1990, strong stock markets around the world have helped the fund grow faster than the increase in the cost of future pension benefits. However, what has really made the difference are deliberate decisions that allowed us to do better than the market.

Over the past decade we have gained exposure to foreign markets through equity-based derivatives and partnerships with external managers to earn value-added returns from active equity selection. We have built one of the largest merchant banks in Canada to earn premium returns from private equity markets. We have introduced innovative portfolio management techniques to earn above-market returns from equity and fixed-income index funds. Most recently, we purchased The Cadillac Fairview Corporation, making us one of the largest Canadian owners of North American real estate.

BEST-EVER VALUE ADDED

These and other initiatives paid off handsomely in 2000, with portfolio managers achieving $2.6 billion in value added. This amount is the difference between the total fund return of 9.3 percent and the 5.3 percent return for the composite benchmark. All this confirms the importance of actively managing the asset base and rewarding investment managers and senior executives for their effort.

Looking back at the value added to the fund over the last four years, the investment team averaged 13 percent against a benchmark of 12.5 percent. Since inception, they averaged 13.1 percent, beating the benchmark of 10.7 by 2.4 percent. In dollar terms, that means our investment team has created $6 billion in value added since 1990.

On behalf of the Board of Directors, I want to congratulate our entire investment team for their professionalism, foresight and innovation to meet the growing needs of the pension plan with value added investment income. It has been, and continues to be, a job well done.

AVOIDING UNDUE LOSS

The emphasis on maximizing returns also means trying to avoid unnecessary losses when markets turn for the worse. It is difficult, of course, for a large investment fund to predict short-term trends. Nevertheless, the pension board is attentive to prudent opportunities.

A good example in 2000 concerned technology stocks. Going into the year, we believed that most technology stocks were overvalued. The pension board took proactive action by reducing its technology holdings in Canadian and American stocks. As a result, we avoided substantial losses that would otherwise have occurred.

Managing Our Technology Exposure

(percent)	Q1	Q2	Q3	Q4
Technology Stocks % of TSE 300 Index	31.1	41.5	38.4	26.0
% Underweight in our portfolios	3.4	4.8	5.8	3.6

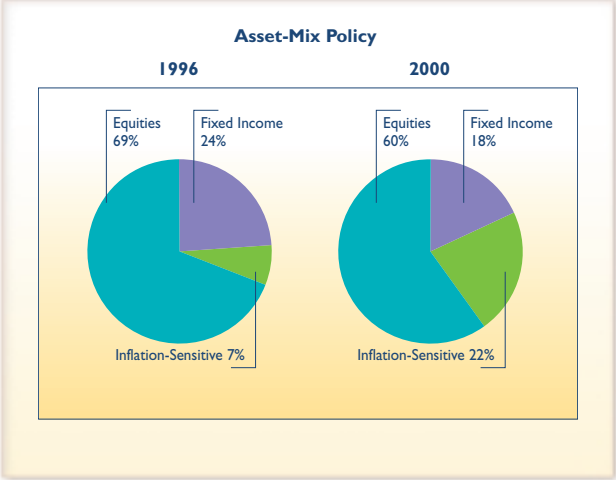
We reduced our exposure to technology stocks as a percentage of the TSE 300 Index throughout 2000.

PROTECTING THE FUND

Finding ways to add value by maximizing returns without incurring undue loss is a priority in view of the increasing number of pensioners. Since the mid-1990s, we have modified our investment approach to meet the changing needs of the pension plan.

Our asset mix continues to shift from equities and bonds to inflation-sensitive assets, especially commercial real estate properties, real-rate bonds and

commodities. These investment classes have been chosen specifically for their ability to rise in value with inflation, mitigating the long-term cost impact of inflation on growing liabilities, and safeguarding the fund if current expectations of lower returns from investment in stocks over the next decade are realized.



The asset-mix policy has changed over the past five years as we strive to better match assets that react to inflation with the indexed nature of pension benefits.

ACKNOWLEDGEMENTS

We are pleased with the investment performance of the pension fund in 2000 and prior years, and remain confident that our investment strategy, implemented by innovative portfolio managers, will continue to add value to the fund. We are impressed with the progress made to provide members of the plan with faster, more personalized service.

We are also pleased that both partners recognize the need for a strong and independent Board of Directors to oversee the pension board. We thank them for appointing directors with the skills and knowledge relevant to governing both a large investment and customer service organization.

ROBERT W. KORTHALS

CHAIR

BOARD OF DIRECTORS

ROBERT W. KORTHALS
Former President of the Toronto-Dominion Bank
Chair of the Board and Chair of Human Resources and Compensation Committee

JALYNN H. BENNETT
President of Jalynn H. Bennett & Associates Ltd., a consulting firm specializing in strategic planning and organizational development
Chair of the Investment Committee and member of the Governance Committee

GEOFFREY W. CLARKSON
Fellow of the Institute of Chartered Accountants of Ontario and former senior partner with Ernst & Young
Chair of the Benefits Adjudication Committee and member of the Audit and Actuarial Committee

ANN FINLAYSON
Journalist, speaker, freelance editor and consultant, author of three books, including *Whose Money is it Anyway? The Showdown on Pensions* (1988)
Member of the Audit and Actuarial Committee

LUCY G. GREENE
Former Vice-President of Human Resources with Sun Life Assurance Company of Canada
Chair of the Governance Committee and Vice-Chair of the Benefits Adjudication Committee

JOHN S. LANE
Former Senior Vice-President of Investments for Sun Life Assurance Company of Canada, and a Chartered Financial Analyst
Member of the Audit and Actuarial Committee

RALPH E. LEAN, Q.C.
Senior partner with the law firm Cassels Brock & Blackwell in Toronto
Member of the Governance Committee

DAVID J. LENNOX
Former Secretary of the Ontario Public School Teachers' Federation, former school principal
Chair of the Audit and Actuarial Committee

GARY PORTER
Chartered accountant and founding partner of the accounting firm Porter Hétu International, and a past president of the Certified General Accountants Association of Ontario
Member of the Audit and Actuarial and Governance Committees

All board members serve on the Investment and the Human Resources and Compensation Committees.

CLAUDE LAMOUREUX
PRESIDENT AND CHIEF EXECUTIVE OFFICER

The pension plan enjoyed another strong year in 2000, despite the negative performance of foreign equity markets, where we had about one-third of our assets invested. The total fund return of 9.3 percent produced $6.2 billion in investment income, increasing the value of net assets to $73.1 billion at year end. These results compared with a 17.4 percent total fund return and $10.1 billion in investment income in 1999.

IMPORTANCE OF THE FUNDING SURPLUS

As most readers of annual reports know, the most important number is often hidden in a footnote in the back of the report. This report is no exception – if you look at page 41, you'll find the surplus based on the funding valuation. I want to explain its significance and the resulting funding surplus. It is this figure – the funding surplus – that is particularly important to active and retired teachers because it is the amount available to the co-sponsors for plan changes.

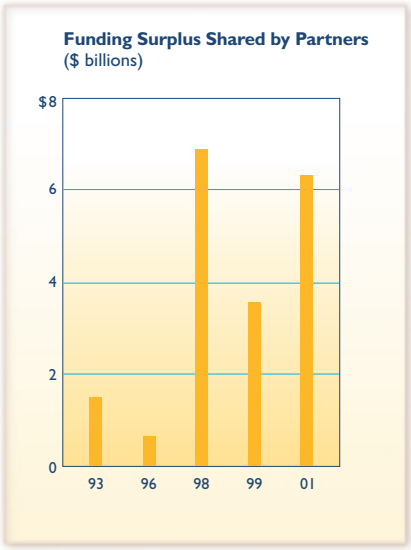
However, in our annual report, we focus on the "financial surplus" for financial statement purposes (sometimes called "management's best-estimate"). Both the annual and funding valuations look to the future, estimating the length of a teaching career, inflation and salary increases, and how long teachers will live. However, the annual valuation only looks at the financial situation at year-end and does not include the benefits that members will accrue in the future. For example, if a teacher taught for 10 years, the financial statement surplus takes into account that the plan has enough money to pay the pension equivalent for 10 years' credit.

The funding valuation, used to determine the funding surplus available to spend on benefit improvements, is a different calculation. In addition to the factors already mentioned, the funding valuation takes into account the pension that will be earned in the future, not just what has been earned up to the end of last year. In comparison, if a teacher taught for 10 years, the funding valuation includes 10 years of credit plus estimates how much money will be needed to pay the pension if he or she teaches to the 85 factor in 20 more years. It also includes how much more the teacher and the government will contribute over that time, and how much investments will grow.

USE OF SURPLUS

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability. This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion.

The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to improve benefits.



The partners will have used $18.7 billion in surplus by April 2001 to pay off the pre-1990 unfunded liability and make benefit improvements, including early retirement incentives.

A funding valuation by an independent actuary is required at least every three years. It determines whether the plan has sufficient funds to meet all future pension obligations resulting in a funding surplus or deficit, and is used as a guide to set contribution rates.

The funding valuation is a comprehensive calculation about the pension plan's financial future. It estimates the length of a teaching career, inflation and salary increases, teacher and government contributions over the length of a career, how long teachers will live, and how much investments will grow in the future.

The accompanying chart demonstrates how the funding valuation surplus is calculated.

Funding Valuation Results (before surplus allocation)

($ Billions) (at January 1)	**2001**	2000	1999	1998	1996	1993	1990
Net assets	**73.1**	68.3	59.1	54.5	40.1	29.4	21.0
Smoothing reserve	**4.3**	7.3	5.1	6.0	1.8	—	—
Value of assets	**68.8**	61.0	54.0	48.5	38.3	29.4	21.0
Future contributions	**14.4**	13.4	12.0	12.6	14.5	14.3	12.2
Future special payments*	**—**	—	3.7	8.5	8.4	8.4	—
Actuarial assets	**83.2**	74.4	69.7	69.6	61.2	52.1	33.2
Future benefits	**76.4**	69.8	66.2	62.8	60.5	50.6	41.0
Surplus (deficit)	**6.8**	4.6	3.5	6.8	0.7	1.5	(7.8)

* Payments by the government toward the pre-1990 unfunded liability.

Most of the surplus will be used in April 2001 to improve benefits, including a permanent 85 factor.

Value of assets is the value of net assets minus the smoothing reserve.

Actuarial assets refers to the value of assets as determined by the market plus the present value of future contributions by existing plan members.

Future benefits is an actuarial estimate of what it will cost to pay promised pensions over the lifetime of all current members. The cost fluctuates with market conditions and is not smoothed.

Surplus refers to the "funding surplus" (or deficit) above the cost of all future pension benefits for current members.

ASSUMPTIONS

Underlying the valuation are economic and demographic assumptions. The three most important assumptions are identified in the accompanying table.

Funding Valuation Assumptions

(percent) (at January 1)	**2001**	2000	1999	1998	1996	1993	1990
Discount rate	**6.25**	6.5	7.5	7.5	8.0	8.0	8.5
Salary escalation	**3.20**	3.25	4.5[2]	4.5[1]	5.0	5.0[1]	5.75
Inflation rates	**2.20**	2.25	3.5[3]	3.5[1]	4.0	4.0[1]	4.5

[1] except 2% for 2 years.
[2] except 2% for 2 years, 3.25% for 1 year
[3] except 2% for 2 years, 2.75% for 1 year

Salary changes affect the cost of future benefits because pension calculations are based on each member's best five years' salary. Pensions are fully indexed to inflation, which also increases pension costs.

Starting in 2000, we use the same assumptions for the annual valuation included in the financial statements.

Discount rate refers to the long-term market rate of return used to determine the present value of all future pension benefits and assets. It is assumed, as shown in the chart, that the discount rate will exceed inflation by approximately four percent.

Salary escalation and inflation rates It is assumed that, over the long term, increases in teachers' salaries will exceed inflation by one percent.

Even a seemingly small economic or demographic change can have a major impact on the plan's funding position. For example, a male teacher retiring at 57 years of age in 1995 had a life expectancy of 24.0 years, compared with 25.1 years for a similarly aged male teacher retiring in 2000. Changing the assumptions to reflect this improvement in the mortality experience of male retirees increases the plan's liability costs by $800 million.

PARTNERSHIP

As sole plan sponsor from 1917 until 1992, the Ontario government was responsible for all funding deficits and entitled to all funding surplus.

In 1992, the Ontario Teachers' Federation negotiated a partnership with the government. Teachers are now responsible for half of any surplus or deficit. As stated earlier, the partners negotiate the use of surplus and also have an equal say in the plan's design, including changes in benefits. The past use of actuarial surplus is discussed in note 9 to the financial statements.

NEED FOR A SURPLUS POLICY

Since 1990, whenever a funding surplus has existed, it has been used to eliminate special contributions or increase benefits.

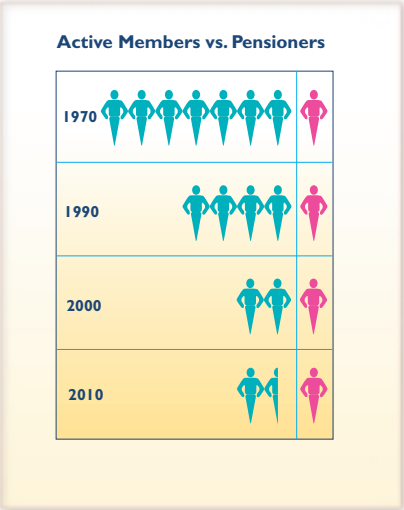
The partners know this level of yearly surplus creation is not sustainable. We are very concerned that current contribution rates will not be sufficient to cover the cost of future benefits, particularly if our current market forecasts for the next 10 years prove correct.

We encourage the partners to create a surplus policy, and we will commit resources to assist them. This policy would include the level above which the funding surplus would be used, and would be similar to the legislated capital reserve policies for banks and insurance companies. This would help to ensure some stability for contribution rates.

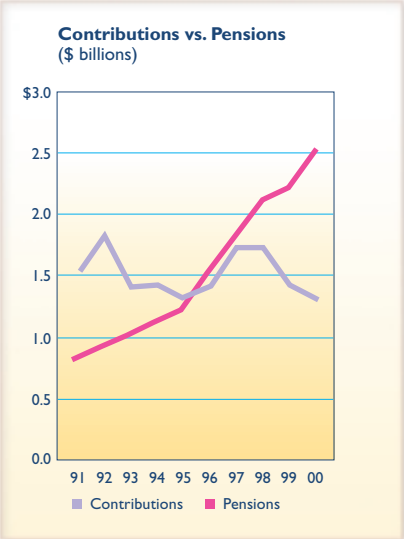
We believe it is essential to begin working today on a policy for the future because, if the plan is underfunded at a statutory valuation in the future, it will be the responsibility of the partners to make up the shortfall.

Small surplus The present value of all pensions is rising rapidly as the plan matures, totalling $76.4 billion at January 1, 2001. Sufficient assets were in place to meet these obligations with actuarially valued assets of $68.8 billion and future contributions valued at $14.4 billion, leaving a surplus of $6.8 billion. After these funds are assigned to plan improvements in April 2001, the plan will have only a small surplus of $600 million, less than one percent of liabilities.

Changing profile The profile of the plan has changed leaving fewer contributors while the number of teachers on pension continues to grow. Therefore, even an increase in contribution rates will have a reduced ability to compensate for a deficit. Ten years ago, future contributions were sufficient to cover about one-third of future benefits. Today, those contributions would only cover 19 percent.

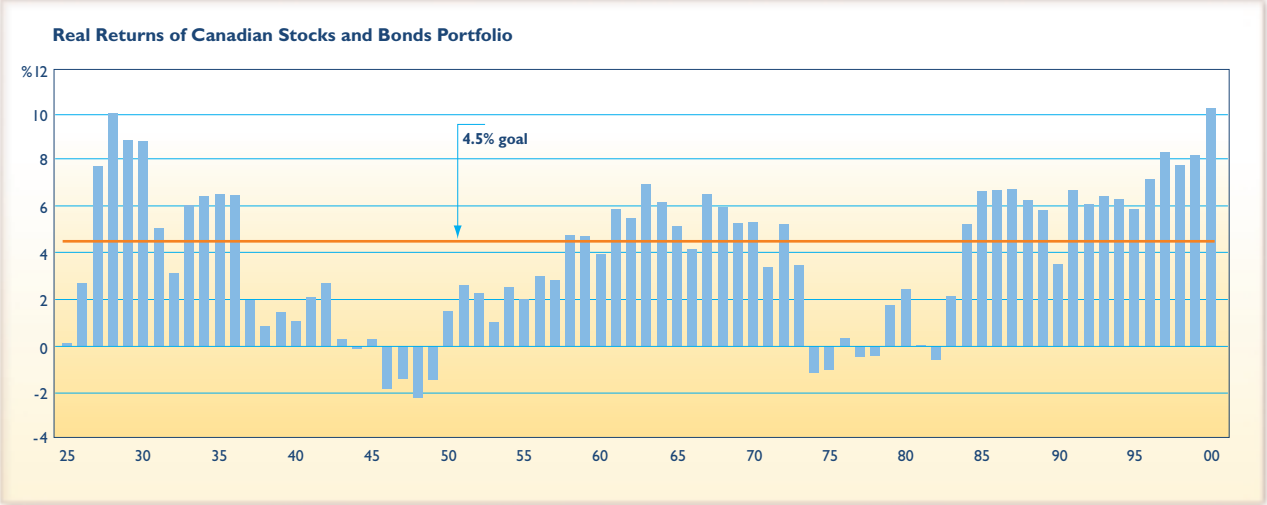


With only two active members for every pensioner today, there are half as many contributors per retiree as there were 10 years ago.



The gap between contributions and pension payments continues to widen. In 2000, 153,000 teachers and the government contributed $1.3 billion and we paid out $2.5 billion in benefits.

Increased risk In future, we expect modest real rates of return from stock and bond markets compared with the past 10 years. If history repeats itself, low or negative real-rate returns are possible over multiple years, as the accompanying chart illustrates. We are more concerned now about the impact of short-term market volatility on our ability to keep contributions stable than we were 10 years ago.



This chart tracks the rolling 10-year average real rate performance of an index-based portfolio consisting of two-thirds Canadian stocks and one-third Canadian bonds. The portfolio would reach our long-term investment target of 4.5% less than half the time.

WORKING WITH THE PARTNERS

Based on current valuation assumptions and the benefit improvements on April 1, the plan could require at least a 1.5 percent increase (matched by the government) in the contribution rates from the current average of 8 percent of salary. In the absence of such an increase in contribution rates, the plan must rely on investment returns above the actuarial assumption to make up the difference.

Our job as investment managers is to ensure that teachers receive the pensions they are promised. In the interest of prudent management, we will support the partners in developing a policy on surplus because we believe a large increase in the contribution rate would be unacceptable to plan members. Having a surplus policy in place would also help us plan our investment strategy, allowing us to build the most appropriate asset mix and investment programs around the policy.

In the meantime, we assure plan members that the pension board is committed to maximizing investment returns so that asset values have a better chance of keeping pace with the rising value of promised pensions.

STRIVING FOR EFFICIENCY

In seeking above-average investments, as well as providing timely and personalized member services, we strive to be an efficient organization. Last year, it cost $133 million to operate the pension board. Ongoing administrative costs were $106 per member. Investment expenses at 14 cents per $100 of net assets were low compared with many other institutional investors. These costs are tabulated in note 12 to the financial statements.

ACKNOWLEDGEMENTS

Our bi-annual employee survey showed that the pension board continues to be an attractive place to work. The positive attitudes and professionalism of staff are behind our standing as one of the consistent top investment performers in the pension fund industry as well as our highest-ever customer satisfaction rating from teachers and retirees. We remain committed to doing an even better job in the future.

CLAUDE LAMOUREUX

PRESIDENT AND CHIEF EXECUTIVE OFFICER

The challenge of faster, better and friendlier service

We are a customer-focused organization with a broad mandate that covers dozens of benefit entitlements and we serve more than 300,000 clients. Our services extend far beyond calculating and paying pensions; we respond to the ever-changing needs of our plan members and pensioners.

Member Services Volumes

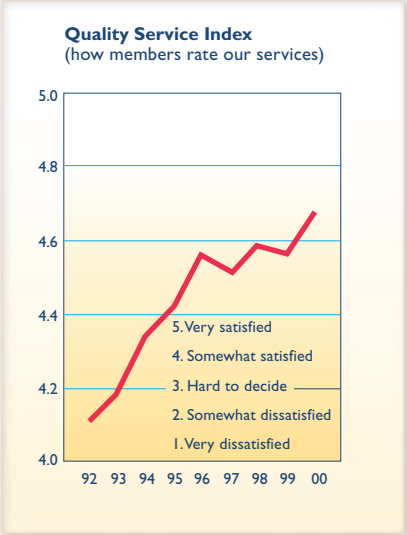
	2000	1999
Telephone calls	**94,296**	78,654
Purchase of credit	**12,541**	18,021
Pension inceptions	**7,034**	6,397
Pension estimates	**5,880**	6,331
Changes to survivor benefits	**3,358**	3,455
Termination estimates	**2,512**	2,736
Death benefits	**2,656**	2,713
Plan transfers	**2,019**	2,208
Marriage breakdown calculations	**806**	836
Commuted value payouts	**761**	612

Last year, we advised more than 2,800 teachers on their options at retirement planning workshops throughout Ontario, sent out 153,000 personalized annual benefit statements to active members, and collected $615 million in pension contributions from teachers through their employers. We paid out benefits of $2.5 billion to approximately 77,000 pensioners and members who left the plan.

HIGHEST-EVER CUSTOMER SATISFACTION

Our commitment to providing outstanding immediate and personalized service to all plan members and pensioners earned us the highest-ever customer satisfaction rating in 2000. The strongest improvements were in satisfaction with our services in providing pension inceptions, estimates, transfers, terminations and purchases of credit.

In 2001, we will replace the satisfaction survey, based on written member responses collated by staff, with an extensive random telephone survey conducted by an independent market research firm. The new approach

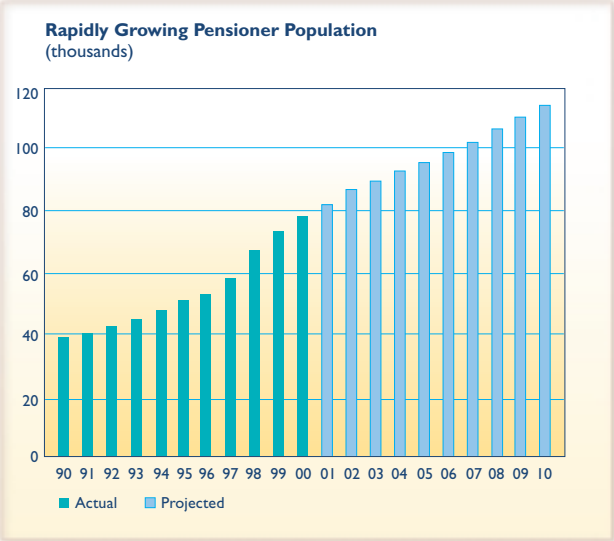


will measure a broader range of customer interactions, with the emphasis on services and service levels. This should provide a more informative evaluation of our personalized relationship with members.

EXPANDING PENSIONER POPULATION

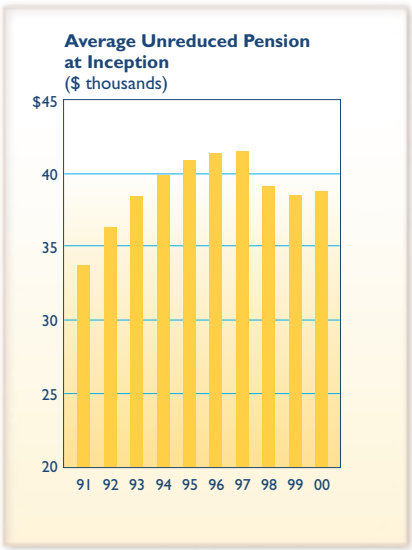
In the past three years, 21,800 teachers retired with two out of three taking advantage of the 85 factor. This increased the pensioner population to 77,000 at the end of 2000.

A large proportion of teachers is in the 45 to 55 age range and will retire in the current decade. As they consider their retirement options, these teachers will require frequent interaction with the pension board by telephone, e-mail, the Internet and one-on-one meetings.



The pension board is positioned to handle the influx of personal service needs from an expected 50,000 retirements over the current decade.

To provide better and faster customer service, we believe we have put in place some of the best technology and information management systems of any pension plan in North America. Personal service is delivered by 60 pension benefit specialists, who deal with situations ranging from members coping with the death of a spouse to requests for information on commuted value pay-outs. Staff are continuously retrained on best business practices, and we closely track our performance based on member feedback.

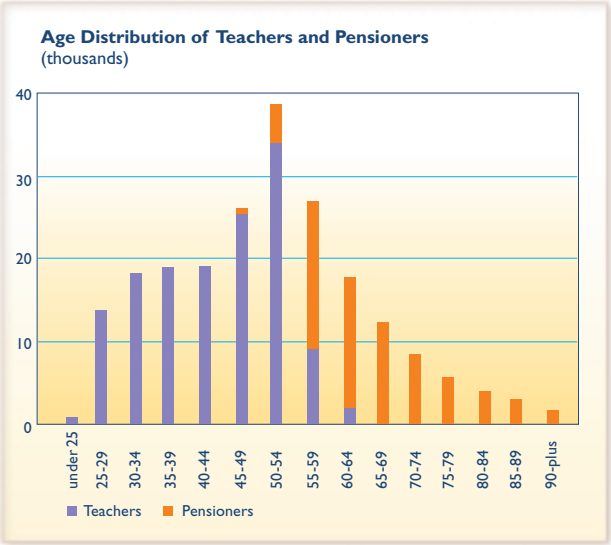


The average unreduced pension has declined from $42,000 in 1997 to $38,400 in 2000 due to early retirements under the 85 factor.

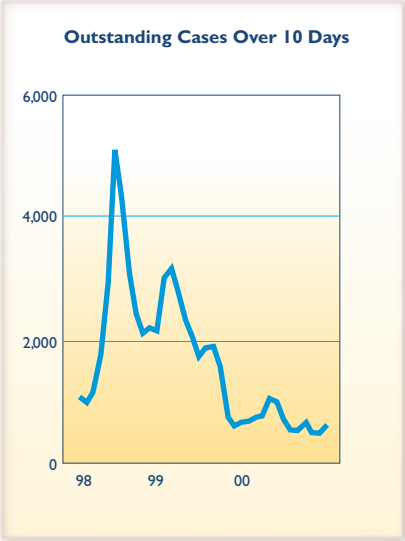
IMPROVED SERVICES

An example of how we use technology to improve service is our Computer Telephone Integration system that automatically recognizes a member's telephone number. By the time the member talks to a pension benefit specialist seconds later, the member's file is open on the specialist's computer.

The friendliness of our specialists is one reason why our customer satisfaction level is so high. Another reason for higher satisfaction is our new easier-to-read member's annual personal statement of benefits, including greater disclosure such as commuted value (the lump sum required to replace the individual's future entitlements).

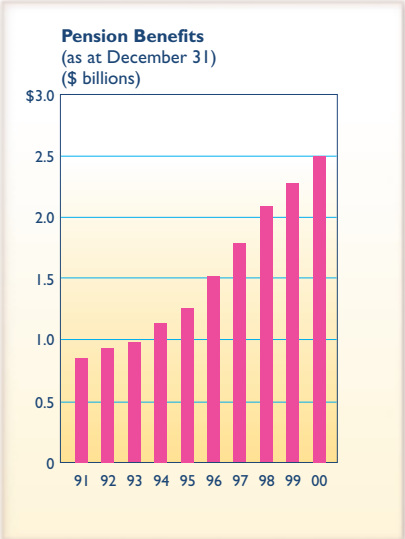


Over the past 10 years, retirees in their 50s have increased as a percentage of the pensioner population. The average pensioner age has decreased to 66.5 years.



Introduction of the 85 factor in 1998 caused a backlog in our workload. Our goal is to handle all member requests, no matter how complex, within 10 working days.

The commitment to outstanding service is evident in the time it takes to handle and complete requests from members. Outstanding requests more than 10 days old peaked at 5,000 in June 1998, following introduction of the 85 factor, and have remained well below 1,000 for most of the past year.

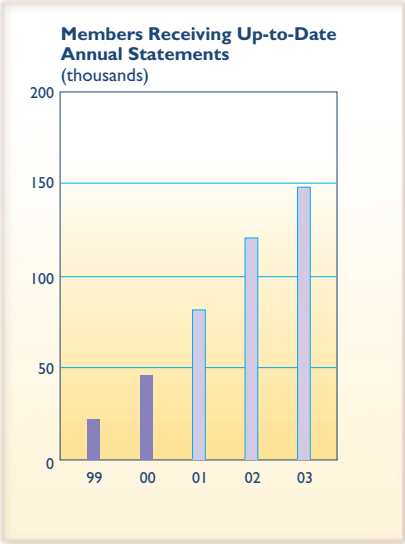


Benefits paid to retirees and their survivors continue to rise rapidly as a large number of teachers enter normal retirement or opt for early retirement.

We are also working with 218 employers to improve the quality and timeliness of member information we receive, including service credit and salary information on each active teacher.

By the end of 2000, 17 percent of employers, with more than 75,000 members, had been transferred from annual to payroll-based reporting. This also means that 75,000 members will now get annual statements that are one to two years more up to date than before.

With the continued cooperation of school boards, we expect to complete the transfer of all plan members to payroll-based reporting – and thus to up-to-date annual statements – by the end of 2003.

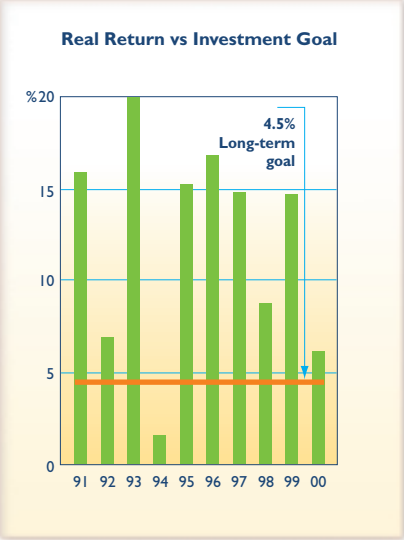


Typically, statements are only current as of August of the previous year, a situation we expect to correct for all members by the end of 2003.

The challenge of earning above-market returns

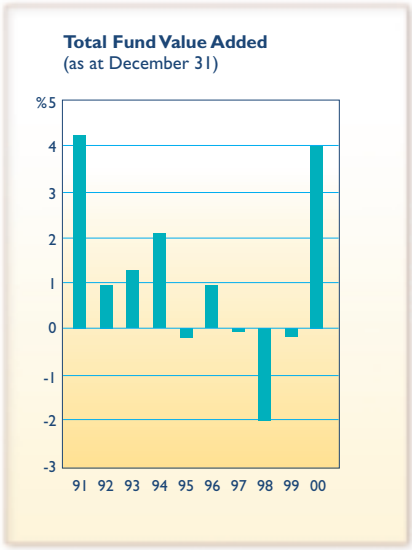
Our long-term goal is to create a surplus by growing assets faster than pension liabilities. To match average liability growth, assets must generate an annual real return of 4.5 percent (that is, 4.5 percent above the rate of inflation).

Over the long term, we believe that investing mostly in stocks will earn the level of real returns the plan needs. Consequently, our asset-mix policy has always been weighted much more to equities, a strategy that has paid off since 1990 with real returns substantially above the long-term goal. However, equity returns over the current decade could be below our target of 4.5 percent.



Because of exceptional investment markets, we exceeded the long-term investment objective in the 1990s, an achievement that will be more difficult over the next decade.

Because it will be more difficult to earn the required level of returns from passive investing alone – that is, by replicating market indices for stocks, bonds and commodities – we have reduced our index funds by shifting capital to active portfolios where we can add value. Over the past 10 years, active management and tactical asset allocation improved the returns we would otherwise have received from passive index investing by 1.1 percent.



Active management produces higher returns than the markets in which we invest can produce on their own. In 2000, this approach created $2.6 billion in value added.

INVESTMENT MANAGEMENT TEAM

We employ about 95 investment professionals, from portfolio managers, bond traders and stock analysts to foreign exchange managers, merchant bankers, and derivative traders. In addition, we employ a large staff at our wholly owned real estate subsidiary, The Cadillac Fairview Corporation Limited.

About 60 finance professionals support our investment effort. They ensure compliance with rigorous operational controls, policy guidelines and risk management limits. Every day, they settle transactions, forecast liquidity requirements, and report on investment positions, portfolio risk and returns.

Approximately 35 information technology professionals maintain and enhance our trading, risk management and reporting systems. They are developing a system that instantly routes orders from portfolio managers to various trading desks and allows for electronic execution and settlement of trades.

MAXIMIZING INVESTMENT RETURNS

To maximize returns, we actively manage 36 percent of invested assets. Even the indexed equity and fixed-income portfolios are partially actively managed through quantitative, arbitrage and other performance-enhancing strategies. We also use derivative products to manage risk and maximize returns. As a result, we are one of the largest international traders of equity-based swaps, futures and options. Many of our active strategies are independent of market direction.

We allocate a risk capital budget to each investment portfolio with the expectation of earning a minimum 10 percent return on this risk capital. The budget allocation varies among portfolios and is proportionately smaller, for example, for fixed-income securities than for merchant banking. In aggregate, the risk capital budgets are approximately 5 percent of invested assets.

We also macro-manage the total fund through "overlay" programs. For example, the asset-mix policy allows equity exposure to vary between 50 and 70 percent of net assets relative to a target of 60 percent. In 2000, we under-weighted equities and reallocated capital to fixed-income securities and real-rate bonds.

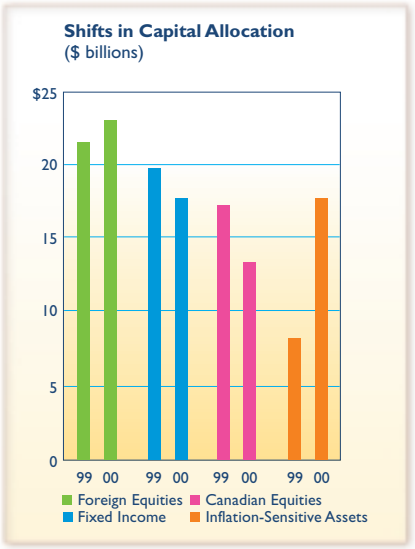
When we invest abroad, we earn a return on the investment and incur a gain or loss as a result of currency fluctuations. To reduce the volatility of returns from foreign currency fluctuations, we hedge 50 percent of investments in major foreign currencies that have a low correlation to the Canadian dollar.

Portfolio managers are rewarded for optimizing total assets and not just their own portfolios. An investment planning committee meets every two weeks to review the asset-mix policy and develop a tactical asset allocation response to current market conditions.

INDEX BANKING

We believe in being fully invested, and consider cash a drag on investment returns. Excess cash is normally invested in equity and fixed-income index funds until we identify opportunities that can earn above-market returns.

For example, to improve returns above the Canadian market benchmark, we have developed quantitative portfolios that invest in TSE 300 stocks based on models that attempt to identify strategies and stocks that should outperform the index. These portfolios have exceeded the TSE 300 returns for eight consecutive years. We account for about 4 percent of the value of trading volume in TSE 300 companies and have minimized transaction costs by trading large blocks of individual stocks or baskets of different stocks in a single transaction. Greater use of electronic trading is further reducing costs.



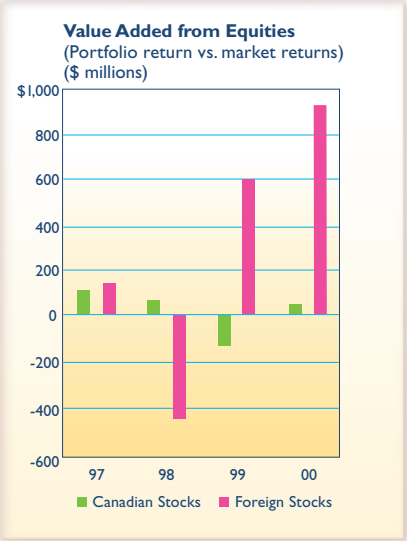
We reduced most asset classes as we transferred capital to inflation-sensitive assets such as real estate, real-rate bonds and commodities.

In the case of foreign equity index funds, our staff invest entirely in equity-based derivatives to earn market returns. Since the correlation of these investments to market performance is extremely high, these portfolios achieve market returns on a consistent basis.

ACTIVELY MANAGED EQUITY PORTFOLIOS

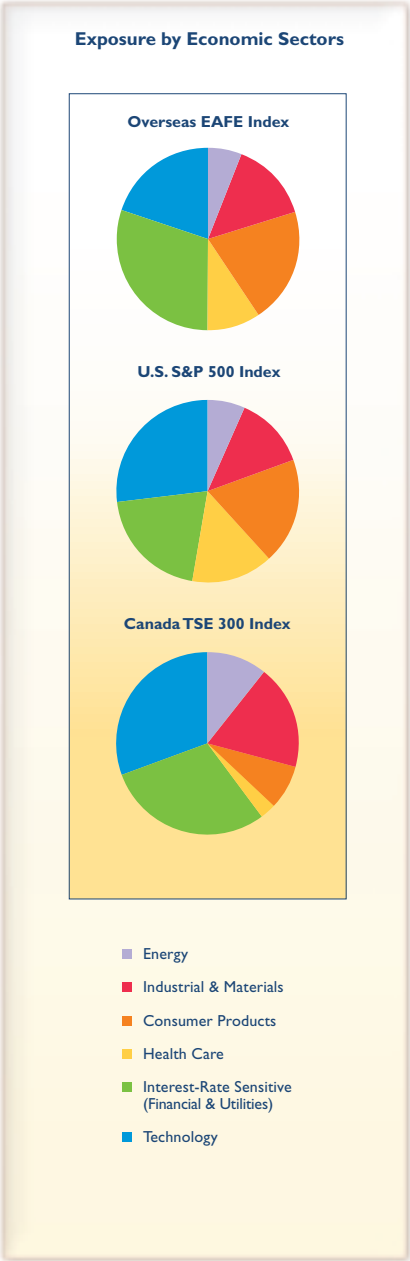
Stocks We have considerable experience as an active equity investor in Canada. In 2000, we began to expand this expertise to the global marketplace by transferring capital from foreign equity index funds to internally managed global equity programs. At the end of 2000, our staff managed more than $640 million of a total $8.3 billion in global equities.

At the same time, we remain committed to external foreign equity managers who have earned exceptional returns for the plan for many years. Building our skills in active global investing will strengthen our relationships with these managers and improve our understanding of their investment decisions.



In Canada, we have added value above equity benchmarks (indicated as zero). Outside Canada, the value-added has been more volatile and more spectacular.

Opportunities to invest in public companies in Canada are limited. The Canadian market is relatively small compared to the capital held by large institutional investors. For this and other reasons, it is important to look beyond Canada for additional investment opportunities. Focusing on global opportunities should reduce fund risks and enhance returns because global markets provide a greater diversity of economic sectors. A more global focus also allows us to select companies that are world competitors with strong performance prospects.



Greater economic diversification outside Canada offers investment opportunities that should reduce risk and improve long-term returns.

Corporate governance We attempt to improve shareholder value in public companies by voting our shares, encouraging boards of directors to practice good corporate governance, and being more involved in certain companies.

We now publish our proxy voting record on our web site **www.otpp.com**. Sharing our voting inten-

tions with management, shareholders and plan members in advance of shareholder meetings increases the transparency of our decisions and strengthens our corporate relationships with the companies in which we invest.

2000 Proxy-Voting Record

	For	Against
Employee Stock Options	46	89
Shareholder Rights Plans	1	36
Other	246	135

The most contentious issue is excessive stock options that dilute shareholders' value. In our view, the cost of options should be recorded in financial statements so that shareholders know the full financial impact of these awards.

The proxy voting record shown in the table has changed little over the past three years. We intend to be more active in working with other large investors to bring about change.

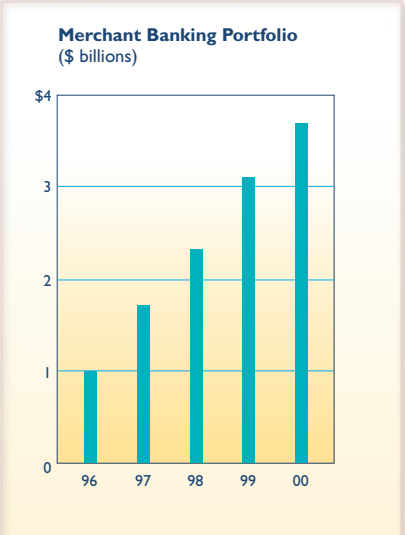
Our involvement with select companies is intended to support their boards of directors in requiring management to develop a value-added strategy with growth targets. In 2000, we made direct investments in four such companies in telecommunications, energy and industrial products. The investments are 10 to 20 percent of each firm's outstanding shares and totalled $810 million. These commitments doubled the value of our relationship investing portfolio to $1.5 billion with direct and indirect investments in eight U.S., seven Canadian and 21 U.K. companies.

Merchant banking We have developed expertise in all facets of merchant banking and ended 2000 with $3.9 billion in over 100 investments in the consumer products, communications, industrial products, entertainment & media, financial services, retail, and energy industries. We invest directly in Canadian firms, which represent 40 percent of the merchant banking portfolio. In the United States and Europe, we invest both directly and indirectly through limited partnerships.

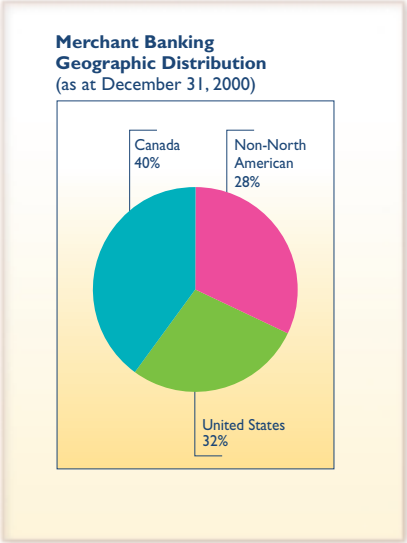
There are many opportunities to earn premium returns in the private market, where we are specialists in identifying value-added prospects. For example, we invested $14.8 million in a Canadian technology company in 1992 as part of a management buyout. In late 1993, the refinanced and refocused company was taken public. We divested our interest in stages and, by the time the last shares were sold in 2000, had realized $131 million in gains. In 2000, we sold positions in eight companies acquired for $201 million to realize net proceeds of $310 million.

Our equity and mezzanine debt investments facilitate management buyouts, business expansions, acquisitions, financial restructurings, ownership changes and taking companies private or public. In 2000, we participated with four U.S. funds in the management buyout of Shoppers Drug Mart and acquired a significant minority interest.

We first offered mezzanine debt in 1999 and had $244 million invested by the end of 2000. This product appeals to many companies as an alternative to equity and senior debt, filling the void in Canada served by the high-yield market in the U.S.



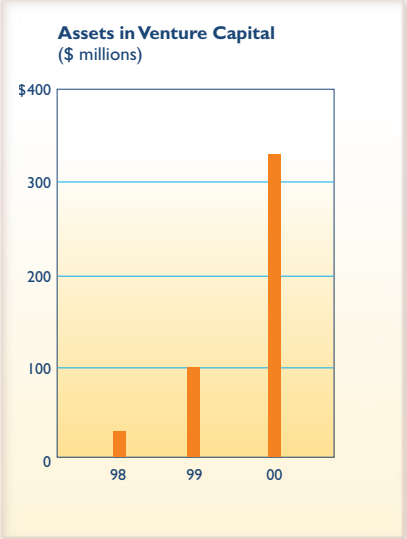
Our merchant bank has grown to be one of the largest in Canada, earning annual returns in excess of 23% since 1991.



We are increasingly adopting a global perspective in our search for premium investment returns from merchant banking.

Our merchant banking portfolio includes a venture capital fund launched three years ago that ranks among the top sources of early-stage capital in Canada. Investing in start-up enterprises carries higher risks in the expectation of higher rewards. Our size, long-term investment perspective and diverse asset base allow us to take risks in the most promising opportunities on the assumption that the successes will exceed the costs of failures.

At the end of 2000, we had $329 million invested in 24 companies and 12 venture capital funds, principally in life sciences and information technology. These investments typically involve multiple rounds of financing of $3 million to $20 million each. Approximately 54 percent of our venture capital investments are in Canada and 46 percent in the United States.

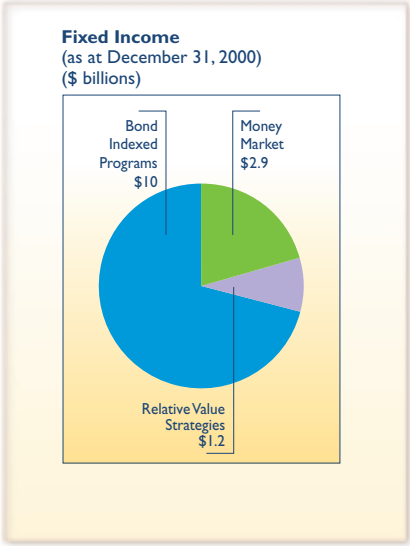


We are committed to Canadian venture capital investments where there are reasonable prospects of earning good returns for the risks involved.

FIXED-INCOME PORTFOLIOS

During the past two years, our consolidated bond portfolios have been among the top quartile of fixed-income performers.

Our basic approach is to invest the majority of fixed-income assets in bond indexed programs to replicate the Scotia Capital Canada Universe, which contains federal government bonds. Our portfolio contains substantial holdings in Government of Canada bonds, more than three percent of the Bank of Canada's domestic public debt. However, we use relative value strategies to attempt to earn returns 20 to 30 basis points above this benchmark.



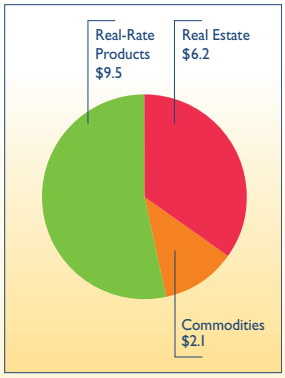
The fixed-income group manages $14.1 billion in assets.

Fixed income includes $2.9 billion allocated to the money-market portfolio and $1.2 billion in programs where we use relative value strategies to enhance returns. We have also expanded the relative value approach to include Canadian high-yield corporate securities that are well diversified by industry and economic segment. At year-end, this portfolio totalled $286 million. We are targeting the high-yield U.S. market for future expansion. We also continue to develop quantitative techniques to improve analytics, capture mispricing, and find other relative value opportunities in both bond and money markets. In this way we benefit from diversification by implementing strategies where expected returns have a low correlation to the fixed-income market overall.

INFLATION-SENSITIVE INVESTMENTS

The assets that best match the plan's liabilities have stable real returns and a high correlation with inflation. Nominal bonds are only a good fit during periods of stable inflation. Stocks have high average returns and a positive long-term correlation with inflation, but are highly volatile in the short run. Real estate, real-rate bonds and commodities are highly sensitive to inflation.

Inflation-Sensitive Investments
(as at December 31, 2000)
($ billions)



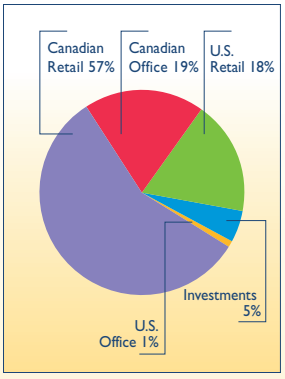
To better match inflation-indexed pensions, we are building up ownership of inflation-sensitive investments.

Since late 1998, we have managed these investments as a separate asset class. While we strive to maximize long-term real returns from these assets, their primary role is to shield the fund's surplus from the short-term risks we experienced in 2000 – a rapid rise in liabilities due to higher inflation from 2.6 to 3.2 percent and falling real interest rates from 4 to 3.4 percent.

Real estate We own a $10.4 billion real estate portfolio ($6.2 billion net of liabilities), managed by Cadillac Fairview, our wholly owned subsidiary. Approximately 95 percent of the portfolio consists of full or partial ownership of 69 shopping centres and 48 office buildings in Canada and the United States.

Our current strategy is to reposition the North American office and retail assets through a combination of redevelopment, acquisitions and dispositions with the goal of owning premier properties in key markets. This strategy is being implemented by Cadillac Fairview. We previously owned 22 percent of this company and acquired full ownership in March 2000 for $2.4 billion. As a result, we own Canada's best property portfolio and the industry's top property management company.

Real Estate Portfolio
(as at December 31, 2000)

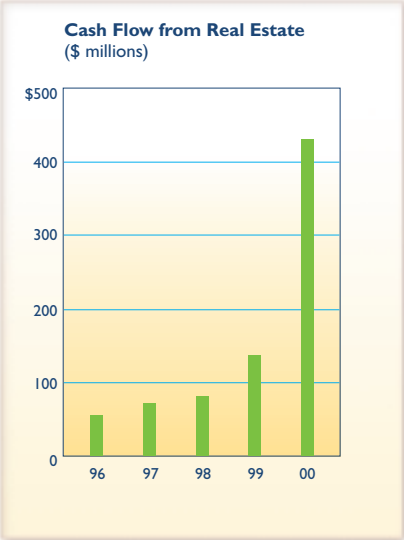


Our plan is to increase ownership of high-quality office buildings and large shopping centres in North America.

The Canadian portfolio includes premier properties, such as the Toronto Eaton Centre, Vancouver's Pacific Centre and the Toronto-Dominion Centre complex in Toronto. We recently purchased full ownership of these properties from the previous co-investor. We also strengthened our retail ownership in the Toronto area by acquiring Sherway Gardens. In the United States we own 23 shopping centres in the major markets of 10 states.

Owning Cadillac Fairview provides exclusive access to the expertise of 1,750 employees dedicated to maximizing the value of the plan's real estate assets. The Cadillac Fairview brand is internationally renowned and the company is the first call for major American and European retailers seeking a presence in the leading shopping centres. A testament to the market-draw of our shopping centres was the decision by Sears in 2000 to open five of its seven new Eatons stores in our properties.

The size and quality of our real estate portfolio provides large and predictable income. In 2000, the portfolio generated approximately $427 million in cash flow from operations.



The cash flow from real estate in 2000 was equivalent to paying close to 13,000 annual pensions.

Real-rate bonds Real-rate bonds are an excellent match against plan liabilities and, along with index-linked mortgages, are risk free with respect to inflation. As a result, we continue to be a keen buyer of these securities. In 2000, we increased our holdings of Canadian real-rate products from $4.2 billion to $5.8 billion and entered the U.S. market by acquiring $3.7 billion of U.S. Treasury Inflation-Protected Securities (TIPS). At year- end, our consolidated portfolio of real-rate securities totalled $9.5 billion.

Commodities Commodities generally have high real returns when there is unanticipated inflation and provide a hedge against short-term inflation risks in the value of the plan's liabilities. We invest through derivatives in the Goldman Sachs Commodity Index, which is heavily weighted to oil and gas, and doubled the plan's holdings to $2.1 billion in 2000.

This section of the annual report provides an overview of our operations and provides a more detailed explanation of the consolidated financial statements. It should be read in conjunction with the financial statements. Our objective is to present readers with a view of the pension board through the eyes of management by interpreting the material trends and uncertainties that affected the operating results, liquidity or financial condition of the pension plan in the last fiscal year. In addition to historical information, this section contains forward-looking statements that reflect management's objectives and expectations as at the date of this report, which involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.

YEAR-END FINANCIAL POSITION

The plan's accrued pension liabilities increased from $52.1 billion to $58.6 billion during 2000. The actuarial assumptions used to determine these liabilities for financial statement purposes reflect management's best estimate of teachers' salaries, inflation, demographic factors, and market-based yields. These estimates at the end of 2000 were in line with the markets.

Valuation Assumptions

(as at December 31) (percent)	2000	1999
Discount rate	**6.25**	6.75
Salary escalation	**3.20**	3.25
Inflation rate	**2.20**	2.25

Both the financial statement and funding valuations now use the same assumptions.

Benefit payments In 2000, the plan paid $2.5 billion in benefits, an increase of $200 million over the previous year. The increase principally reflected 6,200 teachers retiring, bringing to 77,000 the number of retired members and their survivors receiving benefits.

Accrued Pension Benefits

($ Billions)	2000	1999
Accrued pension benefits, beginning of year	**$ 52.11**	$ 49.63
Interest on accrued pension benefits	**3.48**	3.49
Benefits earned	**1.36**	1.30
Benefits paid	**(2.54)**	(2.28)
	54.41	52.14
Changes in actuarial assumptions	**3.89**	0.77
Experience gains	**0.26**	(0.80)
Accrued pension benefits, end of year	**$ 58.56**	$ 52.11

The 2000 payments included $164 million in commuted value transfers (versus $108 million in 1999) and a 1.5 percent cost-of-living adjustment. To calculate the inflation adjustment rate, we average the annual change in inflation for 12 months ending in September each year. The inflation adjustment paid in January 2001 was 2.5 percent.

Change in net assets The plan began 2000 with $68.3 billion in net assets available for benefits. During the year, the plan gained $7.5 billion of income – $6.2 billion from investments, compared with $10.1 billion in 1999, and $1.3 billion from contributions, compared with $1.4 billion a year earlier.

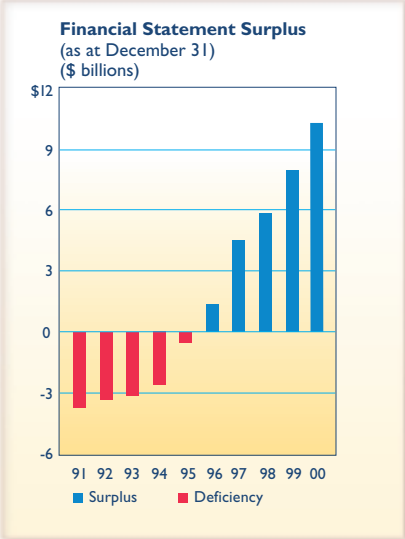
Changes in Net Assets

($ Billions)	2000	1999
Income		
Investment income	**$ 6.21**	$ 10.12
Contributions	**1.28**	1.41
	7.49	11.53
Expenditures		
Benefits	**2.54**	2.28
Operating expenses		
Member services	**0.03**	0.03
Investments	**0.10**	0.09
	2.67	2.40
Increase in net assets	**$ 4.82**	$ 9.13

Expenditures, including benefits paid to members and survivors, totalled $2.5 billion and $133 million to operate the pension board.

As a result of these changes, net assets available for benefits grew by $4.8 billion to $73.1 billion by the end of 2000.

Surplus The plan had a surplus for financial statement purposes of $10.2 billion at December 31, 2000. This compared with $7.9 billion a year earlier on a restated basis.



The year-end surplus, based on the financial statements, quantifies the plan's financial position from an accounting perspective.

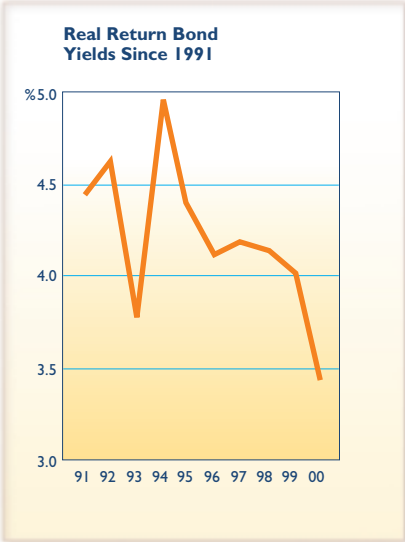
In the past, management used its best estimate of the long-term rate of return to determine the present value of all future pension benefits and assets. Net asset gains that exceed the actuarial assumptions were amortized over five years to smooth out the impact of market volatility from one year to the next.

Beginning in 2000, and as explained in note 2 to the financial statements, a market interest rate is now used to determine fair value for both fixed-income assets and accrued pension benefits. The value of equities (including real estate and commodities) continues to be adjusted for actuarial purposes to reflect the difference between the actual equity asset returns at year-end and management's best estimate of future equity returns. The difference in dollar terms (the actuarial asset value adjustment) is then amortized over five years. Strong performance by fixed-income assets increased our financial statement surplus.

MATCHING ASSETS AND LIABILITIES

To create a funding surplus we manage the relationship between investment assets and pension liabilities. Our goal is an asset mix that balances risks and rewards, avoids excessive volatility, and maintains stable contribution rates.

Because both assets and liabilities are sensitive to interest rate changes, one of our goals is to reduce the risk that liabilities will increase more than assets in response to lower real interest rates. Unfortunately,



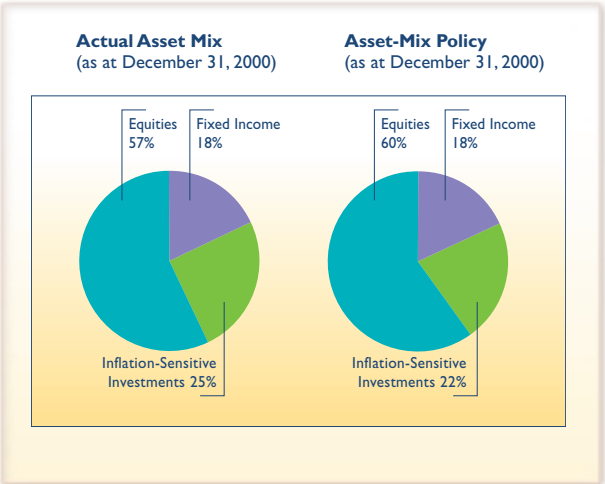
Real return yields declined by 59 basis points in 2000, after remaining within a 10 basis point range for the three previous years.

that is what happened in 2000. The sharp decline in real rates of return increased the value of total liabilities by $3 billion. During the year, we shifted assets from fixed-income and equity portfolios to real-rate products and real estate. Debt securities, along with inflation-sensitive assets, outperformed total equities to produce the healthy accounting surplus.

ASSET-MIX POLICY

The asset-mix policy is reviewed annually by management and the board of directors and changes are made as necessary to reflect changes in our asset/liability model. The asset mix is crucial to long-term performance. Studies show that approximately 90 percent of the variability of returns over time is driven by the asset-mix decision with the remaining 10 percent influenced by active management. In recent years, we have reduced our exposure to both stocks and fixed-income securities and created an asset class of inflation-sensitive assets that correlate well with the inflation-sensitive nature of our liabilities. The change in asset-mix policy also recognized that stock markets, especially in Canada, were overvalued on both a short-term and long-term basis.

Our current asset-mix policy, set in early 2000, is 60 percent equities, 22 percent inflation-sensitive assets (specifically real estate, real-rate products, and commodities), and 18 percent fixed-income securities. This asset-mix policy has a high probability of ensuring assets grow at least as fast as the liabilities over the long term. We estimate that the change in asset-mix policy contributed $600 million of value added during 2000 in addition to the $2.6 billion in benchmark outperformance.



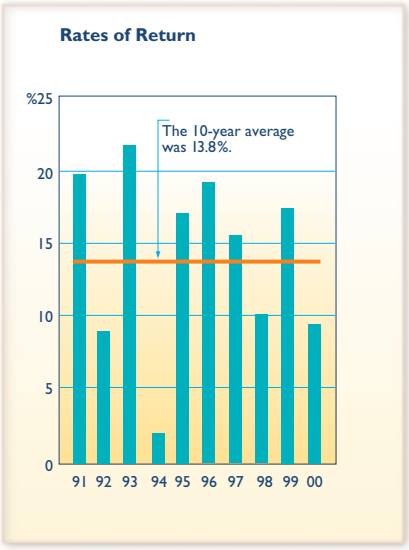
In 2000, we reduced equity investments below policy and ended the year overweight in inflation-sensitive investments compared with the new policy level.

INVESTMENT PERFORMANCE

Net investments increased to $72 billion in 2000, compared with $67.1 billion at the end of 1999.

2000 total fund performance During a year of volatile and generally negative stock markets, we achieved a 9.3 percent total fund rate of return in 2000, compared with 17.4 percent the prior year. After inflation of 3.2 percent, the real return was 6.1 percent, compared with 14.8 percent in 1999. The 2000 return generated $6.2 billion in investment income, compared with $10.1 billion a year earlier. Approximately one-third of equities are exposed to foreign markets, which had negative returns in 2000.

Four-year return We calculate average performance on a four-year cycle to produce a less volatile and more reliable measure than a single year's results. Our four-year average return was 13.0 percent, compared with 12.5 percent for the benchmark. The real rate of return (after inflation of 1.9 percent) was 11.1 percent – well in excess of the investment objective of 4.5 percent on average over the long term.



Over the current decade, returns are expected to revert to historical performance levels, which are closer to the long-term goal.

Rates of Return Compared to Benchmarks

(percent)	Investment returns	Benchmark return	Composite Benchmark
Fixed income and short-term securities	15.6	13.7	Scotia Capital Treasury Bills (91 days) Scotia Capital Canada Universe Scotia Capital Long Bond
Canadian equity	13.5	7.4	TSE 300
U.S. equity	(4.1)	(5.5)	S&P 500
Non-North American equity	(8.5)	(13.5)	Morgan Stanley EAFE, EMF National Index
Inflation-sensitive	19.9	18.0	Scotia Capital Real Return Bond Custom US Treasury Inflation-Protected Securities Goldman Sachs Commodities CPI plus 4%
Total Plan	9.3	5.3	Benchmark weighted by the policy asset mix

Ten-year return The average annual compounded rate of return for the past 10 years was 13.8 percent. The real return (after inflation of 1.9 percent) of 11.9 percent was substantially above the long-term goal.

PERFORMANCE VS. BENCHMARKS

The **total fund benchmark** aggregates the benchmark returns for each asset class, using our asset-mix policy weights. In 2000, the 9.3 percent total fund return compared with 5.3 percent for the benchmark. As a result, our portfolio managers created $2.6 billion of value above the returns that the markets in which we invested would have produced on their own. This was our largest one-year gain in value added. Included in our total fund return is our global tactical asset allocation program, which generated $519 million of value above the composite benchmark. (Performance incentives are based on the results achieved versus the benchmark, less 34 basis points for implementation and overhead costs).

Fixed income securities returned 15.6 percent, a dramatic turnaround from two percent a year earlier. These assets exceeded their benchmark of 13.7 percent to earn $229 million of value added.

Canadian equities (actively managed, enhanced index, and merchant banking) posted a 13.5 percent return versus 7.4 percent for the Canadian equity benchmark. Our enhanced quantitative index funds portfolio beat its benchmark for the eighth consecutive year to earn value added of $252 million. Our actively managed Canadian equity portfolios earned $21 million above their benchmark.

Merchant banking earned a 21.8 percent return – almost three times its benchmark to generate $427 million in value added. This $3.9 billion portfolio has contributed considerable value to total returns over the past 10 years.

Foreign equities (actively managed and enhanced index) returned a negative 4.1 percent in the U.S. and negative 8.5 percent for Non-North America (including $30 million in implementation costs) compared with negative 5.5 percent and 13.5 percent for their respective benchmarks. We increased our exposure to foreign stock markets during the year and ended 2000 with $23.1 billion in these assets. We also shifted capital from foreign equity index funds to actively managed programs. As a result, our actively managed programs produced $894 million above benchmark.

Inflation-sensitive investments of real-rate products, commodities and real estate earned 19.9 percent versus 18 percent for the composite benchmark. Real-rate bonds had a return of 17.3 percent, or $15 million better than the benchmark return. Commodities returned an exceptional 54.4 percent, though $15 million less than the benchmark due to unavoidable implementation costs. Our real estate portfolio had one of its best years, earning 13.0 percent, versus 7.2 percent for its benchmark to add $288 million in value.

RISKS AND RISK MANAGEMENT

We manage **surplus risk** using a Value at Risk (VaR) methodology. VaR has forced us to think of surplus risk as the aggregate of liability risk, asset-mix policy risk, and active management risk, taking into account correlation and diversification between the components.

The main source of **liability risk** is a drop in real interest rates, which increases the present value of future pensions accumulated up to that point. It makes new pension liabilities more difficult to finance, and puts upward pressure on contribution rates. Higher real interest rates have the opposite effect.

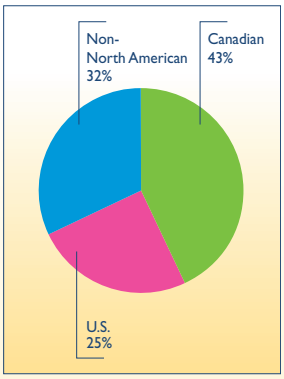
Asset-mix policy risk would be the mirror image of liability risk, and surplus risk would be zero, if investments perfectly matched the plan's long-term objective that asset growth will average a real rate of about 4.5 percent plus inflation. Real return bonds come close, but fall a bit short on yield.

The absence of a perfectly matching asset forces us to consider assets that individually do not always behave like our pension promise, but collectively give us the best trade-off between longer term expected surplus return and acceptable short-term surplus risk. Consequently, our asset mix is heavily weighted to equities because they meet our long-term goals, while our inflation-sensitive investments give more modest real returns but dampen surplus risk.

Active management risk is the potential risk of under-performing the benchmark by trying to improve on the return we get from passive implementation of asset-mix policy. The incremental surplus risk from active management is small. We control active risk through policy guidelines and procedures. Again using VaR, we assign each manager "risk capital" to go along with that manager's value added target with an expectation of a specific return on that risk capital. Risk from active positions is measured daily against the risk limits. One additional benefit from these risk measures has been an improvement in operational risk management.

Changes in the value of the Canadian dollar relative to foreign currencies can increase or decrease returns on our foreign investments, creating **foreign exchange risk**. We hedge 50 percent of our exposure to the main currencies in our asset-mix policy, and had $11.8 billion of foreign currency hedges in place at the end of 2000 to reduce volatility.

Equities
(as at December 31, 2000)



Through global diversification, we aim to reduce **excessive sensitivity to Canadian asset returns** by investing in foreign stocks and equity derivative contracts. Overall, Canada remains our primary equity market, where the plan had $17.7 billion invested in equities in 2000, followed by $10.1 billion in the United States, $2.8 billion in the United Kingdom, and $2.3 billion in Japan. However, we are concerned about the limited availability of stocks on the TSE 300. Many leading

Canadian corporations are closely owned, or listed in the U.S., further diminishing the investment pool in Canada.

With respect to **liquidity risk**, after payment of pension benefits and operating costs, the increase in net assets available for benefits totalled $4.8 billion in 2000. Cash flow came from $6.2 billion of investment income (dividends, interest income, rental income, and realized and unrealized gains) and $1.3 billion in contributions.

The cash needs for pension payments and operating expenses are predictable. On the investment side, our major liquidity risk is associated with our equity derivative contracts. A drop in foreign equity markets sustained for more than three months would require us to pay more cash to counterparties than we would otherwise expect.

We regularly assess the fund's ability to withstand the liquidity effects of a catastrophic 25 percent drop in all markets. Because the equity contracts have been profitable, we currently hold $493 million in net cash collateral from counterparties. This cash collateral, along with marketable short-term securities, annual cash flow, and other liquid assets, is more than sufficient to cover the fund's liquidity risk.

Every investment exposes us to the risk that a security issuer could default on payments or become insolvent. **Credit risk** exists with security issuers, such as governments and corporations, as well as with financial institutions and investment dealers with whom we have investment contracts. The largest credit exposure (note 3e) is to the Province of Ontario, which owes the plan $12.2 billion of non-marketable debentures valued at $15.7 billion, and $1.3 billion in contributions receivable. The next largest credit exposure is to the Government of Canada at $14.5 billion.

In the case of security issuers and derivative counterparties, we continuously monitor credit risk and, depending on the credit rating, restrict debt and equity investment in a single corporation or financial institution to between one and five percent of total fund assets.

In the case of swap counterparties, we deal primarily with 19 financial institutions rated Single A or better. Unrealized gains and losses on equity swaps are exchanged every three to six months. We exchange cash flows on interest rate swaps every six months, reducing the potential impact of a counterparty defaulting on its contractual obligations.

OUTLOOK

Our current expectation is that returns will not be as strong in the future as they have been in the past 10 years. We will continue to monitor financial markets and adjust our asset mix to achieve the best possible performance in the coming years. In the meantime, we assure all members that our first priority is to maximize returns without incurring undue risk.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgements. The accounting policies followed in the preparation of these consolidated financial statements conform with Canadian generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by internal audit programs which are subject to scrutiny by the external auditors.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the consolidated financial statements and recommends them for approval by the board.

The plan's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal control systems.

CLAUDE LAMOUREUX
PRESIDENT AND CHIEF EXECUTIVE OFFICER

ANDREW JONES
VICE-PRESIDENT, FINANCE

FEBRUARY 14, 2001

AUDITORS' REPORT TO THE ADMINISTRATOR

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Teachers' Pension Plan as at December 31, 2000 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These consolidated financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2000 and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS
TORONTO, CANADA

FEBRUARY 14, 2001

ACTUARIES' OPINION

William M. Mercer Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 2000, for inclusion in the Plan's consolidated financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at December 31, 1999;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- real and nominal interest rates on long term Canada bonds at the end of 2000;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events;
- information obtained from the Ontario Ministry of Labour and published reports on negotiated wage settlements in the 1999/2000 and 2000/01 school years; and
- an estimate of the salary grid increase for the 2000/01 school year based on the information above, along with input from the Partners.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan on December 31, 2000 as a going concern. This is different from the statutory valuation [the actuarial valuation required by the *Teachers' Pension Act* and the *Pension Benefits Act [Ontario]*], which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements represent the Board's best estimate of future events and market conditions at the end of 2000, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.

LESTER J. WONG, F.C.I.A.

MALCOLM P. HAMILTON, F.C.I.A.

FEBRUARY 14, 2001

CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND SURPLUS

AS AT DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 3)	**$85,117**	$73,872
Receivable from the Province of Ontario (note 4)	**1,251**	1,252
Receivable from brokers	**37**	210
Cash	**40**	42
Fixed assets	**8**	8
	86,453	75,384
Liabilities		
Investment-related liabilities (note 3a)	**13,074**	6,780
Due to brokers	**166**	230
Accounts payable and accrued liabilities	**92**	71
	13,332	7,081
Net assets available for benefits	**73,121**	68,303
Actuarial asset value adjustment (note 1e)	**(4,341)**	(8,316)
Actuarial value of net assets available for benefits	**$68,780**	$59,987
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits (note 5)	**$58,556**	$52,105
Surplus	**10,224**	7,882
Accrued pension benefits and surplus	**$68,780**	$59,987

ON BEHALF OF THE BOARD

CHAIR

BOARD MEMBER

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999
Net assets available for benefits, beginning of year	**$68,303**	$59,171
Investment operations		
Investment income (note 7)	**6,211**	10,121
Investment expenses (note 12a)	**(100)**	(91)
Net investment operations	**6,111**	10,030
Member service operations		
Contributions (note 10)	**1,281**	1,413
Benefits (note 11)	**(2,541)**	(2,278)
Member service expenses (note 12b)	**(33)**	(33)
Net member service operations	**(1,293)**	(898)
Increase in net assets	**4,818**	9,132
Net assets available for benefits, end of year	**$73,121**	$68,303

CONSOLIDATED STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
Accrued pension benefits, beginning of year	**$52,105**	$49,626
Increase in accrued pension benefits		
Interest on accrued pension benefits	**3,478**	3,493
Benefits accrued	**1,359**	1,301
Changes in actuarial assumptions (note 5a)	**3,893**	766
	8,730	5,560
Decrease in accrued pension benefits		
Benefits paid (note 11)	**2,541**	2,278
Experience (losses) gains (note 5b)	**(262)**	803
	2,279	3,081
Net increase in accrued pension benefits	**6,451**	2,479
Accrued pension benefits, end of year	**$58,556**	$52,105

CONSOLIDATED STATEMENT OF CHANGES IN SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2000

($ Millions)	**2000**	1999 restated (note 2)
Surplus, beginning of year	**$7,882**	$4,381
Increase in net assets available for benefits	**4,818**	9,132
Change in actuarial asset value adjustment (note 1e)	**3,975**	(3,152)
Increase in actuarial value of net assets available for benefits	**8,793**	5,980
Net increase in accrued pension benefits	**(6,451)**	(2,479)
Surplus, end of year	**$10,224**	$7,882

FOR THE YEAR ENDED DECEMBER 31, 2000

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act* (the TPA) as amended.

(a) General The Plan is governed by the TPA. It is a contributory defined benefit pension plan co-sponsored by the Partners who are the Province of Ontario (the Province) and Plan members, represented by the Ontario Teachers' Federation (the OTF). The terms of the Plan are set out in the *Partners' Agreement.*

The Plan is registered with the Financial Services Commission of Ontario and with the *Income Tax Act (Canada)* (registration number 0345785) as a Registered Pension Plan not subject to income taxes.

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.

(b) Funding Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (note 9).

(c) Retirement pensions A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced retirement pension is available at age 65 or at any age if the member has 35 years' credit or if the sum of a member's age and qualifying service equals 90. An early retirement window covering the period between June 1, 1998 and December 31, 2002 is currently provided, during which time a member can retire with an unreduced pension if the sum of the member's age and qualifying service equals 85 rather than 90.

(d) Disability pensions A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits Death benefits are available on the death of an active member and may be available on the death of a retired member. The benefit may take the form of a survivor pension, lump sum payment or both.

(f) Escalation of benefits Pension benefits are adjusted annually for inflation at 100 percent of the Consumer Price Index, subject to a limit of 8 percent in any one year with any excess carried forward.

(g) Retirement Compensation Arrangement The Retirement Compensation Arrangement (RCA) has been created by agreement between the Partners as a supplementary plan to provide the members of the Plan with benefits that, due to limitations imposed by the *Income Tax Act (Canada)* and its regulations, cannot be provided under the Registered Pension Plan. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits of the RCA are not included in these financial statements (note 13).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements present the financial position and the results of operations of the Plan and are prepared in accordance with Canadian generally accepted accounting principles.

The financial statements of wholly-owned subsidiary companies are consolidated as part of the Plan's financial statements.

Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Investments and investment-related assets and liabilities

Fair Value Investments and investment-related assets and liabilities are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Where ascertainable, fair values are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not ascertainable, fair values are derived using methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate.

Trade date reporting Purchases and sales of investments and derivative contracts are recorded as of the trade date (the date upon which the substantial risks and rewards have been transferred).

Investment income Dividend income is recognized based on ex-dividend date and interest income and real estate operating income is recognized on the accrual basis as earned. Investment income also includes realized and unrealized gains and losses.

(c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included in investment income.

(d) Accrued pension benefits

The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made as at the start of the year and then extrapolated to year-end. It uses the projected benefit method prorated on service and management's best estimate, as at valuation date, of various economic and non-economic assumptions (note 5).

(e) Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined by reference to market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents the difference between the actual and management's best estimate of return on the Plan's equity investments (including real estate and commodities) amortized over five years. Fixed income securities are valued at fair value on a basis consistent with the discount rate used to value the Plan's accrued pension benefits.

The year-over-year change in the actuarial asset value adjustment is reflected in the Consolidated Statement of Changes in Surplus.

(f) Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions that primarily affect the reported values of assets and liabilities, related income and expenses and related disclosures.

2. CHANGES IN ACCOUNTING POLICY– ACCRUED PENSION BENEFITS

Consistent with a new Canadian Institute of Chartered Accountants standard on Employee Future Benefits, the Board changed its method of determining the best estimate assumptions used in valuing the accrued pension benefits. The Board now uses a market interest rate to discount the accrued pension benefits, in order to arrive at the fair value of the Plan's liabilities. In prior years, the Board used a rate which reflected management's best estimate of the expected long-term asset rate of return.

With this change to the determination of the discount rate, the method for calculating the actuarial asset value adjustment has also been modified. In prior years, the adjustment represented the difference between the actual and management's best estimate of return on all Plan assets, amortized over five years. The actuarial asset value now values fixed income securities at fair value, consistent with the measurement of the Plan's liabilities at fair value. For the Plan's equity investments, an actuarial asset value adjustment is calculated as the difference between the actual and management's best estimate of return on the Plan's equity assets, amortized over five years.

The changes in accounting policy referred to above have been applied retroactively in the financial statements and have the following impact on 1999 figures previously reported:

($ Millions)	1999 Reported	1999 Restated
Net assets available for benefits	$68,303	$68,303
Actuarial asset value adjustment	(7,264)	(8,316)
Actuarial value of net assets available for benefits	$61,039	$59,987
Accrued pension benefits – opening	$48,636	$49,626
Changes during the year	3,469	2,479
Accrued pension benefits – closing	52,105	52,105
Surplus, beginning of year	5,747	4,381
Increase in net assets available for benefits	9,132	9,132
Change in actuarial asset value adjustment (note 1e)	(2,476)	(3,152)
Increase in actuarial value of assets available for benefits	6,656	5,980
Net increase in accrued pension benefits	(3,469)	(2,479)
Surplus, end of year	8,934	7,882
Accrued benefits and surplus	$61,039	$59,987

3. INVESTMENTS

The Plan invests directly or through derivatives in fixed income, equities and inflation-sensitive investments in accordance with its policy of asset diversification. The purpose of such diversification is to minimize the likelihood of an overall reduction in surplus and maximize the opportunity for gains across the investment portfolio.

(a) Investments[1] before allocating the effect of derivative contracts and investment-related receivables and liabilities

The schedule below summarizes the Plan's investments, including net accrued interest and dividends of $388 million (1999 – $454 million), before allocating the effect of derivative contracts and investment-related receivables and liabilities, as at December 31:

($ Millions)	2000		1999	
	Fair Value	**Cost**	Fair Value	Cost
Fixed income				
Debentures	**$15,715**	**$12,205**	$16,328	$12,991
Bonds	**13,218**	**12,696**	13,303	13,198
Money market securities	**4,273**	**4,238**	2,153	2,153
Alternative investments[2]	**2,162**	**1,720**	1,326	1,166
	35,368	**30,859**	33,110	29,508
Equities				
Publicly traded				
Canadian	**13,487**	**9,618**	17,125	11,195
United States	**1,885**	**1,565**	516	559
Non–North American	**6,415**	**5,455**	8,149	5,591
Non–Publicly traded				
Canadian	**1,110**	**856**	464	446
United States	**769**	**671**	699	510
Non–North American	**1,196**	**1,188**	984	852
	24,862	**19,353**	27,937	19,153
Inflation-sensitive investments				
Real estate (note 6)	**10,393**	**9,711**	3,508	3,220
Real rate products				
Canadian	**5,822**	**5,054**	4,656	4,349
United States	**4,424**	**4,190**	391	404
	20,639	**18,955**	8,555	7,973
	80,869	**69,167**	69,602	56,634
Investment-related receivables				
Securities purchased under agreements to resell	**1,948**	**1,946**	992	990
Derivative-related, net	**2,300**	**493**	3,278	409
Investments	**85,117**	**71,606**	73,872	58,033
Investment-related liabilities				
Securities sold under agreements to repurchase	**(3,578)**	**(3,572)**	(2,883)	(2,879)
Securities sold but not yet purchased	**(1,592)**	**(1,606)**	(973)	(992)
Real estate (note 6)	**(4,192)**	**(4,002)**	(693)	(710)
Derivative-related, net	**(3,712)**	**(1,199)**	(2,231)	(2,294)
Net investments (note 3c)	**$72,043**	**$61,227**	$67,092	$51,158

(1) For additional details, refer to the Schedule of Investments for our holdings over $50 million on page 45.

(2) Comprised of hedge funds, managed futures accounts and fund of funds programs.

(b) Derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter market or on regulated exchanges. The Plan utilizes derivatives to manage its asset mix, as well as its exposure to interest rates, foreign currencies, and credit. Derivatives are also utilized for trading purposes in a manner consistent with the Plan's investment objectives.

Notional amounts of derivative contracts serve as the basis upon which the returns from, and the fair value of, the contracts are determined.

The following schedule summarizes the Plan's derivative contracts as at December 31:

($ Millions)	**2000**		1999	
	Notional	**Fair Value**	Notional	Fair Value
Asset conversion				
Interest rate swaps	**$6,353**	**$(933)**	$ 6,091	$(763)
Equity and commodity swaps	**17,436**	**(215)**	13,719	3,257
		(1,148)		2,494
Interest rate management				
Interest rate swaps	**1,330**	**4**	1,104	1
Futures	**6,962**	**(1)**	4,238	(1)
Exchange traded options				
Purchased	**2,509**	**5**	3,041	4
Written	**2,644**	**(4)**	3,771	(4)
Over-the-counter options				
Purchased	**40**	**1**	97	3
Written	**100**	**(1)**	169	(4)
		4		(1)
Foreign currency management				
Currency swaps	**499**	**(10)**	553	10
Forwards	**13,347**	**24**	13,567	343
Futures	**708**	**1**	—	—
		15		353
Trading				
Interest rate swaps	**2,427**	**(7)**	2,836	28
Volatility swaps	**967**	**34**	66	1
Futures	**18,484**	**(17)**	13,715	(161)
Forwards	**5,899**	**175**	3,791	53
Exchange traded options				
Purchased	**454**	**14**	313	22
Written	**816**	**(5)**	441	(32)
Over-the-counter options				
Purchased	**1,964**	**38**	2,062	43
Written	**1,153**	**(22)**	1,042	(19)
		210		(65)
		(919)		2,781
Less: Net cash collateral received under derivative contracts		**(493)**		(1,734)
Net fair value of derivative contracts		**$(1,412)**		$1,047

The net fair value of derivative contracts as at December 31 on page 33 are represented by:

($ Millions)	**2000**	1999
Derivative-related receivables	**$2,562**	$4,755
Cash collateral paid under derivative contracts	**428**	324
Derivative-related liabilities	**(3,481)**	(1,974)
Cash collateral received under derivative contracts	**(921)**	(2,058)
	$(1,412)	$1,047

Securities with a fair value of $320 million (1999 – $246 million) have been deposited with various financial institutions as margin to effect derivatives transactions.

The derivative contracts on page 33 mature within one year except for the following, which have a weighted average maturity (in years) of:

	2000		1999	
	Notional *($ millions)*	**Maturity *(years)***	Notional *($ millions)*	Maturity *(years)*
Asset conversion				
Interest rate swaps	**$6,119**	**8.4**	$5,487	6.6
Equity and commodity swaps	**2,468**	**1.4**	5,155	1.6
Interest rate management				
Interest rate swaps	**1,004**	**8.2**	993	4.4
Over-the-counter options	**140**	**1.9**	—	—
Foreign currency management				
Currency swaps	**493**	**5.7**	553	7.1
Forwards	**182**	**1.5**	57	2.2
Trading				
Interest rate swaps	**2,155**	**5.1**	2,536	5.1
Volatility swaps	**221**	**3.2**	66	3.1
Over-the-counter options	**83**	**1.6**	102	2.1
Forwards	**23**	**1.4**	—	—

(c) Investment asset mix

The Plan has established a long-term asset-mix policy of approximately 60 percent equities, 18 percent fixed income and 22 percent inflation-sensitive investments.

The Plan's investments, after allocating the effect of derivative contracts and investment-related receivables and liabilities, as at December 31 are summarized below:

	2000		1999	
	Effective Net Investments at Fair Value *($ millions)*	**Asset Mix *%***	Effective Net Investments at Fair Value *($ millions)*	Asset Mix *%*
Fixed income				
Bonds	**$10,771**	**15%**	$14,926	22%
Money market and equivalents	**2,548**	**3**	2,378	4
	13,319	**18**	17,304	26
Equities				
Canadian	**17,739**	**25**	19,885	30
United States	**10,119**	**14**	8,191	12
Non–North American	**13,022**	**18**	13,568	20
	40,880	**57**	41,644	62
Inflation-sensitive investments				
Commodities	**2,098**	**3**	1,090	2
Real estate (note 6)	**6,201**	**9**	2,815	4
Real rate products	**9,545**	**13**	4,239	6
	17,844	**25**	8,144	12
Total net investments	**$72,043**	**100%**	$67,092	100%

(d) Interest rate risk

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to long-term market interest rates as well as expectations for salary escalation.

The Plan's primary exposure is to a decline in the long-term real rate of return which may result in higher contribution rates required to meet pension obligations. As at December 31, 2000, holding the inflation and salary escalation assumptions constant, a 1 percent decrease in the assumed real long-term rates of return would result in an increase in the pension liabilities of approximately 13 percent (1999 – 16 percent).

After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 3b, a 1 percent increase in nominal interest rates would result in a decline in the value of the fixed income securities of 6.6 percent (1999 – 7.7 percent).

(e) Credit risk

At December 31, 2000, the Plan's most significant concentration of credit risk is with the Government of Canada and the Province of Ontario. This concentration relates primarily to the holding of $14.5 billion of Government of Canada-issued securities and $15.7 billion of non-marketable Province of Ontario Debentures, a receivable from the Province of $1.3 billion and future provincial funding requirements of the Plan.

The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher, and by utilizing an internal credit limit monitoring process, as well as through the use of credit mitigation techniques such as master netting arrangements and obtaining collateral where appropriate.

(f) Foreign currency risk

Foreign currency exposure arises from the Plan's holdings of foreign currency-denominated investments and related derivative contracts.

The Plan uses a currency overlay program to hedge a portion of its asset-mix policy allocation to U.S. and Non-North American equities. The Plan also takes trading positions in foreign currencies with the objective of adding incremental returns. The Plan's net foreign currency exposure in Canadian dollars after giving effect to the related policy hedge, as at December 31, is as follows:

($ Millions)	**2000**			1999
	Foreign Currency Exposure	**Net Foreign Currency Hedge**	**Net Foreign Currency Exposure**	Net Foreign Currency Exposure
United States Dollar	**$12,021**	**$5,389**	**$6,632**	$4,854
Euro	**5,920**	**2,528**	**3,392**	2,245
British Pound Sterling	**3,370**	**1,405**	**1,965**	1,537
Swiss Franc	**1,561**	**483**	**1,078**	252
Japanese Yen	**2,489**	**1,774**	**715**	1,280
Other	**2,165**	**187**	**1,978**	1,532
	$27,526	**$11,766**	**$15,760**	$11,700

(g) Securities lending

The Plan lends securities as a means of generating incremental income or supporting other investment strategies. As at December 31, 2000, the Plan's investments included loaned securities with a fair value of $3,402 million (1999 – $3,280 million). The fair value of collateral in respect of these loans was $3,590 million (1999 – $3,444 million).

4. RECEIVABLE FROM THE PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

($ Millions)	**2000**	1999
Contributions receivable	**$1,194**	$1,194
Accrued interest receivable	**57**	58
	$1,251	$1,252

The receivable from the Province consists of $636 million to be received in 2001 and $615 million to be received in 2002.

5. ACCRUED PENSION BENEFITS

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $58.6 billion (1999 – $52.1 billion), reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality, withdrawal rates and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. As discussed in note 2, the discount rate is now set at the market rate, as at the valuation date, of debt obligations with characteristics similar to the Plan's liabilities. The inflation rate is the difference between the yield on federal long-term nominal bonds and federal real return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2000	1999
Discount rate	**6.25%**	6.75%
Salary escalation rate	**3.20%**	3.25%
Inflation rate	**2.20%**	2.25%

The main economic assumptions were changed as a result of changes in capital markets during 2000. These changes resulted in a net increase in the value of accrued pension benefits of $3,297 million. In addition, a change was made to the assumed post-retirement mortality rates to better reflect the Plan's experience. This change increased the value of accrued pension benefits by a further $596 million. In 1999, changes to the actuarial assumptions resulted in a net increase in the value of accrued pension benefits of $766 million.

(b) Experience gains and losses

An experience loss of $262 million (1999 – gain of $803 million), arising from differences between the actuarial method and assumptions and actual results, relates primarily to current experience for members' salary and inflation rates.

6. INVESTMENT IN REAL ESTATE

(a) Acquisition of Cadillac Fairview Corporation ("CFC")

On March 17, 2000, pursuant to a plan of arrangement, the Plan acquired the remaining 78.2 percent of the common shares that it did not previously own of CFC, a fully integrated commercial real estate operating company, and $100 million of CFC convertible debentures for total consideration of $2,355 million.

The fair value of CFC's net assets acquired is summarized below:

($ Millions)	
Real estate properties	$5,730
Other assets	403
	6,133
Debt on real estate properties	(2,892)
Other liabilities	(324)
Net assets of CFC	2,917
Less: Investment in CFC previously held	(562)
Total consideration	**$2,355**

(b) Investment in Real Estate

The Plan's investment in real estate, which is comprised of real estate–related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited, as at December 31, is as follows:

($ Millions)	**2000**		1999	
	Fair Value	**Cost**	Fair Value	Cost
Assets				
Real estate properties	**$9,635**	**$8,901**	$2,454	$2,411
Investments	**526**	**577**	485	498
Other assets	**232**	**233**	7	7
Investment in CFC	**—**	**—**	562	304
Total assets	**10,393**	**9,711**	3,508	3,220
Liabilities				
Debt on real estate properties	**3,833**	**3,694**	693	710
Other liabilities	**359**	**308**	—	—
Total liabilities	**4,192**	**4,002**	693	710
Net investment in real estate	**$6,201**	**$5,709**	$2,815	$2,510

(c) Real Estate Income[1]

The Plan's real estate income for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Revenue		
Rental	**$1,140**	$263
Investment	**41**	24
	1,181	287
Expenses		
Property operating	**447**	101
Interest	**242**	41
Management	**42**	7
Other	**23**	—
	754	149
Operating income	**427**	138
Realized gain (loss)	**14**	(16)
Unrealized gain	**187**	190
Net income	**$628**	$312

(1) Operating income, on a fair value basis, excludes a charge for depreciation and amortization.

7. INVESTMENT INCOME

(a) Investment income, before allocating the effect of derivative contracts

Investment income, before allocating the effect of derivative contracts and before allocating the realized and unrealized net gains/losses, for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Fixed income interest		
Debentures (net of interest incurred on swap contracts of $1,039 million; 1999 – $753 million)	**$386**	$762
Money market securities	**197**	104
Bonds	**720**	633
	1,303	1,499
Equity dividend income		
Canadian equity	**222**	271
United States equity	**13**	13
Non–North American equity	**234**	241
	469	525
Inflation-sensitive investments		
Real estate operating income (note 6c)	**427**	138
Real rate products interest income		
Canadian	**189**	152
United States	**92**	14
	708	304
	2,480	2,328
Net gain on investments [1]	**3,731**	7,793
	$6,211	$10,121

(1) Includes net unrealized gains (losses) of $(4,145) million (1999 – $1,075 million).

(b) Investment income

Investment income by asset class, after allocating the effect of the derivative contracts and net gains, including foreign currency losses of $71 million (1999 – $1,106 million gain), for the year ended December 31, is as follows:

($ Millions)	**2000**	1999
Fixed income	**$1,689**	$(347)
Canadian equity	**2,523**	4,475
United States equity	**316**	1,559
Non–North American equity	**(694)**	3,697
Inflation-sensitive investments	**2,377**	737
	$6,211	$10,121

8. INVESTMENT RETURNS AND RELATED BENCHMARK RETURNS

Investment returns and related benchmark returns by investment asset class for the year ended December 31 are as follows:

	2000		1999	
	Investment Returns	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income	**15.6%**	**13.7%**	2.0%	2.8%
Canadian equity	**13.5**	**7.4**	30.4	32.0
United States equity	**(4.1)**	**(5.5)**	12.7	14.1
Non–North American equity	**(8.5)**	**(13.5)**	27.7	21.6
Inflation-sensitive investments	**19.9**	**18.0**	12.0	9.8
Total Plan	**9.3%**	**5.3%**	17.4%	17.6%

Investment returns have been calculated in accordance with the acceptable methods set forth by the Association for Investment Management and Research and the Pension Investment Association of Canada.

The Plan identifies benchmarks to evaluate the performance of the investment management process. The performance of each asset class is measured against a benchmark that simulates the results of the markets in which the managers invest, except that the inflation-sensitive investments composite benchmark includes real estate which is measured against an inflation-related benchmark.

The total return of the Plan is measured against a Canadian dollar denominated composite benchmark produced by aggregating Canadian dollar equivalent returns from each of the policy asset class benchmarks, using the Plan's asset mix policy weights. The total return incorporates the Plan's tactical asset allocation decisions.

9. FUNDING POLICY

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding requirements of the Plan. Active members are currently required to contribute 7.3 percent of the portion of their salaries covered by the Canada Pension Plan and 8.9 percent of salaries above this level. Aggregate member contributions are matched by the Province and other employers.

The actuarial assumptions and methods used to determine statutory pension liabilities are different than those used to calculate the amounts disclosed in these financial statements. The statutory valuations use a more conservative approach than the valuations used in these financial statements (note 5) and also take into account benefits to be earned and contributions to be made after the valuation date.

The initial statutory valuation of the Plan, prepared by William M. Mercer Limited as at January 1, 1990 disclosed an unfunded liability of $7.8 billion which was the amount by which the Plan's liabilities exceeded its assets. This liability was the responsibility of the Province and was to be paid off with interest by a series of special payments over a 40 year period, which began January 1, 1990. Subsequent statutory valuations have treated the present value of the remaining special payments as an asset.

The statutory valuation as at January 1, 1998 disclosed the present value of special payments to be $8.45 billion, with an actuarial gain of $6.78 billion. Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;
(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost of $8.45 billion; and
(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008. These changes consumed the actuarial gain. The present value of the remaining special payments after application of gains was $3.91 billion as at January 1, 1998.

The statutory valuation as at January 1, 1999 disclosed the present value of the remaining special payments to be $3.65 billion with an actuarial gain of $3.52 billion. Pursuant to the 1998 agreement noted above, all of this gain was used to eliminate the obligation of the Province to make special payments after April 1999.

The statutory valuation as at January 1, 2001 disclosed an actuarial gain of $6.78 billion (2000 – $4.54 billion).

10. CONTRIBUTIONS

($ Millions)	**2000**	1999
Members		
Current service	**$604**	$612
Optional credit	**11**	8
	615	620
Province of Ontario		
Current service	**601**	592
Interest	**42**	43
Optional credit	**5**	11
Special payments (note 9)	**—**	128
	648	774
Other employers	**9**	9
Transfer from other pension plans	**9**	10
	18	19
	$1,281	$1,413

11. BENEFITS

($ Millions)	**2000**	1999
Retirement pensions	**$2,215**	$2,016
Disability pensions	**31**	30
Death benefits	**102**	93
Refunds	**18**	16
Commuted value transfers	**164**	108
Transfers to other plans	**11**	15
	$2,541	$2,278

12. ADMINISTRATIVE EXPENSES

(a) Investment expenses

($ Millions)	**2000**	1999
Salaries and benefits	**$40.5**	$31.8
External investment management fees	**34.3**	34.8
Custodial fees	**6.6**	6.4
Premises and equipment	**6.6**	6.5
Professional consulting services	**5.0**	4.3
Information services	**3.7**	3.6
Communication and travel	**2.1**	1.8
Statutory audit fees	**0.3**	0.3
Other	**1.0**	1.1
	$100.1	**$90.6**

(b) Member service expenses

($ Millions)	**2000**	1999
Salaries and benefits	**$20.9**	$21.2
Premises and equipment	**6.2**	6.1
Professional and consulting services	**2.4**	2.2
Communication and travel	**2.1**	1.9
Board and committee remuneration	**0.2**	0.2
Statutory audit fees	**0.2**	0.2
Other	**0.7**	0.8
	$32.7	$32.6

(c) Executive compensation

The compensation table represents full disclosure of base salary, annual bonus, long-term incentives and other compensation earned in 1998, 1999 and 2000 by the Chief Executive Officer and the four other most highly compensated executives.

Name and Principal Position	Year	Base Salary	Annual Bonus[1]	Long-term Incentive Plan[3]	Group Term Life Insurance	Other Compensation
Claude Lamoureux	2000	$389,169	$504,500	$790,100	$1,119	$9,600[4]
President & CEO	1999	357,637	196,100	131,900	1,033	9,600
	1998	349,077	177,600	0	964	9,600
Robert Bertram	2000	$302,800	$404,000	$627,000	$ 870	$13,962[5]
Executive V.P. Investments	1999	276,309	102,600	101,800	798	13,343
	1998	269,053	63,200	0	777	13,209
Neil Petroff	2000	$196,130	$338,500	$451,900	$ 561	$ 0
Sr. V.P. International Equity Indexes, Fixed Income & Foreign Exchange	1999	175,444	202,800	51,400	507	0
	1998	170,606	124,700	0	490	0
Morgan McCague	2000	$186,384	$323,800	$460,000	$ 533	$ 0[6]
Sr. V.P. Quantitative Investments	1999	164,863	188,000	53,200	476	3,218
	1998	155,037	162,900	0	448	3,009
Allan Reesor	2000	$237,976	$319,200[2]	$280,100	$ 682	$ 4,808[6]
Executive V.P., Member Services and C.I.O.	1999	195,619	100,900	40,797	564	3,792
	1998	188,736	94,400	59,600	545	3,654

[1] Bonuses for investment professionals are based on a combination of total fund, asset class, and individual performance, measured in dollars of value added. Performance versus benchmark is measured over four annual performance periods.

Bonuses for other executive staff are based on achievement of annual corporate and divisional objectives.

[2] Includes deferred annual incentive for 1999.

[3] The investment long-term incentive program was restructured in 1999 following a review of competitive market practices. The new program continues to be based on four-year performance periods. Initial grants are adjusted by the four-year total fund rate of return and by a performance modifier, based on total fund dollar value-added over a composite benchmark.

[4] Automobile allowance.

[5] Includes an automobile allowance of $8,000 per annum plus unused vacation cashout.

[6] Unused vacation cashout.

13. RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement (RCA) is established pursuant to an agreement between the Province of Ontario and the Ontario Teachers' Federation (the Partners), to provide to the members of the Plan certain benefits that would have been provided under the Registered Pension Plan, but for amendments made to the *Income Tax Act (Canada)* and its Regulations that restrict benefits that may be provided under a registered plan for periods of service after 1991 and for certain periods before 1992 that are credited after 1991.

The RCA is administered under a trust separate from the assets of the Registered Pension Plan. The Board has been appointed by the Partners to act as the trustee of the RCA.

Because the RCA is a separate trust, the net assets available for benefits and the value of accrued benefits and deficiency, referred to below, have not been included in the accompanying financial statements of the Registered Pension Plan on pages 26 to 28.

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Board by teachers, the Province of Ontario and designated private schools and organizations. The portion is based on a rate determined periodically by the Board's independent actuary in a manner that is expected to be sufficient to pay the benefits over the next 12 months. Due to the funding policy adopted by the Partners, the assets will continue to be substantially less than the liabilities.

In addition, since it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and the contributions raised in order to fund the payments that are due under the RCA.

A summary of the balance sheet for the RCA as at December 31 is as follows:

($ Thousands)	**2000**	1999
Net assets available for benefits		
Assets	**$2,200**	$1,799
Liabilities	**(408)**	(655)
	$1,792	$1,144
Accrued benefits and deficiency		
Accrued benefits	**$305,900**	$238,768
Deficiency	**(304,108)**	(237,624)
	$1,792	$1,144

The actuarial assumptions used in determining the value of accrued benefits are consistent with the assumptions used in the Plan except that the assumed discount rate has been adjusted to reflect the impact of the 50 percent refundable tax under the RCA.

The estimate of the value of accrued benefits is highly sensitive to salary increases, both actual and assumed. Any changes to the salary assumptions will have a significant impact on the liabilities for future benefits. In addition, significant uncertainty exists in projecting the liabilities of the RCA due to changes in the number of future participants as well as changes to the income tax regulations relating to pensions.

14. COMMITMENTS

The Plan has committed to enter into investment transactions, which will be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2000, these commitments totalled $2,824 million (1999 – $1,634 million).

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

FIXED INCOME

($ Millions)

Type	Year of Maturity	Coupon (%)	Fair Value	Cost
Government of Canada bonds	2001–2029	4.50–13.00	$9,516	$9,467
Canadian corporate bonds	2001–2049	0.00–16.00	1,988	1,997
Canadian treasury bills	2001–2002	5.41–5.97	1,839	1,819
Commercial paper	2001	5.71–5.93	549	548
International corporate bonds	2003–2012	5.74–10.00	317	305
Provincial bonds	2002–2016	5.50–9.75	267	270
Foreign denominated Canadian bonds	2001–2085	4.40–13.00	213	220
Term deposits	2001	5.50–5.70	133	133
Discount instruments	2001	5.47–5.80	113	111
Securities purchased under agreements to resell	2001	2.00–6.30	1,948	1,946
Securities sold under agreements to repurchase	2001	5.75–6.45	(3,578)	(3,572)

PROVINCE OF ONTARIO DEBENTURES

($ Millions)

Maturity Date	Coupon (%)	Fair Value	Cost
2001 to 2006	9.00–15.00	$6,186	$5,170
2007 to 2012	10.00–16.00	9,155	6,661
Total debentures net of accrued interest		15,341	11,831
Accrued interest		374	374
Total		$15,715	$12,205

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

CORPORATE SHARES

(Millions)

Security Name	Shares	Fair Value $
Nortel Networks Corporation	37.8	1,823.9
Nexen Inc.	21.4	791.4
Royal Bank of Canada	9.4	476.7
Toronto-Dominion Bank, The	8.4	366.4
Encal Energy Ltd.	31.1	331.6
Bank of Montreal	4.2	328.4
BCE Inc.	7.6	328.1
Bank of Nova Scotia, The	7.5	326.1
Manulife Financial Corporation	6.8	317.8
AT&T Canada Inc.	6.9	299.7
Maple Leaf Foods Inc.	37.9	299.2
Enron Corp.	2.2	279.1
Canadian Imperial Bank of Commerce	5.7	263.3
Sun Life Financial Services of Canada Inc.	6.2	248.7
Alcan Aluminium Limited	4.7	242.4
Canadian Pacific Limited	5.5	234.5
Petro-Canada	5.1	194.1
WestJet Airlines Ltd.	8.3	192.8
Alberta Energy Company Ltd.	2.6	184.9
Celestica Inc.	2.2	177.3
Talisman Energy Inc.	2.8	155.6
Bombardier Inc.	6.3	146.7
Barrick Gold Corporation	5.9	145.3
Thomson Corporation, The	2.5	144.8
Suncor Energy Inc.	3.6	136.1
Gulf Canada Resources Limited	17.8	135.9
Canadian National Railway Company	3.1	135.5
TELUS Corporation	2.9	117.9
TransCanada PipeLines Limited	6.6	112.9
HSBC Holdings	5.0	110.2
Total Fina SA	0.6	109.3
Ballard Power Systems Inc.	1.1	103.3
Canadian Natural Resources Limited	2.4	101.6
Enbridge Inc.	2.3	101.2
Shaw Communications Inc.	2.9	99.0
Potash Corporation of Saskatchewan Inc.	0.8	97.1
Abitibi-Consolidated Inc.	7.0	95.9
ENI SpA	9.7	93.2
United Dominion Industries Limited	5.1	91.0
Imperial Oil Limited	2.3	89.6
Power Corporation of Canada	2.4	89.1
Akzo Nobel NV	1.1	86.7
Inco Limited	3.2	86.4
ING Groep NV	0.7	86.4
Research In Motion Limited	0.7	85.5
BAE Systems PLC	9.9	84.8
NewPower Holdings, Inc. (Warrants)	5.7	83.2

CORPORATE SHARES

(Millions)

Security Name	Shares	Fair Value $
XTRA Corporation	1.1	81.7
Veba AG	0.9	80.8
Placer Dome Inc.	5.5	79.2
Clarica Life Insurance Company	1.9	78.4
C-MAC Industries Inc.	1.2	77.4
Anderson Exploration Ltd.	2.3	77.4
BioChem Pharma Inc.	1.6	76.7
Hitachi Ltd.	5.6	75.2
Kirby Corporation	2.3	73.6
Bayer AG	0.9	73.5
Telefonos de Mexico SA	1.1	73.3
Westcoast Energy Inc.	2.0	73.2
Magna International Inc.	1.2	72.6
Loblaw Companies Limited	1.4	70.4
Seagram Company Ltd., The	0.9	70.3
Zurich Financial Services Group, The	0.1	69.8
National Bank of Canada	2.6	69.5
Power Financial Corporation	2.0	69.1
Telecom Italia SpA	5.8	68.4
Matsushita Electric Works, Ltd.	1.9	67.6
Telefonica, SA	1.5	65.5
NOVA Chemicals Corporation	2.3	65.0
Shell Transport & Trading Company	5.1	63.3
Novartis AG	0.02	61.9
Portugal Telecom SA	4.5	61.5
Unilever PLC	4.8	61.4
Aventis SA	0.5	59.4
TransAlta Corporation	2.7	59.3
Lindsay Manufacturing Co.	1.7	58.9
Nokia OYJ	0.9	58.1
Mackenzie Financial Corporation	2.1	57.3
George Weston Limited	0.7	56.2
Daiichi Pharmaceutical Co., Ltd.	1.2	55.7
Rogers Communications Inc.	2.2	55.2
Deutsche Bank AG	0.4	54.6
Australia & New Zealand Banking Group Limited	4.5	54.1
Trizec Hahn Corporation	2.3	53.4
Allied Irish Banks plc	3.1	53.3
Jardine Strategic Holdings PLC	12.2	53.2
Wolters Kluwer	1.3	52.4
Cheung Kong (Holding) Ltd.	2.7	52.3
Quebecor World Inc.	1.4	51.3
Shell Canada Limited	1.3	50.4
Royal Bank of Scotland Group	1.4	50.1
Alcatel	0.6	50.1

Note: For a complete list of companies, please see our website at **www.otpp.com.**

CONVERTIBLE AND EXCHANGEABLE DEBENTURES

(Millions)

Security Name	Par Value ($)	Fair Value ($)
Power Financial Corporation 8.0% Due April 30, 2014	85.5	529.8
PDFB Investments Inc. 3.25% Due March 12, 2018	89.1	254.6

INVESTMENTS OVER $50 MILLION

AS AT DECEMBER 31, 2000

REAL ESTATE PORTFOLIO

Property	Total Square Footage	Effective % Ownership
	(in thousands)	
Canadian Regional Shopping Centres		
Cataraqui Town Centre, Kingston	580	50%
Champlain Place, Dieppe	729	100%
Chinook Centre, Calgary	1,056	100%
Don Mills Shopping Centre, Toronto	420	100%
Eastgate Square, Hamilton	578	100%
Erin Mills Town Centre, Mississauga	759	50%
Fairview Mall, Toronto	883	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,044	50%
Georgian Mall, Barrie	533	100%
Hillcrest Mall, Richmond Hill	558	100%
Intercity Shopping Centre, Thunder Bay	455	100%
Le Carrefour Laval, Montreal	1,183	100%
Les Galeries D'Anjou, Montreal	1,011	50%
Les Promenades St. Bruno, Montreal	1,036	100%
Lime Ridge Mall, Hamilton	827	100%
Market Mall, Calgary	754	50%
Markville Shopping Centre, Markham	954	100%
Masonville Place, London	684	100%
McAllister Place, St. John	471	100%
Midtown Plaza/Village, Saskatoon	687	100%
New Sudbury Centre, Sudbury	496	100%
Pacific Centre, Vancouver	1,348	50%*
Polo Park Mall, Winnipeg	1,197	100%
Regent Mall, Fredericton	446	100%
Richmond Centre, Vancouver	488	100%
Rideau Centre, Ottawa	692	31%
Sherway Gardens, Toronto	979	100%
Southland Mall, Regina	423	100%
The Promenade, Toronto	693	50%
Toronto Eaton Centre, Toronto	1,559	100%
Victoria Eaton Centre, Victoria	406	100%
Woodbine Centre, Toronto	682	60%

Property	Total Square Footage	Effective % Ownership
	(in thousands)	
Canadian Office Properties		
1 Queen Street East and 20 Richmond Street East, Toronto	503	50%
Granville Square, Vancouver	398	100%
Pacific Centre Office Complex, Vancouver	1,537	50%*
Shell Centre, Calgary	681	50%
Toronto Dominion Centre Office Complex, Toronto	4,437	50%*
Toronto Eaton Centre Office Complex, Toronto	1,899	100%
Waterfront Centre, Vancouver	395	100%
Yonge Corporate Centre, Toronto	661	50%
US Regional Shopping Centers		
Broward Mall, Fort Lauderdale, Florida	1,000	100%
Dover Mall, Dover, Delaware	834	100%
Galleria at White Plains, White Plains, New York	885	100%
Golden East Crossing, Rocky Mount, North Carolina	584	100%
Gwinnett Place, Duluth, Georgia	1,249	33%
Kitsap Mall, Silverdale, Washington	715	49%
Lakewood Center, Lakewood, California	2,044	49%
Los Cerritos Center, Cerritos, California	1,302	49%
Northpark Mall, Ridgeland, Mississippi	958	100%
Redmond Town Center, Redmond, Washington	1,119	49%
Stonewood Mall, Downey, California	929	49%
The Esplanade, Kenner, Louisiana	911	100%
Town Centre at Cobb, Kennesaw, Georgia	1,273	33%
Washington Square, Tigard, Oregon	1,239	49%

* Ownership increased to 100% subsequent to year end

PRIVATE COMPANIES AND PARTNERSHIPS

Absolute Return Fund Ltd.
Apaquogue Limited
ARC Canadian Energy Venture Fund
BC European Capital V
BC European Capital VI
BC European Capital VII
CACF Limited
DLJ Merchant Banking Partners II, L.P.
Exxel Capital Partners V, L.P.
Friedrich Grohe AG
Hicks, Muse, Tate & Furst Latin America Fund, L.P.
Magnatrax Corp.
Maple Leaf Sports & Entertainment
Maple Partners Financial Group
Morgan Stanley Real Estate Fund III International L.P.
Newcastle Capital Management Inc.
Providence Equity Partners Fund II, L.P.
Providence Equity Partners Fund III, L.P.
Schroder Asian Properties L.P.
Shoppers Drug Mart Inc.
The Macerich Company
The Third Hermes UK Focus Fund
Trimac Corporation

ELEVEN-YEAR REVIEW

FOR THE YEAR ENDED DECEMBER 31

($ Millions)	**2000**	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
CHANGE IN NET ASSETS											
Income											
Investment income	**6,211**	10,121	5,137	7,246	7,436	5,656	528	5,907	2,145	3,843	1,031
Contributions											
Members/transfers	**624**	630	612	591	620	636	732	689	711	651	559
Province of Ontario	**657**	655	653	649	673	669	704	712	740	663	587
– special payments	**—**	128	492	456	152	—	—	—	438	270	187
Total Income	**7,492**	11,534	6,894	8,942	8,881	6,961	1,964	7,308	4,034	5,427	2,364
Expenditures											
Benefits paid	**2,541**	2,278	2,103	1,802	1,520	1,261	1,130	1,001	921	829	760
Investment expenses	**100**	91	67	59	40	30	25	20	14	7	1
Member service expenses	**33**	33	32	31	29	27	26	24	23	18	19
Distribution of gain	**—**	—	—	—	—	—	—	325	—	—	—
Total Expenditures	**2,674**	2,402	2,202	1,892	1,589	1,318	1,181	1,370	958	854	780
INCREASE IN NET ASSETS	**4,818**	9,132	4,692	7,050	7,292	5,643	783	5,938	3,076	4,573	1,584
NET ASSETS											
Fixed income	**13,319**	17,304	11,476	10,276	10,622	12,509	11,409	17,569	19,007	19,199	18,129
Equities – Canadian	**17,739**	19,885	17,613	19,433	17,367	12,218	9,943	7,510	3,217	2,618	520
– Foreign	**23,141**	21,759	24,015	19,955	16,005	12,287	10,714	7,035	3,253	1,796	807
Inflation-sensitive investments											
– Commodities	**2,098**	1,090	401	126	—	—	—	—	—	—	—
– Real Estate	**6,201**	2,815	1,582	1,561	1,272	925	694	608	451	180	—
– Real Rate Products	**9,545**	4,239	3,019	1,597	1,066	1,064	653	548	457	16	—
Net Investments	**72,043**	67,092	58,106	52,948	46,332	39,003	33,413	33,270	26,385	23,809	19,456
Receivable from											
Province of Ontario	**1,251**	1,252	1,233	1,262	1,286	1,308	1,338	1,362	1,323	1,190	945
Other assets	**13,159**	7,040	5,391	8,537	3,293	1,586	622	36	72	10	—
Total assets	**86,453**	75,384	64,730	62,747	50,911	41,897	35,373	34,668	27,780	25,009	20,401
Liabilities	**(13,332)**	(7,081)	(5,559)	(8,268)	(3,482)	(1,760)	(879)	(957)	(7)	(312)	(277)
Net Assets	**73,121**	68,303	59,171	54,479	47,429	40,137	34,494	33,711	27,773	24,697	20,124
Smoothing reserve	**(4,341)**	(8,316)	(4,788)	(5,578)	(4,416)	(1,907)	(252)	(2,947)	(414)	(883)	709
Actuarial value of net assets	**68,780**	59,987	54,383	48,901	43,013	38,230	34,242	30,764	27,359	23,814	20,833
Accrued pension benefits	**58,556**	52,105	48,636	44,457	41,833	38,744	36,848	33,998	30,781	27,479	24,391
Surplus (Deficiency)	**10,224**	7,882	5,747	4,444	1,180	(514)	(2,606)	(3,234)	(3,422)	(3,665)	(3,558)
PERFORMANCE (%)											
Rate of return	**9.3**	17.4	9.9	15.6	19.0	16.9	1.7	21.7	8.9	19.6	5.6
Benchmark	**5.3**	17.6	11.9	15.6	18.1	17.2	(0.3)	20.5	8.0	15.4	(7.8)
Long-term goal	**7.7**	7.1	5.5	5.2	6.7	6.2	4.7	6.2	6.6	8.3	9.5

CORPORATE DIRECTORY

President & Chief Executive Officer
Claude Lamoureux

Investments
Robert Bertram, Executive Vice-President

Active Equities
Brian Gibson, Senior Vice-President

Relationship Investing
Roy Graydon, Vice-President

International Equity Indexes, Fixed Income & Foreign Exchange
Neil Petroff, Senior Vice-President

Fixed Income
Sean Rogister, Vice-President

International Equity Indexes
Barbara Trott, Vice-President

Quantitative Investments
Morgan McCague, Senior Vice-President

Canadian Core Portfolios
Marcus Dancer, Vice-President

Research & Economics
Leo de Bever, Senior Vice-President

New Business Development
Russ Bruch, Vice-President

Merchant Banking
Dean Metcalf, Vice-President

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Allan J. Reesor, Executive Vice-President & Chief Information Officer

Client Services
Rosemarie McClean, Vice-President

MIS Member Services
Phil Nichols, Vice-President

Finance
Andrew Jones, Vice-President

Human Resources & Public Affairs
John Brennan, Vice-President

Internal Audit
Peter Maher, Vice-President

Law
Roger Barton, Vice-President, General Counsel & Secretary

THE CADILLAC FAIRVIEW CORPORATION LIMITED
Real Estate Portfolio

President & Chief Executive Officer
Peter Sharpe

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Architecture and Design
Rudy Adlaf, Senior Vice-President

Office Development
John Sullivan, Senior Vice-President

Project Management and Environmental Services
David Handley, Senior Vice-President

Investments
Andrea Stephen, Senior Vice-President

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please call Lee Fullerton, Communications Manager, at 416-730-5347. e-mail: communications@otpp.com

Communications Department
Ontario Teachers' Pension Plan Board
5650 Yonge Street Toronto, Ontario M2M 4H5
Toll-free: 1-877-812-7989 Local: 416-228-5900
www.otpp.com

From: Allan Shapira [allan.shapira@aonhewitt.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: OTPP
Date: Monday, September 12, 2016 21:51:37

The numbers do match. Here is part of the balance sheet from the actuarial report

Plus:

Reduction in present value of benefits to reflect less than 100% indexing for service after December 31, 2009 (up to 50% indexing): $5,947

Present value of special contributions receivable from province and other employers in respect of benefit reduction due to conditional indexing: $5,947

Reduction in present value of benefits to reflect less than 50% indexing for service after December 31, 2013: $0

Allan H. Shapira, FSA, FCIA | Managing Director
Aon Hewitt Canada
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****
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From: Pomykacz, Rob (MOF) []
To: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Moadel, Maryam (MOF) [SOM.3Maryam.Moadel@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Ryan, Kate (EDU) [Kate.Ryan@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 11:34:44
Attachment 1: OTPP Asset Options (BPS Comments).pptx

Hi Nicole,

Please find attached some additional edits to the version we sent you last night. Today's changes are indicated in blue font.

Please let us know if you have any questions.

Thanks,

Rob

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with approaching the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms in order to meet the Auditor General's (AG) interpretation of the standard to recognize a pension asset.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts. [OPCD to confirm that this is a part of the test]

Context

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change. [in accounting treatment or to pension plan?]
      - [OPCD PLACEHOLDER]

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists once a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.

[PLACEHOLDER OPCD]

- Any change to the plan governance should contemplate change to accounting standards.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - [OPCD Placeholder] What would be required to satisfy the AG's concerns? How extensive an amendment?
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector. For example:
    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
    - The Board determines the discount rate that is used to establish the funding level.

Considerations contd…

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This would change how the two Partners interact with each other and could affect each Partner's decision making with respect to the plan overall.
  - If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.
- This would also impact the way the Board interacts with the Partners.

Considerations contd…

- Some major issues with respect to any decision or resulting consequence that would end the joint sponsorship arrangement (other than legal, constitutional or labour issues):
  - Amongst other PBA requirements, the government would be solely responsible for funding deficits, including any solvency deficit, which the plan is currently exempted from based on the current JSPP status. (And as a JSPP, members are sharing on going concern deficits.)

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.

- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, a constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Board and other beneficiaries of the plan.
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Office of the Provincial Controller

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Objective

- Identify considerations with approaching the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms in order to meet the Auditor General's (AG) interpretation of the standard to recognize a pension asset.

Overview of AG concerns

[OPCD Placeholder]

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Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
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Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would apply to the province.

[PLACEHOLDER OPCD]

- Any change to the plan governance should contemplate change to accounting standards.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

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   - [OPCD Placeholder] What would be required to satisfy the AG's concerns? How extensive an amendment?
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Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
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    - The partners must annually determine the extent of indexation that the plan will provide, based on its funded status; and
    - The Board determines the discount rate that is used to establish the funding level.

Considerations contd…

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
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Considerations contd…

- Some major issues with respect to any decision or resulting consequence that would end the joint sponsorship arrangement (other than legal, constitutional or labour issues):
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Risks

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  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
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  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.

- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, a constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Board and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Moadel, Maryam (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: OTPP Asset Options v7.pptx
Date: Wednesday, December 14, 2016 18:35:44
Attachment 1: OTPP Asset Options v7.pptx

This is the latest draft that we are reviewing.

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with regard to the Auditor General's (AG) interpretation of the Ontario Teachers' Pension Plan (OTPP) asset to determine whether the government should approach the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts. [OPCD to confirm that this is a part of the test]

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1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
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Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would be required to be applied by the province.

[PLACEHOLDER OPCD]

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   - Probability that option would satisfy AG's concerns [OPCD Placeholder]
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Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- The fact that the AG dismissed the OPSEU model, where surplus are separately tracked for each sponsors and the government has been able to apply its own share to reduce contributions, an economic benefit recognized under the PSAB, is a cause for concern. Given this, it is unclear what would satisfy the AG.
- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector.
    - For example, the partners must annually determine the extent of indexation that the plan will provide, based on its funded status.

Considerations contd…

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Considerations contd…

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Subject: OTPP Asset Options v7.pptx
Date: Wednesday, December 14, 2016 17:36:53
Attachment 1: OTPP Asset Options v7.pptx

Hi all, please see attached with the material on Considerations included. I will print four copies to review in the boardroom if you are free to meet.

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with regard to the Auditor General's (AG) interpretation of the Ontario Teachers' Pension Plan (OTPP) asset to determine whether the government should approach the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms.

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Considerations

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists when a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Considerations

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would be required to be applied by the province.

[PLACEHOLDER OPCD]

- Any change to the plan must comply with any change to standards.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - Probability that option would satisfy AG's concerns [OPCD Placeholder]
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

Strategic Considerations:

- Results of the Expert Panel are to be expected by end of month.
- PSAB has initiated a review of the current standards and reforms are likely. A consultation paper for reform phase 1 has recently been published. The review on asset ceiling is slated for the reform in phase 2.
  - AG's interpretation is based on the current PSAB standards.
  - The current PSAB standards were developed decades ago, well before the creation of JSPPs. One of the objectives of the reform is to modernize the standard.

Considerations contd…

Strategic Considerations contd…

- Therefore, substantial revisions to the current rules are to be expected. Reaction from AG cannot be predicted at this time.
- It is unlikely the government could either have an agreement with employee sponsors on “unilateral right” before March 31, 2017, or introduce legislation to that effect without, at a minimum, constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Boards and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG’s opinion as stated in her September 13 letter.

Considerations contd…

Strategic Considerations contd…

- The fact that the AG dismissed the OPSEU model, where surplus are separately tracked for each sponsors and the government has been able to apply its own share to reduce contributions, an economic benefit recognized under the PSAB, is a cause for concern. Given this, it is unclear what would satisfy the AG.

Considerations contd…

Fundamental Policy Considerations:

- TPP is managed by the Partners' Committee (there is a reason why it is called Partners' Committee).
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector.
    - For example, the partners must annually determine the extent of indexation that the plan will provide, based on its funded status.

Considerations contd…

Fundamental Policy Considerations contd…

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset".
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will require a similar unilateral access to surplus.

Considerations contd…

Fundamental Policy Considerations contd…

- This will not only change how the two Partners interact with each other as the potential interest in establishing its own share of surplus could affect a partner's decision making with respect to the plan overall,
- If each sponsor has their own "unilateral rights", there will no longer be any common purpose and will discourage prudent funding of the plan

Considerations contd…

- Some major issues with respect to any decision or resulting consequence that would end the joint sponsorship arrangement (other than legal, constitutional or labour issues):
  - The pension expense is likely to increase if the plan were to become a single employer pension plan.
  - The plan would still be subject to the same accounting standards with respect to the asset ceiling. In another words, it is still subject to AG's interpretation / agreement whether the province can recognize an asset.
  - Amongst other PBA requirements, the government would be solely responsible for funding deficits, including any solvency deficit, which the plan currently exempted from based on the current JSPP status. (And as a JSPP, members are sharing on going concern deficits.)

Considerations contd…

- One less significant but very likely outcome of any negotiation would be that the OTF will request the government to match the other 50% of the CIP that the government is not currently required to match. The amount may not be very costly today, but as more and more service is subject to the provision, it will become more so in 10 or 15 years.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan’s long-term sustainability.

From: Moadel, Maryam (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: OTPP Asset Options v7.pptx
Date: Wednesday, December 14, 2016 15:22:49
Attachment 1: OTPP Asset Options v7.pptx

Attached is the updated version of the deck with Alex`s hand written notes inserted in purple. I have made all the changes but had a few minor questions to ask upon your return.

Would you like me to fix formatting on the deck (text runs off the slides), or leave to OPCD if they are holding the pen.

On Slide 8, Alex has written `Slide 7.5 Considerations`. Would you like a new slide inserted there. Please let me know.

Thanks,

Maryam

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with regard to the Auditor General's (AG) interpretation of the Ontario Teachers' Pension Plan (OTPP) asset to determine whether the government should approach the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts. [OPCD to confirm that this is a part of the test]

Considerations

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change. [in accounting treatment or to pension plan?]
      - [OPCD PLACEHOLDER]

Considerations

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists when a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Considerations

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would be required to be applied by the province.

[PLACEHOLDER OPCD]

- Any change to the plan must comply with any change to standards.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - Probability that option would satisfy AG's concerns [OPCD Placeholder]
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.

From: Moadel, Maryam (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: OTPP Asset Options v7.pptx
Date: Wednesday, December 14, 2016 18:40:24
Attachment 1: OTPP Asset Options v7.pptx

Hi all, the attached draft includes our changes in purple font. Rob and Ingrid reviewed the preliminary draft that I had sent earlier and I made some minor changes to that version.

Thanks,

Maryam

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with regard to the Auditor General's (AG) interpretation of the Ontario Teachers' Pension Plan (OTPP) asset to determine whether the government should approach the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts. [OPCD to confirm that this is a part of the test]

Context

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change. [in accounting treatment or to pension plan?]
      - [OPCD PLACEHOLDER]

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists when a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would be required to be applied by the province.

[PLACEHOLDER OPCD]

- Any change to the plan governance should contemplate change to accounting standards.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - Probability that option would satisfy AG's concerns [OPCD Placeholder]
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector.
    - For example, the partners must annually determine the extent of indexation that the plan will provide, based on its funded status.

Considerations contd…

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This will not only change how the two Partners interact with each other as the potential interest in establishing its own share of surplus could affect each partner's decision making with respect to the plan overall
- If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.

Considerations contd…

- Some major issues with respect to any decision or resulting consequence that would end the joint sponsorship arrangement (other than legal, constitutional or labour issues):
  - Amongst other PBA requirements, the government would be solely responsible for funding deficits, including any solvency deficit, which the plan is currently exempted from based on the current JSPP status. (And as a JSPP, members are sharing on going concern deficits.)

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.

- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Boards and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: OTPP Asset Policy Considerations
Date: Tuesday, November 22, 2016 11:10:56
Attachment 1: OTPP Aset Policy Considerations v 05 22-11-2016.docx

---

Alex, I'm attaching a note that we're working on re: Policy Considerations for the OTPP asset. Depending on where this goes, we may need your help with some of it (you'll see that we've got tentative placeholders for MOF for now). We can discuss if this is needed at our 11AM.

Thanks

Paul

Ministry of Education

DECISION NOTE

Ontario Teachers' Pension Plan Asset

Purpose

Explore options to guarantee the government's ability to reduce contributions and/or access surplus funds available as a result of the annual Ontario Teachers' Pension Plan (OTPP) funding valuation should the plan experience strong financial health in the future.

Key Information

- In March 2016, the Auditor General of Ontario (AG) conducted a review of the Province's Statement of Financial position with an emphasis on the accounting treatment of pension assets.
- The AG reached the conclusion that the Province did not have the legally enforceable right to unilaterally access a pension asset of $10.6 billion from the OTPP and Ontario Public Service Employees Union Pension Plan (OPSEUPP).
    - A net pension asset arises when the government's total contributions to a plan, including interest earned, are greater than the pension expense recognized since the start of the plan.
- Given the differences in interpretation of the application of the OTPP and OPSEUPP pension asset, a time-limited regulation was approved to legislate the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts.
    - The impact of the change resulted in an additional $10.7 billion being added to the Province's net debt and accumulated deficit.
    - In addition, the Province's pension expense for 2016-17 increased by $2.2 billion to reflect the pension adjustment.
- Ontario has engaged an expert panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- In addition, the government is exploring what other options may exist to clarify the right to access the asset in the future.

Considerations

- The co-sponsorship of the OTPP was established in legislation and the government has a statutory obligation to make matching contributions to the Plan.
- In addition to the legislation, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship of the Plan and to avoid

contentious unilateral funding decisions (even in disagreement, Plan terms state a third party arbitrator must be used).

- Under the current governance framework for the use of surplus (the FMP) contribution reductions and/or access to the surplus is only negotiated if and when the funded status of the Plan has reached a specific 'zone' (See appendix A for a description of the FMP zones).
    - The Plan is currently in the Restoration/Underfunded Zone, which means additional contributions rates and Conditional Inflation Protection (CIP) have been invoked. Without these additional levers, the Plan would be in a deficit position.
- Efforts to establish the government's unilateral access to its share of future surplus prior to the improvement of the Plan's funded status would represent a significant departure from the Plan's existing governance policy.

Potential Options

- **Status Quo** – await the recommendations of the Expert Advisory Panel
    - Should the Pension Asset Expert Advisory Panel concur with the AG's accounting interpretation, it could negatively impact the Province's net debt and accumulated deficit on a multi-year basis.
    - The impact of the 2015-16 pension adjustment resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase of $1.5 billion to the annual deficit for 2015–16.
    - Consistent with the accounting treatment adopted in the 2015-16 Public Accounts, the fiscal outlook provided in the Fall Economic Statement projected future pension expense of $1.7 billion (roughly equal to the Plan's annual cash contributions).

- **Shared Asset Model** (ie OMERS)
    - **Placeholder for MOF feedback**

- **Other JSPP options/ structures that could be considered**
    - **Placeholder for MOF feedback**

- **Negotiate <u>now</u> with the OTF**
    - To formally acknowledge the government's ability to reduce its contributions and/or access the surplus if and when the Plan is in strong financial health in the future.
    - This option represents a significant departure from the long-standing and mutually agreed to governance framework (established in 2003) and would likely result in lengthy negotiations with the OTF.

- Do we want to reference the current labour dynamic?
- The last time the government attempted to negotiate unilateral access to the Plan's surplus was in 1998 (prior to the existence of the FMP) when the government wanted to eliminate the contributions it was required to make for the initial unfunded liability (about $8 billion of the surplus that had accumulated or was expected to accumulate in the Plan over the next year or two).
- At the time, the OTF was reluctant to agree to such an arrangement. The Plan Administrator also argued that eliminating the surplus would be prejudicial to the Plan's long-term health and stability.
- The government persisted and threatened to legislate the arrangement if an agreement could not be reached. After much negotiation, the government promised the OTF future benefit enhancements that would also equal $8 billion (primarily due to a reduced retirement factor of 85).

- **Unilaterally legislate**
  - This option would require the government to fundamentally change the basis on which the OTPP has been built, namely an equal partnership with the teachers.
    - Unilateral action would be inconsistent with the Partners' Agreement which establishes that the Plan is to be operated as a partnership in which decisions are arrived at through negotiation. There are provisions for mediation and arbitration in the event of disagreements.
  - As per Schedule 1 (c. 25(1)) of the TPA, the Minister's contributions must equal those made by the members so any changes would have to apply to both parties.
  - If the government chose to pursue this option it could end the jointly sponsored arrangement and make the government solely responsible for the Plan, as existed prior to 1990. PLACEHODLER – need to explore further with LSB
  - The OTF and its affiliate members would be severely opposed to this legislative option. Such action would likely place considerable strain on the relationship between government and the OTF, which has made great strides since a similar situation occurred in 1998.

Background

- The OTPP is Canada's largest single-profession pension plan, with $171 billion in net assets at December 31, 2015.
- It holds a diverse global portfolio of assets, 80% of which is managed in-house, and has earned an annualized rate of return of 10.3% since the plan's founding in 1990.

- Ontario Teachers' is an independent organization headquartered in Toronto with the Asia-Pacific region office located in Hong Kong and the Europe, Middle East & Africa region office in London.
- The defined-benefit plan, which is fully funded, invests and administers the pensions of the province of Ontario's 316,000 active and retired teachers.

Current Funding Framework

- The FMP is a long-term agreement that forms part of the OTPP Partners' Agreement (See Appendix A for FMP Framework Description)
- The Plan sponsors, the Ontario government and the Ontario Teachers' Federation (OTF), adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
    - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
    - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
    - Temporary Improvement Zone – Improve benefits or lower contributions as negotiated.
    - Permanent Plan Improvement Zone – Improve benefits or lower contributions as negotiated.
- The FMP also builds in a level of conservatism with respect the discount rate which the sponsors use to determine what zone the plan is in. This determination is distinct from discount rate process used by the Board which informs the annual funding valuation.

OTPP Funding Valuation

- Each year, the OTPP is required to undergo a funding valuation to determine the status of the plan. The OTPP retains Mercer, a third party actuary, to perform the valuation.
- The funding valuation looks ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities. Assets are what the pension plan owns (stocks, bonds, real estate, future contributions) while liabilities are the present value of members' and retirees' pension benefits.
    - If the assets are equal to or exceed the liabilities, the plan is financially balanced. An excess of assets represents a surplus, while an excess of liabilities represents a deficit.
- It is the responsibility of the OTPP sponsors to determine when to file the annual valuation with the FSCO.
- The sponsors are also responsible for negotiating the use of any surplus funds and, when there is a funding shortfall, implementing a strategy to eliminate it.

- The 2016 OTPP funding valuation revealed a preliminary surplus of over $13 billion, the third surplus in as many years.
    - The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
    - The CIP was at 70% as of January 2016 – up from 60% in 2015.
- The OTPP provided a funding update in July 2016 which is tracking a preliminary surplus of about $8 billion.

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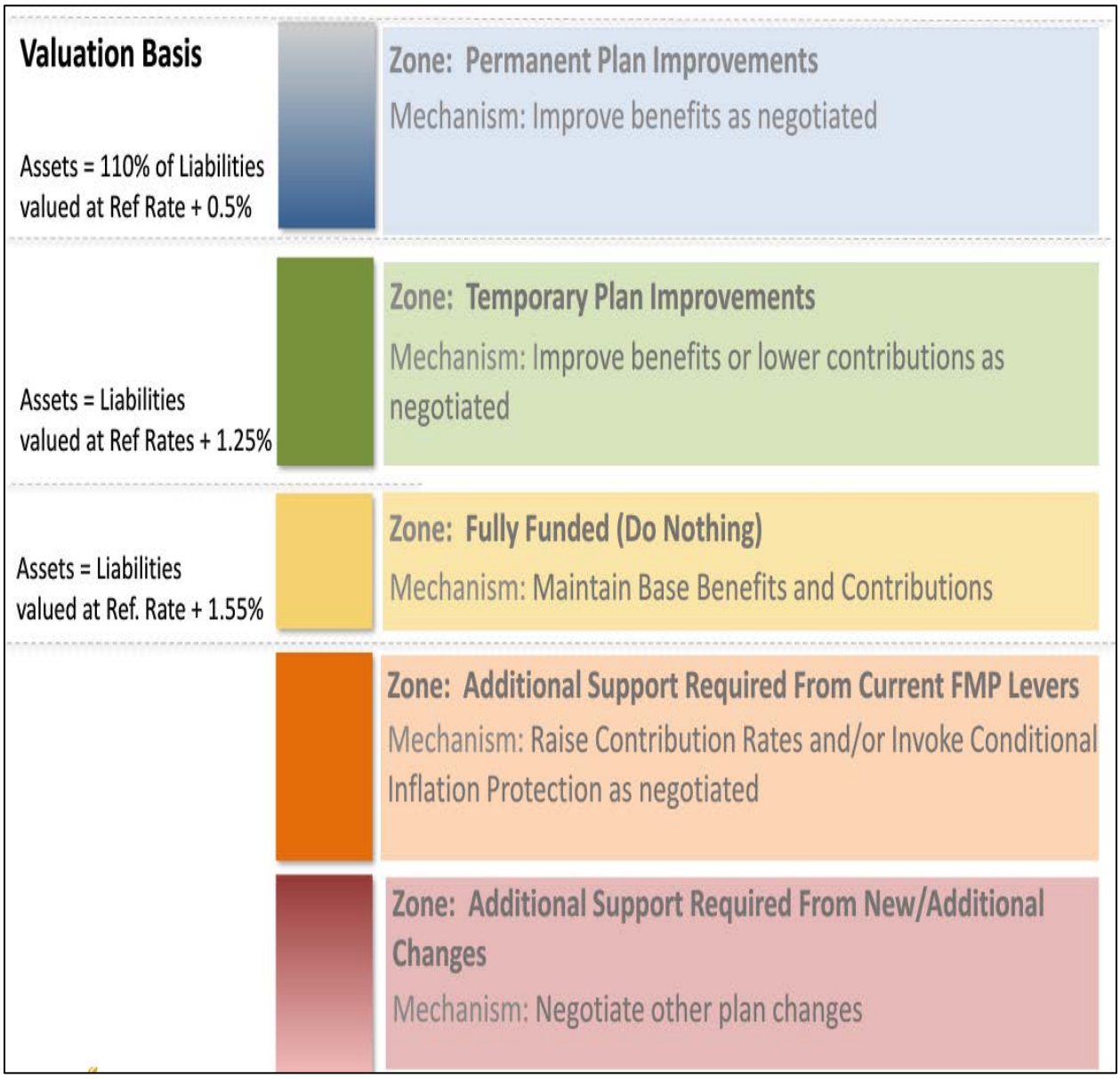
APPENDIX A: FMP Framework Description



From: Keates, James (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
Subject: OTPP Funding Valuation
Date: Friday, October 28, 2016 14:10:04
Attachment 1: image001.jpg

Alex, I am working on a paper for the Pension Asset Expert Advisory Panel.

We have prepared a summary of the similarities and differences in valuation assumptions and methodologies for OTPP under their funding valuation relative to their Part IV and PSAS valuations. Could you confirm the descriptions below are correct?

Thanks

Jim

Appendix I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology

Funding valuation

(Going concern basis)

Accounting Part IV –

(OTPP Financial statements)

Accounting PSAS –

(Province Financial statements)

Purpose

To inform plan sponsors of the amount that needs to be contributed each year to

adequately fund benefits

Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.

Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.

Actuarial cost method

[To confirm – not clear from the valuation report]

Projected benefit method prorated on services

Asset valuation

The actuary should select an asset valuation method that is consistent with the circumstances of the work.

The value of assets may be, subject to specific requirements for different types of valuation, any of:

• Their market value;

• Their market value adjusted to moderate volatility in investment returns;

• The present value of their cash flows after the calculation date; and

• Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values

[To confirm the approach taken in OTPP funding valuation][NP1]

Fair value for all plan assets.

Fair value is determined in accordance with IFRS 13, *Fair value measurement*.

Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently.

The Province uses adjusted market values for some classes of assets in certain plans.

Discount rate

Best estimate less Margins for adverse deviations and expenses where appropriate.

For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work

To confirm the approach taken in OTPP funding valuation][NP2]

In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.

Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists.

Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.

Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government’s cost of borrowing.[1]

The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.

Underlying population data

All valuation methodologies should use consistent underlying data of the population covered by the plan

Inflation rate

All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate).

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Demographic assumptions

All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Other economic assumptions

All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?][NP3]

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

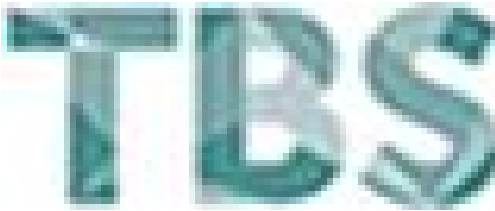
[1] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting

Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

[NP1]Opcd to confirm with Alex Killoch

[NP2]OPCD to confirm with Alex Killoch

[NP3]Opcd to confirm with Alex Killoch


TBS

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
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Attachment 1: Ontario Teachers' Pension Plan (OTPP) v.02 11-17-2016.pptx

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Alex, Rob - see attached the backgrounder or 101 deck that we'll be taking the panel through tomorrow. I'm going to send it over to OPCD this afternoon, but if you see any key areas of concern or areas that are missing, please let me know and I'll provide an updated version tomorrow.

Thanks

Paul

Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets); and
  - The 2016 Funding Valuation.

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1990, the pension plan (Teachers' Superannuation Fund) was entirely under the control of the Government of Ontario.
- Established in 1990 by the *Teachers' Pension Act,* the OTPP is a partnership between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
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  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
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- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 11.5% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 13.1% for salary above the CPP limit ($54,900 in 2016).
  - The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
  - OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

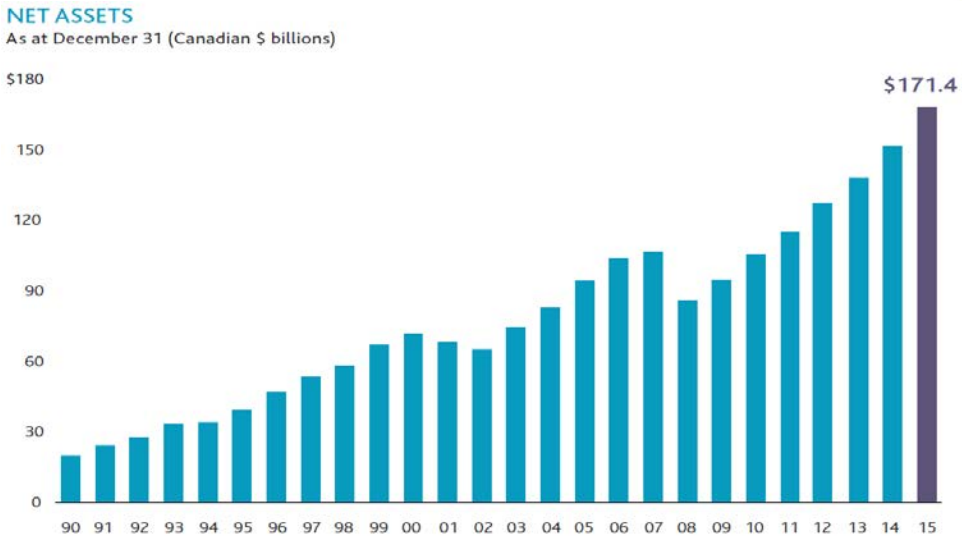
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)	**$4.2**	$2.4	$11.0	$16.3	$35.6

*OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.
*As of January 1, 2016, the pension plan's assets were valued at $171.4B.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year. These valuations are three different ways to estimate the cost to provide benefits to be paid in the future and they each have different methods and assumptions (e.g. of wages, inflation or discount rates).
  - The **funding valuation** determines the Plan's annual cash contribution by looking ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities.
  - The **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements in accordance with Public Sector Accounting Board (PSAB) recommendations. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
  - The **financial statement** valuation measures the fair value of the plan's net assets available for benefits and pension liabilities at a point in time. It does not assume any future contributions and does not project the cost of benefits that current members have not yet earned.

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for following the sponsors direction to file the valuation **[see Appendix D for valuation history]**.

Ontario

Funding Management Policy

- The Funding Management Policy (FMP) is a long-term agreement that forms part of the OTPP Partners' Agreement and is filed with the Financial Services Commission of Ontario (FSCO). **(See Appendix E for FMP Framework Description)**
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits as negotiated.
- The FMP also provides procedures for discount rate setting depending on the zone.

Ontario

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the plan's board members. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP deficit by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history].**
  - If either partner disputes the discount rate, a hearing process can be invoked whereby a third party mediator will be selected to attempt to facilitate an agreement.
  - The OTPP discount rate has been independently reviewed by industry experts three times in the last several years. Each time the rate was determined to be within a reasonable range, given the demographic profile of the plan **[see Appendix G for list of expert reviews].** Other pension plans may use different discount rates because their membership characteristics are different.
- For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.

Ontario

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
  - This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors have agreed to file this valuation with FSCO and use part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP is currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board
  - The sponsors each appoint five members to the Board and they jointly appoint the Chair.
    - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
    - The current Chair is Jean Turmel. His term ends December 2016 but is expected to be reappointed.
  - Board members terms are two years and members are limited to serving four consecutive terms.
  - A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
  - The Board sets the remuneration levels for the members.
- The five Board of Directors appointed by the OTF are: John Murray, Bill Chinery, Rod Albert, Patti Croft and Lise Fournel.
- Chair – Jean Turmel.

Ontario

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Francine LeBlanc-Lebel, President • Diane Dewing, Past President • Michael Foulds, 1st Vice President

Ontario

Appendix C: Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, up to 50% of the amount of foregone inflation. This is seen as the Government “sharing equal pain”.

Ontario

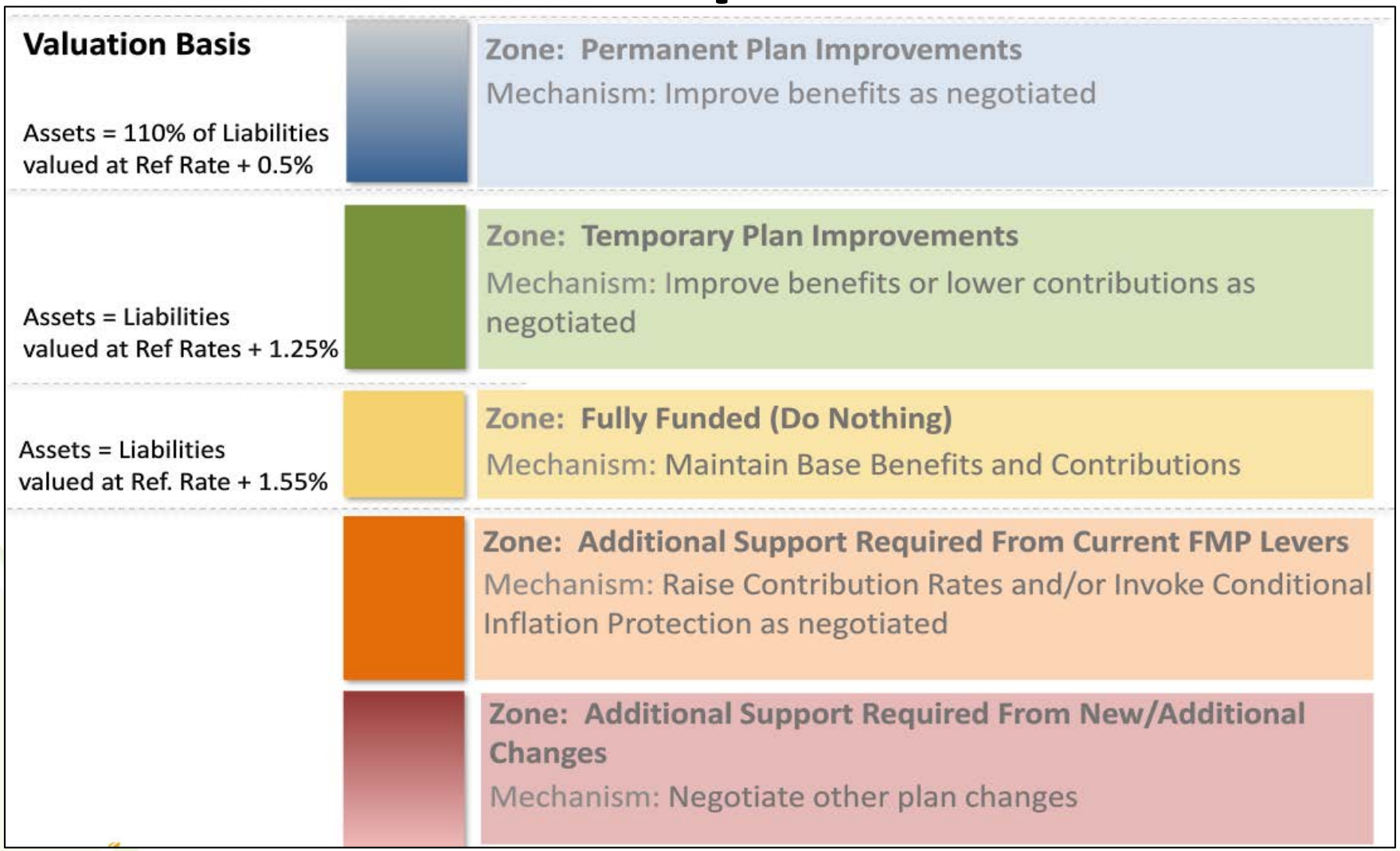
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Duffy, Paul (EDU) []
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    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 11.5% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 13.1% for salary above the CPP limit ($54,900 in 2016).
  - The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
  - OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

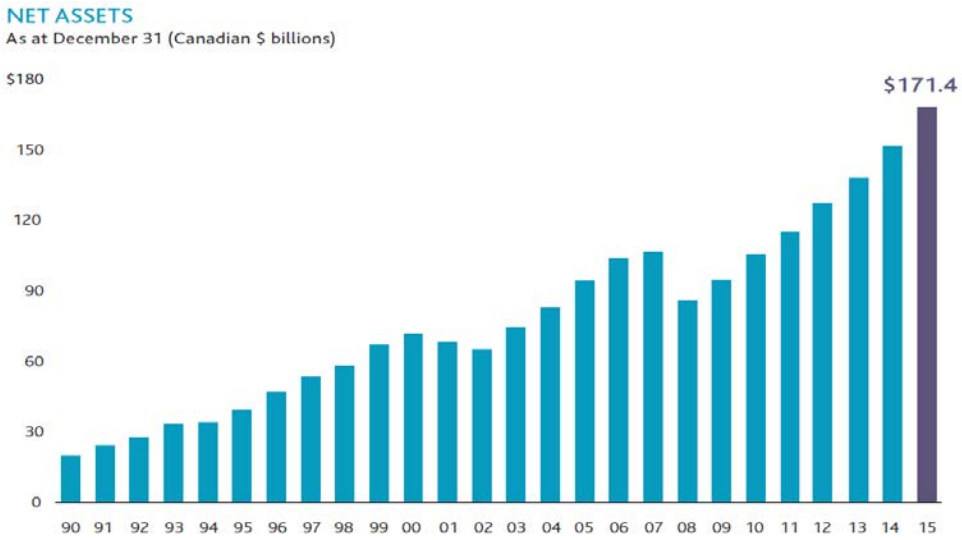
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)	**$4.2**	$2.4	$11.0	$16.3	$35.6

*OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.
*As of January 1, 2016, the pension plan's assets were valued at $171.4B.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year. These valuations are three different ways to estimate the cost to provide benefits to be paid in the future and they each have different methods and assumptions (e.g. of wages, inflation or discount rates).
  - The **funding valuation** determines the Plan's annual cash contribution by looking ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities.
  - The **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements in accordance with Public Sector Accounting Board (PSAB) recommendations. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
  - The **financial statement** valuation measures the fair value of the plan's net assets available for benefits and pension liabilities at a point in time. It does not assume any future contributions and does not project the cost of benefits that current members have not yet earned.

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for following the sponsors direction to file the valuation **[see Appendix D for valuation history]**.

Ontario

Funding Management Policy

- The Funding Management Policy (FMP) is a long-term agreement that forms part of the OTPP Partners' Agreement and is filed with the Financial Services Commission of Ontario (FSCO). **(See Appendix E for FMP Framework Description)**
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits as negotiated.
- The FMP also provides procedures for discount rate setting depending on the zone.

Ontario

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the plan's board members. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP deficit by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history].**
  - If either partner disputes the discount rate, a hearing process can be invoked whereby a third party mediator will be selected to attempt to facilitate an agreement.
  - The OTPP discount rate has been independently reviewed by industry experts three times in the last several years. Each time the rate was determined to be within a reasonable range, given the demographic profile of the plan **[see Appendix G for list of expert reviews].** Other pension plans may use different discount rates because their membership characteristics are different.
- For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.

Ontario

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
  - This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors have agreed to file this valuation with FSCO and use part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP is currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board
  - The sponsors each appoint five members to the Board and they jointly appoint the Chair.
    - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
    - The current Chair is Jean Turmel. His term ends December 2016 but is expected to be reappointed.
  - Board members terms are two years and members are limited to serving four consecutive terms.
  - A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
  - The Board sets the remuneration levels for the members.
- The five Board of Directors appointed by the OTF are: John Murray, Bill Chinery, Rod Albert, Patti Croft and Lise Fournel.
- Chair – Jean Turmel.

Ontario

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Francine LeBlanc-Lebel, President • Diane Dewing, Past President • Michael Foulds, 1st Vice President

Ontario

Appendix C: Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, up to 50% of the amount of foregone inflation. This is seen as the Government “sharing equal pain”.

Ontario

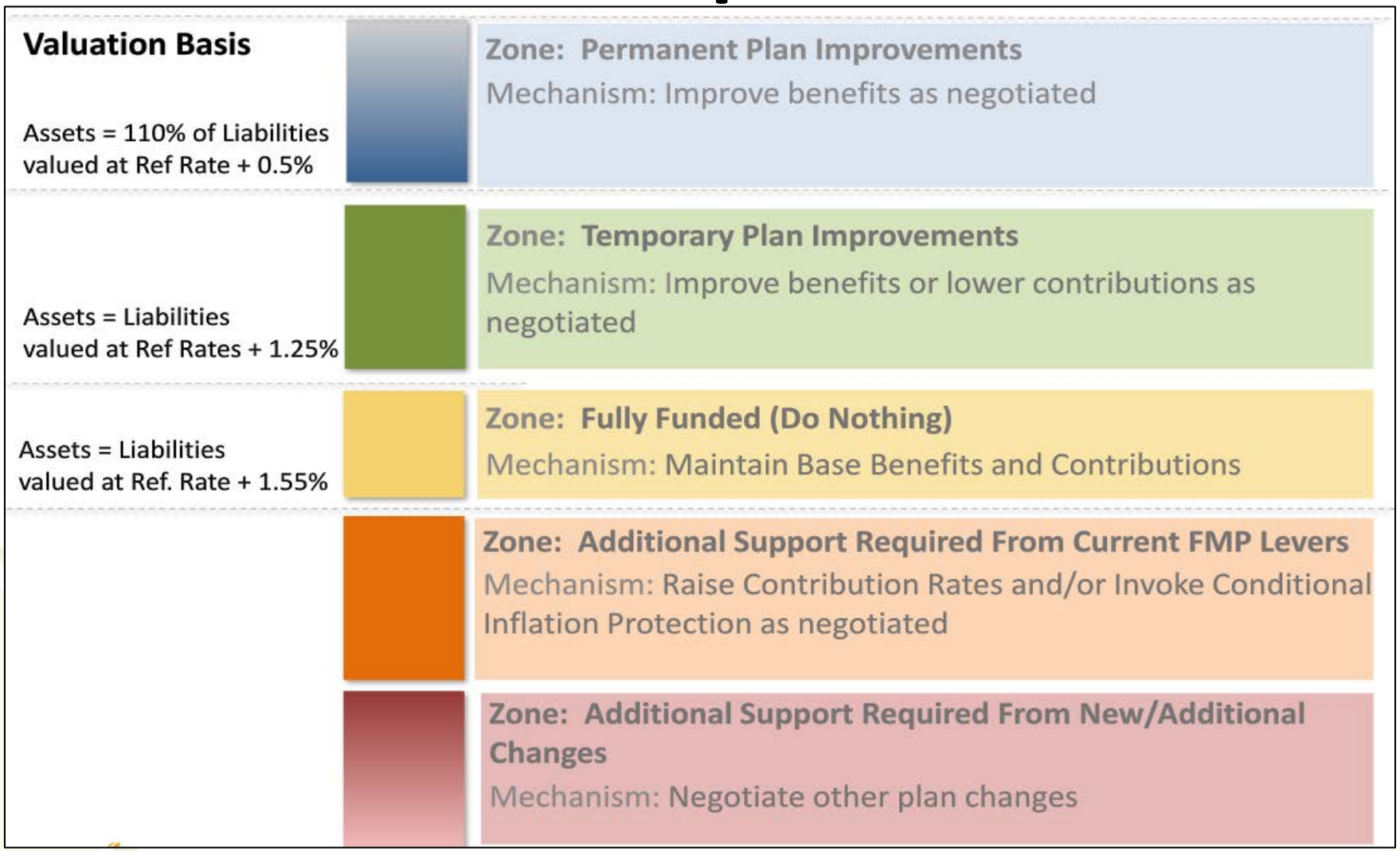
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Morton, Sarah (EDU) []
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Inselsbacher, Karen (MET) [SOM.Karen.Inselsbacher@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: OTPP documents
Date: Friday, September 09, 2016 22:15:15
Attachment 1: Schedule 1 - 20140721.pdf
Attachment 2: 20150928 amendment.pdf
Attachment 3: 20150922 amendment.pdf
Attachment 4: 20151128 amendment.pdf
Attachment 5: Current - Partners' Agreement - 03-06-15.pdf
Attachment 6: 20150521 amendment.pdf

Confidential

Hi all,

Apologies for missing the call I was driving to the cottage. The documents that I am aware of that could be relevant to this analysis are:
-Schedule 1 to the Teachers' Pension Act which is the text of the pension plan, (plus the amendments made in 2015. I do not have a consolidated electronic version) (attached)
-The Partners' Agreement + one amendment (again no consolidated version) (attached)
-The Funding Management Plan which is an appendix to the Partners Agreement. I will send that by way of another email.

Sincerely,
Sarah Morton

ONTARIO TEACHERS' PENSION PLAN

SCHEDULE 1 to the *TEACHERS' PENSION ACT*

PART I
INTERPRETATION

Definitions

1. (1) In this Schedule,

“active member” means a person employed in education who is making contributions under the plan and includes a person receiving payments under a long term income protection agreement and by whom or on whose behalf contributions are being made in accordance with subsection 21 (1); (Last amended August 4, 2011 – Effective September 1, 2011)

"active member on LTIP" means an active member as described in section 6;

"administrator" means the Ontario Teachers' Pension Plan Board; (Last amended June 28, 1990 - Effective June 28, 1990)

"average salary", of a member, means the average salary determined in accordance with section 15;

“benefit” means an amount payable under the pension plan, including a pension, a commuted value or a lump-sum payment; (Last amended May 5, 2010 – Effective September 1, 2002)

"board of education" has the same meaning as "board" in subsection 1 (1) of the *Education Act*;

"child" has the same meaning as in subsection 1 (1) of the *Family Law Act*;

"date of disability", of an active member on LTIP, means the date on which the member ceases to be employed in education as a result of the disability;

"dependent child" means a child of a deceased member who was dependent on the member for support at the time of the member’s death, and who,

(a) is less than eighteen years of age, or

(b) is eighteen or more years of age but less than twenty-five years of age and is in full-time attendance at a school or university, having been in such attendance substantially without interruption since the child reached eighteen years of age or since the member died, whichever occurred later, or

(c) is disabled, having been disabled without interruption since the member died;

(Last amended May 5, 2010 – Effective January 1, 1992)

"designated organization" means an organization designated under subsection 119 (2);

"designated private school" means a school designated under subsection 119 (1);

"employed in education" means employed as described in section 2, 6, 7, 8 or 9; (Last amended October 10, 1995 - Effective January 1, 1990)

“employer-approved leave” means a leave of absence, with or without pay, to which the member’s employer consents; (Last amended July 21, 2014 – Effective September 1, 2014)

“long term income protection agreement” means an agreement to provide long term income protection in the event of a member’s long term disability that is entered into by an insurer within the meaning of section 1 of the *Insurance Act* and,

(a) the Minister of Education;

(b) a board of education;

(c) the Ontario Teachers’ Federation established under the *Teaching Profession Act*;

(d) an affiliated body described in the *Teaching Profession Act*; or

(e) an authority approved by the administrator.

(Last amended August 4, 2011 – Effective September 1, 2011)

"member" means a person who, as a result of his or her employment in education, is entitled to benefits or to a refund of contributions under the pension plan;

"re-employed pensioner" means a member who, after

(a) ceasing to be employed in education before, on or after September 1, 2012, and

(b) the beginning of the month in which the member’s retirement pension under the plan begins,

is employed by or otherwise engaged, directly or indirectly, to provide services for compensation for an employer who participates in the pension plan; (Last amended June 20, 2012 – Effective September 1, 2012)

“school day” has the same meaning as “school day” in subsection 1 (1) of the *Education Act* as amended from time to time; (Last amended July 21, 2014 – Effective September 1, 2014)

"school year" means the twelve-month period that normally begins on the 1st day of September, however, for a member whose school year commences prior to September 1st, the administrator may determine the days that the member is required to work prior to September 1st to be in the subsequent school year; (Last amended September 8, 2006 – Effective September 1, 2006)

“short absence” means an employer-approved leave of five or fewer consecutive school days; (Last amended July 21, 2014 – Effective September 1, 2014)

"spouse" means either of two persons who,

(a) are married to each other, or

(b) are not married to each other and are living together in a conjugal relationship,

(i) continuously for a period of not less than three years, or

(ii) in a relationship of some permanence, if they are the natural or adoptive parents of a child, both as defined in the *Family Law Act;*

(Last amended September 8, 2006 – Effective June 10, 2003)

"standard interest rate" means the interest rate determined under section 89;

"statutory leave" means any leave of absence within the meaning of the *Employment Standards Act, 2000* as amended from time to time; (Last amended September 8, 2006 – Effective September 4, 2001)

"Year's Maximum Pensionable Earnings", in relation to a year, means the Year's Maximum Pensionable Earnings prescribed under the *Canada Pension Plan.*

Qualification as a teacher

(2) A person is considered to be qualified as a teacher for the purposes of membership in the pension plan,

(a) if the person has obtained teacher certification from one of the Ministry of Education or the Ontario College of Teachers; or

(b) if a board of education holds a letter of permission granted by the Minister of Education in respect of the person.

(Last amended November 27, 2000 – Effective May 20, 1997)

Employment

(3) A person is considered to be employed,

(a) full-time, if the person is required to work throughout each work day of a year or of a session; and

(b) part-time, if the person is required to work on a regular but not full-time basis.

Idem

(4) A person is considered to be employed on an occasional basis as a teacher and not part-time if the person is an occasional teacher within the meaning of section 1 of the *Education Act*.

PART II
PARTICIPATION

A. Membership in the Plan

Eligibility for membership

2. (1) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is employed,

(a) as a teacher, as determined by the administrator, in a school within the meaning of subsection 1 (1) of the *Education Act*;

(b) as a teacher in a school outside Ontario under an approved teacher exchange system;

(c) as a teacher by the minister of a ministry of the Government of Ontario;

(d) as a teacher in a school or a class operated by the Toronto and Region Conservation Authority; or

(e) by a board of education.

(Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(2) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is employed in a designated private school or a designated organization. (Last amended December 21, 2007 – Effective September 1, 2008)

Idem

(2a) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and has taken a statutory leave from employment in education which leave began prior to the 1st day of September, 2010. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(2b) Every person is eligible to be an active member of the pension plan who is qualified as a teacher and is receiving payments for loss of earnings in respect of employment in education under the *Workplace Safety and Insurance Act*. (Last amended September 8, 2006 – Effective September 1, 2006)

Exception

(3) No person is eligible to be an active member of the pension plan,

(a) if the person is regularly employed outside Ontario and is performing services in Ontario under an approved teacher exchange system; or

(b) beyond November 30th of the calendar year in which the person attains seventy-one years of age, or beyond such other time as is permitted under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Commencement of membership

3. (1) Every person employed as described in subsection 2 (1) full-time or part-time becomes an active member of the plan on the later of,

(a) the 1st day of January, 1990;

(b) the date the employment contract begins; or

(c) the date on which the person becomes qualified as a teacher.

(Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(2) Subject to subsection 5 (1), every person employed as described in subsection 2 (2) full-time or part-time becomes an active member of the plan on the day that is the latest of,

(a) the 1st day of January, 1990;

(b) the date the employment contract begins; or

(c) the date the designation of the private school or the organization is effective.

Idem

(3) Every person employed in education on an occasional basis becomes an active member of the plan on the person's first day of employment in a school year. (Last amended February 20, 1997 - Effective January 1, 1997)

(3a) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

Commencement of membership, re-employed pensioner

(4) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(4a) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(5) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Idem

(6) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Election re occasional employee

4. (1) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

Obligations

(2) Revoked. (Last amended October 10, 1995 - Effective September 1, 1996)

Election re designated private schools, etc.

5. (1) A person employed at a designated private school or a designated organization on the date the designation becomes effective may elect not to become an active member of the plan.

Time for election

(2) An election under this section is not effective unless delivered in writing to the governing body of the designated private school or designated organization and to the administrator,

(a) not later than three months after the effective date of designation for the private school or organization, if the person is qualified as a teacher when the designation takes effect; or

(b) not later than three months after the date the person becomes qualified as a teacher, if the person is not so qualified on the effective date of designation for the private school or organization.

Not applicable

(3) This section does not apply to a person who is an active member of the plan or to a person who is receiving a pension under the plan on the date the designation becomes effective. (Last amended September 8, 2006 – Effective September 1, 2002)

Further election

(4) This section applies with necessary modifications to a person employed at a designated private school or a designated organization on September 1, 2008, who becomes eligible for active plan membership on that date in accordance with subsection 2 (2). The required election must be delivered by December 1, 2008. (Last amended December 21, 2007 – Effective September 1, 2008)

Active member on LTIP

6. (1) An active member who begins to receive payments under a long term income protection agreement continues as an active member of the plan until the earlier of:

(a) the date the member ceases to receive payments under the long term income protection agreement;

(b) the date the member begins receiving a benefit under the pension plan; or

(c) the end of the calendar year in which the member attains seventy-one years of age, or such other time as is permitted under the *Income Tax Act* (Canada).

(Last amended August 4, 2011 – Effective September 1, 2011)

Idem

(1a) For the purposes of subsection (1), an active member who has been approved for payments under a long term income protection agreement but is not receiving payments by reason of the application of offset or all-source maximum provisions of the long term income protection agreement shall be deemed to receive payments under a long term income protection agreement. (Last amended August 4, 2011 – Effective September 1, 2001)

Idem

(1b) For the purposes of subsection (1) and subject to the limits set forth therein, an active member who receives payment in the form of a lump sum under a long term income protection agreement shall be deemed to receive payments under a long term income protection agreement for the period determined by the administrator. (Last amended August 4, 2011 – Effective September 1, 2011)

Evidence of medical condition

(1c) The administrator may at any time require a member described in subsection (1b) to furnish evidence, in such form as the administrator directs, that the member is disabled as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada) throughout the period of active membership on LTIP. The period of active membership on LTIP of a member described in subsection (1b) shall terminate at the end of the month in which the administrator notifies the member that the administrator is not satisfied that the member is disabled. (Last amended August 4, 2011 – Effective September 1, 2011)

Return to employment

(1d) If a member described in subsection (1b) becomes employed in education, other than as an active member on LTIP, and the percentage of full-time basis of that employment is equal to or greater than the percentage of full-time basis upon which the member was employed immediately prior to becoming disabled, the member shall be deemed to have ceased to receive payments under a long term income protection agreement on the date that the member commences that period of employment in education. (Last amended August 4, 2011 – Effective September 1, 2011)

Eligibility

(2) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(3) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Definition

(4) Revoked. (Last amended August 4, 2011 – Effective September 1, 2011)

Active membership, university faculty

7. (1) A member who, during an employer-approved leave, becomes employed on the staff of a faculty of education of an Ontario university on or after the 1st day of January, 1990 is an active member of the plan. (Last amended July 21, 2014 – Effective September 1, 2014)

Limitation

(2) A person is eligible for active membership under this section for a maximum of five school years.

Not applicable

(3) This section does not apply to a person who is employed on the staff of a faculty of education of an Ontario university that is designated under section 119. (Last amended September 8, 2006 – Effective September 1, 2002)

Transitional re universities

8. (1) A person who, on the 1st day of January, 1990, is qualified as a teacher and is employed full-time on the staff of a faculty of education of an Ontario university is an active member of the plan as long as the person continues in full-time or part-time employment at such a faculty.

Idem, part-time employee

(2) A person who, on the 1st day of January, 1990, is qualified as a teacher and is employed part-time on the staff of a faculty of education of an Ontario university is an active member of the plan as long as the person continues either part-time or full-time employment at such a faculty.

Not applicable

(3) This section does not apply to a person who is employed on the staff of a faculty of education of an Ontario university that is designated under section 119. (Last amended September 8, 2006 – Effective September 1, 2002)

Transitional re Ryerson, CAATs

9. (1) This section applies with respect to a person who,

(a) is qualified as a teacher and is employed by Ryerson University; or

(b) was deemed, under a predecessor of this Act, to be employed in education by a college of applied arts and technology. (Last amended May 5, 2010 – Effective July 1, 2002)

Idem, full-time employee

(2) A person who, on the 1st day of January, 1990, has been employed full-time by Ryerson University or a college of applied arts and technology continuously since the 1st day of September, 1984 is an active member of the pension plan as long as the person continues in full-time employment either at Ryerson or at such a college. (Last amended May 5, 2010 – Effective July 1, 2002)

Idem, part-time employee

(3) A person who, on the 1st day of January, 1990, has been employed part-time by Ryerson University or a college of applied arts and technology continuously since the 1st day of September, 1984 is an active member of the pension plan as long as the person continues in part-time or full-time employment either at Ryerson or at such a college. (Last amended May 5, 2010 – Effective July 1, 2002)

B. Credit for Service

Credited service

10. (1) An active member receives one year of credited service for working a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

(1a) For the purpose of determining credited service of an active member under this section, for the period to August 31, 2001, the administrator may use one or more standard calendars. (Last amended April 15, 1998 - Effective January 1, 1990)

Idem, partial year

(2) An active member receives credited service for part of a year in the proportion that the number of hours or days worked by the member during the school year bears to the number of hours or days in a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Credited service during statutory leave

(2a) Despite subsections (1) and (2) an active member who makes contributions during a statutory leave which began prior to the 1st day of September, 2010 receives credited service for the number of days which the member would have worked during that leave to earn the amount of pensionable salary attributed to the member in calculating the member's contributions during the leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Credited service during LTIP

(2b) (a) Despite subsections (1) and (2), an active member who is receiving payments under a long term income protection agreement and in respect of whom required contributions are being made in accordance with subsection 21 (1) shall receive credited service for the period that the member's employer reports the member would have worked if the member had worked throughout the school year. (Last amended August 4, 2011 – Effective September 1, 2011)

(b) Despite subsections (1) and (2), an active member who receives payment in the form of a lump sum under a long term income protection agreement and in respect of whom required contributions are being made in accordance with subsection 21 (1) shall receive credited service for the period to which the lump sum payment relates, as determined by the administrator in accordance with subsection 6 (1b). (Last amended August 4, 2011 – Effective September 1, 2011)

Credited service during WSIB

(2c) Despite subsections (1) and (2), an active member who is receiving payments for loss of earnings under the *Workplace Safety and Insurance Act* and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if the member had worked throughout the school year. (Last amended September 8, 2006 – Effective September 1, 2006)

Idem

(2d) Despite subsection (2b), for the period of September 1, 2001 to August 31, 2006, where the credited service of an active member as described in subsection 6 (1a) is subject to the certification of a Past Service Pension Adjustment under the *Income Tax Act* (Canada), an active member shall receive credited service only once the administrator has obtained a certificate from the Minister of National Revenue. (Last amended August 4, 2011 – Effective September 1, 2011)

Credited service during sick leave

(2e) Despite subsections (1) and (2), an active member who is receiving sick leave payments, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the sick leave. (Last amended December 19, 2012 – Effective September 1, 2012)

Credited service during unpaid professional activity days

(2f) Despite subsections (1) and (2), an active member who is subject to unpaid professional activity days, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the unpaid professional activity days. (Last amended April 2, 2013 – Effective September 1, 2012)

Credited service during a short absence

(2g) Despite subsections (1) and (2), an active member who is on a short absence, and in respect of whom required contributions are being made, shall receive credited service for the period that the member's employer reports the member would have worked if not for the short absence. (Last amended July 21, 2014 – Effective September 1, 2014)

Idem, more than full-time school year

(3) Where an active member works more than a full-time school year he or she is not entitled to credited service for hours or days worked which are in excess of a full-time school year if he or she is entitled to a refund of contributions under s. 28, whether or not the refund is paid. (Last amended June 28, 1990 - Effective June 28, 1990)

Limitation

(4) Except for periods of lockout or legal strike a person shall not receive credited service for employment unless contributions in respect of the employment are made by or on behalf of that person. (Last amended June 29, 1994 - Effective January 1, 1990)

Idem

(5) No person is entitled to receive more than one year of credited service in respect of the person's employment during one school year.

Idem

(6) Subject to subsection (7), no person is entitled to accumulate more than thirty-five years of credited service under the plan in respect of a period prior to the 1st day of January, 1992. (Last amended February 28, 1992 - Effective January 1, 1992)

Exception

(7) A member who accumulates thirty-five years of credited service may continue to accumulate credited service until the month in which he or she reaches the age which, when added to the member's credited service equals ninety. (Last amended February 28, 1992 - Effective January 1, 1992)

Idem

(8) Despite subsection (7) a member may accumulate credited service greater than the limit set out therein with respect to a period after the 31st day of December, 1991. (Last amended June 1, 1995 - Effective June 1, 1995)

Partial year

11. (1) The length of a member's qualifying service determined under this section applies for the purpose of determining the member's entitlement to a benefit but does not apply for the purpose of calculating the amount of the benefit. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(2) If a member accumulates more than ten days but less than or equal to one year of credited service as determined under sections 10, 96, 97 or 97a during one school year, the member's qualifying service shall be considered to equal one year. (Last amended May 5, 2010 - Effective September 1, 2001)

Idem

(2a) If the administrator is unable to determine in which of two successive school years the credited service of a member described in subsection (2) took place, it shall be deemed to have taken place in the earlier year. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(3) If a member described in subsection (2), or a survivor of a member, receives a pension during the school year, the member shall receive qualifying service only for those months which the member, or survivor of the member, as the case may be, does not receive a pension. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(4) If a member described in subsection (2) becomes employed in education for the first time on or after the 1st day of January, 1990, the member shall receive qualifying service only for that portion of the school year during which the member is an active member. (Last amended October 10, 1995 - Effective September 1, 1995)

Idem

(5) Revoked. (Last amended October 10, 1995 - Effective September 1, 1995)

Purchases of credit

(6) Subsection (2) shall include credited service accumulated by a member for a school year under section 94 or 95 in respect of periods on or after the 1st day of September, 2010, provided that the member has completed a purchase of the entire eligible absence period in respect of that school year. (Last amended August 4, 2011 – Effective September 1, 2010)

Partial purchases of credit

(7) If a member referred to in subsection (6) does not complete a purchase of the entire eligible absence period for a school year, the member shall only receive qualifying service in respect of the purchase equal to the member's credited service in respect of the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Limitation

(8) A member is not entitled to accumulate more than one year of qualifying service under this section in respect of a school year. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(9) If a member accumulates ten days or less of credited service in respect of a school year, the member shall receive qualifying service for that school year equal to the member's credited service for that school year. (Last amended December 30, 2009 - Effective September 1, 2010)

C. Calculation of Pensionable Salary

Pensionable salary

12. (1) A member's pensionable salary for a school year is the remuneration paid to the member respecting employment in education and excludes,

(a) remuneration for services other than for employment in education;

(b) perquisites related to employment;

(c) payments related to accumulated sick leave or other employment benefit credits;

(d) payments related to retirement or termination of employment;

(e) payments to reimburse the member for expenses incurred during the course of employment;

(f) payments related to employment or for loss of earnings under the *Workplace Safety and Insurance Act* during a period in which the member is already an active member under section 6; (Last amended May 5, 2010 – Effective September 1, 2006)

(g) payments related to employment during a period in which the member is already an active member by virtue of receiving payments for loss of earnings under the *Workplace Safety and Insurance Act*; and (Last amended September 8, 2006 – Effective September 1, 2006)

(h) any remuneration paid to the member respecting employment in education that exceeds an annual rate of pay of six times the Year's Maximum Pensionable Earnings in effect each year. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(2) Pensionable salary excludes the amounts described in clauses (1) (a) to (h) whether paid under a contract or gratuitously by an employer. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(3) The pensionable salary of a member who receives board or lodging related to employment in education shall be deemed to be such amount, having regard for the value of the board or lodging, as is determined by the administrator.

Idem

(4) The pensionable salary of a member who is entitled to a refund under s. 28 (overpayment) shall be reduced by the amount of remuneration for which the contributions could have been refunded, whether or not the refund is paid. (Last amended June 28, 1990 - Effective June 28, 1990)

Pensionable salary during statutory leave

(5) The pensionable salary of an active member who makes contributions for a statutory leave which began prior to the 1st day of September, 2010 is the remuneration that the member's employer reports that the member would have earned if the member had not taken a statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Pensionable salary during WSIB

(5a) The pensionable salary of an active member who is receiving payments for loss of earnings under the *Workplace Safety and Insurance Act* is the remuneration that the member's employer reports that the member would have earned if the member had not been receiving such payments under the *Workplace Safety and Insurance Act*. (Last amended September 8, 2006 – Effective September 1, 2006)

Pensionable salary during sick leave

(5b) For the purposes of subsection 10 (2e), the pensionable salary of an active member who is receiving sick leave payments is the remuneration that the member's employer reports that the member would have earned if not for the sick leave. (Last amended December 19, 2012 – Effective September 1, 2012)

Pensionable salary during unpaid professional activity days

(5c) For the purposes of subsection 10 (2f), the pensionable salary of an active member who is subject to unpaid professional activity days is the remuneration that the member's employer reports that the member would have earned if not for the unpaid professional activity days. (Last amended April 2, 2013 – Effective September 1, 2012)

Pensionable salary during a short absence

(5d) For the purposes of subsection 10 (2g), the pensionable salary of an active member who is on a short absence is the remuneration that the member's employer reports that the member would have earned if not for the short absence. (Last amended July 21, 2014 – Effective September 1, 2014)

Pensionable salary

(6) Revoked. (Last amended June 29, 1994 - Effective January 1, 1992)

Deferred salary leave plans

12a. (1) This section applies to a member who participates in a deferred salary leave plan entered into in writing between the member and his or her employer. (Last amended April 2, 2001- Effective September 1, 2001)

Deemed pensionable salary

(2) Despite subsection 12 (1) the pensionable salary of a member referred to in subsection (1) is the amount that the member's employer advises the administrator would have been paid to the member but for the member's participation in a deferred salary leave plan. (Last amended June 29, 1994 - Effective January 1, 1992)

Coming into force

(3) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Pensionable salary re active member on LTIP

13. (1) The pensionable salary of an active member on LTIP is the remuneration that the member's employer reports the member would have earned if the member had worked throughout the school year in which the member began receiving LTIP benefits. (Last amended April 2, 2001- Effective September 1, 2001)

Idem

(2) Revoked. (Last amended April 2, 2001- Effective September 1, 2001)

Idem

(3) Despite subsection (1), for the period of September 1, 2001 to August 31, 2011, the pensionable salary of an active member as described in subsection 6 (1a) shall be the greater of:

(a) the pensionable salary determined in accordance with subsection (1) and increased in accordance with subsections 15 (4) to (4c); and

(b) the pensionable salary determined in accordance with subsection 12 (5a).

(Last amended August 4, 2011 – Effective September 1, 2011)

Pensionable salary re purchases of credit prior to September 1, 2010

14. (1) The pensionable salary of a member who purchases credited service under section 94, 95 or 96 for an absence is the amount of remuneration that, in the opinion of the member's employer, the member would have earned had he or she not taken the absence. (Last amended April 2, 2001 - Effective September 1, 2001)

Idem re pensionable salary for purchases on or after September 1, 2010

(1a) Despite subsection (1), the pensionable salary for a purchase of credited service under section 94, 95 or 96, where the member has not completed payment prior to the 1st day of September, 2010 for the entire eligible absence period, is an amount based upon the annual pensionable salary that, in the opinion of the administrator, the member earned prior to the start of the absence as adjusted in accordance with this section. (Last amended October 19, 2012 – Effective September 1, 2010)

Adjusted pensionable salary

(1b) For the purposes of subsection (1a), a member’s pensionable salary for an absence is adjusted after the school year in which the member began the absence by multiplying the pensionable salary for that year by the accumulated adjustment ratio determined in the manner set out in subsection (1d). (Last amended June 20, 2012 – Effective September 1, 2010)

Exception

(1c) Despite subsection (1b), where an absence begins on the first day of the member’s school year, the pensionable salary is adjusted in the manner set out in subsection (1b) beginning with the school year in which the member began the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Accumulated adjustment ratio

(1d) A member's accumulated adjustment ratio for purposes of subsection (1b) is the product of the basic ratio for each school year beginning with the school year following the school year in which the member began the absence and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended December 30, 2009 - Effective September 1, 2010)

Exception

(1e) Despite subsection (1d), where an absence begins on the first day of the member’s school year, the member's accumulated adjustment ratio for purposes of subsection (1b) is the product of the basic ratio for each school year beginning with the school year in which the member began the absence and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended December 30, 2009 - Effective September 1, 2010)

Basic ratio

(1f) The basic ratio for a school year referred to in subsections (1d) and (1e) is a factor provided by the Minister. (Last amended December 30, 2009 - Effective September 1, 2010)

Alternative basic ratio

(1g) In the event that the basic ratio described in subsection (1f) is not provided by the Minister before the date that the cost for the purchase of credited service is calculated, the basic ratio for a school year referred to in subsections (1d) and (1e) is the ratio expressed to three decimal places that the average for the consumer price index over the last twelve months of the twenty-four month period ending with the 31st day of July in the preceding school year bears to the average for the consumer price index over the first twelve months of that period. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(1h) For the purposes of subsection (1g), "consumer price index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada). (Last amended December 30, 2009 - Effective September 1, 2010)

Transition

(1i) Revoked. (Last amended October 19, 2012 - Effective September 1, 2010)

Grandfathering the portion of an absence previously considered complete

(1j) Despite subsection (1a), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the pensionable salary for that portion of the absence is determined in accordance with subsection 14(1). (Last amended October 19, 2012 - Effective September 1, 2010)

Idem re pensionable salary for the remaining portion of an employer approved leave

(1k) Despite subsection (1a), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the pensionable salary for any remaining subsequent portion of the entire eligible absence period that is an employer-approved leave is determined in accordance with subsection (1j), and adjusted, with necessary modifications, in accordance with subsections (1b) to (1h). (Last amended October 19, 2012 - Effective September 1, 2010)

Idem

(2) The pensionable salary of a member who purchases credited service under section 103 is the amount of the member's remuneration for employment during the applicable period.

(3) The pensionable salary described in subsection 14(2) shall not be used in the calculation of the average salary of the member. (Last amended June 29, 1994-Effective January 1, 1992)

Average salary

15. (1) The average salary of a member,

(a) with more than five years' qualifying service is the average of the member's annual pensionable salary for the five school years during which it was highest; and

(b) with five years' or less qualifying service is the average of the member's annual pensionable salary. (Last amended October 10, 1995 - Effective September 1, 1995)

Part-time or occasional employee

(2) For the purpose of determining the average salary of a member employed more than ten days but less than a full-time school year or an active member on LTIP whose LTIP payments are based upon a less than full-time salary, the annual pensionable salary of the member is calculated using the formula,

$$(A/B) \times C$$

in which,

"A" is the amount of the member's pensionable salary for the school year,

"B" is the lesser of,

(a) the number of days of credited service accumulated by the member during the school year, and

(b) the number of days in a full-time school year, and

"C" is the number of days in a full-time school year except,

(a) in the first year of the member's employment in education when it is the number of days between the first day worked by the member and the end of the school year, or

(b) in the final year of active membership when it is the number of days in a full-time school year between the beginning of the school year and the date the member's pension or the pension of a survivor of the member begins. (Last amended February 20, 1997 - Effective January 1, 1997)

Employee working less than full final year

(2a) For the purpose of determining the average salary of a member employed more than ten days but less than a full-time school year during his or her final year of active membership, the pensionable salary of the member as determined under subsection (2) for that final year shall be increased by an amount calculated using the formula,

$$A \times B/C$$

in which,

"A" is the member's pensionable salary for the school year in which it was sixth highest,

"B" is the number of days in a full-time school year between the date the member's pension or the pension of a survivor of the member begins and the end of the school year, and

"C" is the number of days in a full-time school year. (Last amended February 20, 1997 - Effective January 1, 1997)

Purchases of credit

(2b) Subsections (2) and (2a) shall apply, with necessary modifications, to credited service accumulated by a member for a school year under section 94 or 95 in respect of periods on or after the 1st day of September, 2010, provided that the member has completed a purchase of the entire eligible absence period in respect of that school year. (Last amended August 4, 2011 – Effective September 1, 2010)

Restriction

(3) Revoked.

(a) Revoked.

(b) Revoked. (Last amended October 10, 1995 - Effective September 1, 1995)

Inflation adjusted pensionable salary

(4) For the purposes of this section, the pensionable salary for an active member on LTIP is increased after the school year in which the member began receiving LTIP benefits by multiplying the pensionable salary for that year, as determined under section 13, by the accumulated adjustment ratio determined in the manner set out in subsection (4a). (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4a) A member's accumulated adjustment ratio for purposes of subsection (4) is the product by multiplication of the basic ratio for each school year beginning with the school year following the school year in which the member began receiving LTIP benefits and ending with the school year for which the accumulated adjustment ratio is being determined. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4b) The basic ratio for a school year referred to in subsection (4a) is the ratio expressed to three decimal places that the average for the consumer price index over the last twelve months of the twenty-four month period ending with the 30th day of September in that school year bears to the average for the consumer price index over the first twelve months of that period. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4c) For the purposes of subsection (4b), "consumer price index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada). (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(4d) Subsections (4) to (4c) do not apply for the period of September 1, 2001 to August 31, 2011 in respect of a member who is an active member as described in subsection 6 (1a) and whose pensionable salary is determined in accordance with subsection 12 (5a). (Last amended August 4, 2011 – Effective September 1, 2011)

D. Transitional

Transitional re membership

16. (1) Every person who has credit in the Teachers' Superannuation Fund on the 31st day of December, 1989 and who is not entitled to an allowance under a predecessor of this Act becomes an active member of the pension plan upon completing one day of employment in education on or after the 1st day of January, 1990.

Idem, active member on LTIP

(2) Every person who was making contributions or on whose behalf contributions were being made on the 31st day of December, 1989 under an agreement referred to in section 4 of the *Teachers' Superannuation Act, 1983* or under a predecessor of that section is considered to be an active member on LTIP.

Transitional re credited service

17. Every active member shall be considered to have accumulated credited or qualifying service under the pension plan in an amount equal to the credited or qualifying service that he or she had accumulated under a predecessor of this Act. (Last amended October 10, 1995 - Effective September 1, 1995)

Re-employed pensioners

18. A re-employed pensioner making contributions under the pension plan or a predecessor of this Act on or after the 1st day of September, 1989 up to the 1st day of January, 1990 is entitled to a refund of contributions, if any, made in respect of the first ninety-five days or less of employment during that period.

PART III
CONTRIBUTIONS

A. Member Contributions

Amount of member's contributions

19. (1) Every active member who is required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan* shall contribute for a year, for salary paid after 2011,

(a) 10.4 per cent of that portion of the member's pensionable salary up to and including the amount of the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*; and

(b) 12 per cent of that portion of the member's pensionable salary that exceeds the amount of the Year's Maximum Pensionable Earnings. (Last amended August 4, 2011 – Effective January 1, 2012)

Idem

(2) Every active member who is not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan* shall contribute 12 per cent of the member's pensionable salary for the year, for salary paid after 2011. (Last amended August 4, 2011 – Effective January 1, 2012)

Maximum amount of contributions, R.S.C. 1952, C. 148

(2a) If a member's contributions calculated under this section for a period after the 31st day of December, 1991 exceeds the lesser of the maximum contribution permitted under the *Income Tax Act* (Canada) and the maximum contribution determined by the actuary, it shall be reduced to an amount equal to the lesser maximum. (Last amended December 21, 2006 – Effective January 1, 2007)

Deemed required to contribute to CPP

(2b) An active member who at any time after the end of the month in which he or she attains the age of 65 years and before the end of the month in which he or she attains the age of 70 years receives a Canada Pension Plan retirement pension shall contribute for salary paid after 2011 the contributions set out in paragraphs (1) (a) and (b) if an election under paragraph 12 (1) (c) of the *Canada Pension Plan* is not in effect at the time of the salary payment. (Last amended June 20, 2012 – Effective January 1, 2012)

Pensionable salary

(3) Revoked. (Last amended October 23, 1991 - Effective October 23, 1991)

Additional contributions

(4) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.0 per cent of the member’s pensionable salary for the year, for salary paid during the year 2007. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(5) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.3 per cent of the member's pensionable salary for the year, for salary paid during the year 2008. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(6) In addition to the contributions required under subsection (1) or (2), every active member shall contribute 2.1 per cent of the member's pensionable salary for the year, for salary paid after 2008 but before 2012. (Last amended August 4, 2011 – Effective January 1, 2012)

Idem

(7) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 0.4 per cent of the member's pensionable salary for the year, for salary paid during the year 2012. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(8) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 0.75 per cent of the member's pensionable salary for the year, for salary paid during the year 2013. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem

(9) In addition to the contributions required under subsection (1), (2) or (2b), every active member shall contribute 1.1 per cent of the member's pensionable salary for the year, for salary paid after 2013 but before 2027. (Last amended June 20, 2012 – Effective January 1, 2012)

Contributions by members working more than full-time

19a. An active member who is employed on a full-time basis to work a full-time school year is not required to make a contribution for any employment during that school year in excess of a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Member contributions during statutory leaves

19b. An active member shall, during a statutory leave which began prior to the 1st day of September, 2010, contribute the applicable amount set out in section 19 unless the member has notified the employer in writing that she or he elects not to participate in the pension plan during the statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Member contributions during statutory leaves on or after September 1, 2010

19c. A member shall, during a statutory leave which begins on or after the 1st day of September, 2010, contribute the applicable amount set out in section 94 unless the member has notified the employer in writing that she or he elects not to participate in the pension plan during the statutory leave. (Last amended December 30, 2009 - Effective September 1, 2010)

Collection of member contributions

20. (1) The employer of an active member shall deduct the amount the member is required to contribute under section 19 from the salary paid to the member.

Transfer of amount deducted

(2) An employer shall deliver to the administrator or deposit to the account of the pension fund on or before the last day of each month in which a member's salary is paid the amount deducted for the member's contribution.

Interest payable

(3) An employer shall pay interest on amounts in arrears from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended September 8, 2006 - Effective January 1, 2003)

Idem

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended September 8, 2006 – Effective January 1, 2003)

Report to administrator

(4) An employer shall make such reports to the administrator as the administrator requires in respect of member contributions.

Member contributions not to be collected

(5) An employer shall not deduct from the salary paid to an active member employed on a full-time basis for a full-time school year an amount greater than the contributions payable under section 19 by an employee who works a full-time school year unless the member directs the employer to do so. (Last amended June 28, 1990 - Effective June 28, 1990)

Idem

(6) An employer who is provided with evidence that an active member is employed on a full-time basis for a full-time school year by another employer shall not make any deduction from the salary paid to that member for contributions under section 19 unless the member directs the employer to do so. (Last amended June 28, 1990 - Effective June 28, 1990)

Status of contributions

(7) A contribution which an active member directs his or her employer to deduct under subsection (5) or (6) is considered to be a required contribution for the purpose of sections 25 and 26. (Last amended June 28, 1990 - Effective June 28, 1990)

Underpayment of contributions

20a. (1) A member who has for any year contributed an amount less than that calculated under section 19 shall, upon being notified of the amount of the undercontribution, pay as a lump sum an amount equal to the undercontribution. (Last amended February 28, 1992 - Effective January 1, 1992)

Interest

(2) A member referred to in subsection (1) shall pay interest calculated at the standard rate on the amount of the undercontribution from the day the member is notified to the day before the undercontribution is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Contributions re active members on LTIP

21. (1) The amount of the required contribution for an active member on LTIP is,

(a) 6.9 per cent of the pensionable salary of a member who becomes disabled before the 1st day of January, 1991, and

(b) 8.9 per cent of the pensionable salary of a member who becomes disabled after the 31st day of December, 1990,

except that payment of the required contribution is waived for a member who becomes disabled after the 31st day of August, 2001. (Last amended April 2, 2001 – Effective September 1, 2001)

Inflation adjusted pensionable salary

(2) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(2a) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(2b) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem S.C. 1970 - 1971 - 1972 c. 15

(2c) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

(2d) If a member's contribution calculated under subsection (1) for a period after the 31st day of December, 1991 exceeds the lesser of the maximum contribution to a registered pension plan permitted under the *Income Tax Act* (Canada) and the maximum contribution determined by the actuary, it shall be reduced to an amount equal to the lesser maximum. (Last amended June 1, 1995 - Effective June 1, 1995)

Restriction re election

(3) Revoked. (Last amended October 23, 1991 - Effective October 23, 1991)

Notice of status

(4) An active member on LTIP shall give notice on the first day of each school year to his or her employer or former employer that the member continues to be an active member on LTIP.

Minister's payments re active member on LTIP

22. The contributions required under subsection 21 (1) from an active member on LTIP who is receiving benefits under a long term income protection plan established under the *Public Service Act* shall be paid on behalf of the member by the Minister.

Collection re active member on LTIP

23. (1) The required contribution for an active member on LTIP shall be paid to the person who was his or her employer on the date of disability.

Idem

(2) Payments under subsection (1) must be made on or before the fifteenth day of the month following the month in which each payment under the long term income protection agreement is made to the member.

Increased contributions

(3) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Transfer of contribution

(4) An employer to whom a payment in respect of an active member on LTIP is to be made under this section shall, whether or not the payment is made, deliver to the administrator on or before the last day of each month in which the member's LTIP payment is required the amount of the member's required contribution. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(5) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Interest payable

(6) Interest is payable on payments in arrears made to the employer or by the employer from the date the payment is due to the day before it is made, calculated at the standard interest rate plus 4 per cent. (Last amended February 28, 1992 - Effective January 1, 1992)

Cause of action

(7) An employer may maintain an action for the recovery of an amount paid to the administrator under subsection (4) if the employer has not received the corresponding payment of required contributions for an active member on LTIP.

Collection re member on statutory leave

23a. (1) An active member who has taken a statutory leave which began prior to the 1st day of September, 2010 and has not notified his or her employer in writing that she or he elects not to participate in the pension plan during the leave, shall pay the member's contribution to the member's employer on or before the normal pay day of the employer. (Last amended December 30, 2009 - Effective September 1, 2010)

(2) An employer to whom a payment in respect of an active member referred to in subsection (1) is to be made shall, whether or not the payment is made, deliver to the administrator on or before the last day of each month of the member's statutory leave the amount of the member's required contribution. (Last amended October 23, 1991 - Effective October 23, 1991)

(3) Interest is payable on payments due from the employer which are in arrears from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended May 5, 2010 – Effective January 1, 2003)

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended May 5, 2010 – Effective January 1, 2003)

(4) An employer may maintain an action for the recovery of an amount paid to the administrator together with interest thereon at the standard interest rate under this section if the employer has not received the corresponding payment of required contributions from the active member who has taken a statutory leave. (Last amended October 23, 1991 - Effective October 23, 1991)

B. Employer Contributions

Liability for contributions

24. (1) Employer contributions in respect of an active member employed as described in subsection 2 (1) shall be paid by the Minister.

Idem

(2) Subsection (1) does not apply with respect to any contribution in relation to which the member is required under this pension plan to make the contribution that would otherwise be made by the Minister.

Idem

(3) Employer contributions in respect of an active member employed as described in subsection 2 (2) or section 7, 8 or 9 shall be paid by the employer of the member.

Idem

(4) Employer contributions in respect of an active member on LTIP shall be paid by the person making the employer contributions in respect of the member immediately before the date of disability.

(5) No employer contribution, other than an eligible contribution under the *Income Tax Act* (Canada), shall be made to the plan. (Last amended June 29, 1994 - Effective January 1, 1992)

Contributions by the Minister

25. (1) The Minister shall contribute in each year an amount equal to the required contributions made during the year before the preceding year by or on behalf of those members for whom the Minister is required to make employer contributions.

Idem, active members on LTIP

(2) In addition to the amount required under subsection (1), the Minister shall contribute in each year, in respect of the year before the preceding year, 4 per cent of the pensionable salaries of active members on LTIP who become disabled before the 1st day of January, 1991. (Last amended June 3, 2009 – Effective January 1, 2010)

Idem

(2a) In addition to the amounts required under subsections (1) and (2), the Minister shall contribute in each year, in respect of the year before the preceding year:

(a) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP who became disabled after the 31st day of August, 2001, but for the waiver in subsection 21(1); and

(b) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP to increase the member's pensionable salary under section 15, if contributions were required on such increase in pensionable salary. (Last amended June 3, 2009 – Effective January 1, 2010)

Additional contributions

(2b) In respect of the year 2008, the Minister shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of active members in respect of whom required contributions were made during that year in accordance with section 19 and for whom the Minister is required to make employer contributions. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(2c) In respect of the year 2008, the Minister shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of members who purchase credit under the pension plan in respect of that year and for whom the Minister is required to make employer contributions. (Last amended December 21, 2007 – Effective January 1, 2007)

Idem

(2d) In addition to the amounts required under this section, the Minister shall contribute in each year a proportional amount of the difference, as calculated by the administrator, between the inflation adjustments that were included in pensions, commuted values and lump sum payments (other than reciprocal transfers) that were paid in the year before the preceding year and the inflation adjustments that would have been included in such benefits but for the combined application of subsections 80(3a) and (3b). The Minister's proportional amount shall be based on the pensionable salaries of active members for whom the Minister is required to make employer contributions, in respect of the year before the preceding year, as a percentage of the pensionable salaries of all active members for that year. (Last amended September 17, 2013 - Effective January 1, 2014)

Idem

(2e) For greater certainty, if inflation adjustments have ever been made in accordance with subsection 80(3d), the Minister's contributions pursuant to subsection 25(2d) shall be determined as if inflation adjustments had never been made in accordance with subsection 80(3d). (Last amended September 17, 2013 - Effective January 1, 2014)

Due date

(3) The Minister's contribution is due on the first business day following the 1st day of January in each year and not as required under the *Pension Benefits Act*. (Last amended June 28, 1990 - Effective June 28, 1990)

Interest payable

(4) Interest on the Minister's contribution is payable for the period beginning on the 1st day of June of the year that was two years before the date on which a payment is due and ending on the day before the payment is made, calculated at the standard interest rate in effect on that 1st day of June.

(4a) Despite subsections (3) and (4), $500,000,000 of the Minister's contribution due on January 4, 1993 shall be made on April 1, 1993 with interest at the rate of 11.25% per annum applied from January 4, 1993 to March 31, 1993. (Last amended May 29, 1992 - Effective May 29, 1992)

Idem, transitional

(5) Interest payable in respect of a period before the 1st day of January, 1990 shall be calculated,

(a) up to that date, in accordance with the *Teachers' Superannuation Act, 1983;*

(b) on and after that date, at the standard interest rate in effect on the 1st day of January, 1990.

Delivery

(6) The Minister shall deliver contributions to the administrator or deposit them to the account of the pension fund.

Order of Lieutenant Governor in Council

(7) To reduce the time between the date of payment mentioned in subsection (3) and the payment of contributions by or on behalf of those members for whom the Minister is required to make employer contributions, the Lieutenant Governor in Council may, despite subsections (1) and (4), by order require the Minister to make payments for such number of months in the preceding year as are specified in the order in respect of contributions in those months by or on behalf of those members for whom the Minister is required to make employer contributions.

Idem

(8) An order made under subsection (7) shall revise the period of time mentioned in subsection (1) in respect of which contributions by the Minister are computed so that it reflects the additional contributions required to be made by the Minister.

Idem

(9) An order under subsection (7) shall adjust the date from which interest is to be calculated under subsection (4) to reflect the reduced time between the last month in which contributions are made by or on behalf of those members for whom the Minister is required to make employer contributions and the month when the Minister pays an amount equal to those contributions.

Contributions by employers

26. (1) An employer shall contribute in each month an amount equal to the required contributions made during the month by or on behalf of those members for whom the employer is required to make employer contributions.

Idem, active members on LTIP

(1a) In addition to the amount required under subsection (1), an employer shall contribute:

(a) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP who became disabled after the 31st day of August, 2001, but for the waiver in subsection 21(1); and

(b) an amount equal to the required contributions that would have been made by or on behalf of active members on LTIP to increase the member's pensionable salary under section 15, if contributions were required on such increase in pensionable salary. (Last amended April 2, 2001 – Effective September 1, 2001)

Additional contributions

(1b) In respect of the year 2008, an employer shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of active members in respect of whom required contributions are made during that year in accordance with section 19 and for whom the employer is required to make employer contributions. (Last amended December 21, 2006 – Effective January 1, 2007)

Idem

(1c) In respect of the year 2008, an employer shall contribute, in addition to the amounts required under this section, an amount equal to 0.8 per cent of the pensionable salaries of members who purchase credit under the pension plan in respect of that year and for whom the employer is required to make employer contributions. (Last amended December 21, 2007 – Effective January 1, 2007)

Idem

(1d) In addition to the amounts required under this section, an employer shall contribute in each year a proportional amount of the difference, as calculated by the administrator, between the inflation adjustments that were included in pensions, commuted values and lump sum payments (other than reciprocal transfers) that were paid in the year before the preceding year and the inflation adjustments that would have been included in such benefits but for the combined application of subsections 80(3a) and (3b). The employer's proportional amount shall be based on the pensionable salaries of active members for whom the employer was required to make employer contributions, in respect of the year before the preceding year, as a percentage of the pensionable salaries of all active members for that year. (Last amended September 17, 2013 – Effective January 1, 2014)

Idem

(1e) For greater certainty, if inflation adjustments have ever been made in accordance with subsection 80(3d), an employer's contributions pursuant to subsection 26(1d) shall be determined as if inflation adjustments had never been made in accordance with subsection 80(3d). (Last amended September 17, 2013 - Effective January 1, 2014)

Due date

(2) An employer's contribution is due on the last day of the month.

Idem

(2a) Notwithstanding subsection (2), an employer's contribution under subsection (1d) is due on the first business day following the 1st day of January in each year. (Last amended June 3, 2009 – Effective January 1, 2010)

Interest payable

(3) Interest on an employer's contribution is payable from the date the payment is due to the day before it is made, calculated at the standard interest rate. (Last amended September 8, 2006 - Effective January 1, 2003)

Idem

(3a) An employer shall pay additional interest at the rate of 4 per cent compounded annually on amounts in arrears after the last day of the month following the month in which the employer billing occurs. (Last amended September 8, 2006 – Effective January 1, 2003)

Idem

(3b) Notwithstanding subsection (3), interest on an employer's contribution under subsection (1d) is payable from June 1st of the year before the preceding year to the day before the payment is made, calculated at the standard interest rate in effect on that June 1st. (Last amended June 3, 2009 - Effective January 1, 2010)

Delivery

(4) An employer shall deliver contributions to the administrator or deposit them to the account of the pension fund.

C. Refund of Overpayments

Refund error

27. The administrator shall refund contributions or other payments made in error or not permitted under the pension plan, together with interest, if the administrator received the contributions or other payments.

Overpayment of contributions

28. (1) This section applies to an active member who,

(a) (i) works more than a full-time school year during the school year, or

(ii) was employed on an occasional basis in addition to an absence purchased on a contributions plus interest basis in accordance with section 94; and (Last amended April 2, 2001 – Effective September 1, 2001)

(b) has made contributions greater than those required under s. 19 of a member working a full-time school year. (Last amended June 28, 1990 - Effective June 28, 1990)

Idem

(2) An active member described in subsection (1) is entitled to a refund of contributions calculated in accordance with subsection (4). (Last amended June 28, 1990 - Effective June 28, 1990)

Refund to employer

(3) Despite section 78 of the *Pension Benefits Act*, a person who has made employer contributions in respect of a member described in subsection (1) is entitled to a refund of employer contributions equal to the amount of the refund to which the member is entitled. (Last amended June 28, 1990 - Effective June 28, 1990)

Amount of refund

(4) The refund of contributions is calculated using the formula,

$$\mathbf{(A + B + C \ldots) \times N}$$

in which, "A", "B", "C" … is the series in which each variable is the amount of salary paid to the member at each different rate of salary earned by the member during the school year and/or the amount of salary attributable to the credit purchase in accordance with section 94, beginning with the lowest rate of salary and ending with the highest provided that the number of days for which salary is accumulated by the addition of variables does not exceed the number of days in excess of a full-time school year for which the member makes contributions, and

"N" is the per cent referred to in clause 19 (1) (b), plus any additional per cent of salary that was paid by the member in accordance with section 19 in respect of the salary being refunded, expressed as a decimal fraction. (Last amended December 21, 2006 – Effective January 1, 2007)

(4a) For the purposes of subsection (4), credit purchased on an actuarial cost basis, or transferred into the plan in accordance with section 104, will be deemed to be the highest rate of salary. (Last amended December 20, 1999 - Effective September 1, 1998)

Interest payable

(5) Interest is payable on a refund of contributions from the last day of the school year until the day before it is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Lump sum

(6) A refund of contributions shall be paid as a lump sum. (Last amended June 28, 1990 - Effective June 28, 1990)

Refund, re-employed pensioners

29. Despite subsection 63 (4) of the *Pension Benefits Act*, a person described in subsection 46 (3) of the *Teachers' Superannuation Act, 1983* who became re-employed in education for less than twenty days between the 1st day of September, 1986 and the 31st day of August, 1989 is entitled to the refund described in that section.

PART IV
PAYMENTS UPON TERMINATION OF MEMBERSHIP

A. Vesting

Vesting of benefits

30. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Payment of deferred pension

(3) A member who terminates membership in the pension plan on or after July 1, 2012 is entitled to a deferred pension calculated and paid in accordance with Part V. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of benefits upon death of member

(3a) Benefits payable in respect of a member who terminates membership in the pension plan as a result of the member's death on or after July 1, 2012, and before the commencement of payment of the deferred pension to which the member was entitled on the date of death, shall be calculated and paid in accordance with Part VII. (Last amended December 13, 2012 – Effective July 1, 2012)

Limit

(4) No person is entitled to more than one deferred pension in respect of the same period of employment.

Entitlement on termination of membership

31. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Limitation

(3) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Idem, transitional

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Rights of former members

32. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

B. Refunds and Transfers

Refund re post-1986 contributions

33. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund re pre-1987 contributions

34. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund at or after sixty-five years of age

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund re pre-1987 deferred pension

35. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Before reaching forty-five years of age

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

On or after forty-five years of age

(3) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Reduction in deferred pension

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

50 per cent rule

36. (1) A member entitled to a deferred pension relating to employment after the 31st day of December, 1986 is entitled to a refund, paid in a lump sum, upon ceasing to be employed in education, of the amount by which the member's required contributions plus interest for the period after that date exceeds one half of the commuted value of the deferred pension for that period. (Last amended June 19, 2012 – Effective July 1, 2012)

Exclusion

(2) Subsection (1) does not apply with respect to a member's contributions and credited service for which no corresponding employer contribution is required under section 25 or 26. (Last amended June 1, 1995 - Effective June 1, 1995)

(3) A member who receives a refund under subsection (1), who elects to receive a deferred pension and who subsequently becomes re-employed in education or completes a purchase of credited service, must repay the refund together with interest thereon before the pension commences. (Last amended September 8, 2006 - Effective September 1, 2001)

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(5) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(6) Revoked. (Last amended September 8, 2006 - Effective September 1, 2002)

(7) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (3) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2002)

Transfer re deferred pension

37. (1) A member entitled to a deferred pension who ceases to be employed in education is entitled to a transfer of the commuted value of the deferred pension, paid in a lump sum, to another retirement savings arrangement in accordance with section 42 of the *Pension Benefits Act* and to a refund or transfer of excess contributions, calculated under section 36, subject to the limitations of the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

(2) A member who is entitled to an immediate payment of a pension benefit is not entitled to a refund or transfer under this section. (Last amended September 8, 2006 – Effective June 1, 1995)

(3) A member who is entitled to a transfer under this section shall deliver a completed termination options application, including all supporting documentation, to the administrator within six months of the member’s termination of membership in the plan. (Last amended September 8, 2006 – Effective January 1, 1995)

(4) A termination options application completed after the deadline specified in subsection (3) shall be considered a new notification of intention to terminate membership in the plan and the member's entitlement to a transfer under this section shall be determined as of the new termination of membership date. (Last amended September 8, 2006 – Effective January 1, 1995)

Application for refund, etc.

38. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of refund

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

PART V
RETIREMENT PENSIONS

A. Entitlement to Pension

One pension only

39. (1) No member is entitled to more than one retirement pension under the pension plan in respect of the same period of credited service.

Idem

(2) A member receiving a disability pension under the pension plan is not eligible to receive a retirement pension.

Retirement

(3) No member is entitled to begin to receive a retirement pension or a disability pension while the member is employed in education until the end of the calendar year in which the member attains seventy-one years of age, or until such other time as is required under the *Income Tax Act* (Canada). (Last amended June 20, 2012 – Effective January 1, 2012)

Normal retirement date

40. The normal retirement date of a member is the first day of the month following the date on which the member reaches sixty-five years of age.

Entitlement to pension (2 year rule)

41. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension (2 year rule)

(3) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(3a) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Payment, pre-1987 service

(4) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation on pensions less than $2,400

(5) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (10 year rule), transitional

42. (1) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension (10 year rule)

(3) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(3a) Revoked. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (immediate vesting)

42a. (1) A member who terminates membership in the pension plan on or after July 1, 2012 is entitled to receive a retirement pension for the member's lifetime calculated under subsection (3). (Last amended June 19, 2012 – Effective July 1, 2012)

Commencement

(2) A retirement pension under this section begins as of the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of pension

(3) Subject to subsection (4), the amount of the retirement pension, before adjustment for inflation, is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction). (Last amended June 19, 2012 – Effective July 1, 2012)

Payment of pensions, predecessor Acts

(4) The retirement pension of a member who ceased to be employed in education prior to January 1, 1990 shall be calculated, with necessary modifications, in accordance with the terms of the *Teachers' Superannuation Act, 1983*, or a predecessor Act, and shall be paid out of the pension fund in accordance with the Act under which the member ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(5) If the amount of the retirement pension calculated under subsection (3) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation on pensions less than $2,400

(6) Subject to section 84, where the annual amount of the retirement pension calculated under subsection (3) or (4) is less than $2,400 the member is entitled to a pension in that lesser amount and not to a pension in the amount of $2,400 as provided for by Order in Council 1453/74. (Last amended June 19, 2012 – Effective July 1, 2012)

Exception

(7) Subsection (6) shall not apply to a member who has at least ten years of credited service in whole or in part before the 1st day of January, 1987 on the date he or she ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Limitation

(8) For greater certainty, subsection 76 (2) of the *Teachers' Superannuation Act, 1983* shall not apply to the retirement pension of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended June 19, 2012 – Effective July 1, 2012)

Entitlement to pension (special early retirement)

43. (1) A member who has accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals ninety years is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended October 10, 1995 - Effective September 1, 1995)

(1a) A member who ceases to be employed in education on or after June 1, 1998, and who has accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals eighty-five years is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended April 2, 2001 – Effective April 1, 2001)

Idem (35 year rule)

(2) A member who ceases to be employed in education after the 31st day of May, 1987 and before the 1st day of September, 1990 and who has thirty-five years of qualifying service is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended October 10, 1995 - Effective September 1, 1995)

(2a) A member who has accumulated thirty-five or more years of credited service is entitled to a retirement pension for the member's lifetime calculated under subsection (4). (Last amended February 20, 1997 - Effective January 1, 1997)

Commencement

(3) A retirement pension under this section begins as of the beginning of the month following the date the member ceases to be employed in education or, at the election of the member, of any month thereafter that is not later than:

(a) the end of the calendar year in which the member attains seventy-one years of age, or

(b) such other time as is required under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Amount of pension

(4) The amount of the retirement pension, before adjustment for inflation, is calculated using the formula,

$$(A \times B) - C$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

Maximum pension payable, R.S.C. 1952, c. 148

(4a) If the amount of the retirement pension calculated under subsection (4) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended February 28, 1992 - Effective January 1, 1992)

Early retirement option

44. (1) A member entitled to a deferred pension under section 42a may elect to begin to receive a retirement pension on the first day of any month that is ten years before the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Idem

(1a) A member who ceases to be employed in education on or after June 30, 2001 and who is entitled to a deferred pension under section 42a may elect to begin to receive a retirement pension on the first day of any month that is within fifteen years of the member's normal retirement date. (Last amended June 19, 2012 – Effective July 1, 2012)

Amount of early retirement pension

(2) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects early retirement under subsection (1) and who elects to begin to receive the pension on the first day of the month following the later of: the cessation of employment in education; or the last day of credited service in the plan, shall be calculated using the formula,

$$[A \times B \times (1 - C)] - D$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service,

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.025 times the difference between ninety and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

Maximum pension payable, R.S.C. 1952, c. 148

(2a) Revoked. (Last amended February 20, 1997 - Effective January 1, 1997)

(2b) The amount of the annual retirement pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, where the member elects early retirement under subsection (1) or (1a) and elects to begin to receive the pension on the first day of the month following the later of: the cessation of employment in education; or the last day of credited service in the plan, shall be calculated using the formula set out in subsection (2) except that:

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.025 times the difference between eighty-five and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

(3) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects early retirement under subsection (1) on a deferred pension shall be calculated using the formula,

$$[A \times B \times (1 - C)] - D$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service,

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.05 times the difference between ninety and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended June 19, 2012 – Effective July 1, 2012)

(3a) The amount of the annual retirement pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, where the member elects early retirement under subsection (1) or (1a) on a deferred pension shall be calculated using the formula set out in subsection (3) except that:

"C" is an amount equal to the lesser of,

(a) 0.05 times the number of years by which the member's age is less than sixty-five on the date the pension is to begin, and

(b) 0.05 times the difference between eighty-five and the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension is to begin,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

Maximum pension payable, R.S.C. 1952, c. 148

(4) If the amount of the retirement pension determined under subsection (2), (2b), (3), (3a) or (5), in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada) after taking into account the reduction (if any) on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada) it shall be reduced to an amount equal to such maximum. (Last amended May 27, 1998 - Effective June 1, 1998)

Commuted value

(5) Despite subsections (3) and (3a), the commuted value of the retirement pension received on early retirement shall be not less than the commuted value of the retirement pension to which the member would be entitled on the normal retirement date based upon the member's credited service up to the early retirement date. (Last amended May 27, 1998 - Effective June 1, 1998)

Postponed pension option

45. (1) A member may elect to begin to receive his or her retirement pension in any month after the member's normal retirement date, but not later than:

(a) the end of the calendar year in which the member attains seventy-one years of age, or

(b) such other time as is required under the *Income Tax Act* (Canada).

(Last amended June 20, 2012 – Effective January 1, 2012)

Amount of late retirement pension

(2) The amount of the annual retirement pension, before adjustment for inflation, of a member who elects late retirement as described in subsection (1) is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

(2a) If the amount of the retirement pension calculated under subsection (2) in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to the maximum. (Last amended June 29, 1994 - Effective January 1, 1992)

Re-employed pensioner election

46. (1) Prior to commencing re-employment for the first time after commencement of pension, a pensioner may elect to become an active member for the purpose of a pension recalculation in accordance with subsection (2), in which case the pension is suspended immediately upon the re-employment. (Last amended October 23, 2008 – Effective January 1, 2009)

Recalculation of pension

(2) If a re-employed pensioner accumulates one year or more of credited service after becoming an active member, other than by means of a purchase of credited service or by the annualization of a partial year of credited service under section 11, and, if the re-employed pensioner makes an application to the administrator, the amount of the pensioner's retirement pension shall be recalculated in accordance with the terms of the pension plan in force on the date of the application.

(2a) A re-employed pensioner making application under subsection (2) shall repay any refund previously made under section 36 together with interest thereon before the pension commences. (Last amended April 15, 1998 - Effective June 1, 1995)

(2b) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2c) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2d) Revoked. (Last amended September 8, 2006 – Effective September 1, 2002)

(2e) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (2a) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2002)

Exception

(3) A re-employed pensioner who does not accumulate one year of credited service after becoming an active member is entitled when the re-employment ceases,

(a) to the resumption of the retirement pension to which the pensioner was entitled immediately before becoming re-employed; and

(b) to the refund of the member's required contributions, together with interest thereon, made during the re-employment.

Pension suspension

(3a) Except for a pensioner whose pension is suspended immediately under subsection (1), no retirement pension is payable to a re-employed pensioner as of the month following the member's fifty-first day of re-employment in a school year. (Last amended May 6, 2010 – Effective September 1, 2012)

Pension resumption

(3b) A re-employed pensioner whose pension is suspended in accordance with subsection (3a) is entitled, when the re-employment ceases, to the resumption of the retirement pension to which the pensioner was entitled immediately before becoming re-employed. (Last amended October 23, 2008 – Effective January 1, 2009)

Notice of re-employment

(3c) A re-employed pensioner shall notify the administrator promptly upon exceeding the limits under subsection (3a). (Last amended October 23, 2008 – Effective January 1, 2009)

Reporting of re-employment

(3d) An employer shall report to the administrator any service provided to the employer by a re-employed pensioner. (Last amended May 6, 2010 – Effective September 1, 2012)

Idem

(3e) At the request of the administrator, a re-employed pensioner shall report to the administrator the number of days, if any, that the member provides services to an employer as a re-employed pensioner. If the member does not report within a reasonable time after the request, the administrator shall cease to pay the pension until the report is given. (Last amended May 6, 2010 – Effective September 1, 2012)

Repayment

(4) A re-employed pensioner who receives pension payments to which the pensioner is not entitled shall repay the amount so received, together with interest thereon, before becoming entitled to further payments under the pension plan.

"Re-employed pensioner" not applicable

(5) The term "re-employed pensioner" shall not include a member who provides services, other than as a teacher, to a ministry of the Government of Ontario other than the Ministry of Education. (Last amended May 6, 2010 – Effective September 1, 2010)

Idem

(6) The term "re-employed pensioner" shall not include a member who has been providing services, other than as a teacher, under contract to the Ministry of Education since before September 1, 2010, until the earlier of:

(a) the renewal of such contract, if applicable, or

(b) September 1, 2015.

(Last amended May 6, 2010 – Effective September 1, 2010)

B. Payment of Retirement Pensions

Application for retirement pension

47. (1) A member who wishes to begin receiving a retirement pension shall apply to the administrator.

Deemed application

(2) A member who does not apply to begin receiving a retirement pension shall be deemed to do so on November 30th of the calendar year in which the member attains seventy-one years of age, or at such other time as is required under the *Income Tax Act* (Canada). (Last amended June 20, 2012 – Effective January 1, 2012)

Payment of pension

48. (1) The administrator shall begin payment of a member's retirement pension not later than the later of,

(a) the month following the month in which the member ceases to be employed in education; or

(b) the month following the month in which application for the pension is complete.

Monthly instalments

(2) The administrator shall pay a retirement pension in monthly instalments on the last day of the month.

Interest payable

(3) The administrator shall pay interest on late payments, from the first day of the month following the month in which the member's pension begins. (Last amended June 20, 2012 – Effective January 1, 2012)

Notice of re-employment

49. (1) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Failure to give notice

(2) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

Repayment of pension

(3) Revoked. (Last amended October 23, 2008 – Effective January 1, 2009)

PART VI
DISABILITY PENSIONS

A. Entitlement to Disability Pension

Entitlement to disability pension

50. (1) This section applies to a member with at least ten years of qualifying service who becomes disabled while employed in education and who, as a result of the disability, ceases before the normal retirement date to be employed in education. (Last amended October 10, 1995 - Effective September 1, 1995)

Full disability pension

(2) If the administrator finds that a member described in subsection (1) is incapable of further employment, the member is entitled to a full disability pension for the member's lifetime.

Partial disability pension

(3) If the administrator finds that a member described in subsection (1) is incapable of further employment in education, the member is entitled to a partial disability pension for the member's lifetime.

Eligibility

(4) A member who has previously terminated his or her membership and who returns to membership and purchases credited service for previous employment in education is not eligible to receive a disability pension until the member accumulates two additional years of credited service.

Idem

(5) Subsection 11 (2) (partial year) does not apply for the purpose of determining a member's accumulation of the two additional years of credited service under subsection (4).

Effect of re-employment

51. (1) A member receiving a full disability pension who becomes employed ceases to be entitled to a full disability pension.

Idem

(2) A member receiving a disability pension who becomes employed in education ceases to be entitled to a disability pension. (Last amended June 1, 1995 - Effective June 1, 1995)

Reduced partial disability pension

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Application

(4) This section applies with respect to a member who is receiving a disability pension on or after the 1st day of January, 1990.

Amount of full disability pension

52. (1) The amount of the annual full disability pension, before adjustment for inflation, for a member is calculated using the formula,

$$\mathbf{(A \times B) - C}$$

in which,

"A" is 2 per cent of the member's average salary,

"B" is the number of years of the member's credited service under the plan, and

"C" is the amount, if any, calculated under section 81 (CPP reduction).

Amount of partial disability pension

(2) The amount of a partial disability pension, before adjustment for inflation, for a member is calculated using the formula,

$$\mathbf{[(A \times B)\ (1 - C)] - D}$$

in which,

"A" and "B" have the same meaning as in the formula for calculating the amount of a full disability pension,

"C" is an amount equal to 0.025 times the lesser of,

(a) the number of years by which the member's age on the date the pension begins is less than 65, and

(b) ninety minus the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension begins, and

"D" is the amount, if any, calculated under section 81 (CPP reduction).

"C" in the above formula shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 15, 1998 - Effective January 1, 1992)

(2a) The amount of a partial disability pension, before adjustment for inflation, for a member who ceases to be employed in education on or after June 1, 1998, is calculated using the formula set out in subsection (2), except that:

"C" is an amount equal to 0.025 times the lesser of,

(a) the number of years by which the member's age on the date the pension begins is less than sixty-five, and

(b) eighty-five minus the sum of,

(i) the number of years of the member's qualifying service determined under section 11, and

(ii) the member's age on the date the pension begins,

however, "C" shall not be less than the minimum reduction on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective April 1, 2001)

Maximum pension payable, R.S.C. 1952, c. 148

(2b) If the amount of the full or partial disability pension determined under either subsection (1), (2), or (2a), as applicable, in respect of a period after the 31st day of December, 1991 is greater than the maximum pension payable by a registered pension plan under the *Income Tax Act* (Canada) after taking into account the reduction (if any) on early retirement applicable to registered pension plans under the *Income Tax Act* (Canada), it shall be reduced to an amount equal to such maximum. (Last amended May 27, 1998 - Effective June 1, 1998)

Limitation

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of reduced partial disability pension

(4) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Resumption of disability pension

53. (1) Subject to subsection (2), if a member becomes re-employed in education and ceases to receive a disability pension under the pension plan or a predecessor Act, the member is entitled upon ceasing the re-employment to the resumption of the original disability pension without adjustment of the amount of the pension and to a refund of the member's contributions made during the period of re-employment, together with interest thereon. (Last amended June 1, 1995 - Effective June 1, 1995)

Idem

(2) A member described in subsection (1) who completes the equivalent of two years of full-time employment in education after becoming re-employed and then ceases to be so employed shall make a fresh application for a pension, and the terms of the pension plan on the date the application is made shall apply with respect to the member's entitlement to a pension.

(3) A member making application under subsection (2) shall repay any refund previously made under section 36 together with interest thereon before the pension commences. (Last amended September 8, 2006 – Effective September 1, 2006)

(4) The member or survivor benefit, as the case may be, shall be actuarially reduced to reflect the unpaid portion of the repayment not completed under subsection (3) with interest thereon to the commencement date of the benefit. The actuarial reduction will be offset by any lump sum payment that would otherwise be payable to the member. (Last amended September 8, 2006 – Effective September 1, 2006)

Change of disability status re survivor pension

54. (1) This section applies if a member receiving a partial disability pension dies while the administrator is considering whether the member is entitled to a full disability pension based upon fresh medical evidence concerning the member's disability. (Last amended February 28, 1992 - Effective January 1, 1992)

Determination by the administrator

(2) Having regard to the facts established at the date of the member's death, the administrator shall determine whether the member would have been entitled, immediately before the date of death, to a full disability pension.

Deemed receipt

(3) For the purpose of calculating the amount of a survivor pension, child's pension or beneficiary's pension, if the administrator determines that the member would have been entitled to a full disability pension, the member shall be deemed to have been receiving it on the date of death.

(4) Despite subsection 3, where the benefit otherwise payable to a survivor exceeds the maximum payable under the regulations of the *Income Tax Act* (Canada), the amount in excess shall not be paid. (Last amended June 29, 1994 - Effective January 1, 1992)

B. Payment of Disability Pension

Application for disability pension

55. (1) A member shall apply for a disability pension within two years after the date when the member ceases, as a result of the disability, to be employed in education.

Idem

(2) The administrator shall accept an application for a disability pension that is made after the time described in subsection (1) if the administrator is satisfied,

(a) that the delay in making the application resulted from a delay in diagnosing the disability; or

(b) that the member was unable, because of the effects of the disability, to make the application within the time described in subsection (1).

Proof of disability

(3) No application for a disability pension shall be considered by the administrator until the administrator has received,

(a) the certificate of a medical doctor licensed in Ontario designated by the administrator, certifying that the applicant became mentally or physically disabled while employed in education and indicating the nature and degree of the disability; and

(b) a report of the medical referee of the administrator containing such recommendations as the medical referee considers proper with regard to the granting of a disability pension to the applicant. (Last amended April 15, 1998 - Effective January 1, 1992)

Disability pension, predecessor Acts

56. (1) This section applies with respect to a person who ceased to be employed in education before the 1st day of January, 1990 as a result of a mental or physical incapacity and who did not apply for a disability allowance under a predecessor of this Act.

Application

(2) Section 55 applies with necessary modifications to an application by a person described in subsection (1).

Entitlement

(3) The person is entitled to a disability allowance determined in accordance with the *Teachers' Superannuation Act, 1983.*

Idem

(4) Clause 17 (1) (d) or 18 (1) (d) of the *Teachers' Superannuation Act, 1983* does not apply if the administrator accepts an application under subsection 55 (2).

Commencement of disability pension

57. (1) Subject to subsection (2), a member's disability pension shall begin as of the first day of the month following the month in which the member ceases to be employed in education.

Idem

(2) No disability pension shall begin as of a date earlier than one year before the date the administrator receives the completed application for the pension.

Reduced partial disability pension

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Monthly instalments

(4) The administrator shall pay a disability pension in monthly instalments.

Due date

(5) Disability pension payments are due on the last day of the month.

Interest payable

(6) Interest shall be paid on overdue pension payments if the administrator does not begin paying a pension by the end of the month in which the member becomes entitled to receive it.

Interest payable

(7) Interest on each overdue monthly pension payment, calculated at the standard rate, shall be paid from the date the payment was due to the day before it was made. (Last amended February 28, 1992 - Effective January 1, 1992)

Evidence of medical condition

58. (1) The administrator may at any time require a member who is receiving a disability pension to furnish evidence, in such form as the administrator directs, of the member's mental or physical condition.

Failure to furnish evidence

(2) If the member fails to furnish evidence within a reasonable time that his or her condition continues to be of a nature that entitles the member to receive the disability pension, the administrator shall terminate payment of the pension.

Review by administrator

(3) If the administrator terminates payment of a full disability pension, the member may request the administrator to review the decision to terminate payment.

Idem

(4) If the administrator is satisfied upon reviewing a decision to terminate payment that the member is entitled to a disability pension under section 50 or 51, the administrator shall pay the disability pension.

Application

(5) This section does not apply with respect to a member who has reached normal retirement age.

Notice of re-employment

59. (1) A member receiving a disability pension shall notify the administrator in writing promptly upon becoming employed or changing employment.

Failure to give notice

(2) A member who fails to comply with subsection (1) is not entitled to receive a disability pension payment during a period when notice should have been given under that subsection.

Repayment of pension

(3) A member who receives pension payments to which the member is not entitled shall repay the amount so received, together with interest thereon, before becoming entitled to further payments under the pension plan.

PART VII
BENEFITS UPON DEATH

A. Upon the Death of a Member not Entitled to a Pension

Refund of contributions

60. Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of post-1986 contributions

60a. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Application

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of pre-1987 contributions

60b. (1) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Application

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

B. Upon the Death of a Member Entitled to a Deferred Pension

Pre-retirement (spousal) death benefit

61. (1) If a member who is entitled to a deferred pension dies before commencement of payment of the deferred pension, the person who is the spouse of the member on the date of death is entitled to receive,

(a) the benefit described in section 62, in respect of the member's employment, if any, before the 1st day of January, 1987; and

(b) the benefit described in section 63, in respect of the member's employment, if any, on or after the 1st day of January, 1987.

(Last amended May 5, 2010 – Effective June 1, 1995)

Application

(2) Subsection (1) does not apply if the member and the spouse are living separate and apart on the date of death of the member.

Further application

(3) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(4) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(5) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Idem

(6) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007)

Pre-1987 (spousal) death benefit

62. (1) This section applies with respect to that portion of the death benefit that relates to a member's employment before the 1st day of January, 1987.

Survivor pension

(2) The spouse of a member with ten years or more qualifying service is entitled to the survivor pension described in subsection (3) for the lifetime of the spouse. (Last amended October 10, 1995 - Effective September 1, 1995)

Pre-1987 survivor pension

(3) The amount of the survivor pension, before adjustment for inflation, shall be based upon the member's credited service for employment before the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(a) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on the date of death; or

(b) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

Commutation of pension

(3a) If the spouse of a member elects to receive payment of the benefit described under clause 63 (4) (a), then the spouse of the member shall receive a lump sum payment equal to the commuted value of the survivor pension calculated in accordance with subsection (3), and not the survivor pension calculated in accordance with subsection (3). (Last amended December 13, 2012 - Effective July 1, 2012)

Refund of contributions (10 year rule)

(3b) If the commuted value of the survivor pension calculated in accordance with subsection (3) is less than the amount of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon, then the spouse of the member is entitled to a refund, paid in a lump sum, of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon, and not to the benefit described in either subsection (3) or (3a). (Last amended December 13, 2012 - Effective July 1, 2012)

Refund of contributions

(4) The spouse of a member who dies with less than ten years of qualifying service is entitled to a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon. (Last amended June 19, 2012 - Effective July 1, 2012)

Post-1986 (spousal) death benefit

63. (1) This section applies with respect to that portion of the death benefit that relates to a member's employment on or after the 1st day of January, 1987.

Benefit

(2) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Refund of contributions

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 1995)

Idem

(4) The spouse of a member is entitled to receive,

(a) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987; or

(b) a survivor pension for the lifetime of the spouse, the commuted value of which is at least equal to the commuted value of a pension for credited service for the member's employment on or after the 1st day of January, 1987, calculated as if the member had become entitled to a retirement pension on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Election

(5) The spouse may elect the form of benefit to be paid under subsection (4) and a spouse who does not do so within twelve months after the death of the member shall be deemed to have elected to receive a survivor pension. (Last amended May 5, 2010 – Effective January 1, 2008)

Deemed election

(5a) The spouse of a member who dies within twelve months after the death of the member without electing the form of benefit to be paid under subsection (4) shall be deemed to have elected to receive payment of the benefit described under clause (4) (a). (Last amended December 13, 2012 - Effective July 1, 2012)

Survivor pension

(6) A spouse who elects to receive a survivor pension may elect to begin to receive the pension at any time up to the end of the calendar year in which the spouse attains seventy-one years of age, or up to such other time as is required under the *Income Tax Act* (Canada), provided that the pension shall not begin before the month following the month in which the administrator has received all supporting documentation required to pay the pension. (Last amended June 20, 2012 – Effective January 1, 2012)

Pre-retirement child's pension

64. (1) This section applies with respect to the dependent children of a member entitled to a deferred pension who died before commencement of payment of the deferred pension and,

(a) who had a spouse who became entitled to a survivor pension who subsequently died; or

(b) who did not have a spouse entitled to a survivor pension.

(Last amended May 5, 2010 – Effective June 1, 1995)

Entitlement to child's pension

(2) Subject to subsections (3), (3a) and (3b), each dependent child of a member is entitled upon the death of the spouse or the member, as the case may be, to receive a child's pension calculated under subsections (4a) and (4b) while the child remains a dependent child. (Last amended December 13, 2012 - Effective July 1, 2012)

Exception re: post-1986 spousal death benefit

(3) No child's pension is payable in respect of the credited service of a deceased member for which the spouse of the member received the lump sum payment described in clause 63 (4) (a).

Exception re: post-1986 benefit to spouse's estate

(3a) No child's pension is payable in respect of the credited service of a deceased member for which the spouse's estate is entitled to payment of the benefit described under clause 63 (4) (a). (Last amended December 13, 2012 - Effective July 1, 2012)

Exception re: pre-1987 spousal death benefit

(3b) No child's pension is payable in respect of the credited service of a deceased member for which the spouse of the member is entitled to payment of the benefit described under either subsection 62 (3), 62 (3a) or 62 (3b). (Last amended December 13, 2012 - Effective July 1, 2012)

Amount of child's pension

(4) Revoked. (Last amended June 19, 2012 - Effective July 1, 2012)

Pre-1987 (child) death benefit

(4a) (a) This subsection applies with respect to that portion of the death benefit that relates to a member's employment before the 1st day of January, 1987. (Last amended June 19, 2012 - Effective July 1, 2012)

Survivor pension

(b) The dependent child of a member with ten years or more qualifying service is entitled to the child's pension described in subsection (4a) (c) while the child remains a dependent child. (Last amended June 19, 2012 – Effective July 1, 2012)

Pre-1987 child's pension

(c) The amount of the child's pension, before adjustment for inflation, shall be based upon the member's credited service for employment before the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(i) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(ii) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Post-1986 (child) death benefit

(4b) (a) This subsection applies with respect to that portion of the death benefit that relates to a member's employment on or after the 1st day of January, 1987. (Last amended June 19, 2012 - Effective July 1, 2012)

Benefit

(b) The amount of the child's pension, before adjustment for inflation, shall be based upon the member's credited service for employment on or after the 1st day of January, 1987 and shall be one half of the amount of the pension, before adjustment for inflation,

(i) that would have been paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(ii) that would have been paid to the member as of the first day of the month following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 19, 2012 - Effective July 1, 2012)

Idem

(5) The child's pension shall be shared equally among the member's dependent children.

Share accrues to others

(6) The share of the child's pension of each of the children who ceases to be a dependent child accrues to the remaining dependent children, if any.

Benefit to beneficiary

65. (1) A beneficiary designated by a member entitled to a deferred pension is entitled to the benefit described in subsection (2),

(a) if the member dies before commencement of payment of the deferred pension; and

(b) if, on the date of death, the member does not have a spouse entitled to a benefit payable on his or her death.

(Last amended December 13, 2012 - Effective July 1, 2012)

Amount of benefit

(2) Subject to subsection (3), a beneficiary designated by a member is entitled to receive,

(a) a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon; and

(b) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987.

(Last amended December 13, 2012 - Effective July 1, 2012)

Residual entitlement

(3) If a person is entitled to a child's pension under section 64 on the death of the member, the beneficiary is entitled to a refund of the amount by which the amount calculated under clause (2) (a) exceeds the commuted value of the amount payable under subsection 64 (4a), together with interest thereon, and a refund of the amount by which the amount calculated under clause (2) (b) exceeds the commuted value of the amount payable under subsection 64 (4b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

Benefit to member's estate

66. (1) The estate of a member entitled to a deferred pension who dies before commencement of payment of the deferred pension is entitled to the payments described in this section. (Last amended May 5, 2010 – Effective June 1, 1995)

Idem, no others entitled

(2) Subject to subsection (3), if no spouse or designated beneficiary is entitled to a benefit on the death of the member, the estate is entitled to,

(a) a refund of the member's contributions for employment before the 1st day of January, 1987 together with interest thereon; and

(b) a lump sum payment equal to the commuted value of the deferred pension to which the member was entitled for credited service for employment on or after the 1st day of January, 1987.

(Last amended December 13, 2012 - Effective July 1, 2012)

Residual entitlement

(3) If a person is entitled to a child's pension under section 64 on the death of the member, the estate is entitled to a refund of the amount by which the amount calculated under clause (2) (a) exceeds the commuted value of the amount payable under subsection 64 (4a), together with interest thereon, and a refund of the amount by which the amount calculated under clause (2) (b) exceeds the commuted value of the amount payable under subsection 64 (4b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(4) Revoked. (Last amended December 13, 2012 - Effective July 1, 2012)

(5) Revoked. (Last amended December 13, 2012 - Effective July 1, 2012)

Benefit to spouse's estate

66a. (1) Where the member had a spouse who elected to receive the benefit described under clause 63 (4) (b), and who subsequently dies after the payments described under clause 63 (4) (b) have commenced, the spouse's estate is entitled to a refund of the amount by which the member's contributions made in respect of credited service on or after January 1, 1987, together with interest thereon, minus any payments made under section 36, together with interest thereon, and minus the commuted value of the amount payable under subsection 64 (4b), together with interest thereon, exceed the amount paid to the spouse under clause 63 (4) (b), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(2) Where the member had a spouse who elected to receive the benefit described under clause 63 (4) (b), and who subsequently dies before the payments described under clause 63 (4) (b) have commenced, the spouse's estate is entitled to the amount determined under clause 63 (4) (a), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

(3) Where the member had a spouse who died after becoming entitled to a survivor pension under subsection 62 (3), the spouse's estate is entitled to a refund of the amount by which the member's contributions for employment before the 1st day of January, 1987, together with interest thereon, exceed the amount paid to the spouse under subsection 62 (3), together with interest thereon. (Last amended December 13, 2012 - Effective July 1, 2012)

Payment of benefits, predecessor Acts

66b. (1) Benefits paid upon the death of a member who ceased to be employed in education prior to January 1, 1990 and who is entitled to a deferred pension on the date of death shall be calculated, with necessary modifications, in accordance with the terms of the *Teachers' Superannuation Act, 1983*, or a predecessor Act, and shall be paid out of the pension fund in accordance with the Act under which the member ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

Limitation on survivor pensions less than $1,200

(2) Subject to section 84, where the annual amount of the survivor pension calculated under sections 62 and 63 is less than $1,200 the spouse of a member is entitled to a pension in that lesser amount and not to a pension in the amount of $1,200 as provided for by Order in Council 1453/74. (Last amended December 13, 2012 - Effective July 1, 2012)

Exception

(3) Subsection (2) shall not apply to the spouse of a member who has at least ten years of credited service in whole or in part before the 1st day of January, 1987 on the date he or she ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

Limitation

(4) For greater certainty, subsection 76 (2) of the *Teachers' Superannuation Act, 1983* shall not apply to any survivor pension payable in respect of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended December 13, 2012 - Effective July 1, 2012)

C. Upon the Death of a Pensioner

Survivor pension, spouse

67. (1) If a member dies on or after commencement of payment of a pension, the person who was the spouse on the date that the payment of the first instalment of the pension was due is entitled to the survivor pension described in subsection (3) for the spouse's lifetime. (Last amended May 5, 2010 – Effective June 1, 1995)

Application

(2) Subsection (1) does not apply if the member and the spouse were living separate and apart on the date that the payment of the first instalment of the member's pension was due. (Last amended May 5, 2010 – Effective June 1, 1995)

Amount of survivor pension

(3) Subject to sections 68, 69, and 84a, the amount of the annual survivor pension, before adjustment for inflation, payable to the surviving spouse shall be not less than 50 per cent of the pension, before adjustment for inflation,

(a) that was being paid to the member at the date of death, if the member was at least sixty-five years of age on that date; or

(b) that would have been paid to the member as of the first day of the month next following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death.

(Last amended June 20, 2012 – Effective March 3, 2000)

Exception for low pensions

(4) Despite subsection (3) the survivor of a person who died while receiving an annual pension that had been adjusted under Order in Council 1453/74, is entitled to a pension that is 50 per cent of the pension being paid to the person at the date of death, or such greater percentage as the deceased person had elected prior to death. (Last amended October 23, 1991 - Effective October 23, 1991)

Spousal election re survivor pension

68. (1) In the absence of a joint waiver by a member and the member's spouse of the spouse's entitlement under subsection 44 (3) of the *Pension Benefits Act* (amount of survivor benefit), the amount of the survivor pension payable on the death of the member shall be 60 per cent of the amount of the member's pension that would be payable if the amount of the pension were calculated without regard to this section. (Last amended October 23, 1991 - Effective October 23, 1991)

Waiver void

(2) A waiver referred to in subsection (1) is void if it is dated, signed, or delivered to the administrator more than twelve months before the commencement of payment of the member’s pension or after the commencement of payment of the member’s pension. (Last amended August 4, 2011 – Effective May 18, 2010)

Adjustment of member's pension

(3) In the absence of a waiver referred to in subsection (1), the amount of the pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the increased survivor pension in accordance with subsection (1). (Last amended October 10, 1995 - Effective January 1, 1992)

(3a) Prior to calculating the payment described in subsection (1), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Application

(4) This section does not apply with respect to a member who, before the 1st day of January, 1988, began to receive a pension under a predecessor Act.

Idem

(5) This section does not apply with respect to a member who dies before commencement of payment of the member’s pension. (Last amended May 5, 2010 – Effective June 1, 1995)

Increase of survivor pension

69. (1) A member may direct the administrator to increase the amount of a survivor pension that may become payable under section 67 in respect of the member to an amount equal to 55, 65, 70 or 75 per cent of the member's pension that would be payable if the amount of the pension were calculated without regard to this section.

Time limit

(2) A direction must be given in writing and must be delivered to the administrator at least two years before the earlier of,

(a) the member's normal retirement date; or

(b) the beginning of the month in which the member's pension begins.

Idem

(3) The administrator shall act on a direction delivered after the deadline specified in subsection (2) and before the member applies for a retirement pension if the administrator is satisfied that the member is in good health having regard to the member's age.

Adjustment of member's pension

(4) The amount of the pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the increased survivor pension in accordance with the direction. (Last amended October 10, 1995 - Effective January 1, 1992)

(4a) Prior to calculating the payment described in subsection (1), the pension the member was receiving shall be reduced immediately upon the member's death to reflect any reduction described in section 81 that was not applicable immediately prior to the member's death. (Last amended June 20, 2012 – Effective January 1, 1990)

Commuted value

(5) The commuted value of pension paid to the member including the commuted value of the increased survivor benefit shall not be less than the commuted value of the pension, including survivor benefit, that would otherwise be payable.

Revocation of direction

(6) A member may revoke a direction given under this section by a written revocation delivered to the administrator before the member begins receiving a pension.

Direction void

(7) A direction given under this section by a member is void if the member dies before beginning to receive a pension.

Restriction

(8) A person whose pension would be reduced from an amount greater than $2,400 to an amount less than $2,400 upon making an election under this section is not entitled to an increase in his or her pension under Order in Council 1453/74. (Last amended October 23, 1991 - Effective October 23, 1991)

Survivor pension, new spouse

70. (1) In this section and section 84a, "new spouse", in relation to a member, means a person who becomes the spouse of the member after the commencement of payment of the member's retirement or disability pension. (Last amended June 20, 2012 – Effective March 3, 2000)

Idem

(2) A member who does not have a spouse eligible to receive a survivor pension under section 67 may, after the commencement of payment of the member's retirement or disability pension, direct the administrator to provide a survivor pension to a new spouse. (Last amended May 5, 2010 – Effective June 1, 1995)

Time limit

(3) A direction must be given in writing and must be delivered to the administrator on or before the later of,

(a) ninety days after the date on which the member becomes the spouse of the new spouse; or

(b) if immediately before the member becomes the spouse of the new spouse there is a child who would be entitled upon the death of the member to receive a child's pension under section 73, ninety days after the date on which the child ceases to be eligible to receive the child's pension.

Idem

(4) The administrator shall act on a direction delivered after the deadline specified in subsection (3) if the administrator is satisfied that the member is in good health having regard to the member's age.

(4a) A direction given under this section is not effective until six months following the date of delivery of the direction to the administrator. (Last amended June 1, 1995 - Effective June 1, 1995)

(4b) A direction made under this section is null and void if the death of the member occurs before the effective date of the direction. (Last amended June 1, 1995 - Effective June 1, 1995)

(4c) A member may revoke a direction given under this section by a written revocation delivered to the administrator before the direction becomes effective in accordance with subsection (4a). (Last amended September 8, 2006 – Effective June 1, 1995)

Amount of survivor pension

(5) Subject to section 84a, a member described in subsection (2) shall direct the administrator to pay a survivor pension in the amount of 50, 55, 60, 65, 70 or 75 per cent of the pension that would otherwise be payable on the first day of the month next following the month in which the member becomes the spouse of the new spouse. (Last amended June 20, 2012 – Effective March 3, 2000)

Adjustment of member's pension

(6) The amount of a retirement or disability pension payable to the member shall be actuarially reduced before limits imposed by the *Income Tax Act* (Canada) to allow for payment of the survivor pension in accordance with the direction. (Last amended October 10, 1995 - Effective January 1, 1992)

Idem

(7) The actuarial reduction required by subsection (6) shall be based upon the ages of the member and of the spouse on the last day of the month in which the direction is delivered to the administrator.

(7a) Prior to calculating the payment described in subsection (5), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Payment of survivor pension

(8) The administrator shall pay the survivor pension in accordance with the direction but not while there is a person who is eligible to receive a child's pension in respect of the member.

Eligibility

70a. (1) This section applies to a member or former member who, as of April 23, 1998, was:

(a) receiving a pension in respect of which there was no person eligible, as of April 22, 1998, to receive a survivor pension, and

(b) living with a person who would have qualified under the relevant provisions of the pension plan as the member's same-sex partner for purposes of eligibility for a survivor pension, other than a survivor pension provided by sections 70, 71, 72, or any predecessor thereof, if the definition of "same-sex partner" as set out in the pension plan had been in effect prior to April 23, 1998. (Last amended July 10, 2000 – Effective April 23, 1998)

Direction

(2) Subject to subsections (3) and (4), a member described in subsection (1) may direct the administrator to pay a survivor pension to the person described in subsection (1) for the person's lifetime commencing the month following the member's date of death. (Last amended July 10, 2000 – Effective April 23, 1998)

Idem

(3) Where the member dies prior to providing the direction referred to in subsection (2), such direction may be provided by the person described in subsection (1). (Last amended July 10, 2000 – Effective April 23, 1998)

Deadline

(4) The direction provided in accordance with subsection (2) or (3) shall be provided to the administrator. (Last amended September 8, 2006 - Effective April 23, 1998)

Entitlement

(5) Subject to subsection (6), the amount of the annual survivor pension, before adjustment for inflation, payable under this section shall be 50 per cent of the pension, before adjustment for inflation,

(a) that was being paid to the member at the date of death, if the member was at least sixty-five years of age on that date, or

(b) that would have been paid to the member as of the first day of the month next following the month in which he or she would have reached sixty-five years of age, if the member was less than sixty-five years of age on the date of death. (Last amended July 10, 2000 - Effective April 23, 1998)

Offset

(6) The survivor pension described in subsection (5) shall be actuarially reduced by any amounts paid to any person, including the member's estate, as a result of the member's death. (Last amended July 10, 2000 - Effective April 23, 1998)

(7) No survivor pension is payable under this section if the person described in subsection (1) dies prior to providing the direction in accordance with subsections (3) and (4). (Last amended July 19, 2007 – Effective April 23, 1998)

(8) Revoked. (Last amended August 4, 2011 – Effective March 1, 2007).

Survivor pension, predecessor Acts

71. (1) This section applies with respect to a member who, before the 1st day of September, 1984, ceased to be employed in education within the meaning of a predecessor of this Act and who became the spouse of a person after ceasing that employment.

Direction re survivor pension

(2) A member described in subsection (1) may direct the administrator to provide a survivor benefit for the member's spouse and section 70 applies with respect to the direction with necessary modifications.

Time limit

(3) A direction under this section shall be delivered to the administrator on or before the latest of,

(a) the 31st day of March, 1990;

(b) ninety days after the date on which the member becomes a spouse; or

(c) if on the 1st day of January, 1990 there is a child who would be entitled upon the death of the member to receive a survivor allowance under a predecessor of this Act, ninety days after the date on which the child ceases to be eligible to receive the survivor allowance.

Idem

(4) The administrator shall act on a direction delivered after the deadline specified in subsection (3) if the administrator is satisfied that the member is in good health having regard to the member's age.

Deemed direction

(5) A member described in subsection (1) who dies on or before the 31st day of March, 1990 without having given a direction under this section shall be deemed to have given it on that date and shall be deemed to have directed the administrator to pay a 50 per cent survivor pension.

Survivor pension (prior inquiry)

72. (1) This section applies with respect to a person who became the spouse of a member described in subsection 71 (1) after the member ceased to be employed in education within the meaning of a predecessor of this Act.

Idem

(2) This section does not apply unless the member has ceased to be a member before the 1st day of January, 1990 because he or she has died.

Survivor pension

(3) A spouse described in subsection (1) is entitled to a survivor pension calculated from the date of a written inquiry respecting a survivor pension,

(a) made to the Teachers' Superannuation Commission before the 1st day of January, 1990; or

(b) made to the administrator on or after the 1st day of January, 1990.

Amount of pension

(4) The amount of the survivor pension is 50 per cent of the amount of the member's retirement pension on the date of the member's death adjusted for inflation as if it were a pension for the period from the date of the member's death to the date the spouse becomes entitled to the survivor pension.

(5) Prior to calculating the payment described in subsection (4), the pension the member was receiving shall be reduced immediately upon the member’s death to reflect any reduction described in section 81 that was not applicable immediately prior to the member’s death. (Last amended June 20, 2012 – Effective January 1, 1990)

Child's pension

73. (1) This section applies with respect to the dependent children of a member who died while receiving a retirement or disability pension and,

(a) who had a spouse who died after becoming entitled to a survivor pension; or

(b) who did not have a spouse entitled to a survivor pension.

Entitlement to child's pension

(2) Each dependent child of a member, upon the death of the spouse or the member, as the case may be, is entitled to a child's pension while remaining a dependent child.

Amount of child's pension

(3) The amount of the annual child's pension is the amount of the survivor pension to which a spouse of the member was or would have been entitled after the death of the member, shared equally among the dependent children.

Share accrues to others

(4) The share of the child's pension of each of the children who ceases to be a dependent child accrues to the remaining dependent children, if any.

Beneficiary's pension, R.S.C. 1952, c. 148

74. (1) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Time limit

(2) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Idem

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Amount of beneficiary's pension

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Adjustment of member's pension

(5) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Revocation of direction

(6) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Direction void

(7) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Benefit to estate

75. The estate of a member who was receiving a pension on the date of death is entitled to a refund of the amount by which the member's contributions together with interest thereon exceeds the sum of the amount paid to the member and the amount, if any, paid to every other person who was entitled to a benefit on the member's death, together with interest thereon.

10 year guarantee

75a. (1) Notwithstanding any other provision of the plan, but subject to this section, where a member dies while receiving a retirement pension or a disability pension, but prior to receiving the equivalent of 120 monthly pension payments, the remaining balance of such pension payments shall be paid:

(a) as a pension to the person who remains otherwise eligible for benefits under the plan as a result of the member’s death, or

(b) to the member’s estate, if there is no person eligible as described in (a), in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Direction

(2) If a member has a spouse eligible for a survivor pension at the commencement of payment of the member’s pension, subsection (1) shall only apply if the member has delivered a written direction to the administrator prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(3) A direction provided in accordance with subsection (2) may be revoked by the member provided that a written revocation is delivered to the administrator prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(4) A direction provided in accordance with subsection (2) is void if the member dies prior to the commencement of payment of the member’s pension. (Last amended April 2, 2001 – Effective April 1, 2001)

Adjustment of member's pension

(5) The pension of a member who provides a direction in accordance with subsection (2) shall be reduced to allow for payment of the benefits in accordance with subsection (1). (Last amended April 2, 2001 – Effective April 1, 2001)

Offset

(6) Subject to subsection (11), the payments made in accordance with subsection (1) shall be paid in lieu of any other amounts otherwise payable under the plan as a result of the member's death. (Last amended April 2, 2001 – Effective April 1, 2001)

CPP Reduction

(7) The payments made in accordance with subsection (1) shall be reduced immediately upon the member's death to reflect any reduction described in section 81 that was not applicable immediately prior to the member's death. (Last amended April 2, 2001 – Effective April 1, 2001)

More than one beneficiary

(8) Where there is more than one person eligible as described in clause (1)(a), then the pension payable in accordance with that provision shall be shared equally among such persons. (Last amended April 2, 2001 – Effective April 1, 2001)

Upon death of beneficiary

(9) Where any person eligible as described in clause (1)(a) dies prior to completion of the pension payments under that provision, the remaining payments shall be shared equally among any remaining eligible persons or, if none, shall be paid to the person's estate in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Upon ineligibility of beneficiary

(10) Where any person eligible as described in clause (1)(a) ceases to be a person eligible as described in clause (1)(a) prior to completion of the pension payments under that provision, the remaining payments shall be shared equally among any remaining eligible persons or, if none, shall be paid to the member's estate in a lump sum equal to the present value of the remaining payments. (Last amended April 2, 2001 – Effective April 1, 2001)

Completion of 10 year guarantee

(11) Upon completion of the pension payments in accordance with clause (1)(a), the person or persons described in that provision shall be entitled to receive, on a prospective basis only, the pension that they would otherwise be receiving as a result of the member's death but for this section, except that any reduction that was applied pursuant to subsection (5) shall continue to apply. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to existing pensions

(12) This section shall apply, with necessary modifications, to a member who is receiving a pension as of April 1, 2001 except that, for the purposes of subsection (2) only, spousal eligibility for a survivor pension shall be determined as of April 1, 2001 and the direction required in accordance with (2) must be delivered to the administrator by May 1, 2001. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to deferred pensions

(12a) This section shall apply, with necessary modifications, to a member who ceased employment in education on or after January 1, 1990 but prior to April 1, 2001 and who is entitled to a deferred pension. (Last amended June 19, 2012 – Effective April 1, 2001)

Application to suspended pensions

(13) For the purposes of this section, references to a member who is receiving a pension shall include a member whose pension is suspended. (Last amended April 2, 2001 – Effective April 1, 2001)

Application to TSA pensions

(14) This section shall apply, with necessary modifications, to a member who ceased employment in education prior to January 1, 1990 and who is either entitled to a deferred pension or receiving a pension as of April 1, 2001. (Last amended May 5, 2010 – Effective April 1, 2001)

Application to deferred pensions post-June 30, 2012

(15) This section shall apply, with necessary modifications, to a member who ceased employment in education prior to July 1, 2012 and who was not entitled to a deferred pension under section 30 as it read on June 30, 2012. (Last amended June 19, 2012 – Effective July 1, 2012)

D. Payment of Death Benefits

Commencement of pension

76. (1) A pension that is payable immediately on the death of a member who was not receiving a retirement or disability pension on the date of death shall begin as of the day after the day the member dies.

Idem

(2) A pension that is payable on the death of a member who was receiving a retirement or disability pension on the date of death shall begin as of the first day of the month after the month in which the member dies.

Interest payable

(3) Interest shall be paid on pension payments due under a pension mentioned in this section if the administrator does not begin paying the pension by the end of the month in which the beneficiary becomes entitled to receive it. (Last amended June 28, 1990 - Effective June 28, 1990)

Interest Payable

(4) Interest on each overdue monthly pension payment, calculated at the standard rate, shall be paid from the date the payment was due to the day before it was made. (Last amended February 28, 1992 - Effective January 1, 1992)

Payments to estate

77. (1) If the administrator is unable to locate a personal representative of the estate of a deceased member, the administrator may pay into court any payments that under the pension plan are required to be made to the estate.

Missing beneficiary

(2) If the administrator is unable, after making reasonable inquiries, to locate an individual who is entitled to a death benefit under the pension plan or a beneficiary designated by the deceased member under the *Pension Benefits Act*, the administrator shall pay to the estate of the deceased member one year after the date of death the amount to which the estate is otherwise entitled when no other person is entitled to a benefit on the death of the member.

Missing beneficiary found

(3) If an individual entitled to a death benefit under the pension plan or a beneficiary designated by the deceased member under the *Pension Benefits Act* applies for the benefit after the administrator makes a payment under subsection (2), the administrator shall pay the individual the amount of the benefit to which the individual is entitled less the amount paid to the estate by the administrator.

Transitional

(4) This section applies with respect to a person with credited service under a predecessor of this Act who dies before the 1st day of January, 1990, as if that person were a deceased member of the pension plan.

Discharge

(5) The administrator is discharged on making a payment in accordance with this section.

Interpleader, more than one applicant

78. (1) Revoked. (Last amended September 8, 2006 – Effective September 1, 2006)

Court may order

(2) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Application to court

(3) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

Application of R.S.O. 1980, c. 488, s. 62

(4) Revoked. (Last amended September 8, 2006 - Effective September 1, 2006)

PART VIII
BENEFITS AND PAYMENTS - GENERAL

A. Adjustments for Inflation

Inflation adjustment, pensions

79. (1) Every retirement pension, disability pension, survivor pension, child's pension and beneficiary's pension shall be adjusted for inflation in accordance with section 80.

Idem, deferred pensions

(2) Every deferred pension payable under the pension plan shall be adjusted for inflation in accordance with section 80 for the period beginning at the end of the last month for which the member has credit under the plan and ending when the pension begins.

Limitation

(3) No pension or deferred pension shall be adjusted under this section for inflation in respect of a period before the 1st day of January, 1990.

Adjustment of pensions for cessations prior to May 31, 1982

79a. (1) For pension instalments payable for periods on or after June 1, 2001, the annual pension of a member, or of the survivor of a member, who ceased to be employed for purposes of the plan prior to May 31, 1982, shall be adjusted in accordance with salary adjustments determined by the actuary with reference to the year in which the member ceased to be employed for purposes of the plan. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(2) Subsection (1) shall also apply to the pension payable to the survivor of a member where the member:

(a) ceased to be employed for purposes of the plan on or after May 31, 1982 but prior to September 1, 1984, and

(b) died prior to receiving a pension calculated on the basis of the average of the member's annual pensionable salary for the five school years during which it was highest,

but only to the extent that the survivor is not already receiving a survivor pension equivalent to that calculated on the basis described in (b). (Last amended April 2, 2001 – Effective April 1, 2001)

Applicability

(3) This section shall not apply to the retirement pension or benefits upon death of a member who did not have at least ten years of credited service on the date he or she ceased to be employed in education. (Last amended December 13, 2012 – Effective July 1, 2012)

Calculation of inflation adjustments

80. (1) In the formulas in this section,

"A" is the carry forward determined for the immediately preceding year,

"B" is the basic ratio for the year,

"C" is the adjustment ratio for the year,

"D" is the basic ratio for the year after the last year for which the member has credit in the pension plan, and shall be calculated to a maximum of 1.080 or to a minimum of 1.000, and (Last amended October 9, 2008 – Effective January 1, 2009)

"E" is the number of full months in the year that are after the month in the last year for which the member has credit in the pension plan. (Last amended October 9, 2008 – Effective January 1, 2009)

Definitions

(2) In this section,

"accumulated adjustment ratio", for a person's pension, means the product of the multiplication of all adjustment ratios for the years in the period commencing with the last year for which the member has credit in the pension plan and ending with the year for which the accumulated adjustment ratio is being determined; (Last amended October 9, 2008 – Effective January 1, 2009)

"adjustment ratio", for a person's pension, means,

(a) for any year before the year 1976 and for the last year for which the member has credit in the pension plan, 1.000,

(b) if the member for whose credit in the plan the pension is payable ceased to be employed in education in or after the year 1975, for the year after the last year for which the member has credit in the pension plan, the ratio determined by the formula "[(D - 1.000) × E / 12] + 1.000", and

(c) for the later of the year 1976 and the second year after the last year for which the member has credit in the pension plan and for any subsequent year, the ratio determined by the formula "A + B" calculated to a maximum of 1.080 or to a minimum of 1.000; (Last amended October 9, 2008 – Effective January 1, 2009)

"basic ratio", for a year, means the ratio expressed to three decimal places that the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year bears to the average for the Consumer Price Index over the first twelve months of that period;

"carry forward", with respect to the pension of a person, means,

(a) for any year before the year 1976, for the last year for which the member has credit in the pension plan and for the year after that year, nil, and

(b) for the later of the year 1976 and the second year following the last year for which the member has credit in the pension plan and for any subsequent year, the positive or negative number determined by the formula "A + B - C"; (Last amended October 9, 2008 – Effective January 1, 2009)

"Consumer Price Index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);

"member" means the person in respect of whose credit in the pension plan the pension, to which the formula is applied under this section, is payable, and includes a contributor within the meaning of the *Teachers' Superannuation Act*, *1983* or a predecessor Act; (Last amended October 9, 2008 – Effective January 1, 2009)

"pension" means a pension to which a person is entitled from the plan other than the adjustment for inflation provided by this section, and an allowance, annuity, deferred annuity or other periodic payments to which a person has become entitled under the *Teachers' Superannuation Act*, *1983* or a predecessor Act;

"plan" includes the pension plan established under the *Teachers' Superannuation Act*, *1983* and any predecessor Act.

Payment of inflation adjustment

(3) The annual amount of pension payable to a person from the pension fund shall, commencing with the year when payment of the pension is to commence and in each subsequent year that the pension continues to be payable, be adjusted for inflation by multiplying the annual amount of the pension by the accumulated adjustment ratio for the pension of the person for that year, and the amount by which the pension thus adjusted exceeds the annual amount of pension before the adjustment in each year shall be paid to the person entitled to receive the pension for which it is calculated at the same times, in the same manner and subject to the same terms and conditions as apply to the pension in respect of which it is paid.

Conditional inflation adjustment for post-2009 credit

(3a) Notwithstanding subsections (1), (2) and (3), but subject to subsection (3b), benefits payable in respect of credit accrued under the pension plan for periods after 2009 shall only be adjusted for inflation under this section to the extent that sufficient funds are available to provide for such adjustments without creating a going concern unfunded liability. (Last amended October 9, 2008 – Effective January 1, 2009)

50% guaranteed inflation adjustment for post-2009 credit

(3b) Benefits payable in respect of credit accrued under the pension plan for periods after 2009 shall be adjusted for inflation under this section such that the adjustment made each year is not less than one half of the adjustment that would have been made for the year in accordance with this section as it read on December 31, 2008. (Last amended October 9, 2008 – Effective January 1, 2009)

Inflation adjustment for benefits payable after 2011

(3c) Revoked. (Last amended September 17, 2013 – Effective January 1, 2014)

0% guaranteed inflation adjustment for post-2013 credit

(3d) Notwithstanding subsection (3b), benefits payable in respect of credit accrued under the pension plan for periods after 2013 may be further adjusted for inflation under this section such that the total adjustment made each year is less than one half of the adjustment that would have been made for the year in accordance with this section as it read on December 31, 2008. (Last amended September 17, 2013 – Effective January 1, 2014)

Determination of inflation adjustment for post-2009 and post-2013 credit

(3e) For purposes of subsections (3a), (3b) and (3d), the inflation adjustments for benefits payable each year, in respect of credit accrued under the pension plan for periods after 2009 and after 2013 respectively, shall be determined by the co-sponsors of the pension plan, the Executive of the Ontario Teachers' Federation and the Minister of Education. (Last amended September 17, 2013 – Effective January 1, 2014)

Ratio not to apply

(4) The ratio determined for the year 1990 under the *Superannuation Adjustment Benefits Act* does not apply to a pension to which this section applies.

Effect of re-employment

(5) For the purpose of determining an accumulated adjustment ratio for benefits that commence to be paid on or after May 10, 2007, for members who cease to be employed in education on or after September 1, 1995:

(a) the last school year in which the member accumulated more than ten days of credited service during the period from January 1, 1997 onward, or, if the member did not accumulate more than ten days of credited service in a school year during this period, then

(b) the last school year in which the member accumulated more than twenty days of credited service during the period from September 1, 1990 to December 31, 1996,

is deemed to be the last year for which the member has credit in the pension plan. (Last amended December 21, 2007 – Effective May 10, 2007)

(6) Revoked. (Last amended July 19, 2007 – Effective May 10, 2007)

B. CPP Reduction

CPP reduction for pensions

81. (1) If a member has contributed to the *Canada Pension Plan* or the *Quebec Pension Plan*, the amount of the member's retirement pension, full disability pension or partial disability pension shall be reduced by the amount calculated under subsection (3).

Commencement, retirement pension

(2) A reduction of a member's pension shall apply with respect to pension payments due the month after the earlier of,

(a) the month in which the member reaches sixty-five years of age; or

(b) the month in which the first instalment of the member's disability pension, if any, under the *Canada Pension Plan* or the *Quebec Pension Plan* is due.

Amount of reduction

(3) The amount of the reduction in an annual pension payable for periods on or after January 1, 1997 and prior to January 1, 1999 is calculated using the formula,

0.0068 x A x B,

and the amount of the reduction in an annual pension payable for periods on or after January 1, 1999 and prior to January 1, 2002 is calculated using the formula,

0.0060 x A x B,

and the amount of the reduction in an annual pension payable for periods on or after January 1, 2002 is calculated using the formula,

0.0045 x A x B

in which,

"A" is the lesser of,

(a) the member's average salary, and

(b) the amount determined under subsection (4), and

"B" is the number of years of the member's credited service for employment on or after the 1st day of January, 1966 in respect of which the member made contributions under the *Canada Pension Plan* or the *Quebec Pension Plan*. (Last amended April 2, 2001 – Effective April 1, 2001)

(3a) For pension instalments due on or after January 1, 1997, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0068 for 0.007 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension will not be recalculated. (Last amended February 20, 1997 - Effective January 1, 1997)

(3b) For pension instalments payable for periods on or after January 1, 1999, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule "1" of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0060 for 0.0068 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension will not be recalculated. (Last amended May 27, 1998 - Effective June 1, 1998)

(3c) For pension instalments payable for periods on or after January 1, 2002, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated substituting 0.0045 for 0.0060 in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension or a 10 year guaranteed pension will not be recalculated. (Last amended September 8, 2006 – Effective April 1, 2001)

Average YMPE

(4) The amount is the average of the Year's Maximum Pensionable Earnings for the year in which the member ceases to be employed in education and for each of the two preceding years, except that for an annual pension payable for periods on or after January 1, 2002 the amount is the average of the Year's Maximum Pensionable Earnings for the year in which the member ceases to be employed in education and for each of the four preceding years. (Last amended April 2, 2001 – Effective April 1, 2001)

Idem

(4a) For pension instalments payable for periods on or after January 1, 2002, the amount of the reduction in annual pension, for participation in the *Canada Pension Plan* or the *Quebec Pension Plan*, of a member, or a survivor of a member, calculated under Schedule 1 of the *Teachers' Pension Act* or a predecessor act, is recalculated using the five year average of the Year's Maximum Pensionable Earnings, as described in subsection (4), in the formula used to calculate the reduction, but the amount of the reduction to provide for a higher survivor pension or a 10 year guaranteed pension will not be recalculated. (Last amended September 8, 2006 – Effective April 1, 2001)

(5) Where a reduction is applied as provided in subsection 81(2)(b) and the member's *Canada Pension Plan* or *Quebec Pension Plan* disability pension is terminated before the member reaches sixty-five years of age, the reduction will be suspended, effective the month following the month of the termination, until the payment of pensions due the month after the earlier of,

(a) the month in which the member reaches sixty-five years of age; or

(b) the month in which the first instalment of the member's disability pension, if any, under the *Canada Pension Plan* or the *Quebec Pension Plan* is due.

(Last amended April 15, 1998 - Effective January 1, 1997)

C. Payment of Benefits

Application for benefit

82. (1) No benefit under the plan shall be paid before the administrator receives an application for it in the form provided by the administrator.

Election or direction

(2) An election available under the plan or a direction that may be given to the administrator shall be made or given in the form provided by the administrator.

Repayment

82a. A person who receives payments to which the person is not entitled shall repay the amounts so received, together with interest thereon calculated at the standard interest rate. (Last amended May 5, 2010 – Effective January 1, 2002)

Multiple pensions

83. No member is entitled to payment of more than one pension under the plan during the same month or other payment period in respect of the member's credited service.

Commutation of pensions

84. The administrator shall pay the commuted value of a pension, other than a disability pension or dependent child pension, in accordance with subsections 44 (7) and (7.1), or clause 50 (1) (a), of the *Pension Benefits Act.* (Last amended January 15, 2014 – Effective January 1, 2014)

Shortened life expectancy

84a. (1) Upon application by a member, the administrator shall pay the commuted value of a pension or deferred pension in such circumstances of shortened life expectancy as may be prescribed under subsection 49(2) of the *Pension Benefits Act*, provided the prescribed conditions under that Act are satisfied. (Last amended June 17, 2003 – Effective March 3, 2000)

Amount

(2) Subject to subsections (3) and (4), the amount payable under subsection (1) shall be determined in accordance with the *Pension Benefits Act* and accepted actuarial practice. (Last amended September 8, 2006 – Effective March 3, 2000)

Idem

(3) The commuted value of a deferred pension shall be determined as if the member had a normal life expectancy. (Last amended June 17, 2003 – Effective March 3, 2000)

Idem

(4) The commuted value of a pension shall be determined based on the member having a shortened life expectancy. (Last amended June 17, 2003 – Effective March 3, 2000)

Application void

(5) An application made under this section is void if the member dies before the benefit under subsection (1) is paid. (Last amended June 17, 2003 – Effective March 3, 2000)

Deemed cessation

(6) A member who makes an application under this section and who satisfies the evidentiary requirements of the *Pension Benefits Act* is deemed to have ceased employment in education for the purposes of membership in the pension plan, on the date the member's physician signs the statement required under the *Pension Benefits Act*. (Last amended June 20, 2012 – Effective January 1, 2007)

(7) If a direction under section 70 regarding a "new spouse" has been delivered to the administrator, the benefit under subsection 84a (1) shall not be paid unless the "new spouse" provides to the administrator a signed statement waiving any entitlement under section 70. (Last amended June 20, 2012 – Effective March 3, 2000)

Deductions from pensions

85. (1) Despite section 65 of the *Pension Benefits Act*, a person receiving a pension under the pension plan or an allowance under a predecessor Act may direct the administrator to deduct and remit from the pension or allowance on behalf of the person,

(a) premiums payable under the Ontario Health Insurance Plan by the person;

(b) premiums for life, medical, dental or health-related insurance payable by the person under a contract of group insurance approved by the administrator for the purpose of this section; and

(c) membership fees payable to The Retired Teachers of Ontario (RTO)/Les enseignantes et enseignants retraités de l'Ontario (ERO). (Last amended September 8, 2006 – Effective January 1, 1999)

Conditions

(2) The administrator may impose and require compliance with such conditions as the administrator considers appropriate before acting upon a direction.

Revocation of direction

(3) A person making a direction may revoke it by written notice to the administrator.

Termination of pension

86. Every pension terminates as of the end of the month in which the event that terminates the pension occurs.

No assignment etc.

86a. No pension or benefit shall be capable of being assigned, charged, anticipated, given as security or surrendered except as provided for in the *Pension Benefits Act*. (Last amended September 8, 2006 - Effective January 1, 1992)

D. Administration

Appeal of decision

87. (1) A person who is aggrieved by a decision of an employee of the administrator respecting the person's entitlement to, or the amount of, a pension benefit may appeal the decision to a committee of the administrator designated for the purpose of this section and the committee of the administrator shall determine the appeal. (Last amended April 15, 1998 - Effective October 1, 1997)

Idem

(2) An appeal shall be made in accordance with the procedures established by the administrator.

Determination of commuted value

88. The commuted value of a benefit shall not be less than the amount calculated in accordance with the *Recommendations for Minimum Transfer Values of Pensions* published from time to time by the Canadian Institute of Actuaries and shall be calculated using the rate of interest specified by, and such actuarial tables as may be adopted by, the administrator.

Calculation of interest

89. (1) Unless otherwise indicated, interest shall be calculated at the standard interest rate. For a given year, the standard interest rate attributable to a transaction is a rate equal to the average yield for the 12 month period, ending on the 31st day of October in the preceding calendar year, of five-year personal fixed term chartered bank deposit rates as determined from the Canadian Socio-Economic Information Management (CANSIM) Series V 122515 published monthly in the Bank of Canada Review and interest is compounded annually each December 31st. (Last amended September 8, 2006 - Effective September 1, 2006)

Idem, transitional

(2) For 1990 the standard interest rate attributable to a transaction is the weighted average effective annual yield of the debentures held by the Teachers' Superannuation Fund under the *Teachers' Superannuation Act, 1983* as at the 31st day of December, 1989.

Idem, transitional

(3) Interest payable in respect of a period before the 31st day of December, 1989 shall be calculated up to that date at the applicable rate in effect under the *Teachers' Superannuation Act, 1983* and at the applicable standard rate in effect thereafter. (Last amended June 1, 1995 - Effective June 1, 1995)

Interest on contributions

(4) Interest credited under the pension plan on contributions shall be calculated in accordance with the *Pension Benefits Act* and credited to the member as at the 31st day of December in each year.

Interest on lump sums

(5) Interest is payable in accordance with the *Pension Benefits Act* on a lump sum payment of the commuted value of a benefit from the effective date of the determination of the commuted value to the day before the lump sum is paid. (Last amended February 28, 1992 - Effective January 1, 1992)

Report re employment in education

90. (1) Revoked. (Last amended May 6, 2010 – Effective September 1, 2012)

Failure to report

(2) Revoked. (Last amended May 6, 2010 – Effective September 1, 2012)

Prior refund re multiple pensions

91. Revoked. (Last amended April 15, 1998 - Effective January 1, 1992)

PART IX
PURCHASE OF CREDIT FOR SERVICE

A. General

Purchases, general

92. (1) A member may purchase or receive a maximum of five years of credited service,

(a) under sections 10 (2a), 10 (2f), 10 (4), 12a, 94 and 96, and

(b) for any unpaid portion of a period under subsections 10 (2e) and 10 (2g) in respect of which compensation is prescribed in accordance with Regulation 8507 (1) (a) of the *Income Tax Act* (Canada),

for absences after the 31st day of December, 1990.

(Last amended July 21, 2014 – Effective September 1, 2014)

Idem

(2) Subject to section 28, a member may not purchase credited service for a period of time for which the member has credited service under the plan. (Last amended December 20, 1999 - Effective September 1, 1998)

Past service pension adjustment

92a. (1) The purchase of credited service by a member who requires certification of a Past Service Pension Adjustment under the *Income Tax Act* (Canada) is not complete until the administrator has obtained a certificate from the Minister of National Revenue. (Last amended February 28, 1992 - Effective January 1, 1992)

Idem

(2) Credited service in respect of which certification has been obtained from the Minister of National Revenue shall not be included in the credited service maximums in subsections 92 (1) and 94 (15). (Last amended February 28, 1992 - Effective January 1, 1992)

Purchases, transitional

93. (1) The purchase of credited service by a member who delivers a completed application to the administrator before the 1st day of January, 1992 shall be made in accordance with sections 9, 10, 36, 45 and 48 of the *Teachers' Superannuation Act, 1983* and with sections 7 to 14 of Ontario Regulation 423/84 as those sections read on the 31st day of December, 1989.

Idem

(2) The *Teachers' Superannuation Act, 1983* as it reads on the 31st day of December, 1989 continues to apply for the purpose of determining a purchase of credited service under subsection (1).

Idem

(2a) Despite subsections (1) and (2) a member who has delivered a completed application to the administrator before the 1st day of January 1992 who fails to pay all of the contributions required to complete the purchase of credited service applied for before the 31st day of December, 1994 shall receive credited service in an amount based upon the contributions plus interest which he or she has actually made. (Last amended June 28, 1990 - Effective June 28, 1990)

Transitional

(3) Sections 95, 96 and 99 apply with respect to a member's application before the 1st day of January, 1992 in the circumstances described in those sections.

End of transitional period

(4) A person is not eligible after the 31st day of December, 1994 to make or complete a purchase of credited service to which a predecessor Act applies.

Interest rate

(5) For the purpose of a purchase of credited service described in subsection (1) for a period on or after the 1st day of January, 1990, references to the applicable rate of interest in Ontario Regulation 423/84 shall be read as if they were references to the standard interest rate.

Idem

(6) Subsection 89 (3) (calculation of interest, transitional) does not apply with respect to a purchase of credited service described in subsection (1) for a period before the 1st day of January, 1990.

B. For Employment in Education

Absences

94. (1) In this section,

"absence" means either an employer-approved leave of greater than five consecutive school days or a break in service;

"break in service" means a period when a member is not employed in education or is absent from employment without the employer's consent.

(Last amended July 21, 2014 – Effective September 1, 2014)

Purchase re break in service

(2) A member may purchase credited service for a break in service approved by the administrator for a period of disability immediately following a period of employment in education, where the member ceases to be employed in education as a result of the disability and meets the definition of "disabled" as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada). (Last amended August 4, 2011 – Effective December 2, 2010)

Application for purchase re break in service

(2a) A member shall apply to purchase credited service for a break in service within two years after the date when the member ceases, as a result of the disability, to be employed in education. (Last amended August 4, 2011 – Effective December 2, 2010)

Idem

(2b) The administrator shall accept an application to purchase credited service for a break in service that is made after the time described in subsection (2a) if the administrator is satisfied,

(a) that the delay in making the application resulted from a delay in diagnosing the disability; or

(b) that the member was unable, because of the effects of the disability, to make the application within the time described in subsection (2a).

(Last amended August 4, 2011 – Effective December 2, 2010)

Proof of disability

(2c) No application to purchase credited service for a break in service shall be considered by the administrator until the administrator has received the certificate of a medical doctor licensed in Ontario certifying that the applicant became mentally or physically disabled while employed in education and indicating the nature and degree of the disability. (Last amended August 4, 2011 – Effective December 2, 2010)

Ongoing proof of disability

(2d) The administrator may at any time require a member who has applied to purchase credited service for a break in service to furnish evidence, in such form as the administrator directs, that the member was disabled, as defined under Regulation 8500 (1) of the *Income Tax Act* (Canada), throughout the break in service. A member's entitlement to purchase credited service for a break in service shall terminate if the administrator is not satisfied that the member is disabled. (Last amended August 4, 2011 – Effective December 2, 2010)

Limit

(2e) Despite subsections 92 (1) and 92a (2), no member may purchase credited service for a break in service in respect of a period that is after the fifth anniversary of the start of the break in service. (Last amended August 4, 2011 – Effective December 2, 2010)

Application

(3) A member may apply to purchase credited service for an absence by notifying the administrator of the member's intent to purchase. (Last amended December 30, 2009 - Effective September 1, 2010)

(3a) A member may only purchase credit for an absence for service outside of Canada, where that service was arranged by the member's employer, if the purchase is made on an ongoing basis during the period of the leave. (Last amended April 2, 2001 – Effective September 1, 2001)

Purchase re absence

(4) A member may purchase credited service for all or part of an absence. (Last amended April 2, 2001 – Effective September 1, 2001)

(4a) Despite subsection (4) a member on an absence from other than a full-time position is entitled to purchase credit under this section only for the time that, in the opinion of the administrator, the member would have been employed for compensation but for the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(5) No member may purchase credited service for an absence for the purpose of service in political office if the member is contributing to or is entitled to a pension under another registered pension plan other than the *Canada Pension Plan* or the *Quebec Pension Plan* in respect of the service.

Amount of contribution

(6) A member who purchases credited service on a monthly basis during the period of the absence shall contribute,

(a) the required contributions, based on the pensionable salary that the member's employer advises the administrator that the member would have earned, if the member were not absent, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) for any late monthly payments, interest thereon calculated at the standard interest rate from the date each contribution would have been made and ending on the day before the payment is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(6a) A member who purchases credited service other than on a monthly basis during the period of the absence shall contribute, on or before the end of the month in which the fifth anniversary of the end of the absence occurs, a lump sum which is equal to,

(a) the required contributions, based on the pensionable salary that the member's employer advises the administrator that the member would have earned, if the member were not absent, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) interest thereon calculated at the standard interest rate from the date each contribution would have been made and ending on the day before the payment is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(6b) Despite subsections (6) and (6a), a member who purchases credited service on or after the 1st day of September, 2010, shall contribute, on or before the end of the month in which the fifth anniversary of the end of the absence occurs,

(a) the required contributions, based on the pensionable salary as determined in accordance with section 14, and as if the member were not required to contribute to the *Canada Pension Plan* or to the *Quebec Pension Plan*; and

(b) interest thereon calculated at the standard interest rate from the first day of the month following the month in which the end of the absence occurs and ending on the day before the payment is made. (Last amended December 30, 2009 - Effective September 1, 2010)

Transition

(6c) Subsection (6b) shall only apply where the member has not previously completed payment for the purchase of the entire eligible absence period. (Last amended October 19, 2012 - Effective September 1, 2010)

Transition: Interest calculation for the portion of an absence previously considered complete

(6d) Despite subsections (6b) and (6c), where, in the opinion of the administrator, payment was considered to be complete as of the 1st day of September, 2010 for a portion of the entire eligible absence period, the interest applicable to that portion of the absence shall be calculated in accordance with subsection (6) (b) or (6a) (b). (Last amended October 19, 2012 - Effective September 1, 2010)

Due date

(7) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Return date

(8) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Matching contributions for purchases

(9) A contribution under subsection (6), (6a) or (6b) is considered to be a required contribution for the purpose of sections 25 and 26, and the required matching contribution shall be paid by the employer making the employer contributions in respect of the member immediately before the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

Idem

(9a) Despite subsection (9), where a member was employed by a designated private school or a designated organization immediately before the absence and the employer is dissolved or in receivership at the time of the member's application to purchase credited service, the required matching contribution for a purchase of credited service for a break in service shall be paid by the member. (Last amended August 4, 2011 – Effective December 2, 2010)

Amount of contribution, delayed election

(10) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Advance payments

(11) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(12) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

No refund

(13) A member who makes contributions for an absence is not entitled to a refund of those contributions at any time, except to the extent that the member's purchase is not completed in accordance with subsection 92a.(1). (Last amended April 2, 2001 – Effective September 1, 2001)

Proportionate credit

(14) A member who does not complete payment for the full period of an absence shall receive proportionate credit. (Last amended April 2, 2001 – Effective September 1, 2001)

Maximum purchase, birth or adoption

(15) Despite subsection 92 (1) a member may also purchase a maximum of three years of credited service in respect of absences after the 31st day of December, 1990 taken at the birth or adoption of the member's children. (Last amended April 2, 2001 – Effective September 1, 2001)

Idem

(16) For the purposes of subsection (15) a member may purchase a maximum of one year of credited service for an absence taken at the birth or adoption of the member's child or if more than one child is born or adopted at once, in respect of one such birth or adoption. (Last amended April 2, 2001 – Effective September 1, 2001)

Eligibility for purchase

(17) Revoked. (Last amended May 5, 2010 – Effective September 1, 2009)

Lump sum payments

(18) Revoked. (Last amended June 28, 1990 - Effective June 28, 1990)

End Date

(19) For the purposes of this section, the end of an absence occurs on the last day that, in the opinion of the administrator, the member could have worked if not for the absence. (Last amended December 30, 2009 - Effective September 1, 2010)

End date

(20) Despite subsection (19), the end of an absence for a member who purchases credited service for a break in service shall be no later than the fifth anniversary of the start of the break in service. (Last amended October 19, 2012 - Effective September 1, 2010)

Transitional rules

94a. (1) A member whose absence ended prior to September 1, 2001 and who,

(a) returned to employment in education, following the absence, on or after September 1, 1996 but prior to September 1, 2001, or

(b) did not return to employment in education, following the absence, prior to September 1, 2001,

shall have until December 31, 2004 to complete a purchase of the absence. (Last amended April 2, 2001 – Effective September 1, 2001)

(2) A member who completes a purchase in accordance with subsection (1) shall contribute a lump sum on a contributions plus interest basis calculated in accordance with subsection 94 (6a). (Last amended April 2, 2001 – Effective September 1, 2001)

(3) A member whose absence ended prior to September 1, 2001 and who returned to employment in education, following the absence, prior to September 1, 1996 shall have until December 31, 2002 to complete a purchase of the absence by notifying the administrator by that date and by making the purchase within 90 days of the provision of a purchase cost quotation. (Last amended April 2, 2001 – Effective September 1, 2001)

(4) A member who completes a purchase in accordance with subsection (3) shall contribute a lump sum which is, on the date of the purchase, equal to the actuarial cost of the expected pension improvement. (Last amended April 2, 2001 – Effective September 1, 2001)

(5) This section shall only apply where the member has not previously completed a purchase of the absence, in which case the member may complete the purchase in accordance with this section without having to meet the requirements of subsection 94 (3) as it read on August 31, 2001. (Last amended April 2, 2001 – Effective September 1, 2001)

Transitional application deadline re: breaks in service

94b. (1) A member may purchase credited service for a break in service in accordance with subsection 94 (2) as it read on the 1st day of December, 2010, if the member delivers to the administrator a completed application to purchase credit, in the form provided by the administrator, including all supporting documents, by the 31st day of August, 2011. (Last amended August 4, 2011 – Effective December 2, 2010)

Transitional payment deadline re: breaks in service

(2) Despite subsections 94 (6) to (6c), a member described in subsection (1) shall have until the 30th day of December, 2011 to complete payment of the amount required under subsection 94 (6b). (Last amended August 4, 2011 – Effective December 2, 2010)

Absence during a school year

95. (1) Revoked. (Last amended June 20, 2012 – Effective January 1, 2012)

Amount of contribution

(2) Revoked. (Last amended June 20, 2012 – Effective January 1, 2012)

Interest payable

(3) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Status of contributions

(4) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Due date

(5) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Required contribution

(6) Revoked. (Last amended April 2, 2001 – Effective September 1, 2001)

Absence re strike or lockout

96. (1) A member may contribute for days that the member is absent from employment in education for the purpose of participating in a legal strike or because of a lockout. (Last amended April 2, 2001 – Effective September 1, 2001)

Amount of contribution

(2) The member shall contribute the amount of the member's required contribution for each day of absence plus the amount of the corresponding employer's contribution.

Interest payable

(3) The member shall pay interest, calculated at the standard rate, on any contribution received by the administrator more than one month after the end of the absence. (Last amended June 1, 1995 - Effective June 1, 1995)

For former membership

97. (1) This section applies with respect to a member who previously received a refund of required contributions under the pension plan. (Last amended April 2, 2001 – Effective September 1, 2001)

Eligibility

(2) No member may purchase credited service under this section until the member has accumulated, through employment in education, seventy days of credited service in one school year after returning to active membership.

Election within one year

(3) A member who elects to purchase credited service on or before the later of the first anniversary of the member's return to active membership and the 1st day of January, 1994 shall contribute the amount previously refunded together with interest thereon from the date the refund was made to the first day of the month in which the contribution is paid, calculated at the standard interest rate in effect on the date the refund was made. (Last amended April 2, 2001 – Effective September 1, 2001)

Limit

(4) No member may purchase more days of credited service under subsection (3) than the number of days in respect of which the member received the refund.

Due date

(5) A contribution under subsection (3) shall be paid as a lump sum before the later of the third anniversary of the member's return to active membership and the 1st day of January, 1995.

Required contribution

(6) A member who elects to purchase credited service after the deadline referred to in subsection (3) or who fails to make the payment before the deadline in subsection (5) shall contribute a lump sum which is, on the date of the purchase, equal to the actuarial cost of the expected pension improvement.

Repurchase of credited service

97a. (1) A member referred to in section 37 who becomes re-employed in education for more than 20 days in one school year may purchase credited service in an amount not greater than the credited service in respect of which a transfer and refund were made under that section. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(2) A member who elects to purchase credited service under subsection (1) shall contribute a lump sum equal to the greater of,

(i) the amounts transferred and refunded under section 37 together with interest thereon calculated at the standard rate from the day of the transfer or refund to the day before the payment is made; or

(ii) the actuarial cost, on the date of the purchase, of the expected pension improvement. (Last amended February 28, 1992 - Effective January 1, 1992)

Approved service outside Ontario

98. (1) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Idem

(2) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Limit

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(4) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Transitional re designated private schools

99. (1) This section applies to an active member,

(a) who is employed in an organization designated under the *Teachers' Superannuation Act, 1983* or in a school within the meaning of section 1 of the *Education Act*;

(b) who was employed before the 1st day of September, 1986 in a private school designated under a predecessor of this Act;

(c) who was employed on the 1st day of September, 1986 and for at least twenty days during the school year beginning on that date in an organization designated under the *Teachers' Superannuation Act, 1983* or in a school within the meaning of section 1 of the *Education Act*; and

(d) who elected before the 1st day of September, 1986 to be excluded from the benefits and obligations of the predecessor Act.

Purchase

(2) An active member may purchase credited service in accordance with subsections 13 (4), (6) and (7) of Ontario Regulation 423/84 as they read on the 31st day of December, 1989, with necessary modifications, for past teaching service in a private school designated under a predecessor of this Act.

Idem

(3) No member is entitled to apply to purchase credited service under this section after the 31st day of December, 1991.

C. For other Employment

For war service

100. (1) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

Idem

(2) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

For teaching special subjects

101. (1) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

Idem

(2) Revoked. (Last amended September 8, 2006 – Effective December 31, 2006)

For foreign service as an educator

102. (1) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Eligibility

(2) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

Limit

(3) Revoked. (Last amended February 28, 1992 - Effective January 1, 1992)

Amount of contribution

(4) Revoked. (Last amended December 20, 1999 - Effective January 1, 1992)

For other employment, R.S.C. 1952, c. 148

103. (1) A member may purchase credited service in the pension plan for employment not otherwise described in this Part if the employment was pensionable service under another pension plan registered under the *Income Tax Act* (Canada). (Last amended April 2, 2001 – Effective September 1, 2001)

Transfer from other plan

(2) For service prior to January 1, 1992, all funds associated with the service under the other plan shall be transferred to the pension plan and applied to the cost of the member's expected benefit improvement. Where no funds remain in the other plan, the member is not entitled to purchase pre-1992 credited service under this section. (Last amended September 8, 2006 - Effective January 1, 1992)

Amount of contribution

(3) For service after December 31, 1991, the member shall contribute an amount equal to the actuarial cost of the expected benefit improvement. (Last amended June 29, 1994 - Effective January 1, 1992)

(4) If the amount transferred under subsection (2) is less than the actuarial cost of the expected benefit improvement, the member shall contribute a lump sum which, on the date of the purchase, is equal to the difference. (Last amended June 29, 1994 - Effective January 1, 1992)

D. Reciprocal Agreements

Reciprocal agreements

104. (1) The administrator may enter into an agreement with the authorized representative of another pension plan respecting the terms upon which persons may transfer benefits and contributions between that plan and the pension plan.

Idem

(2) A reciprocal agreement must provide that a person transferring benefits and contributions to the pension plan acquires a benefit under the plan based upon the actuarial cost of the expected benefit on the date of the transfer.

(3) If a reciprocal agreement provides that a person may elect to pay directly to the administrator part or all of the difference between the required amount and the amount transferred (the "shortfall"), and provides the administrator with the authority to establish a deadline by which a person must complete payment of the shortfall, a person who elects to pay the shortfall shall complete such payment on or before the end of the month in which the fifth anniversary of the date the application to transfer was received by the administrator occurs. (Last amended June 20, 2012 – Effective September 1, 2001)

Reciprocal agreements, transitional

105. (1) Subject to subsection (2), reciprocal agreements entered into before the 1st day of January, 1990 by the Teachers' Superannuation Commission under section 49 of the *Teachers' Superannuation Act, 1983* are continued and expire on the 31st day of December, 1996.

Idem

(2) Reciprocal agreements referred to in subsection (1) do not expire on the 31st day of December, 1996 if, before that date, the reciprocal agreement is amended to include a term described in subsection 104 (2) or if the agreement includes such a term.

E. Administration

Application for purchase

106. An application to purchase credited service shall be made in a form provided by the administrator and shall be delivered to the administrator.

Applicability

106a. (1) Subsections 11 (6) to (9), 14 (1a) to (1i), 15 (2b), 94 (4a), (6b), (6c) and (9), as they read on the 1st day of September, 2010 apply to members who cease to be employed in education before the 1st day of September, 2010. (Last amended August 4, 2011 – Effective September 1, 2010)

Idem

(2) Subsections 94 (2) to (2e) and section 94b, as they read on the 2nd day of December, 2010 apply to members who cease to be employed in education before the 2nd day of December, 2010. (Last amended August 4, 2011 – Effective December 2, 2010)

Idem

(3) Section 84, as it read on the 1st day of January, 2014, applies to members who cease to be employed in education before the 1st day of January, 2014. (Last amended January 15, 2014 – Effective January 1, 2014)

Employed in education

106b. For a member who ceases to be employed in education before, on or after the 1st day of January, 2011, credited service purchased in accordance with subsection 94 (2) in respect of a period on or after the 1st day of January, 2011 is considered to be employment in education for the purposes of determining benefits. (Last amended August 4, 2011 – Effective January 1, 2011)

Effective date of purchase

107. A purchase of credited service is effective on the day the payment in relation to the purchase is made. (Last amended April 2, 2001 – Effective September 1, 2001)

Purchase of partial credit

108. A member who is entitled to purchase credited service for a period of employment or an absence may purchase credited service for a part of the employment or absence. (Last amended April 2, 2001 – Effective September 1, 2001)

Contribution by spouse, etc.

109. A member who dies before completing a purchase of credited service shall receive credited service in an amount based upon the contributions plus interest which he or she has made. (Last amended June 29, 1994 - Effective January 1, 1992)

Idem

(2) Revoked. (Last amended June 29, 1994 - Effective January 1, 1992)

Lump sum payments

109a. A lump sum payment under this Part may consist of,

(a) a partial payment by means of a transfer permitted under the *Income Tax Act* (Canada); and

(b) a second payment of the balance of the amount required to pay for the credited service being purchased by the lump sum. (Last amended June 28, 1990 - Effective June 28, 1990)

Eligibility for purchase

109b. A member is not eligible to purchase credited service while receiving a pension. (Last amended May 5, 2010 – Effective September 1, 2009)

PART X
ADMINISTRATION OF THE PLAN

A. General

Extension of time

110. The administrator may extend any time limit under the pension plan before or after the expiration of the time if the administrator is satisfied that there are reasonable grounds for the extension, and may give such directions as the administrator considers appropriate consequent upon the extension.

Provision of information

111. (1) The administrator shall provide to each member of the pension plan the information and documents required under this Act or any other Act.

Idem, to administrator

(2) A member, a person who applies for, or receives, a pension, refund or other payment from the pension fund, a board of education or an employer of a member shall provide the administrator, upon request, with such information as the administrator may require to administer the pension plan.

(2a) The administrator may conduct an audit of the records of a board of education or an employer for the purpose of validation of information required for administration of the pension plan. (Last amended June 20, 2012 – Effective January 1, 2012)

Idem, to members

(3) The administrator shall provide within a reasonable time to a member, upon written request, all information relating to the member's contributions and entitlements under the pension plan.

Fiscal year

112. The fiscal year of the pension plan is the twelve-month period that begins on the 1st day of January.

Actuarial calculations

113. Actuarial calculations and determinations required under the pension plan shall be made using such actuarial assumptions, principles and methods as may be required or adopted by the administrator.

B. Pension Fund

Payments from pension fund

114. A payment required under the pension plan must be paid from the pension fund.

Requirement to invest

115. Moneys in the pension fund that are not required to be paid out must be invested to meet the obligations of the pension plan.

C. Surplus and Deficiency

Actuarial gain

116. Revoked. (Last amended January 24, 1992 - Effective January 1, 1992)

Surplus

117. Revoked. (Last amended January 24, 1992 - Effective January 1, 1992)

Requirement to contribute to deficit

118. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

PART XI
DESIGNATION OF PRIVATE SCHOOLS AND ORGANIZATIONS

Private schools

119. (1) The Partners' Committee by notice to the administrator may designate a school, college, academy or other educational institution as a designated private school for the purpose of the pension plan,

(a) if it gives instruction equivalent to that given in elementary or secondary schools in Ontario;

(b) if it is not supported in any way by school taxes or by provincial or municipal grants; and

(c) if it meets the criteria set out in subsection (3). (Last amended June 1, 1995 - Effective January 1, 1992)

Organizations

(2) The Partners' Committee by notice to the administrator may designate an organization as a designated organization for the purpose of the pension plan,

(a) if it provides services related to elementary or secondary education; and

(b) if it meets the criteria set out in subsection (3). (Last amended June 1, 1995 - Effective January 1, 1992)

Criteria

(3) The school, college, academy or other educational institution or the organization,

(a) must not be operated for profit or gain and any profits must be used to carry out its objects; and

(b) by its governing body must undertake in writing to make the reports described in subsection (5), to pay the amounts described in subsection (6), and to perform all administrative functions required of an employer for the purposes of the pension plan.

Effective date of designation

(4) A notice of designation under subsection (2) shall specify the effective date. (Last amended April 15, 1998 - Effective January 1, 1992)

Reports

(5) The administrator may require a designated private school or designated organization to make annual reports for the purpose of the administration of this Act and the pension plan and to supply such information as to its constitution, operations, teaching staff and otherwise as the administrator may require.

Payments under the plan

(6) A designated private school or designated organization shall, in accordance with the pension plan, make the employer contributions and collect and remit the contributions by its employees who become active members of the pension plan.

Past service in prescribed schools and institutions

119a.(1) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

(2) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

Termination of designation

120. (1) Revoked. (Last amended June 1, 1995 - Effective January 1, 1992)

Grounds

(2) The Partners' Committee by notice to the administrator may terminate the designation of a designated private school or a designated organization,

(a) if the designated private school or designated organization, by its governing body, has requested the termination of the designation;

(b) if the designated private school or designated organization is not complying with its undertakings; or

(c) if there is a change in the objects or mode of carrying out the objects of the designated private school or designated organization. (Last amended June 1, 1995 - Effective January 1, 1992)

Notice and submissions

(3) The Partners' Committee shall give notice of the termination to the governing body and to the employees of the designated private school or designated organization who are active members of the pension plan. (Last amended June 1, 1995 - Effective January 1, 1992)

Effective date

(4) A notice of termination of designation shall specify the effective date. (Last amended June 1, 1995 - Effective January 1, 1992)

Effect of termination of designation

(5) Upon the termination of a designation, the employees of the private school or the organization cease to be eligible to be active members of the pension plan.

Idem

121. (1) Revoked. (Last amended December 21, 2007 - Effective September 1, 2008)

Effective date

(2) Revoked. (Last amended December 21, 2007 - Effective September 1, 2008)

Designations, transitional

122. The designation of a designated private school, designated organization and a designated capacity under the *Teachers' Superannuation Act, 1983* that is in effect on the 31st day of December, 1989 shall have effect as a designation made under this Part.

PART XII-ONTARIO TEACHERS' PENSION PLAN BOARD (REVOKED)

(Last amended January 24, 1992 - Effective January 1, 1992)

.....

ONTARIO TEACHERS' PENSION PLAN

AMENDMENT TO THE ONTARIO TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on September 22, 2015;

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

WIND UP

1. Section 118a is added to the Plan:

Wind Up

118a. If the pension plan is wound up within the meaning of the *Pension Benefits Act*, the assets of the pension fund shall first be used to pay or satisfy properly incurred liabilities to creditors, following which the remaining assets of the pension fund shall be used to pay or satisfy the accrued benefit entitlements of members, former members, retired members and any other persons entitled to a benefit under the pension plan in respect of a member, former member, or retired member before any other distribution is made.

Effective on the date this agreement is countersigned by both Partners.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Date: Sept 28/15

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Date: 27 September, 2015

TEACHERS' PENSION PLAN

AMENDMENT TO THE TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on July 21, 2014; and

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

Credit for Service

1. Effective April 20, 2015, subsection 10 (4) of the Plan is revoked and replaced with the following:

Limitation

10. (4) Except for periods of lockout or legal strike or the strikes declared illegal by the Ontario Labour Relations Board on May 26, 2015 for the following periods:

(a) Durham District School Board – April 20, 2015 - May 26, 2015
(b) Rainbow District School Board – April 27, 2015 - May 26, 2015
(c) Peel District School Board – May 4, 2015 - May26, 2015,

a person shall not receive credited service for employment unless contributions in respect of the employment are made by or on behalf of that person.

For Employment in Education

2. Effective April 20, 2015, subsection 96 (1) of the Plan is revoked and replaced with the following:

Absence re strike or lockout

96. (1) A member may contribute for days that the member is absent from employment in education for the purpose of participating in a legal strike or the strikes declared illegal by the Ontario Labour Relations Board on May 26, 2015 for the following periods:

(a) Durham District School Board – April 20, 2015 - May 26, 2015
(b) Rainbow District School Board – April 27, 2015 - May 26, 2015
(c) Peel District School Board – May 4, 2015 - May26, 2015,

or because of a lockout.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Dated at Toronto this 22nd day
of September, 2015.

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Dated at Toronto this ____ day
of _____, 2015.

ONTARIO TEACHERS' PENSION PLAN

AMENDMENT TO THE ONTARIO TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS paragraph 104 of the Partners' Agreement provides that the Partners may at any time agree to change any of the provisions of the Ontario Teachers' Pension Plan being Schedule 1 to the *Teachers' Pension Act*, as amended (the "Plan"); and

WHEREAS the Plan was most recently amended on September 28, 2015; and

WHEREAS the Partners wish to amend the Plan further;

NOW THEREFORE the Partners agree as follows:

Re-employment

1. Effective September 1, 2010, subsection 46 (5) of the Plan is revoked and replaced with the following:

"Re-employed pensioner" limitation

46. (5) The term "re-employed pensioner" shall include a member who provides services, other than as a teacher, to a ministry of the Government of Ontario only if:

(a) the ministry is the Ministry of Education, and

(b) the member's retirement pension under the plan begins after September 1, 2010.

2. Effective September 1, 2010, subsection 46(6) of the Plan is amended by adding the words "Despite subsection 46(5)," at the beginning of the subsection.

3. Effective September 1, 2015, subsection 46 (6) of the Plan is revoked.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Date: Nov 28/15

The Ontario Teachers' Federation
as represented by its Executive

Francine LeBlanc-Lebel
OTF President

Date: Nov. 23, 2015

This is an AGREEMENT

BETWEEN:

Her Majesty the Queen
in right of the Province of Ontario
represented by the Minister of Education and Training
("the Minister")

and

The Ontario Teachers' Federation
represented by its Executive
("the OTF")

These are the terms to which the Minister and the OTF agree;

Introduction

1. The Minister and the OTF have agreed to establish a partnership for the purpose of designing and administering the Ontario Teachers' Pension Plan and managing the Ontario Teachers' Pension Fund.

2. It is the intention of the partners that this partnership will start on the 1st day of January, 1992.

3. In this agreement,

(a) the Minister and the OTF will be referred to as the "partners" or the "partnership",

(b) the Ontario Teachers' Pension Plan Board continued by the *Teachers' Pension Act, 1989* will be referred to as "the Board",

(c) the Ontario Teachers' Pension Plan continued by the *Teachers' Pension Act, 1989* will be referred to as the "pension plan" or the "plan" and,

(d) the Ontario Teachers' Pension Fund continued by the *Teachers' Pension Act, 1989* to provide benefits in respect of the pension plan will be referred to as the "pension fund" or the "fund".

4. The partnership established by this agreement is intended to govern all aspects of the plan and the fund. Wherever this agreement differs with any law, that part of the agreement is of no effect but the rest of the agreement continues to govern the plan and the fund.

5. The Minister agrees to do everything possible to make sure that the Teachers' Pension Plan Board will not be considered a Scheduled Agency under the Guidelines of the Management Board of Cabinet.

6. The Minister agrees to do everything possible to have subsection 43(3) of Ontario Regulation 708/87 amended to provide that the pension fund is no longer exempted from the application of subsection 23(1) of the *Pension Benefits Act.*

7. The Minister may designate one or more persons to act in the Minister's place under this agreement. The OTF may designate one or more persons to act in its place under this agreement.

Role of the partners

8. The partners will be responsible for designing the plan structure, setting the benefits of the plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the plan, this agreement or other plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the Board, and defining the role of the Board.

9. The partners will enter into a memorandum of understanding with the Board setting out,

(a) the duties of the Board,

(b) the process for consultation in the preparation of valuations,

(c) the process for consultation on the amount of money to be paid to members of the Board, including the Chair and to members of committees appointed by the Board,

(d) the actuarial methods which the Board will use in valuing the plan and,

(e) any other terms of the relationship between the partners and the Board to which the partners agree.

10. The partners agree that every three years they will follow the procedure described in this agreement to meet and negotiate changes to the plan.

11. Either partner may ask the other to meet at any time to discuss changes to any of the matters referred to in paragraph 8 and the partners agree to make their best efforts to do so.

11a. The partners agree to meet as required to discuss the amount of the Minister's contribution due on the first business day of January that is to be deferred to the first business day of April of the same year and to determine the interest rate to be applied for the period of the deferral; determination of such interest rate to be guided by the principle that the Teachers' Pension Plan not be disadvantaged by the deferral. (Last amended May 29, 1992 - Effective May 29, 1992)

11b. The partners agree that the payment of a portion of the Minister's contribution that is due on the first business day of January of 1994 and a portion of the Minister's contribution that is due on the first day of January of 1995 may be deferred to March 31 of each respective year; the amount of the deferral, with interest, to equal $200 million in 1994 and $125 million in 1995; amounts to be adjusted to reflect payments authorized under Paragraph 65. (Last amended November 15, 1993 - Effective November 15, 1993)

12. If the Board advises the partners that a change must be made to the plan to comply with any law the partners agree that they will meet as soon as possible to discuss it.

13. The partners will establish a Partners Committee by each appointing three members. Either partner may refer to the Committee any matter referred to in paragraph 8 or 12 when no agreement results from discussion of the matter.

14. The Partners Committee may by agreement use the services of the manager of negotiations referred to in paragraph 76 to resolve any dispute. The Committee may by agreement use any dispute resolution mechanism including voluntary arbitration to resolve any dispute.

15. Either partner may ask the actuary hired by the Board to provide or prepare any information which that partner thinks it needs in discussing changes to the plan. The cost of the actuary in preparing that information will be paid out of the fund. The information will be provided to both partners.

15a. The partners may initiate, with the Board, discussions, reviews and research regarding the funded status of the plan including the design of conditional inflation protection, the reasonable costs of such reviews and research to be paid out of the fund subject to the prior approval of the Board. (Last amended October 9, 2008 – Effective January 1, 2009)

16. Either partner may audit the plan and the fund at any time at the expense of that partner. The Board will cooperate in the audit.

Role of the Board

17. The Board is responsible for the administration of the pension plan, the management of the pension fund and all other matters set out in this agreement.

18. The Board may exercise every power necessary to administer the pension plan, manage the pension fund and fulfil every other task which the partners assign to it.

19. The responsibilities of the Board include,

(a) investing and managing the pension fund to do all things possible so that the obligations of the pension plan will be met,

(b) preparing a valuation at least every three years to comply with the *Pension Benefits Act,*

(c) preparing annual valuations if the Board decides it is appropriate and providing preliminary results to the partners as soon as they are available,

(d) deciding on the actuarial assumptions used in administering the plan and in preparing valuations of the plan,

(e) consulting with the partners during the preparation of a valuation and making its best effort to respond to any comments and recommendations of the partners. The content of a final valuation is the decision of the Board,

(f) giving a copy of every valuation prepared for the Board to each partner and giving any information requested by a partner to each partner as quickly as possible,

(g) having the plan and the fund audited every year,

(h) preparing a report at the end of every fiscal year that tells how the plan and the fund have been doing in that year,

(i) holding a meeting with both partners at least once each year to explain the annual report to them and to answer any questions about the plan and fund,

(j) making sure that the plan and the fund are administered and managed to comply with all laws that affect them,

(k) advising the partners about any changes to the plan that need to be made to comply with the law,

(l) advising the partners about changes that would improve the administration of the plan,

(m) interpreting the plan and determining benefit entitlements,

(n) developing an investment policy and giving a copy to each partner and to the Financial Services Commission of Ontario,

(o) making rules regarding the conduct of its business,

(p) appointing or electing a vice Chair and any other officers that the Board feels are necessary for the conduct of its business.

The Board

20. The Board will have a maximum of nine members. The partners will each appoint four members.

21. The ninth member of the Board will be the Chair. The process for appointing a Chair is set out in the next section of this agreement.

22. The Minister and the OTF will each appoint two members to the Board to terms ending on the 31st day of December, 1992.

23. The Minister and the OTF will each appoint two members of the Board whose terms will end on the 31st day of December, 1993.

24. If a person appointed under paragraph 19 or 20 is a member of the Board when the partnership starts, the Lieutenant Governor in Council will make an Order changing the length of that person's term.

25. After the expiry of the term of a member of the Board who holds office on the 1st day of January, 1992 the partner who recommended to the Lieutenant Governor in Council the appointment of that member will fill the vacancy by appointing or re-appointing.

26. Unless a member cannot complete his or her term, is removed or is appointed after a member whose term was extended because of a delay in the appointment of his or her successor, the term of all members appointed after the 1st day of January, 1992 will be two years.

27. No person may be a member of the Board for more than four consecutive terms. The initial term of a member who is appointed as a successor under paragraph 29, or as a new member under paragraph 30 or 31, shall not be counted in the number of consecutive terms a member may serve. (Last amended January 15, 2014 – Effective January 1, 2014)

28. If no appointment is made to fill the vacancy at the end of a member's term, the member will continue in office until an appointment is made.

29. When a successor is appointed to a term after his or her predecessor's term has been extended for failure to appoint a successor, the successor's term will end two years after the predecessor's term would have ended but for the delay in appointment.

30. If a member of the Board cannot finish his or her term then the partner who appointed the member may appoint a new member for a term ending on the date when the term of the departing member would have ended.

31. At any time either partner may remove a board member whom that partner has appointed and appoint a new member for a term ending on the date when the term of the departing member would have ended.

The Chair

32. The partners may decide together on the person to be appointed as Chair of the Board. The partners agree to meet six months before the term of the Chair of the Board expires to discuss candidates, and attempt to agree upon the Chair.

33. Either partner may initiate the selection of a Chair in the following way as an alternative to the discussion referred to in paragraph 32,

(a) The partners will each prepare a list of at least three persons that they would like to be Chair. The partners will give each person named a number indicating priority. The lowest priority will be indicated by the number equal to the number of persons on the list.

(b) The partners will then examine the list prepared by the other.

(c) If one name appears on both lists that person will be appointed Chair.

(d) If two or more persons appear on both lists the priority ratings given to those persons by each partner will be added together. The person whose priority rating adds to the lowest number will be appointed Chair.

(e) If no name appears on both lists the partners agree to consult together and to prepare and exchange lists until a name does appear on lists prepared by each.

34. The person selected by the partners will be the Chair for a term of two years beginning on the 1st day of January of the year following selection.

35. No person may be Chair for more than four consecutive terms. Previous terms served by a Chair as a board member shall not be counted in the number of consecutive terms a Chair may serve. (Last amended December 16, 1994 - Effective December 16, 1994)

36. The Lieutenant Governor in Council will make an order making the term of the current Chair of the Board end on the 31st day of December, 1991.

37. If no appointment is made to fill the vacancy at the end of a Chair's term then the Chair will continue in office until an appointment is made.

38. If the Chair cannot finish his or her term then the Minister and the OTF will select a new Chair. The new Chair will be appointed for a term ending on the date when the term of the departing Chair would have ended.

39. The Chair may vote on any matter the Board is considering.

Operation of the Board

40. The Board may appoint committees and delegate to them any function of the Board. The Board may appoint persons who are not Board members to sit on any committee.

41. Committee members will be appointed for a term of up to two years.

42. A quorum of the Board or a Committee is a majority of the members. No meeting of the Board or a Committee may conduct any business unless a member appointed by each partner is present.

43. The Board will decide on a reasonable amount of money to be paid to the Board members, Committee members and the Chair for time and effort spent on Board business. The money will be paid out of the pension fund.

44. If any Board or Committee member is a public servant of Ontario that person will only be paid for any income the person loses as a result of time spent on Board business and for his or her expenses of doing Board business.

45. Any expenses that the Board must pay to operate and to administer the pension plan and manage the pension fund will be paid out of the pension fund.

46. The Board will employ a Chief Executive Officer and such other staff as are necessary to carry out its responsibilities.

47. The Board may decide which of its employees will be able to participate in the Public Service Pension Plan established under the *Public Service Pension Act, 1989* and the Minister agrees to do all things possible to ensure that those employees are covered.

48. The Board may employ persons to provide it with professional, technical or other help.

49. The Board must employ an external actuary and an external auditor.

50. The Board's employees will be paid out of the pension fund.

Indemnification

51. (a) Subject to subsection (e), the Board shall indemnify a person or his or her heirs or legal representatives (the "Indemnee") against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment (collectively "Expenses"), reasonably incurred by the person in respect of any civil, criminal, administrative or investigative action or proceeding (collectively a "Proceeding") to which the person is made or threatened to be made a party by any person including the Board, by reason of being or having been a member, committee member, officer or employee of the Board or a person who acts or acted at the Board's direction as a member, director, officer, employee, partner or agent of another corporation, partnership, joint venture, trust or other enterprises (collectively "enterprise"), if,

i) the person acted honestly and in good faith with a view to the best interests of the Board or such other enterprise; and

ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the person had reasonable grounds for believing that his or her conduct was lawful.

(Last amended August 4, 2011 – Effective September 1, 2000)

(b) In furtherance of its obligations under subsection (a) the Board may purchase and maintain insurance for the benefit of any person referred to in subsection (a) in relation to any Expenses that may be indemnifiable under subsection (a). (Last amended August 4, 2011 – Effective September 1, 2000)

(c) The Board's indemnification of a person referred to in subsection (a) and any cost of purchasing and maintaining insurance for the benefit of such person are expenses of operating and administering the pension plan and managing the pension fund and may be paid out of the pension fund. (Last amended August 4, 2011 – Effective September 1, 2000)

(d) The Board or a person referred to in subsection (a) may apply to the court for an order approving an indemnity under this section and the court may so order and make any further order it thinks fit. (Last amended August 4, 2011 – Effective September 1, 2000)

(e) An indemnity given pursuant to subsection (a) extends only to Expenses that exceed amounts otherwise recoverable (and, in fact, recovered) by the Indemnee under any indemnity or policy of insurance applicable in respect of a Proceeding, and is to be regarded specifically as excess to any such amounts. An indemnity given pursuant to subsection (a) shall be subject to the condition that, in the event any indemnor or insurer against whom an Indemnee may have a claim for indemnity shall decline to pay, deny liability or otherwise contest either a claim by a person or the due amount thereof, the Indemnee must, if so requested by the Board, co-operate with and assist the Board in pursuing any claim against the other indemnor or insurer as the case may be, in such manner and to the extent that counsel to the Board may recommend or advise in the circumstances. (Last amended August 4, 2011 – Effective September 1, 2000)

(f) In any case where the Board reasonably considers that a person has fulfilled the conditions set out in clauses (a)(i) and (ii), above, and that it is otherwise appropriate to do so, prior to any settlement or judgment the Board may make an advance to an Indemnee in respect of a person referred to in subsection (a) to defray Expenses incurred or to be incurred by the Indemnee in relation to a Proceeding on such conditions as the Board considers appropriate and necessary. Any advance made under this subsection (f) shall be repayable by the Indemnee if the Indemnee fails to meet the conditions set out in clauses a(i) and (ii), above, in respect of such person. (Last amended August 4, 2011 – Effective September 1, 2000)

(g) Where the Board considers it appropriate, the Board may enter into an indemnity agreement with any person and such agreement shall reflect the limitation of this provision. (Last amended August 4, 2011 – Effective September 1, 2000)

(h) The application of paragraph 51 is effective as of September 1, 2000. (Last amended August 4, 2011 – Effective September 1, 2000)

52. The Board may buy, sell or lease real estate either as an investment or to provide a place to carry on business.

53. The Board may delegate any of its powers or duties to a committee or to an employee. It may impose conditions on any delegation it makes.

54. A committee of the Board may delegate any of its tasks to an employee of the Board if the Board approves.

Initial unfunded liability

55. The going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund as at the 1st day of January, 1990 will be paid by the Treasurer of Ontario out of the Consolidated Revenue Fund according to Schedule 2 of the *Teachers' Pension Act, 1989*.

56. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Gains and losses

57. A valuation which is prepared for filing with the Superintendent of Financial Services shall be actuarially balanced so that the present value of,

(a) benefits and costs to be paid out of the fund, and

(b) any contingency reserve,

are equal to the sum of the value of the plan's assets, including

(c) the present value of,

(i) the members' contributions,

(ii) the employers' contributions,

(iii) the outstanding balance of special payments to liquidate the going concern unfunded actuarial liability disclosed by the valuation as at January 1, 1990, and

(iv) any outstanding payments required to discharge a solvency deficiency. (Last amended March 5, 2002 - Effective April 2, 2001)

The IUL Settlement

57a. Notwithstanding any other provision in this agreement, and including without limitation, paragraphs 10, 55, 59, 60, 60a and paragraphs 73 to 101, during the IUL settlement period this paragraph shall apply to the application of actuarial gains.

(i) In this paragraph,

(a) the "initial unfunded liability settlement period" (the "IUL settlement period") means the period between January 1, 1998 and December 31, 2002 and includes any period of extension pursuant to subparagraph (v).

(b) the "initial unfunded liability" means the going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund referred to in paragraph 55 of the agreement.

(ii) Notwithstanding subparagraph 19(c), during the IUL settlement period, an actuarial valuation for funding purposes of the pension fund shall be prepared by the Board's actuary as at the 1st day of January and filed annually with the Superintendent of Financial Services, unless the partners jointly agree to instruct the Board not to file the valuation.

(iii) Effective with the valuation as at January 1, 1998, any actuarial gains disclosed in a valuation prepared in accordance with subparagraph (ii) will be applied in the following order of priority:

(a) (1) to provide an early retirement pension calculated in accordance with subsection 43(4) of Schedule 1, to members who have accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals eighty-five years (the "factor 85 entitlement"), provided that such member so qualifies on or after June 1, 1998, and on or before December 31, 2002;

(2) to provide early retirement reductions measured from 85 points rather than 90 points for benefits calculated under sections 44 and 52 of Schedule 1 for members who cease to be employed in education between June 1, 1998 and December 31, 2002;

(b) to provide for a permanent reduction in the amount of the Canada Pension Plan or Quebec Pension Plan reduction for pension instalments payable on or after January 1, 1999 as provided for in subsection 81(3) of Schedule 1 by substituting "0.0060" for "0.0068" in the formula;

(c) to provide to members on an absence, as defined in subsection 94(1) of Schedule 1, that commences during the period from the 1st day of June, 1998 to the 31st day of December, 2002, an exemption from the requirement in subsection 94(3)(b) of Schedule 1 where the member is otherwise eligible to purchase credited service under that section, and where the member, at the beginning of the leave,

(1) was at least 60 years of age;

(2) has accumulated at least that number of years qualifying service that, when added to the member's age, totals 75 years; or

(3) has credited service which totals at least 30 years; and

(d) to eliminate the obligation on the Minister of Finance to make special payments on account of the initial unfunded liability, in accordance with this agreement.

(iv) Subject to subparagraphs (v) and (vi), if there are any actuarial gains remaining after providing for (iii) (a), (b), (c) and (d), such gains disclosed in the annual actuarial valuations for funding purposes up to and including the valuation as at January 1, 2002, will be available for benefit enhancements including, but not limited to, the renewal on a permanent or temporary basis of the factor 85 entitlement, member contribution rate reductions, or to be allocated to a contingency reserve, as determined by the OTF in its sole discretion. (Last amended March 5, 2002 - Effective April 2, 2001)

(v) (a) The sum of the actuarial gains available to the OTF under subparagraph (iv), including the actuarial gains disclosed in the valuation as at January 1, 2002, shall be equal to the present value of the special payments, before the application of actuarial gains pursuant to subparagraph (iii)(d), required to amortize the initial unfunded liability as determined by the Board's actuary and disclosed in the valuation as at January 1, 1998 (the "IUL amount"), and the increase in the going concern liabilities required to provide the benefits conferred by (iii)(a), (b) and (c) as determined by the Board's actuary as at January 1, 1998, (the "benefit cost amount"). The partners agree that, effective April 3, 2001, after recognition of plan changes adopted to that time, there remains $76 million in actuarial gains available to the OTF under subparagraph (iv). (Last amended March 5, 2002 - Effective April 2, 2001)

(b) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, all actuarial gains disclosed in any actuarial valuation for funding purposes subsequent to the valuation as at January 1, 2002, will be available for such benefit enhancements, member contribution rate reductions, or to be held in a contingency reserve, as determined by the OTF in its sole discretion, until the sum of the actuarial gains available to the OTF for such purposes equals the difference between the IUL amount and the benefit cost amount.

(c) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, the IUL settlement period shall be extended to the date that the sum of the actuarial gains available to the OTF under subparagraph (iv) and (v) equals the difference between the IUL amount and the benefit cost amount.

(vi) (a) Prior to April 1, 2001, if actuarial gains are available after provision has been made for (iii)(a) to (d), and the OTF wishes to apply such gains pursuant to subparagraph (iv) for benefit enhancements or member contribution rate reductions, the partners shall meet to determine the effective date for the implementation of such benefit enhancements or contribution rate reductions.

(b) Subsequent to April 1, 2001, the OTF may, at its sole discretion, determine when such benefit enhancements or contribution rate reductions, are to be implemented. The Minister agrees to waive his consent to the plan amendments necessary to implement such benefit enhancements or member contribution rate reductions, provided these amendments are not filed by the OTF prior to April 1, 2001. Pursuant to paragraphs 8 and 104 of this agreement, the partners agree that Schedule 1 shall be amended by the OTF, to implement such benefit enhancements or contribution rate reductions, and the OTF shall promptly deliver the amendment(s) to the Board, and the Board shall promptly file the amendment(s) with the Superintendent of Financial Services upon receipt of same from the OTF.

(vii) The Minister of Finance will continue to make special payments out of the Consolidated Revenue Fund in accordance with paragraph 55 of the agreement during the IUL settlement period until the obligation to make special payments on account of the initial unfunded liability is eliminated in accordance with this agreement. The amount of the special payments payable pursuant to this subparagraph shall be in accordance with the schedule of payments set out in Appendix H to the Report on the Actuarial Valuation for Funding Purposes for the plan as at January 1, 1996 ("Appendix H") until December 1, 2001, and in accordance with Schedule 2 subsequent to December 1, 2001, if the Minister of Finance continues to be obligated to make special payments on account of the initial unfunded liability beyond this date. If subsection 3(12) of Schedule 2 to the *Teachers' Pension Act* is applicable with respect to any actuarial gains disclosed in a valuation pursuant to subparagraph (ii), the Minister of Finance shall not exercise his discretion in subsection 3(12) of Schedule 2 to reduce the remaining special payments as set out in Appendix H, until the obligation of the Minister of Finance to make special payments on account of the initial unfunded liability is eliminated.

(viii)The issue raised in the "part-time leave" case pending before the Ontario Court of Appeal shall be referred to mediation by Mr. M. Stanley Beck. Mr. Beck will be asked to provide a non-binding opinion on the merits of the case by no later than July 15, 1998. The cost of the mediation pursuant to this subparagraph shall be paid from the fund.

(ix) The partners shall establish a committee to deal on a priority basis with accounting matters relating to joint pension plan sponsorship, and agree to contact the Public Sector Accounting and Auditing Board (PSAAB) to raise issues of concern to the partners. The committee shall report to the Partners by May 1, 1999. The reasonable costs of the committee shall be paid from the fund.

(x) Subject to any extension of the IUL settlement period pursuant to subparagraph (v), at the end of the IUL settlement period, the provisions of this agreement respecting the use of actuarial gains or losses, other than this paragraph 57a, will apply. The next triennial negotiation pursuant to paragraphs 73 to 101 will be based on the actuarial valuation for funding purposes as at January 1, 2002, unless the IUL settlement period is extended beyond this date, or the partners agree otherwise.

(xi) Any dispute regarding the interpretation, application, administration and implementation of the provisions in this paragraph 57a may be resolved in accordance with paragraph 14 of the agreement, and/or through such other proceedings as are otherwise available to either partner.

58. If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate a need to increase the contribution rate the partners agree to meet as soon as possible to discuss how to adjust for that need on an equally shared basis. If the partners cannot agree on how to adjust they will refer the issue to the mediation and arbitration procedures described elsewhere in this agreement to adjust the contribution rate and/or benefits. (Last amended November 15, 1993 - Effective November 15, 1993)

59. If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate that the contribution rate can be decreased the implicit actuarial gain disclosed by the valuation will be applied to reduce and, if possible, eliminate the payments required to liquidate any unamortized balance of a solvency deficiency. (Last amended November 15, 1993 - Effective November 15, 1993)

60. An implicit actuarial gain remaining after the elimination of a deficiency mentioned in paragraph 59, will be used to establish a contingency reserve in an amount agreed upon by the partners or for any of the following purposes upon which the partners have agreed or which an arbitrator has awarded,

(i) to reduce contributions which members and employers are required to pay, and/or

(ii) to improve benefits payable to members.

60a. The portion of the gain disclosed by the January 1, 1996 valuation remaining after the implementation of the benefit improvements contained in the December 30, 1996 arbitration award shall be placed in a contingency reserve called the Rate Stabilization Fund for the period January 1, 1996 to December 31, 1998. (Last amended February 20, 1997 - Effective January 1, 1996)

60b. The $76 million of actuarial gains that, effective April 3, 2001, remain available to the OTF under the subparagraph 57a (iv) shall be allocated to a contingency reserve until such time as the OTF, in its sole discretion, may determine, at which time such gains shall be used toward the provision of future benefit enhancements and/or member contribution rate reductions as determined by the OTF, in its sole discretion. (Last amended March 5, 2002 – Effective April 2, 2001)

60c. The portion of the actuarial surplus disclosed by the January 1, 2001 valuation that remains after providing for,

(a) the benefit improvements contained in the plan amendments dated April 2, 2001, and

(b) the contingency reserve pursuant to paragraph 60b,

shall be allocated to a contingency reserve called the Rate Stabilization Fund for the period January 1, 2001 to December 31, 2001, or until such later date agreed to by the partners. (Last amended March 5, 2002 – Effective April 2, 2001)

60d. The partners acknowledge that the $76 million referred to in paragraph 60b will be used towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3% and that this application will fully discharge the credit owing the Ontario Teachers' Federation under paragraph 60b. (Last amended December 21, 2006 – Effective January 1, 2007)

60e. The partners agree that $7 million shall be allocated to a contingency reserve, to the credit of the Minister, to reflect the additional $7 million that was used, in addition to the $76 million referred to in paragraph 60d, towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3%. (Last amended December 21, 2006 – Effective January 1, 2007)

61. The valuation as at January 1, 1992 that was prepared and provisionally filed with the Pension Commission of Ontario shall be considered invalid. (Last amended November 15, 1993 - Effective November 15, 1993)

62. The board will prepare a valuation of the plan as at the 1st day of January, 1993. (Last amended November 15, 1993 - Effective November 15, 1993)

63. A portion, in the amount of $1.2 billion, of the gain disclosed by the January 1, 1993 valuation is to be applied to reduce the Minister's scheduled special payments under Schedule 2 of the Act, in the period from January 1, 1993 until the entire amount is exhausted. (Last amended November 15, 1993 - Effective November 15, 1993)

64. A further portion, in the amounts of $200 million as at March 31, 1994 and $125 million as at March 31, 1995, of the gain disclosed by the January 1, 1993 valuation, is to be applied to reduce scheduled government payments to the plan on or before the 31st of March, 1995. (Last amended November 15, 1993 - Effective November 15, 1993)

65. The partners may authorize the use of an additional portion of the gains from the 1993 valuation to offset social contract targets for those members of the plan who are not covered by the Teachers' Sub-Sectoral Framework Agreement and who meet the set of principles agreed on by the partners; these gains will be allocated in the same proportion as members of the plan who are covered by the Teachers' Sub-Sectoral Agreement. (Last amended November 15, 1993 - Effective November 15, 1993)

66. Any residual portion of the gain disclosed by the January 1, 1993 valuation is to be placed in a contingency reserve for rate stabilization until at least January 1, 1996. (Last amended November 15, 1993 - Effective November 15, 1993)

67. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

68. If a solvency valuation of the plan, conducted as at a date on or before the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,

(1) The members will during each of the fifteen years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).

(2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the fifteen years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through fifteenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

69. If a solvency valuation of the plan, conducted as at a date after the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,

(1) The members will during each of the ten years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).

(2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the ten years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through tenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

70. If a valuation done after one which showed a solvency deficiency discloses that there is no solvency deficiency or one that is less than would be expected based on the first valuation, the partners agree to adjust on an equally shared basis for any payments that have been made under paragraphs 68 or 69. (Last amended November 15, 1993 - Effective November 15, 1993)

71. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Triennial negotiation of changes to the plan

72. The Board will prepare a valuation of the plan as at the 1st day of January, 1996 as soon as possible after that date. This will be the valuation to be used for the first set of negotiations. (Last amended November 15, 1993 - Effective November 15, 1993)

73. The subject of the negotiations and of all subsequent triennial negotiations will be any of the matters referred to in paragraphs 8 and 12.

74. As soon as preliminary results of the valuation are available the partners will meet to bargain in good faith and make every reasonable effort to reach an agreement on the changes, if any, that will be made to the plan.

75. The partners will advise the Board what changes affecting benefits and contribution rates they are proposing and the Board will provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

76. There will be a manager of negotiations whose fees and expenses shall be paid by the fund. The manager will be appointed by agreement of the partners or if they cannot agree the Chief Executive Officer of the Board will act as manager. When the manager is appointed, the partners may give the manager any role in the negotiation process in addition to the role described in this agreement. (Last amended March 27, 1996 - Effective January 1, 1996)

77. At any time after the preliminary results of a valuation are available the partners may agree to appoint a mediator. The mediator will be chosen by the agreement of the partners or by a method to which they agree at that time.

78. If no agreement is reached on all proposed changes by the 1st day of May, 1996 and no mediator has been appointed by agreement the manager will appoint a mediator to mediate proposed changes to the contribution rate or benefits under the plan. The manager will do so by preparing a list of five persons willing to act as mediator and asking each partner to select three names from the list. The manager will appoint one of the persons chosen by both partners. (Last amended November 15, 1993 - Effective November 15, 1993)

79. Any proposed changes to the plan not involving the contribution rate or benefits which remain unresolved on the 1st day of May, 1996 will be referred to the Partners Committee established under paragraph 13. The Partners Committee will make every effort to resolve those issues referred to it. (Last amended November 15, 1993 - Effective November 15, 1993)

80. If the partners agree, the mediator may be appointed as a mediator/arbitrator in which case the appointee will decide on the process and time frame for conducting mediation/arbitration.

81. If the partners do not agree on mediation/arbitration the mediator will meet with them and try to mediate an agreement.

82. Within 30 days of appointment the mediator will prepare a confidential report setting out his or her views on the positions of the two partners and containing a recommendation. The report will be delivered to the partners.

83. The mediator may extend the deadline for delivering the report by 14 days if he or she is of the opinion that the partners are likely to reach an agreement during the extension.

84. If the partners do not accept the report within 14 days of its being delivered to them it will be destroyed and an arbitration board will be appointed.

85. At any time after a mediator has been appointed the partners may agree to appoint a board of arbitration.

86. If the partners agree to appoint a board of arbitration or if 14 days have passed since the mediator's report each partner will appoint one person to the board of arbitration and the two appointees will select a final member who will be the umpire.

87. This agreement together with a referral to a board of arbitration constitutes a submission under the *Arbitrations Act*, R.S.O. 1980, c. 25, as amended.

88. If the persons appointed by the partners to a board of arbitration do not appoint an umpire within 14 days of the appointment of the latter of them, the manager will prepare a list of five persons who are willing to act as umpire and ask each partner to select three names from the list. The manager will appoint as umpire one of the persons chosen by both partners.

89. The umpire will establish the procedure for conducting the arbitration but will allow each partner an opportunity to present evidence and make representations. The persons appointed by the partners will consult with the appointing partner during the arbitration.

90. The board of arbitration will hold a hearing within 30 days of its appointment and make an award within 60 days of the conclusion of the hearing. The board of arbitration will provide reasons for its award.

91. The board of arbitration in making an award will consider prevailing economic conditions and the overall state of the provincial economy.

92. The award made by the board of arbitration will,

(a) deal only with the contribution rate and/or benefits of the pension plan and otherwise maintain the plan as it is set out in Schedule 1,

(b) comply with the laws of Ontario,

(c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,

(d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,

(e) ensure that any increase in benefits is adequately funded,

(f) not impair the ability of the Board to fulfil its fiduciary responsibilities,

(g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). (Last amended March 26, 2003 – Effective January 1, 2003)

92.1 In the event that a board of arbitration is appointed pursuant to any provision of the agreement, other than paragraph 57a, to determine the application of actuarial gains disclosed in a valuation for funding purposes where a portion of the actuarial gains disclosed in such valuation is subject to the provisions of paragraph 57a, the board of arbitration shall not issue an award regarding that portion of the actuarial gains which is subject to the provisions of paragraph 57a. (Last amended May 27, 1998 - Effective April 18, 1998)

93. The board of arbitration will give the partners a copy of the award and reasons as soon as they are prepared.

94. The Board will prepare a final valuation of the plan which implements all of the changes to the plan which have been awarded or agreed to by the partners. The changes will take effect on the 1st day of January, 1997 or on such earlier date to which the partners have agreed. (Last amended November 15, 1993 - Effective November 15, 1993)

95. The final valuation will be filed with the Financial Services Commission of Ontario and Schedule 1 will be amended to reflect the changes agreed to and the award if any.

96. Every three years, after January 1, 1996, the process described in this section will be repeated unless the partners agree that no changes will be made to the plan. (Last amended November 15, 1993 - Effective November 15, 1993)

97. The manager and the umpire may agree to extend the timelines set out by this agreement if they think it will help the partners reach an agreement.

98. The partners may agree to change the procedure described in this agreement, either for one round of negotiations or for all future negotiations.

99. The costs of mediation and arbitration will be paid out of the fund. (Last amended March 27, 1996 - Effective January 1, 1996)

100. The mediator or the umpire may employ experts to assist her or him. The cost of employing experts will be shared equally by the partners. The mediator or umpire will consult with the partners about a reasonable budget for such costs.

101. Revoked. (Last amended March 26, 2003 – Effective January 1, 2003)

General

102. Schedule 1 to the *Teachers' Pension Plan, 1989* as amended is adopted by the partners as part of this agreement.

103. The partners agree that this agreement forms part of the plan documents of the pension plan and that they will file a copy of this agreement with the Pension Commission of Ontario.

104. The partners may at any time agree to change any of the provisions of Schedule 1. A change to Schedule 1 will be effected when it is filed with the Financial Services Commission of Ontario by the partners.

105. The partners will not make any change to Schedule 1 which is contrary to the laws of Ontario. Any change which is inconsistent will be void to the extent of the inconsistency.

106. Sections 116, 117, 118 and all of Part XII of Schedule 1 are revoked.

107. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

108. The Board will print a new consolidation of Schedule 1 as soon as possible after any changes to it have been filed with the Financial Services Commission of Ontario.

109. The Minister will submit a copy of Schedule 1 and the annual report to the Lieutenant Governor in Council and lay it before the Assembly at the first opportunity after the report is prepared by the Board.

110. The partners agree that the Funding Management Policy attached hereto, and as amended from time to time, forms part of this agreement. (Last amended June 3, 2009 – Effective January 1, 2009)

July 15, 1991

APPENDIX "A"

Funding Management Policy

Article I. Application

Section 1.01 *Best Estimates Assumptions*: For the purposes of this Funding Management Policy, except as otherwise provided herein, the Board shall provide the required reports using the Board's best estimates assumptions including, in the case of the discount rate, a margin for adverse deviation. The Board's best estimate economic assumptions may be based on market data, smoothed data, the reference rate or the Board's expectation if the Board believes future experience may differ from market data. The Board's assumptions shall be used only if they would be consistent with accepted actuarial practice. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.02 *Escalated Adjustments Indices*: The Board shall also maintain indices to record escalated adjustments for post-2009 service. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.03 *Different Discount Rate*: If a preliminary valuation uses a discount rate lower than the restoration basis for valuations prepared under Article III and Article VI, lower than the temporary basis for valuations prepared under Article IV, or lower than the distribution basis for valuations prepared under Article V, then the Board shall notify the partners and the partners shall meet with the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.04 *Exit Provision*: The provisions in Article II to Article IX shall expire twelve months after the notification referred to in Section 1.03 unless both partners otherwise notify the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.05 This Funding Management Policy shall be applied as follows:

(a) *If there is a restoration basis excess when current contributions exceed basic contributions and/or current benefits are less than run-rate benefits, the excess can be used to reduce contributions and/or increase benefits in accordance with Article III*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.04, then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(b) *If there is a restoration basis deficit using current contributions and current benefits, contributions must be increased and/or benefits must be reduced in accordance with Article III to eliminate the deficit*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.09, then Section 3.10, Section 3.11, Section 3.12, Section 3.13, and Section 3.14 shall apply;

(c) *If there is a restoration basis excess when contributions are less than or equal to basic contributions and benefits are greater than or equal to run-rate benefits, prepare a temporary basis valuation in accordance with Article IV*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, either:

(i) do not satisfy the conditions in either Section 3.04 or Section 3.09; or

(ii) satisfy the conditions in Section 3.04, and

1) the present value of revised benefits is equal to the present value of run-rate benefits, and

2) the present value of revised contributions is equal to the present value of basic contributions;

then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02;

(d) *Temporary and Distribution Basis Valuations*:

(i) *If there is a temporary basis excess, prepare a distribution basis valuation in accordance with Article V*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the distribution basis, the definitions in Section 5.01 and the proviso in Section 5.02, and

1) *If there is a distribution basis excess, the distribution basis excess can be used to make plan improvements in accordance with Article V*: if the results of that preliminary valuation satisfy the conditions in Section 5.03, then Article V shall apply;

2) *If there is a distribution basis deficit but a temporary basis excess, the temporary basis excess can be used to make temporary plan improvements in accordance with Article IV*: if the results of that preliminary valuation do not satisfy the conditions in Section 5.03, then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, and Article IV shall apply;

(ii) *If there is a temporary basis deficit, the restoration basis valuation will apply in accordance with Article III*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, do not satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, and Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(e) *Post-December 30, 2017 Valuations*: If the results of a preliminary valuation prepared as of a date after December 30, 2017, using the restoration basis and the definitions in Section 6.01, satisfy the conditions in Section 6.02, then Section 6.03 shall apply;

(f) *2013 Term Sheet Precedence*: The provisions of the 2013 Term Sheet shall take precedence over this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.06 *Actions Subject to Pension Legislation*: Prior to the commitment of a surplus distribution or a contribution decrease, the partners shall ensure such distribution or contribution decrease is in accordance with the *Income Tax Act* (Canada), the *Pension Benefits Act* (Ontario) and their respective regulations. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.07 *Conditions on Temporary Improvements*: Any commitment to provide temporary improvements shall be made conditional on the results of a preliminary valuation for each year of the commitment period indicating that the conditions in Section 3.04(a) are met prior to and after such temporary improvement. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.08 *Headings*: Headings are underlined and are for convenience only and shall not affect the interpretation or meaning of any provision of this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Article II. Definitions

Section 2.01 For the purposes of this Funding Management Policy:

(a) "2013 Term Sheet" means the March 13, 2013 OTPP Term Sheet entered into by the partners;

(b) "basic contributions" are the contributions required by subsections 19(1) or (2) of Schedule 1 as it read on January 1, 2012;

(c) "commitment period" means the three-year period during which a temporary improvement is provided;

(d) "commitment value" means the present value of the portion of the temporary improvement value provided during the commitment period;

(e) "Consumer Price Index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);

(f) "CPI adjustment" means the ratio between 1.000 and 1.080 of the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year to the average for the Consumer Price Index over the first twelve months of that period - 1. If the ratio would have been less than 1.000 or greater than 1.080, but for those limits, the difference shall be carried forward in a manner consistent with that set out in section 80 of Schedule 1;

(g) "current accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all current ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the current accumulated adjustment ratio is being determined. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(h) "current benefits" are the pension benefits, current escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read at the current valuation date without taking into account any amendment made, or changes agreed to by the partners, on or after the current valuation date;

(i) "current contributions" are the contributions required by Schedule 1 as it read at the current valuation date without taking into account any amendment made on or after the current valuation date;

(j) "current escalated adjustments" are the escalated adjustments in respect of post-2009 service that were applied prior to the January 1st following the current valuation date and assumed thereafter at the rate set out in the most recent filed valuation;

(k) "current ratio", for a year, means 1 + the proportion of the CPI adjustment granted as agreed to by the partners, and as may have been revised from time to time, provided that the proportion shall not be less than 50% in respect of service accrued before 2014, but not including any revision agreed to by the partners in relation to the current valuation;

(l) "current valuation date" in respect of a valuation is the date provided in Section 7.01;

(m) "distribution basis" is the reference rate with a positive adjustment of 0.5% together with the Board's best estimate actuarial assumptions for all other factors;

(n) "freeze period" means the period from December 31, 2012 to December 30, 2017;

(o) "going concern liabilities" are the going concern liabilities within the meaning of Regulation 909 made under the *Pension Benefits Act* and must also include the present value of the pension benefits and escalated adjustments that both accrued prior to the valuation date and that will accrue on or after the valuation date to the persons who were members of the plan on the valuation date and the present value of the ancillary benefits for which the eligibility requirements will be satisfied on or after the valuation date by the persons who were members of the plan on the valuation date;

(p) "preliminary valuation" means a valuation referred to in Section 7.01;

(q) "reference rate" means the interest rate chosen by the Board representing the Government of Canada long bond yield (currently, CANSIM Series V39056 nominal and CANSIM Series V39057 real, or their reasonable respective replacements) that may be based on market data or smoothed data;

(r) "remaining amortization value" means the difference between the temporary improvement value and the commitment value;

(s) "restoration basis" is the reference rate with a positive adjustment of 1.55% together with the Board's best estimate actuarial assumptions for all other factors;

(t) "revised accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the current accumulated adjustment ratio, as modified by an agreement between the partners to change the proportion of the CPI adjustment in respect of post-2009 service prior to the year following the current valuation date. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(u) "revised benefits" are the current benefits including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation;

(v) "revised contributions" are the current contributions including any amendment made on or after the current valuation date based on that valuation;

(w) "revised escalated adjustments" are the current escalated adjustments including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation and assumed thereafter at the rate set out in that valuation;

(x) "run-rate accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all run-rate ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the run-rate accumulated adjustment ratio is being determined;

(y) "run-rate benefits" are the pension benefits, run-rate escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read on January 1, 2009, together with any benefits provided by amendments described in Article IX;

(z) "run-rate escalated adjustments" are the escalated adjustments in respect of post-2009 service that would have applied at the rate of 100% of the CPI adjustment prior to the January 1st following the current valuation date and that would be assumed thereafter at the rate of 100% of the CPI adjustment;

(aa) "run-rate ratio", for a year, means 1 + the CPI adjustment for the year;

(bb) "temporary basis" is the reference rate with a positive adjustment of 1.25% together with the Board's best estimate actuarial assumptions for all other factors;

(cc) "temporary improvement" means an improvement provided in accordance with Section 4.05;

(dd) "temporary improvement value" is the present value of a contribution decrease, a distribution of surplus and/or a benefit improvement that is amortized over a period of up to ten years, but is committed to for the duration of the commitment period only, provided that at the establishment of the commitment:

(i) the partners may elect an amortization period between three and ten years; and

(ii) for amortization periods of less than ten years, any temporary improvement for a given year shall be limited such that the present value of that given year's temporary improvement is not greater than the present value of basic contributions, calculated using the temporary basis, to be paid in the same year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article III. **<u>Funding Zone - Restoration</u>**

Section 3.01 *<u>Definitions</u>*: For the purposes of Article III, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.02 *Restoration Basis Plus an Adjustment*: For the purposes of Article III, current liabilities and revised liabilities may be calculated as at the current valuation date using the restoration basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.03 *CPI Adjustment*: For the purposes of Article III, and subject to a subsequently filed valuation, the proportion of the CPI adjustment for the period covered by the current valuation, in respect of each applicable period of service, will be the same for each year in that period and assumed at the same rate thereafter. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.04 *Restoration Basis Excess, but Basic Contributions and/or Run-Rate Benefits Not Restored*:

(a) If assets are greater than current liabilities; and

(b) if:

(i) the present value of current contributions is greater than the present value of basic contributions, or

(ii) the present value of current benefits is less than the present value of run-rate benefits, or

(iii) both (i) and (ii);

then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.05 *Restoration Basis Excess Report*: The Board shall report to the partners:

(a) the excess of assets over current liabilities; and

(b) the extent to which the excess can be used to provide the changes specified in Section 3.06.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.06 *Application of Restoration Basis Excess*: For purposes of clarity, excesses identified pursuant to Section 3.05 shall be applied in the following order, provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors:

(a) *Bring Escalated Adjustments to 50% for Post-2013 Service*: to provide escalated adjustments up to 50% of the CPI adjustment in respect of service accrued after 2013 for the period covered by the valuation, and assumed thereafter at the same rate;

(b) *Bring Escalated Adjustments to 100%*: to provide escalated adjustments up to 100% of the CPI adjustment for the period covered by the valuation, and assumed thereafter at the same rate;

(c) *Restore Escalated Adjustments for Post-2013 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2013, to the current accumulated adjustment ratio for the period from 2010 to 2013, beginning with the first year in which current escalated adjustments were less than 50% of the run-rate escalated adjustments;

(d) *Restore Escalated Adjustments for Post-2009 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2009 to the run-rate accumulated adjustment ratio, beginning with the first year in which current escalated adjustments were less than run-rate escalated adjustments;

(e) *Provide Benefit Increases or Contribution Rate Reductions*: to provide the following:

(i) an increase in benefits, where the present value of current benefits is less than the present value of run-rate benefits,

(ii) a reduction in contribution rates, where the present value of current contributions exceeds the present value of basic contributions, or

(iii) a combination of (i) and (ii).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.07 *Conditions on Application of Excess*: Subject to Section 3.06 and Section 3.08 or any mutual agreement to the contrary, the partners shall apply the excess of assets over current liabilities to change benefits, contributions, or both, provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities;

(b) the revised accumulated adjustment ratio is equal to or less than the run-rate accumulated adjustment ratio;

(c) the revised accumulated adjustment ratio is equal to or greater than the current accumulated adjustment ratio;

(d) the present value of revised benefits is equal to or less than the greater of the present value of current benefits and the present value of run-rate benefits;

(e) the present value of revised benefits is equal to or greater than the lesser of the present value of current benefits and the present value of run-rate benefits;

(f) the present value of revised contributions is equal to or greater than the lesser of the present value of current contributions and the present value of basic contributions; and

(g) the present value of revised contributions is equal to or less than the greater of the present value of current contributions and the present value of basic contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.08 *2013 Term Sheet Limits*: As set out in further detail in the 2013 Term Sheet, during the freeze period:

(a) The partners may provide escalated adjustments pursuant to Section 3.06(a), Section 3.06(b), Section 3.06(c) and Section 3.06(d) only if the assets are greater than 100% of the current liabilities and do not fall below 100% of the revised liabilities after the adjustment; and

(b) The partners may agree to improve benefits, or to restore benefits that were reduced during the freeze period, pursuant to Section 3.06(e) only if the net assets available for benefits (as such term is used in the preliminary valuations) are equal to or greater than 105% of the current liabilities and do not fall below 105% of the revised liabilities after the benefit improvement or restoration.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.09 *Restoration Basis Deficit*: If current liabilities are greater than assets, then Section 3.10, Section 3.11, Section 3.12, Section 3.13 and Section 3.14 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.10 *Restoration Basis Deficit Report*: The Board shall report to the partners:

(a) the excess of current liabilities over assets; and

(b) the amount required to change current benefits, current contributions, or both, to eliminate the excess referred to in Section 3.10(a) above, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.11 *Conditions on Elimination of Deficit*: Subject to Section 3.12 and Section 3.14, the partners may change benefits, contributions, or both, to eliminate the excess referred to in Section 3.10(a), provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities; and

(b) revised member contributions shall be limited to 15% of pensionable salaries above the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.12 *Restrictions on Benefit Reductions*: Current benefits shall not be reduced unless:

(a) the partners agree on the terms and conditions of any reduction in current benefits;

(b) the partners have entered into a written agreement governing the manner in which contributions by the Minister and the Employers will be adjusted to offset any reduction in benefits; and

(c) the revised accumulated adjustment ratio, in respect of each year, is equal to or greater than the current accumulated adjustment ratio for the year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.13 *Restrictions on Contribution Increases*: Subject to Section 3.14, the partners have the authority to set the level of contributions that must be reached before current benefits are reduced below run-rate benefits, subject to the commitment that member contributions will not exceed 15% of pensionable salaries above the Year's Maximum Pensionable Earnings (as prescribed under the Canada Pension Plan). (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.14 *Further Restrictions on Contribution Increases*: As set out in further detail in the 2013 Term Sheet, during the freeze period there will be no employer contribution increases except as provided under the 2013 Term Sheet. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IV. Funding Zone – Temporary Improvements

Section 4.01 *Definitions*: For the purposes of Article IV, as at the current valuation date, using the temporary basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(d) The reference rate for purposes of determining the temporary basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.02 *Temporary Basis Plus an Adjustment*: For the purposes of Article IV, current liabilities and revised liabilities may be calculated as at the current valuation date using the temporary basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.03 *Temporary Basis Excess*: If assets are greater than current liabilities, then Section 4.04, Section 4.05 and Section 4.06 shall apply, provided that no temporary improvements may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.04 *Temporary Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets exceed current liabilities;

(b) the commitment value;

(c) the extent to which the commitment value can be used to provide a reduction to current contributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(d) the extent to which the commitment value can be used to provide annual surplus distributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(e) the extent to which the commitment value can be used to provide a temporary benefit improvement, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period; and

(f) the extent to which the commitment value can be used to provide a combination of Section 4.04(c), Section 4.04(d) and Section 4.04(e).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.05 *Conditions on Application of Excess*: Subject to Article VI and Section 4.06, the partners may apply all or part of the commitment value to change temporarily current contributions, provide surplus distributions on a temporary basis, or provide a temporary benefit improvement, provided that no amendment shall be made unless, after such amendment, the excess of assets over revised liabilities is equal to or greater than zero. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.07 *Temporary Basis Deficit*: If assets are equal to or less than current liabilities, then Section 4.08 and Section 4.09 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.08 *Temporary Basis Deficit Report*: The Board shall report to the partners the amount by which current liabilities exceed assets. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.09 *No Action on Temporary Basis and Return to Restoration Basis*: Subject to Article VI, the partners shall not provide new temporary improvements and Article III shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article V. Funding Zone – Permanent Improvements

Section 5.01 *Definitions*: For the purposes of Article V, as at the current valuation date, using the distribution basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "current targeted funding amount" is 10% of current liabilities;

(d) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(e) The reference rate for purposes of determining the distribution basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(f) "revised targeted funding amount" is 10% of revised liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.02 *Distribution Basis Plus an Adjustment*: For the purposes of Article V, current liabilities and revised liabilities may be calculated as at the current valuation date using the distribution basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.03 *Distribution Basis Excess*: If the excess of assets over current liabilities is greater than the current targeted funding amount, then Section 5.04 and Section 5.05 shall apply, provided that no changes pursuant to Section 5.05 may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.04 *Distribution Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets minus current liabilities exceed the current targeted funding amount; and

(b) the amount required to change current benefits, current contributions, or both, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.05 *Conditions on Application of Excess*: Subject to Article VI, the partners may apply all or part of the amount by which assets minus current liabilities exceed the current targeted funding amount to change current benefits, current contributions, or both, provided that no amendment shall be made unless:

(a) after such amendment the excess of assets over revised liabilities is equal to or greater than the revised targeted funding amount; and

(b) the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any change in current benefits that is reflected in the value of the liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.06 *Distribution Basis Deficit*: If:

(a) the excess of assets over current liabilities is less than the current targeted funding amount;

(b) the present value of current contributions is equal to or less than the present value of basic contributions;

(c) the present value of current benefits is equal to or greater than the present value of run-rate benefits; and

(d) the current accumulated adjustment ratio is equal to the run-rate accumulated adjustment ratio;

then Section 5.07 and Section 5.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.07 *Distribution Basis Deficit Report*: The Board shall report to the partners the amount by which assets minus current liabilities are less than the current targeted funding amount. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.08 *No Action on Distribution Basis and Return to Temporary Basis*: Subject to Article VI, the partners shall not apply, pursuant to this Article V, any part of the amount by which assets exceed current liabilities, and Article IV shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VI. Post December 30, 2017 Valuations

Section 6.01 *Definitions*: For the purposes of Article VI, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.02 *Post-2017 Excess*: Notwithstanding any other provision of this Funding Management Policy, as set out in further detail in the 2013 Term Sheet, after the end of the freeze period, if a valuation report with a valuation date after December 30, 2017 provides that assets are greater than current liabilities as at the date of the current valuation, then Section 6.03 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.03 *2013 Term Sheet Provisions*:

(a) the OTF will have 'first call' on 100% of the value of the excess of the assets over the current liabilities (to take the form of "surplus credits") up to a cumulative total of the value of the lesser of:

(i) the value of the benefit reductions made during the freeze period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (1) the value of benefit reductions for which matching contributions are made by the Minister and the Employers, and (2) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full conditional inflation protection for post-2013 service and the resulting change to the discount rate, and

(ii) the benefit reduction limit as calculated under the 2013 Term Sheet;

(b) if inflation protection is invoked below 50% during the freeze period, surplus credits will include an amount equal to the actual foregone pension payments during and after the freeze period that arise from the reduction in inflation protection invoked during the freeze period until such time as that inflation protection is restored at 50% or more during or after the freeze period; and

(c) the OTF may apply all or part of surplus credits to change current benefits, current contributions, or both, provided that no amendment shall be made unless assets are equal to or greater than revised liabilities after such amendment.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article VII. Valuation Frequency and Timing

Section 7.01 The Board shall require the actuary to prepare a preliminary valuation of the plan as of January 1, 2003 and each January 1 thereafter and, in addition, on such other date as the partners mutually agree. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.02 Subject to the requirements of the *Pension Benefits Act*, the partners agree that valuations shall be filed with the Superintendent of Financial Services only by their mutual agreement. The partners shall direct the Board, no later than seven months following the valuation date, whether to file. No such filing shall affect the timing of triennial negotiations between the partners referred to in paragraph 96. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.03 The seven-month notice requirement referred to in Section 7.02 shall not apply to the January 1, 2005 valuation and shall not apply to the January 1, 2012 valuation. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VIII. Arbitration

Section 8.01 Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.02 The limitations on amendments set out in Section 3.07, Section 4.05, Section 4.06, Section 4.09, Section 5.05, and Section 5.08 shall apply to an award made by a board of arbitration pursuant to paragraph 92. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.03 Subject to the 2013 Term Sheet, nothing in Article II to Article IX affects the timing of the triennial negotiation, mediation and arbitration process referred to in paragraphs 72 to 100. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IX. **Limitations**

Section 9.01 The limitations on amendments in this Funding Management Policy shall not apply to amendments:

(a) made pursuant to paragraphs 60b, 60d, or 60e;

(b) that are required to comply with provincial law or, where both partners agree, to maintain registration as a registered pension plan under the *Income Tax Act (Canada*); or

(c) made by mutual agreement of the partners that do not increase liabilities by more than 0.5%.

(Last amended May 27, 2015 – Effective March 6, 2015)

AMENDMENT TO THE TEACHERS' PENSION PLAN

This is an agreement

B E T W E E N

Her Majesty the Queen
in right of the Province of Ontario
as represented by the Minister of Education

(the "Minister")

and

The Ontario Teachers' Federation
as represented by its Executive

(the "OTF")

WHEREAS the Minister and the OTF (collectively the "Partners") have established a partnership to administer the Ontario Teachers' Pension Plan and Fund, pursuant to an agreement between the Partners dated July 15, 1991 (the "Partners' Agreement"); and

WHEREAS the Partners' Agreement was most recently amended on January 15, 2014; and

WHEREAS the Partners wish to amend the Partners' Agreement further;

NOW THEREFORE the Partners agree as follows:

The Board

1. Effective January 1, 2016, paragraphs 20 and 21 of the Partners' Agreement are revoked and replaced with the following:

    20. The Board will have a maximum of eleven members. The partners will each appoint five members.

    21. The eleventh member of the Board will be the Chair. The process for appointing a Chair is set out in the next section of this agreement.

Her Majesty the Queen
in right of the Province of Ontario
as represented by the
Minister of Education

Liz Sandals
Minister of Education

Dated at Toronto this 21st day
of May, 2015.

The Ontario Teachers' Federation
as represented by its Executive

Rian McLaughlin
OTF President

Dated at Toronto this 6 day
of May, 2015.

From: Allan Shapira [allan.shapira@aonhewitt.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: OTPP documents
Date: Saturday, September 10, 2016 10:06:20
Attachment 1: FMP - FINAL.pdf

OTPP FMP for your records.

-----Original Message-----
From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: September-09-16 11:06 PM
To: Allan Shapira
Subject: Fw: OTPP documents

Looks like EDU legal has provided the materials.

From: Morton, Sarah (EDU) <Sarah.Morton@ontario.ca>
Sent: Friday, September 9, 2016 10:15 PM
To: Hatzis, Len (TBS); Manji, Shemin (MOF); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS); Inselsbacher, Karen (MET); Petsche, Nadine (TBS)
Subject: OTPP documents

Confidential

Hi all,

Apologies for missing the call I was driving to the cottage. The documents that I am aware of that could be relevant to this analysis are:
-Schedule 1 to the Teachers' Pension Act which is the text of the pension plan, (plus the amendments made in 2015. I do not have a consolidated electronic version) (attached) -The Partners' Agreement + one amendment (again no consolidated version) (attached) -The Funding Management Plan which is an appendix to the Partners Agreement. I will send that by way of another email.

Sincerely,
Sarah Morton

****
This communication (and any attachments) is directed in confidence to the addressee(s) listed above, and may not otherwise be distributed, copied or used. The contents of this communication may also be subject to privilege, and all rights to that privilege are expressly claimed and not waived. If you have received this communication in error, please notify us by reply e-mail or by telephone and delete this communication (and any attachments) without making a copy. Thank you.

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La présente communication (et tout fichier rattaché) s'adresse uniquement au(x) destinataire(s) précité(s) et ne peut être autrement distribuée, copiée ou utilisée. Le contenu de cette communication peut être assujetti au privilège. Tout droit à ce privilège est expressément revendiqué et nullement abandonné. Si vous avez reçu cette communication par erreur, veuillez nous en avertir immédiatement en répondant à ce courriel ou en nous appelant. Veuillez également effacer cette communication (et tout fichier rattaché)

sans en conserver une copie. Merci.

APPENDIX "A"

Funding Management Policy

Article I. Application

Section 1.01 *Best Estimates Assumptions*: For the purposes of this Funding Management Policy, except as otherwise provided herein, the Board shall provide the required reports using the Board's best estimates assumptions including, in the case of the discount rate, a margin for adverse deviation. The Board's best estimate economic assumptions may be based on market data, smoothed data, the reference rate or the Board's expectation if the Board believes future experience may differ from market data. The Board's assumptions shall be used only if they would be consistent with accepted actuarial practice. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.02 *Escalated Adjustments Indices*: The Board shall also maintain indices to record escalated adjustments for post-2009 service. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.03 *Different Discount Rate*: If a preliminary valuation uses a discount rate lower than the restoration basis for valuations prepared under Article III and Article VI, lower than the temporary basis for valuations prepared under Article IV, or lower than the distribution basis for valuations prepared under Article V, then the Board shall notify the partners and the partners shall meet with the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.04 *Exit Provision*: The provisions in Article II to Article IX shall expire twelve months after the notification referred to in Section 1.03 unless both partners otherwise notify the Board. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.05 This Funding Management Policy shall be applied as follows:

(a) *If there is a restoration basis excess when current contributions exceed basic contributions and/or current benefits are less than run-rate benefits, the excess can be used to reduce contributions and/or increase benefits in accordance with Article III*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.04, then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(b) *If there is a restoration basis deficit using current contributions and current benefits, contributions must be increased and/or benefits must be reduced in accordance with Article III to eliminate the deficit*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.09, then Section 3.10, Section 3.11, Section 3.12, Section 3.13, and Section 3.14 shall apply;

(c) *If there is a restoration basis excess when contributions are less than or equal to basic contributions and benefits are greater than or equal to run-rate benefits, prepare a temporary basis valuation in accordance with Article IV*: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, either:

(i) do not satisfy the conditions in either Section 3.04 or Section 3.09; or

(ii) satisfy the conditions in Section 3.04, and

1) the present value of revised benefits is equal to the present value of run-rate benefits, and

2) the present value of revised contributions is equal to the present value of basic contributions;

then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02;

(d) *Temporary and Distribution Basis Valuations*:

(i) *If there is a temporary basis excess, prepare a distribution basis valuation in accordance with Article V*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the distribution basis, the definitions in Section 5.01 and the proviso in Section 5.02, and

1) *If there is a distribution basis excess, the distribution basis excess can be used to make plan improvements in accordance with Article V*: if the results of that preliminary valuation satisfy the conditions in Section 5.03, then Article V shall apply;

2) *If there is a distribution basis deficit but a temporary basis excess, the temporary basis excess can be used to make temporary plan improvements in accordance with Article IV*: if the results of that preliminary valuation do not satisfy the conditions in Section 5.03, then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, and Article IV shall apply;

(ii) *If there is a temporary basis deficit, the restoration basis valuation will apply in accordance with Article III*: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, do not satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, and Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;

(e) *Post-December 30, 2017 Valuations*: If the results of a preliminary valuation prepared as of a date after December 30, 2017, using the restoration basis and the definitions in Section 6.01, satisfy the conditions in Section 6.02, then Section 6.03 shall apply;

(f) *2013 Term Sheet Precedence*: The provisions of the 2013 Term Sheet shall take precedence over this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.06 *Actions Subject to Pension Legislation*: Prior to the commitment of a surplus distribution or a contribution decrease, the partners shall ensure such distribution or contribution decrease is in accordance with the *Income Tax Act* (Canada), the *Pension Benefits Act* (Ontario) and their respective regulations. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.07 *Conditions on Temporary Improvements*: Any commitment to provide temporary improvements shall be made conditional on the results of a preliminary valuation for each year of the commitment period indicating that the conditions in Section 3.04(a) are met prior to and after such temporary improvement. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.08 *Headings*: Headings are underlined and are for convenience only and shall not affect the interpretation or meaning of any provision of this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Article II. Definitions

Section 2.01 For the purposes of this Funding Management Policy:

(a) "2013 Term Sheet" means the March 13, 2013 OTPP Term Sheet entered into by the partners;

(b) "basic contributions" are the contributions required by subsections 19(1) or (2) of Schedule 1 as it read on January 1, 2012;

(c) "commitment period" means the three-year period during which a temporary improvement is provided;

(d) "commitment value" means the present value of the portion of the temporary improvement value provided during the commitment period;

(e) "Consumer Price Index" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);

(f) "CPI adjustment" means the ratio between 1.000 and 1.080 of the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year to the average for the Consumer Price Index over the first twelve months of that period - 1. If the ratio would have been less than 1.000 or greater than 1.080, but for those limits, the difference shall be carried forward in a manner consistent with that set out in section 80 of Schedule 1;

(g) "current accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all current ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the current accumulated adjustment ratio is being determined. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(h) "current benefits" are the pension benefits, current escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read at the current valuation date without taking into account any amendment made, or changes agreed to by the partners, on or after the current valuation date;

(i) "current contributions" are the contributions required by Schedule 1 as it read at the current valuation date without taking into account any amendment made on or after the current valuation date;

(j) "current escalated adjustments" are the escalated adjustments in respect of post-2009 service that were applied prior to the January 1st following the current valuation date and assumed thereafter at the rate set out in the most recent filed valuation;

(k) "current ratio", for a year, means 1 + the proportion of the CPI adjustment granted as agreed to by the partners, and as may have been revised from time to time, provided that the proportion shall not be less than 50% in respect of service accrued before 2014, but not including any revision agreed to by the partners in relation to the current valuation;

(l) "current valuation date" in respect of a valuation is the date provided in Section 7.01;

(m) "distribution basis" is the reference rate with a positive adjustment of 0.5% together with the Board's best estimate actuarial assumptions for all other factors;

(n) "freeze period" means the period from December 31, 2012 to December 30, 2017;

(o) "going concern liabilities" are the going concern liabilities within the meaning of Regulation 909 made under the *Pension Benefits Act* and must also include the present value of the pension benefits and escalated adjustments that both accrued prior to the valuation date and that will accrue on or after the valuation date to the persons who were members of the plan on the valuation date and the present value of the ancillary benefits for which the eligibility requirements will be satisfied on or after the valuation date by the persons who were members of the plan on the valuation date;

(p) "preliminary valuation" means a valuation referred to in Section 7.01;

(q) "reference rate" means the interest rate chosen by the Board representing the Government of Canada long bond yield (currently, CANSIM Series V39056 nominal and CANSIM Series V39057 real, or their reasonable respective replacements) that may be based on market data or smoothed data;

(r) "remaining amortization value" means the difference between the temporary improvement value and the commitment value;

(s) "restoration basis" is the reference rate with a positive adjustment of 1.55% together with the Board's best estimate actuarial assumptions for all other factors;

(t) "revised accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the current accumulated adjustment ratio, as modified by an agreement between the partners to change the proportion of the CPI adjustment in respect of post-2009 service prior to the year following the current valuation date. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with "1.000000" for 2010;

(u) "revised benefits" are the current benefits including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation;

(v) "revised contributions" are the current contributions including any amendment made on or after the current valuation date based on that valuation;

(w) "revised escalated adjustments" are the current escalated adjustments including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation and assumed thereafter at the rate set out in that valuation;

(x) "run-rate accumulated adjustment ratio" is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all run-rate ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the run-rate accumulated adjustment ratio is being determined;

(y) "run-rate benefits" are the pension benefits, run-rate escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read on January 1, 2009, together with any benefits provided by amendments described in Article IX;

(z) "run-rate escalated adjustments" are the escalated adjustments in respect of post-2009 service that would have applied at the rate of 100% of the CPI adjustment prior to the January 1st following the current valuation date and that would be assumed thereafter at the rate of 100% of the CPI adjustment;

(aa) "run-rate ratio", for a year, means 1 + the CPI adjustment for the year;

(bb) "temporary basis" is the reference rate with a positive adjustment of 1.25% together with the Board's best estimate actuarial assumptions for all other factors;

(cc) "temporary improvement" means an improvement provided in accordance with Section 4.05;

(dd) "temporary improvement value" is the present value of a contribution decrease, a distribution of surplus and/or a benefit improvement that is amortized over a period of up to ten years, but is committed to for the duration of the commitment period only, provided that at the establishment of the commitment:

(i) the partners may elect an amortization period between three and ten years; and

(ii) for amortization periods of less than ten years, any temporary improvement for a given year shall be limited such that the present value of that given year's temporary improvement is not greater than the present value of basic contributions, calculated using the temporary basis, to be paid in the same year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article III. Funding Zone - Restoration

Section 3.01 *Definitions*: For the purposes of Article III, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.02 *Restoration Basis Plus an Adjustment*: For the purposes of Article III, current liabilities and revised liabilities may be calculated as at the current valuation date using the restoration basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.03 *CPI Adjustment*: For the purposes of Article III, and subject to a subsequently filed valuation, the proportion of the CPI adjustment for the period covered by the current valuation, in respect of each applicable period of service, will be the same for each year in that period and assumed at the same rate thereafter. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.04 *Restoration Basis Excess, but Basic Contributions and/or Run-Rate Benefits Not Restored*:

(a) If assets are greater than current liabilities; and

(b) if:

(i) the present value of current contributions is greater than the present value of basic contributions, or

(ii) the present value of current benefits is less than the present value of run-rate benefits, or

(iii) both (i) and (ii);

then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.05 *Restoration Basis Excess Report*: The Board shall report to the partners:

(a) the excess of assets over current liabilities; and

(b) the extent to which the excess can be used to provide the changes specified in Section 3.06.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.06 *Application of Restoration Basis Excess*: For purposes of clarity, excesses identified pursuant to Section 3.05 shall be applied in the following order, provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors:

(a) *Bring Escalated Adjustments to 50% for Post-2013 Service*: to provide escalated adjustments up to 50% of the CPI adjustment in respect of service accrued after 2013 for the period covered by the valuation, and assumed thereafter at the same rate;

(b) *Bring Escalated Adjustments to 100%*: to provide escalated adjustments up to 100% of the CPI adjustment for the period covered by the valuation, and assumed thereafter at the same rate;

(c) *Restore Escalated Adjustments for Post-2013 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2013, to the current accumulated adjustment ratio for the period from 2010 to 2013, beginning with the first year in which current escalated adjustments were less than 50% of the run-rate escalated adjustments;

(d) *Restore Escalated Adjustments for Post-2009 Years*: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2009 to the run-rate accumulated adjustment ratio, beginning with the first year in which current escalated adjustments were less than run-rate escalated adjustments;

(e) *Provide Benefit Increases or Contribution Rate Reductions*: to provide the following:

(i) an increase in benefits, where the present value of current benefits is less than the present value of run-rate benefits,

(ii) a reduction in contribution rates, where the present value of current contributions exceeds the present value of basic contributions, or

(iii) a combination of (i) and (ii).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.07 *Conditions on Application of Excess*: Subject to Section 3.06 and Section 3.08 or any mutual agreement to the contrary, the partners shall apply the excess of assets over current liabilities to change benefits, contributions, or both, provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities;

(b) the revised accumulated adjustment ratio is equal to or less than the run-rate accumulated adjustment ratio;

(c) the revised accumulated adjustment ratio is equal to or greater than the current accumulated adjustment ratio;

(d) the present value of revised benefits is equal to or less than the greater of the present value of current benefits and the present value of run-rate benefits;

(e) the present value of revised benefits is equal to or greater than the lesser of the present value of current benefits and the present value of run-rate benefits;

(f) the present value of revised contributions is equal to or greater than the lesser of the present value of current contributions and the present value of basic contributions; and

(g) the present value of revised contributions is equal to or less than the greater of the present value of current contributions and the present value of basic contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.08 *2013 Term Sheet Limits*: As set out in further detail in the 2013 Term Sheet, during the freeze period:

(a) The partners may provide escalated adjustments pursuant to Section 3.06(a), Section 3.06(b), Section 3.06(c) and Section 3.06(d) only if the assets are greater than 100% of the current liabilities and do not fall below 100% of the revised liabilities after the adjustment; and

(b) The partners may agree to improve benefits, or to restore benefits that were reduced during the freeze period, pursuant to Section 3.06(e) only if the net assets available for benefits (as such term is used in the preliminary valuations) are equal to or greater than 105% of the current liabilities and do not fall below 105% of the revised liabilities after the benefit improvement or restoration.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.09 *Restoration Basis Deficit*: If current liabilities are greater than assets, then Section 3.10, Section 3.11, Section 3.12, Section 3.13 and Section 3.14 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.10 *Restoration Basis Deficit Report*: The Board shall report to the partners:

(a) the excess of current liabilities over assets; and

(b) the amount required to change current benefits, current contributions, or both, to eliminate the excess referred to in Section 3.10(a) above, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.11 *Conditions on Elimination of Deficit*: Subject to Section 3.12 and Section 3.14, the partners may change benefits, contributions, or both, to eliminate the excess referred to in Section 3.10(a), provided that no change or amendment shall be made unless, after such change or amendment:

(a) assets are equal to or greater than revised liabilities; and

(b) revised member contributions shall be limited to 15% of pensionable salaries above the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.12 *Restrictions on Benefit Reductions*: Current benefits shall not be reduced unless:

(a) the partners agree on the terms and conditions of any reduction in current benefits;

(b) the partners have entered into a written agreement governing the manner in which contributions by the Minister and the Employers will be adjusted to offset any reduction in benefits; and

(c) the revised accumulated adjustment ratio, in respect of each year, is equal to or greater than the current accumulated adjustment ratio for the year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.13 *Restrictions on Contribution Increases*: Subject to Section 3.14, the partners have the authority to set the level of contributions that must be reached before current benefits are reduced below run-rate benefits, subject to the commitment that member contributions will not exceed 15% of pensionable salaries above the Year's Maximum Pensionable Earnings (as prescribed under the Canada Pension Plan). (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.14 *Further Restrictions on Contribution Increases*: As set out in further detail in the 2013 Term Sheet, during the freeze period there will be no employer contribution increases except as provided under the 2013 Term Sheet. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IV. Funding Zone – Temporary Improvements

Section 4.01 *Definitions*: For the purposes of Article IV, as at the current valuation date, using the temporary basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(d) The reference rate for purposes of determining the temporary basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.02 *Temporary Basis Plus an Adjustment*: For the purposes of Article IV, current liabilities and revised liabilities may be calculated as at the current valuation date using the temporary basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.03 *Temporary Basis Excess*: If assets are greater than current liabilities, then Section 4.04, Section 4.05 and Section 4.06 shall apply, provided that no temporary improvements may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.04 *Temporary Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets exceed current liabilities;

(b) the commitment value;

(c) the extent to which the commitment value can be used to provide a reduction to current contributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(d) the extent to which the commitment value can be used to provide annual surplus distributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

(e) the extent to which the commitment value can be used to provide a temporary benefit improvement, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period; and

(f) the extent to which the commitment value can be used to provide a combination of Section 4.04(c), Section 4.04(d) and Section 4.04(e).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.05 *Conditions on Application of Excess*: Subject to Article VI and Section 4.06, the partners may apply all or part of the commitment value to change temporarily current contributions, provide surplus distributions on a temporary basis, or provide a temporary benefit improvement, provided that no amendment shall be made unless, after such amendment, the excess of assets over revised liabilities is equal to or greater than zero. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.07 *Temporary Basis Deficit*: If assets are equal to or less than current liabilities, then Section 4.08 and Section 4.09 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.08 *Temporary Basis Deficit Report*: The Board shall report to the partners the amount by which current liabilities exceed assets. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.09 *No Action on Temporary Basis and Return to Restoration Basis*: Subject to Article VI, the partners shall not provide new temporary improvements and Article III shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article V. Funding Zone – Permanent Improvements

Section 5.01 *Definitions*: For the purposes of Article V, as at the current valuation date, using the distribution basis:

(a) "assets" are either:

(i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or

(ii) the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(b) "current liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and

2) the present value of the lesser of current contributions and basic contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(c) "current targeted funding amount" is 10% of current liabilities;

(d) "revised liabilities" are the sum of:

(i) the difference between:

1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and

2) the present value of revised contributions;

and

(ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);

(e) The reference rate for purposes of determining the distribution basis is based on:

(i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and

(ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;

(f) "revised targeted funding amount" is 10% of revised liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.02 *Distribution Basis Plus an Adjustment*: For the purposes of Article V, current liabilities and revised liabilities may be calculated as at the current valuation date using the distribution basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.03 *Distribution Basis Excess*: If the excess of assets over current liabilities is greater than the current targeted funding amount, then Section 5.04 and Section 5.05 shall apply, provided that no changes pursuant to Section 5.05 may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.04 *Distribution Basis Excess Report*: The Board shall report to the partners:

(a) the amount by which assets minus current liabilities exceed the current targeted funding amount; and

(b) the amount required to change current benefits, current contributions, or both, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.05 *Conditions on Application of Excess*: Subject to Article VI, the partners may apply all or part of the amount by which assets minus current liabilities exceed the current targeted funding amount to change current benefits, current contributions, or both, provided that no amendment shall be made unless:

(a) after such amendment the excess of assets over revised liabilities is equal to or greater than the revised targeted funding amount; and

(b) the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any change in current benefits that is reflected in the value of the liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.06 *Distribution Basis Deficit*: If:

(a) the excess of assets over current liabilities is less than the current targeted funding amount;

(b) the present value of current contributions is equal to or less than the present value of basic contributions;

(c) the present value of current benefits is equal to or greater than the present value of run-rate benefits; and

(d) the current accumulated adjustment ratio is equal to the run-rate accumulated adjustment ratio;

then Section 5.07 and Section 5.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.07 *Distribution Basis Deficit Report*: The Board shall report to the partners the amount by which assets minus current liabilities are less than the current targeted funding amount. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.08 *No Action on Distribution Basis and Return to Temporary Basis*: Subject to Article VI, the partners shall not apply, pursuant to this Article V, any part of the amount by which assets exceed current liabilities, and Article IV shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VI. Post December 30, 2017 Valuations

Section 6.01 *Definitions*: For the purposes of Article VI, as at the current valuation date, using the restoration basis:

(a) "assets" are the assets described in paragraph (a) of the definition of "going concern assets" in Regulation 909 made under the *Pension Benefits Act*;

(b) "current liabilities" are the difference between:

(i) the going concern liabilities calculated using current benefits, and

(ii) the present value of current contributions;

(c) "revised liabilities" are the difference between:

(i) the going concern liabilities calculated using revised benefits, and

(ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.02 *Post-2017 Excess*: Notwithstanding any other provision of this Funding Management Policy, as set out in further detail in the 2013 Term Sheet, after the end of the freeze period, if a valuation report with a valuation date after December 30, 2017 provides that assets are greater than current liabilities as at the date of the current valuation, then Section 6.03 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.03 *2013 Term Sheet Provisions*:

(a) the OTF will have 'first call' on 100% of the value of the excess of the assets over the current liabilities (to take the form of "surplus credits") up to a cumulative total of the value of the lesser of:

(i) the value of the benefit reductions made during the freeze period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (1) the value of benefit reductions for which matching contributions are made by the Minister and the Employers, and (2) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full conditional inflation protection for post-2013 service and the resulting change to the discount rate, and

(ii) the benefit reduction limit as calculated under the 2013 Term Sheet;

(b) if inflation protection is invoked below 50% during the freeze period, surplus credits will include an amount equal to the actual foregone pension payments during and after the freeze period that arise from the reduction in inflation protection invoked during the freeze period until such time as that inflation protection is restored at 50% or more during or after the freeze period; and

(c) the OTF may apply all or part of surplus credits to change current benefits, current contributions, or both, provided that no amendment shall be made unless assets are equal to or greater than revised liabilities after such amendment.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article VII. Valuation Frequency and Timing

Section 7.01 The Board shall require the actuary to prepare a preliminary valuation of the plan as of January 1, 2003 and each January 1 thereafter and, in addition, on such other date as the partners mutually agree. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.02 Subject to the requirements of the *Pension Benefits Act*, the partners agree that valuations shall be filed with the Superintendent of Financial Services only by their mutual agreement. The partners shall direct the Board, no later than seven months following the valuation date, whether to file. No such filing shall affect the timing of triennial negotiations between the partners referred to in paragraph 96. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.03 The seven-month notice requirement referred to in Section 7.02 shall not apply to the January 1, 2005 valuation and shall not apply to the January 1, 2012 valuation. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VIII. Arbitration

Section 8.01 Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.02 The limitations on amendments set out in Section 3.07, Section 4.05, Section 4.06, Section 4.09, Section 5.05, and Section 5.08 shall apply to an award made by a board of arbitration pursuant to paragraph 92. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.03 Subject to the 2013 Term Sheet, nothing in Article II to Article IX affects the timing of the triennial negotiation, mediation and arbitration process referred to in paragraphs 72 to 100. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IX. **Limitations**

Section 9.01 The limitations on amendments in this Funding Management Policy shall not apply to amendments:

(a) made pursuant to paragraphs 60b, 60d, or 60e;

(b) that are required to comply with provincial law or, where both partners agree, to maintain registration as a registered pension plan under the *Income Tax Act (Canada*); or

(c) made by mutual agreement of the partners that do not increase liabilities by more than 0.5%.

(Last amended May 27, 2015 – Effective March 6, 2015)

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: OTPP question
Date: Friday, September 16, 2016 08:53:40

Good morning – another question on OTPP:

– if the sponsors of the plan were to decide to increase the benefits under the OTPP (something other than conditional inflation indexation), how would that impact the Province's share of the surplus in the plan.

– With the change in conditional inflation indexation, the impact to the surplus in the plan is a reduction that is tied to (a) increased payment to the teachers and (b) reduced future payments from the province, but I think that is unique to the conditional inflation indexation

Thanks,

Cindy

From: Allan Shapira [allan.shapira@aonhewitt.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: OTPP
Date: Sunday, October 23, 2016 21:26:35

Did the AG provide all the research she referred to in her release on the accounting issue.

Allan

Allan H. Shapira, FSA, FCIA | Managing Director
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From: Veinot, Cindy (TBS) []
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
Subject: OTTP -- history re: use of surplus
Date: Saturday, September 10, 2016 07:16:08
Attachment 1: Key Funding Decisions.pdf

I think may be a very useful document re: the past – summarizes use of surplus going back to 1990.

I found this document on a website www.mypensionhub.com

The description of the website is below and I think its legit.

“This website houses information to help affiliate pension representatives educate members on plan funding and other key pension matters.

This website is maintained by the Ontario Teachers’ Pension Plan on behalf of a communications working group (CWG) made up of representatives of: l’Association des enseignantes et des enseignants franco-ontariens (AEFO), Elementary Teachers’ Federation of Ontario (ETFO), Ontario English Catholic Teachers’ Association (OECTA), Ontario Secondary School Teachers’ Federation (OSSTF), Ontario Teachers’ Federation (OTF), Ontario Government and Ontario Teachers’ Pension Plan.

Key Funding Decisions Since 1990

Plan Funding

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the provincial pension regulator at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Teachers' pension plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

Year	Valuation status and key decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

Year	Valuation status and key decisions
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.

Year	Valuation status and key decisions
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	$6.8 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes go into effect in January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: OTTP Asset options
Date: Monday, November 21, 2016 19:57:33

Alex,

We're working through the potential range of options to explore the possible and access the OTPP surplus and wanted to touch base about some of the potential options that were raised at the last meeting with TBS. We're fleshing out some considerations around negotiating an agreement with the OTF, or going so far as legislating, but wondering if your team is working up the details around a shared asset model (along the lines of OMERS), or other potential JSPP structures that may exist that could be considered?

Cindy was at a session with Josh today and raised those two options in particular as things they expect to discuss at this Thursday's meeting with Karen.

I'm available in the morning if you want to discuss before meeting with Josh - otherwise, we can chat then.

Thanks,

Paul

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Ontario Teachers' Pension Plan (OTPP) v 02 11-17-2016 (MOF comments).pptx
Date: Thursday, November 17, 2016 16:05:16
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 02 11-17-2016 (MOF comments).pptx

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I've indicated my suggested changes in green font.

Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets); and
  - The 2016 Funding Valuation.

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1991, the pension plan was entirely under the control of the Government of Ontario.
- In 1992, the plan became jointly sponsored through a partnership agreement between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
  - Managing investment strategy of the fund;
  - Complying with regulations including *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
  - Deals with amendments to the pension plan including:
    - » Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - » Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 11.5% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 13.1% for salary above the CPP limit ($54,900 in 2016).
  - The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
  - OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

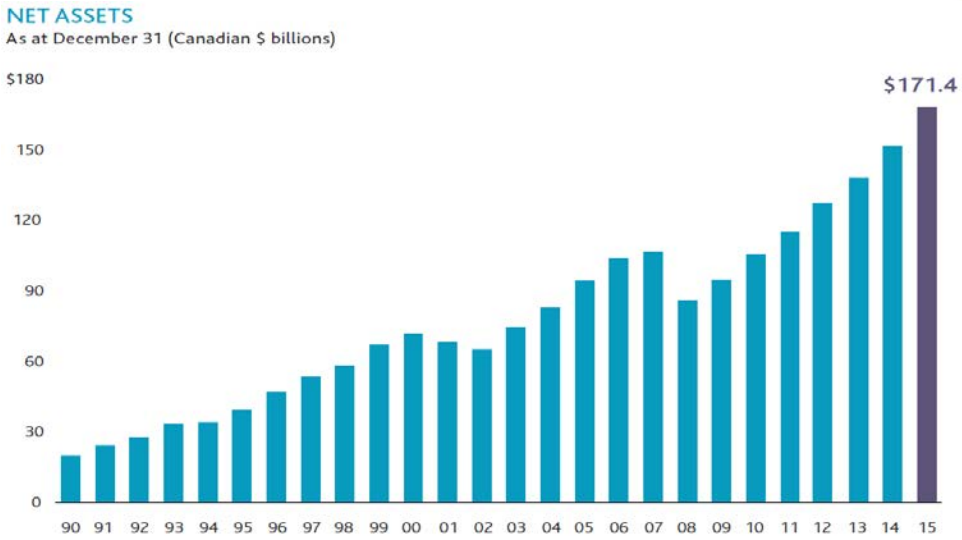
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)	**$4.2**	$2.4	$11.0	$16.3	$35.6

*OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.
*As of January 1, 2016, the pension plan's assets were valued at $171.4B.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year. These valuations are three different ways to estimate the cost to provide benefits to be paid in the future and they each have different methods and assumptions (e.g. of wages, inflation or discount rates).
  - The **funding valuation** determines the Plan's annual cash contribution by looking ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities.
  - The **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements in accordance with Public Sector Accounting Board (PSAB) recommendations. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
  - The **financial statement** valuation measures the fair value of the plan's net assets available for benefits and pension liabilities at a point in time. It does not assume any future contributions and does not project the cost of benefits that current members have not yet earned.

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced, except for JSPPs, which may reduce benefits on wind-up.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for following the sponsors direction to file the valuation **[see Appendix D for valuation history]**.

Funding Management Policy

- The Funding Management Policy (FMP) is a long-term agreement that forms part of the OTPP Partners' Agreement and is filed with the Financial Services Commission of Ontario (FSCO). **(See Appendix E for FMP Framework Description)**
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits as negotiated.
- The FMP also provides procedures for discount rate setting depending on the zone.

Ontario

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the plan's board members. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP deficit by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history]**.
  - If either partner disputes the discount rate, a hearing process can be invoked whereby a third party expert will be selected to review and opine on the discount rate used by the Plan actuary.
  - The OTPP discount rate has been independently reviewed by industry experts three times in the last several years. Each time the rate was determined to be within a reasonable range, given the demographic profile of the plan **[see Appendix G for list of expert reviews]**. Discount rates will vary among pension plans because of, among other things, different membership characteristics and investment allocations and risk profiles.
- For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.

Ontario

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
  - This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP was currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board
  - The sponsors each appoint five members to the Board and they jointly appoint the Chair.
    - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
    - The current Chair is Jean Turmel. His term ends December 2016 but is expected to be reappointed.
  - Board members terms are two years and members are limited to serving four consecutive terms.
  - A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
  - The Board sets the remuneration levels for the members.
- The five Board of Directors appointed by the OTF are: John Murray, Bill Chinery, Rod Albert, Patti Croft and Lise Fournel.
- Chair – Jean Turmel.

Ontario

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Francine LeBlanc-Lebel, President • Diane Dewing, Past President • Michael Foulds, 1st Vice President

Ontario

Appendix C: Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, up to 50% of the amount of foregone inflation. This is seen as the Government “sharing equal pain”.

Ontario

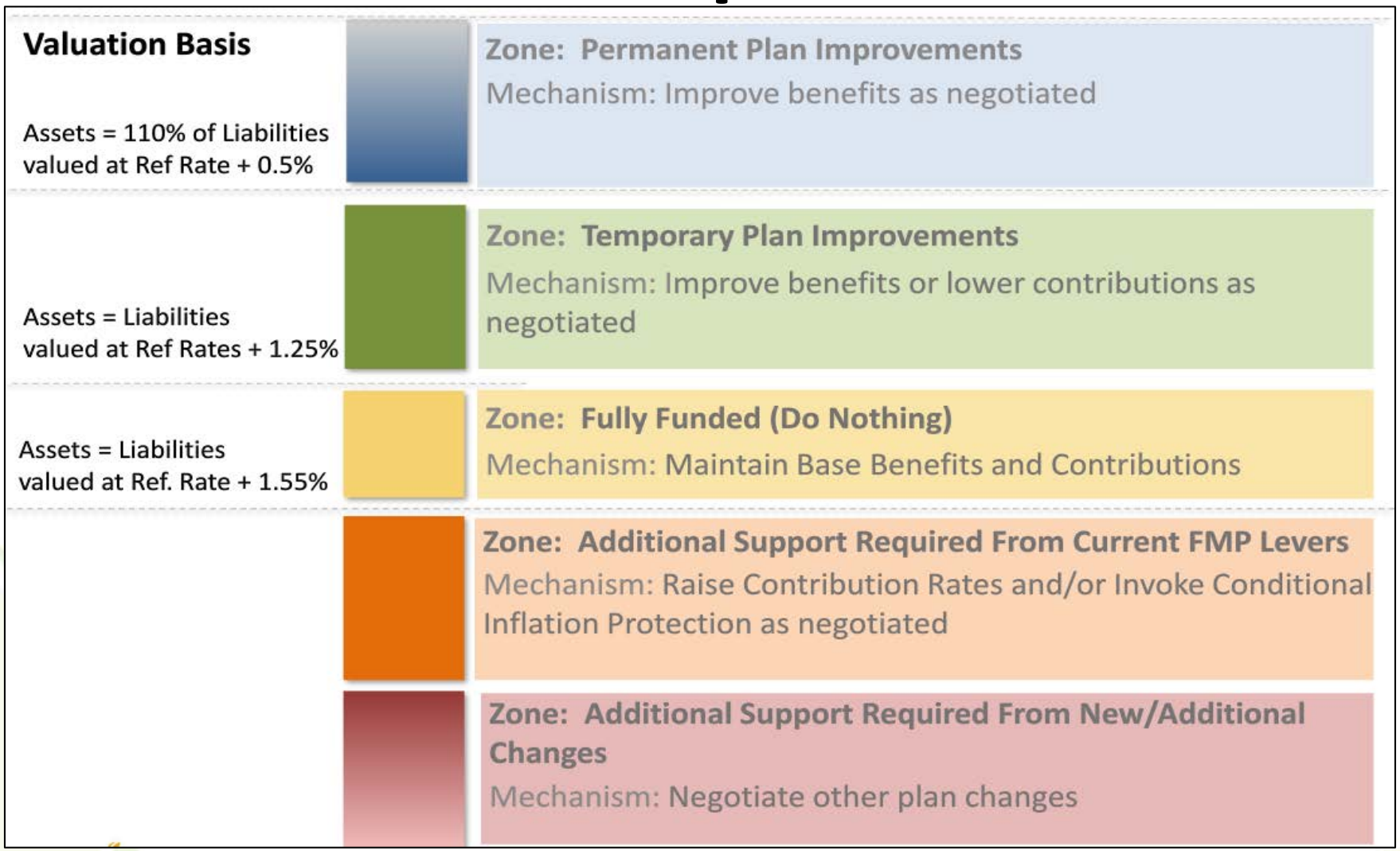
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Ontario Teachers' Pension Plan (OTPP) v 02 11-17-2016 (MOF comments).pptx
Date: Thursday, November 17, 2016 17:20:00
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 02 11-17-2016 (MOF comments).pptx

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Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets); and
  - The 2016 Funding Valuation.

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1991, the pension plan was entirely under the control of the Government of Ontario.
- In 1992, the plan became jointly sponsored through a partnership agreement between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
  - Managing investment strategy of the fund;
  - Complying with Legislation including *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
  - Deals with amendments to the pension plan including:
    - » Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - » Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement and was further amended in 2012 to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 10.4% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 12.0% for salary above the CPP limit ($54,900 in 2016).
  - The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
  - OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

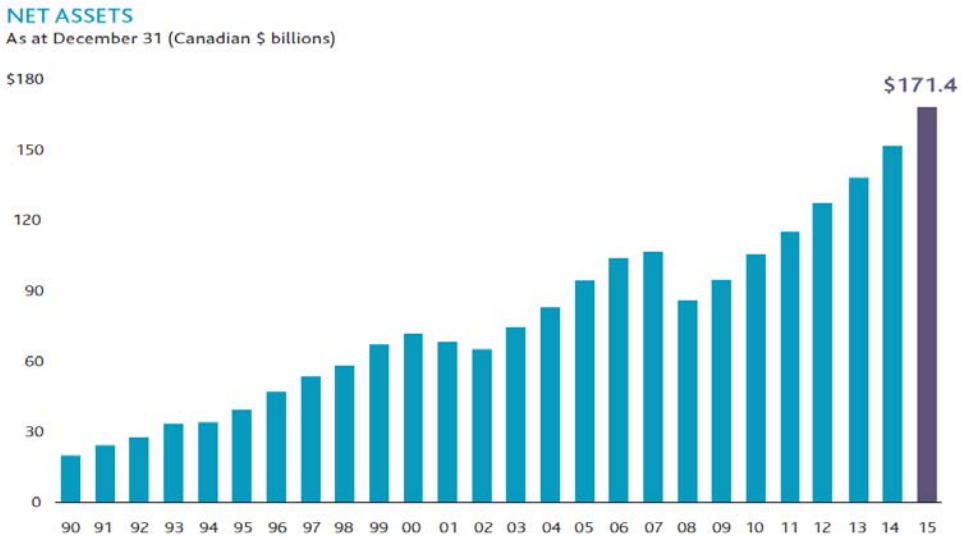
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



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*As of January 1, 2016, the pension plan's assets were valued at $171.4B.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year: a funding valuation and two accounting valuations. These valuations are different ways to estimate the cost to provide benefits to be paid in the future.
  - A **funding valuation** determines the required cash contribution to ensure long term benefit security. Funding valuation is governed by PBA and actuarial standards. It usually contains an element of conservatism.
  - A **accounting valuation** determines pension expense to be recorded in the financial statements. The purpose of the accounting valuation is to allow for the comparability of distinct entities. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions. The pension expense does not represent cash contributions.
  - There are two types of accounting valuations performed by the OTPP
  - The province's accounting valuation determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements. It is performed in accordance with Public Sector Accounting Board (PSAB) recommendations.
  - The TPP Board's accounting valuation, which is commonly referred to as the Board's **financial statement** valuation is an account valuation performed based on International Financial Reporting Standard (IFRS).

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced future benefits.
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Ontario

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the plan's board members. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP liability by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history]**.
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Ontario

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
  - This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP was currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board
  - The sponsors each appoint five members to the Board and they jointly appoint the Chair.
    - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
    - The current Chair is Jean Turmel. His term ends December 2016 but is expected to be reappointed.
  - Board members terms are two years and members are limited to serving four consecutive terms.
  - A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
  - The Board sets the remuneration levels for the members.
- The five Board of Directors appointed by the OTF are: John Murray, Bill Chinery, Rod Albert, Patti Croft and Lise Fournel.
- Chair – Jean Turmel.

Ontario

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Francine LeBlanc-Lebel, President • Diane Dewing, Past President • Michael Foulds, 1st Vice President

Ontario

Appendix C:
Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, equal to the amount of inflation protection between 50% to 100% of CPI forgone by the retired teachers. This is seen as the Government "sharing equal pain".

Ontario

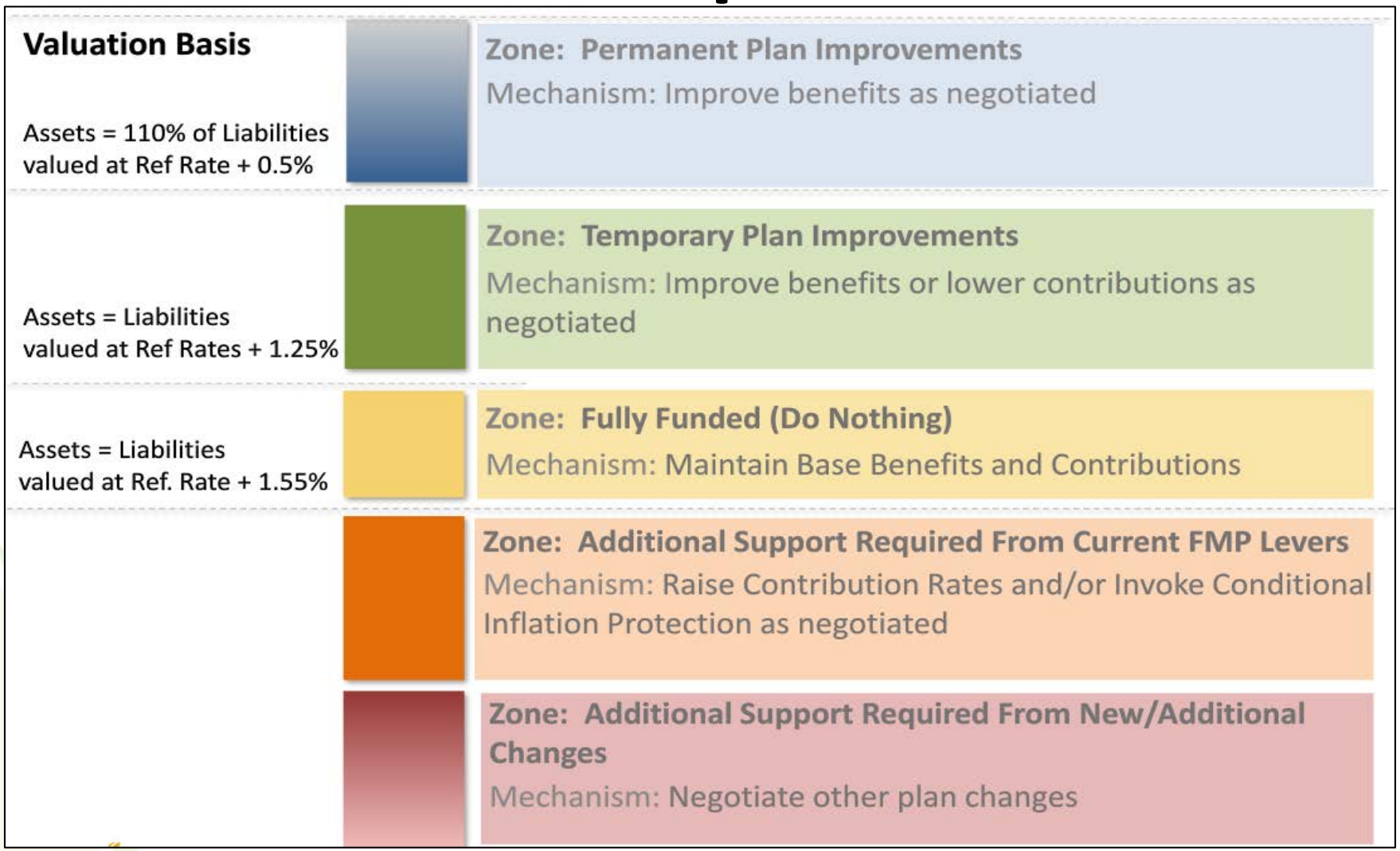
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Patel, Lesley (MOF) []
To: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]; Wynberg, Lynsey (OFA) [Lynsey.Wynberg@ofina.on.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: PAEAP NR - TBS edits
Date: Thursday, February 09, 2017 10:08:40
Attachment 1: PAEAP Report NR_v15_PO edits_MO ok_20170208 1620_cv.doc

---

Hi all,

TBS made some minor edits to the NR, please let me know if you have any concerns with any of the language asap. If you do, I can flag them for TBS but please note as they are the lead ministry on this file they may not accept all of them.

Thanks,

Lesley

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February 13, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans: the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

The panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements, which Ontario has done consistently since 2001.

The panel's report outlined the following reasons why an asset exists and should be reported in the financial statements:

- Recognizing the asset will provide a faithful representation of the Province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the Province's share of the assets in Public Accounts

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

As a result, the government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The Province remains on track to balance the budget by 2017-18, and remain balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"**TBC** I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"As a result of the expert assessment of the independent advisory panel, we now have additional advice on how to account for these jointly sponsored pension plans as assets. This advice will help us continue to present the province's finances fairly and accurately, as we work

Commented [CV1]: There were two main aspects to the panel's work – whether to recognize the assets and if so, how to measure them – this only addresses the first issue

Commented [CV2]: Not a reason why the asset exists – hence the change above

Commented [CV3]: Also not a reason by the asset exists – see comment 2 re: the change necessary in the introductory sentence

Commented [CV4]: See comment #1

DRAFT

toward balancing the budget in 2017-18. We will provide a full update on the Province's fiscal situation in the near future."
— Charles Sousa, Minister of Finance

QUICK FACTS

- By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.
- For 2015-16, ~~this~~ following the advice of the panel means the province's deficit ~~has~~ would be~~been~~ lowered by $1.5 billion.
- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.
- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets.
- The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and Public Sector Accounting Standards.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [CV5]: Debt doesn't change – what is the message that we are trying to convey? -- the impact on net debt? Let us know and we can write the bullet.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

From: Killoch, Alex (MOF) []
To: Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: PAEAP Report QA_MOF_20170206
Date: Monday, February 06, 2017 16:59:28
Attachment 1: PAEAP Report QA_MOF_20170206.docx

I sent the following back to Jamie

Questions and Answers
Pension Asset Expert Advisory Panel Report

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.
- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans it co-sponsors should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.
- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to $3.5B, from the $5B originally reported in the 2015-16 Public Accounts.
- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.
- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

Commented [KA(1]: Not sure that the panel recommendation applies to all JSPPs, it does apply to the two that are co-sponsored by the government but there are two other JSPPs still to be considered.

QUESTIONS AND ANSWERS – MOF REVIEW

1. What does this mean for the upcoming Budget?

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. ~~We will have more details to share about the Budget in the coming weeks.~~

In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

DRAFT

2. **What do you say to the credit rating agencies who are watching all of this unfold?**

   We have been impressed with the level of cooperation and understanding of the credit rating agency community.

   I would say we have achieved clarity on this complex accounting issue.

   We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

Ontario's Financial Position:

3. **Some have said your government has a spending problem, not a revenue problem. What do you say to that?**

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

   The government is projecting ~~a~~ to balance~~d~~ the budget by 2017-18, and remaining balanced in 2018-19.

   The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

   Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

   Key elements of the government's plan to eliminate the deficit are:

   - Program Review, Renewal and Transformation
   - Managing compensation costs
   - Maintaining tax fairness and a level playing field for business

DRAFT

- Strengthening government transparency, financial management and fiscal accountability

4. **The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?**

   The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

   Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

   Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

   Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

5. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

   The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

   Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

DRAFT

Legislated Accounting:

6. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditor Generals. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

DRAFT

From: Killoch, Alex (MOF) []
To: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: PAEAP Report QA_MOF_20170206
Date: Monday, February 06, 2017 16:59:05
Attachment 1: PAEAP Report QA_MOF_20170206.docx

Hi Jamie

I am not sure that one of the messages is correct. I have not read the panel report but I don't think it applies to all of the JSPPs, only the two we sponsor. I have adjusted the language. There were a couple of typo's that I expect have been caught

Alex

Questions and Answers
Pension Asset Expert Advisory Panel Report

KEY MESSAGES:

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We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. ~~We will have more details to share about the Budget in the coming weeks.~~

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DRAFT

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   - Managing compensation costs
   - Maintaining tax fairness and a level playing field for business

DRAFT

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   Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

   Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

5. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

   The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

   Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

DRAFT

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6. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

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DRAFT

From: Allan Shapira [allan.shapira@aon.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Jason Malone [jason.malone@aon.com]
Subject: PSAB ITC
Date: Thursday, March 15, 2018 13:34:37
Attachment 1: Comments on Questions Responding to PSAB Invitation to Comment on Discou....docx

---

Attached is a document which provides our thoughts/comments from our review of the draft responses to the ITC.

Would be pleases to have a call tomorrow if that would be helpful.

Thanks

Allan

Allan H. Shapira, FSA, FCIA | Managing Director
Aon
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
allan.shapira@aon.com | aon.com

PLEASE NOTE: My email has changed to allan.shapira@aon.com

****
This communication (and any attachments) is directed in confidence to the addressee(s) listed above, and may not otherwise be distributed, copied or used. The contents of this communication may also be subject to privilege, and all rights to that privilege are expressly claimed and not waived. If you have received this communication in error, please notify us by reply e-mail or by telephone and delete this communication (and any attachments) without making a copy. Thank you.

****

La présente communication (et tout fichier rattaché) s'adresse uniquement au(x) destinataire(s) précité(s) et ne peut être autrement distribuée, copiée ou utilisée. Le contenu de cette communication peut être assujetti au privilège. Tout droit à ce privilège est expressément revendiqué et nullement abandonné. Si vous avez reçu cette communication par erreur, veuillez nous en avertir immédiatement en répondant à ce courriel ou en nous appelant. Veuillez également effacer cette communication (et tout fichier rattaché) sans en conserver une copie. Merci.

Comments on Questions Responding to PSAB Invitation to Comment on Discount Rate Guidance

One of the items we discussed including was as paragraph that differentiates public and private sector pension plans to provide some context. The following is suggested wording if you want to include this. Given that you are responding to specific questions, I don't see an obvious place to put this so that may be part of the decision to include this.

Nature of Public Sector Pension Plans in Canada

The nature of pension plans in the public sector in Canada is often very different from pension plans in the private sector, and for that matter public sector pension plans in other countries:

- Most public sector pension plans require member contributions, with member and employer contributions at or close to 50/50;
- Many public sector pensions plan have levers to share cost/risk with members, including increased member contributions or reduction in future benefits; they have demonstrated the ability to self-adjust over time;
- Governance structures are very robust, with the investment management and risk management of the pension funds often performed by an external Board that is separate from the Plan Sponsor(s); and
- Most of the public sector pension plans are not subject to solvency funding requirements and in fact for many of the plans, in the highly unlikely event of plan wind-up, the benefits can be reduced if there are insufficient assets.

Question 4a

Here is a possible response to the question on how the discount rate is set.

Significant analysis is done to develop the expected rate of return used to determine the obligation to ensure it is a reasonable expectation in the long-run. The assumption used takes into account in detail the asset allocation of the particular pension plan and the expectation of the long-term return for each of the asset classes. Each asset class expectation is carefully analyzed with the assistance of experts to ensure that this is a reasonable assumption of the return on assets classes.

(NTD: may want to consider adding the following on the comparability issue)

A view could be made to provide more guidance or change the philosophy of the assumption if there were significant variability in the assumption used by various entities which would reduce comparability between them. We do not believe that it is necessary for public entities to have a goal to be able to compare results between them. A user looking to invest in a company in the private sector or judge the performance of an entity may want to compare between peers in an industry, thus it is critical that an objective of consistence between entities' assumptions should be included in the standards. We do not believe this is the case in the public sectors. Nevertheless, we have observed that discount rates used in the provincial sectors are comparable and a user looking to better understand the financial health of pension plans in the various provinces will observe great consistency in Canada.

Question 6

In the first paragraph, we have some concern about asking for the guidance to be more explicit. Once you go down the road of more guidance, then there is a risk that you have to create more specificity around what expected return means and what the borrowing rate means. It may be sufficient to just have the first sentence in supporting the basis to use.

There is a paragraph that starts off: Most of Ontario's pension plans are at least 100% funded. We don't think that is a relevant point. If the point is that the pension plans are funded plans that is a different point. Whether your plans are 95% funded or 105% funded would not be a factor on which basis to use. In fact, even referring to the funded status brings the discount rate back into play because of the question of what discount rate is that funded status based on.

We also have some concern over the last paragraph trying to differentiate from the private sector. We definitely agree that the purposes are different but there are some landmines in that paragraph, including the issue of taxing power, the funded status of private sector pension plans (again don't view the funded status as a reason for a basis) and the description of the high-quality debt basis as conservative (those in favour of that basis would not call it conservative).

There may be a reason in this question or elsewhere to expand on the purpose of financial statements in the private sector and public sector. The purpose of financial statements for a commercial enterprise in the private sector is to focus on the pricing of that enterprise at a particular point in time. The purpose of financial statement in the public sector is….. (I am assuming you are better to finish this thought than we are).

The following paragraph in question 6, may also be appropriate for question 13, the key issue being that there is typically no asset pool in trust for non-pension obligations. Instead of referring to "current pension obligation" we refer to "current obligation":

For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government can obtain for its debt. It reflects the amount the government would need to borrow to finance its current obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3250, PS 3270 and PS 3310. We believe that this methodology is appropriate and consistency in practice exists across the sector.

Question 13

See reference above in question 6.

Question 14

The following is a possible answer to question 14, given that PSAB really needs to understand the thinness of the Canadian market.

A table showing the prevalence of discount rate methodologies in other equivalent standards was provided in the invitation to comment. The overwhelming prevalence of the use of “market yields of high-quality debt instruments at the reporting date” is shown in other standards including IASB, US FASB, UK ASB and IPSASB. What is not noted in the document is the difficulty of the applicability of that methodology in most major markets as well as the lack of guidance. In the late 1980’s, a position statement by a staff of the SEC defined high quality debt as a debt that was of higher quality than Aa and from that point, regardless of the standard, that opinion has been the guiding principle in establishing the accounting discount rate. The economic environment has changed significantly since the late 1980’s that opinion was published such that the number of AA corporate bonds at longer durations decreased significantly but the methods to rate these bonds has also changed. The main issue facing the Canadian as well as most major economies is the lack of depth of the Aa market past the 10 year maturity mark. In Canada, only one Corporate Aa bond exits past 10 years. Under IASB and US FASB, issuers extrapolate rates from existing market information to determine the “pseudo” Aa rate past the 10 year mark for an obligation with cash flows that stretches more than 100 years. In the wake of these issues that spreads beyond Canada, standard setters have tried to resolve the imperfect methodology that relies on market yields on high-quality debt and continue to question the validity of that methodology. We should be mindful of these difficulties in thinking about implementing that methodology and the potential of other standard setters eventually moving away from it

From: Ovenden, Erin (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Jackson, Sarah (TBS) [Sarah.Jackson@ontario.ca]; Sullivan, Bryant (TBS) [Bryant.J.Sullivan@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Pension Asset Expert Advisory Panel Update - Outreach Advice
Date: Monday, January 30, 2017 16:35:03

Hi Alex-

My name is Erin and I'm in the Communications Branch at TBS. We're working on a plan for the upcoming release of the Pension Asset Expert Advisory Panel's report on pension assets related to OPSEUPP and OTPP. I understand you might have some insights and advice on the best way to give the pension plans and co-sponsors a heads up. Any chance you help us? This is time sensitive as we're trying to get this info in advance of a briefing this Wednesday.

Please let me know and thank you in advance.

Erin Ovenden

Senior Communications Consultant

Communications Branch | Treasury Board Secretariat

77 Wellesley Street West, Ferguson Block

Toronto, ON M7A 1N3

Tel: 416-326-7727

From: Sekaly, Gabriel (EDU) []
To: Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Pension Asset note - risks
Date: Wednesday, September 14, 2016 09:15:13
Attachment 1: Treatment of Pension Asset v.06 14-09-2016.docx

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Please find attached the note we discussed yesterday on stakeholder and reputational risks

At some point, once we land the plan of action, we need to discuss how to engage the OTPP to provide them a head's up

gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

Ministry of Education
BACKGROUND NOTE

Treatment of Ontario Teachers' Pension Plan (OTTP) Asset

Confidential Advice to Cabinet

ISSUE: Outline the stakeholder and potential reputational risks associated with a public disagreement between the Province and the Auditor General relating to the value of the OTPP Pension Asset.

Broadly speaking, a public disagreement over the value of the pension asset creates two minimal risks for the OTPP and the plan partners, the Ministry of Education and the Ontario Teachers' Federation (OTF) – stakeholder risk and reputational risk.

1) Stakeholder risk

- The OTF has not traditionally concerned itself with the results of the annual accounting valuation of the OTPP, as a separate funding valuation is used to determine whether the Plan has sufficient assets to meet its obligation to pay pensions to members.
- A public disagreement over the accounting valuation will highlight that the assumptions underpinning the accounting valuation (used solely for reporting in the Province's financial statements) include a much higher discount rate than what is set by the OTPP Board for the funding valuation.
- By highlighting this difference, there is risk that the government will be subject to increased pressure from stakeholders (possibly including the OTF itself) to change the discount rate used for the funding valuation to allow for costly benefit improvements. Although difficult to quantify, note that a change of 10 basis points in the discount rate can have an impact of greater than $3 billion.
    i. The discount rate used by the OTPP in determining the funding valuation is determined each year by the OTPP board. The plan partners, the Ministry of Education and the OTF are not involved in the determination of the discount rate. The determination of the discount rate has been reviewed by both international and national experts three times in the past 10 years – each review concluded that the discount rate selected by the OTPP board was appropriate.

2) Reputational Risk

- The OTPP has an excellent reputation both nationally and internationally. At times, the OTPP leverages this reputation in discussions with ratings agencies and potential investment partners. A public dispute over the value of the pension asset could bring into question the ability of OTPP to properly value its assets.
- This could mean that as part of the due diligence process, potential investment partners may be less inclined to enter agreements with the OTPP. Additionally, ratings agencies, who have sought clarity on the OTPP's governance structure in the past, may express concern if the OTPP's ability to properly value its assets is being publicly disputed.

Background on OTPP Assets

OTPP is a globally active investor with holdings in more than 50 countries across diversified sectors and asset classes. Since Ontario Teachers' inception in 1990, more than three-quarters of the plan's income has come from investment returns, with the remainder from member and government contributions. In 2015, the plan earned a 13.0% rate of return and its portfolio generated $19.6 billion of investment income. Net assets increased to a record $171.4 billion, and the plan outperformed its composite benchmark by $4.2 billion. As of 2015, Boston Consulting Group included OTPP in the list of 20 largest pension plans in the world.

From: Killoch, Alex (MOF) []
To: 'Scott Simpson' [wssimpson@rogers.com]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Pension Expense
Date: Wednesday, October 12, 2016 10:15:44

Hi Scott,

By way of this email I would like to introduce you to Cindy Veinot, who is the Provincial Controller responsible for Ontario's public accounts.

As I mentioned, Cindy is assembling an expert panel to work on issues raised by the Provincial Auditor regarding the treatment of jointly sponsored pension plans for purposes of consolidation. Issues were raised by the Provincial Auditor as part of the 2015/16 Public Accounts, specifically with respect to the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.

The work will be conducted by external experts and is expected to be conducted this fall. We are expecting that they will require some actuarial assistance. Given your extensive knowledge of the OTTP, I thought you would be well placed to help.

I will leave it to Cindy to contact you regarding the next steps in the review.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Pension accounting TB-MBC submission.pptx
Date: Tuesday, September 27, 2016 12:07:22
Attachment 1: Pension accounting TB-MBC submission.pptx

Changes indicated in red font…

Update to Regulation 395/11 under the FAA and impacts to the financial results for the 2015-16 Public Accounts

Treasury Board Secretariat

Presentation to Treasury Board/ Management Board of Cabinet

September 27, 2016

President of Treasury Board

Deputy Minister of Treasury Board

Context

- Under the Financial Administration Act the government has the power to make regulations with regarding to the accounting policies and practices used to prepare the Consolidated Financial Statements

- The government has used regulatory powers under the FAA in the past to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately the regulation confirmed accounting that was acceptable under Public Sector Accounting Standards.

-

- Our current situation is similar. In applying principled based accounting standards there is a degree of professional judgement required. In the current situation, in accounting for the pension plans jointly sponsored by the Province ~~pension plans~~ that are included in the Consolidated Financial Statements of the Province, the Province and the Auditor General have a different opinion on the application of the standards.

- The Province's position is that the asset balance (or "plan surplus for accounting purposes") in the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan~~)~~ (OPSEUPP) are an asset to the Province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.

Recommendation

- In order to meet produce the Public Accounts with the accounting that supports the Auditor General's view for the accounting for jointly sponsored pension plans, it is recommended to clarify the accounting through a regulation.

- The regulation will define the accounting for the consolidated financial statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the Province and the Auditor by legislating the treatment.

- The regulation is applicable for fiscal year 2015-16 and will align with the Auditor's interpretation of PSAB without the Province needing to agree with interpretation but still achieving the Auditor's desired treatment.

- The Province will work with external consultants and the Office of the Auditor General to determine if an agreement can be reached on the appropriate accounting treatment going forward without regulatory direction.

Proposed Minute

- Recommend the approval of a regulation under the Financial Administration Act (reg. 395/11) to define the accounting treatment of pension surpluses in jointly sponsored pension plans (namely OTPP and OPSEUPP) to take a valuation allowance equivalent to the plan surplus for the 2015-16 audit.
- Approve/Note the impact on opening accumulated deficit and net debt for 2015-16 will increase by approximately $10,668 M
- Approve/Note the increase in the statutory account “Teachers' Pension Plan” of $1,479,914,043 for the Ministry of Education for an increase in Elementary and Secondary Education Program - Vote 1002
- Approve/Note the increase in the statutory account “Prior Period Obligations and Actuarial Adjustments, the Financial Administration Act” of $33,716,990 for Treasury Board Secretariat for an increase in Employee and Pensioner Benefits (Employer Share) Program - Vote 3403

Appendix 1: Draft Regulation

FINANCIAL ADMINISTRATION ACT

Amending O. Reg. 395/11

(ACCOUNTING POLICIES AND PRACTICES)

Update anticipated

1. Ontario Regulation 395/11 is amended by adding the following section:

Accounting policies and practices for the 2015-2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared in accordance with the following rules:

1. In determining a valuation allowance for a jointly sponsored pension plan with a surplus calculated for accounting purposes, the Province shall assume an expected future benefit of zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

(2) For greater certainty, any change to the comparative financial results required by subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for the fiscal year ending March 31, 2015.

(3) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

From: Provis, Ian (TBS) []
To: Sawosch, Mercedes (TBS) [Mercedes.Sawosch@ontario.ca]; Arbabzadeh, Nina (TBS) [somNina.Arbabzadeh@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Luk, Sandy (TBS) [SOM.Sandy.Luk@ontario.ca]; Bagheri, Denise (TBS) [SOM.Denise.Bagheri@ontario.ca]; Parker, Bryan (TBS) [Bryan.Parker@ontario.ca]; Stajduhar, Greg (TBS) [Greg.Stajduhar@ontario.ca]; Dutton, Andrea (TBS) [SOM.1Andrea.Dutton@ontario.ca]; Schlaepfer, Martin (TBS) [SOM.1Martin.Schlaepfer@ontario.ca]; Laughton, Patrick (TBS) [Patrick.Laughton@ontario.ca]; Esmail, Selena (TBS) [SOM.1Selena.Esmail@ontario.ca]; Harmantas, Lenna (TBS) [Lenna.Harmantas@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Smook, Nick (TBS) [Nick.Smook@ontario.ca]; Duffy, Stephen (TBS) [Stephen.Duffy@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Li, Wendy (TBS) [Wendy.Li@ontario.ca]
Subject: Pension accounting TB-MBC submission.pptx
Date: Tuesday, September 27, 2016 11:48:39
Attachment 1: Pension accounting TB-MBC submission.pptx

Everyone is still in Minister briefings, AG briefings or other, so I share this deck with everyone for information purposes only to support getting ready for TB/MBC. It is draft and subject to change

Please let me know if you think any other information should be included.

Thanks

Ian

Update to Regulation 395/11 under the FAA and impacts to the financial results for the 2015-16 Public Accounts

Treasury Board Secretariat

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September 27, 2016

President of Treasury Board

Deputy Minister of Treasury Board

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- The government has used regulatory powers under the FAA in the past to direct the accounting for government organizations. These regulations were used to address uncertainty and risk related to how government organizations were to prepare their financial statements. Ultimately the regulation confirmed accounting that was acceptable under Public Sector Accounting Standards.

-

- Our current situation is similar. In applying principled based accounting standards there is a degree of professional judgement required. In the current situation, in accounting for the joint sponsored pension plans included in the Consolidated Financial Statements of the Province, the Province and the Auditor General have a different opinion on the application of the standards.

- The Province's position is that the asset balance (or "plan surplus for accounting purposes") in Teachers Pension Plan (TPP) and the Ontario Public Service Employees Union Pension Plan) (OPSEUPP) are an asset to the province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.

Recommendation

- In order to meet produce the Public Accounts with the accounting that supports the Auditor General's view for the accounting for joint sponsored pension plans, it is recommended to clarify the accounting through a regulation.

- The regulation will define the accounting for the consolidated financial statements in the Public Accounts. This will avoid the issue of the disagreement on the PSAB interpretation of the accounting between the province and the Auditor by legislating the treatment.

- The regulation is applicable for fiscal year 2015-16 and will align with the Auditor's interpretation of PSAB without the Province needing to agree with interpretation but still achieving the auditor's desired treatment.

- The Province will work with external consultants and the office of the Auditor general to determine if an agreement can be reached on the appropriate accounting treatment going forward without regulatory direction.

Proposed Minute

- Recommend the approval of a regulation under the Financial Administration Act (reg. 395/11) to define the accounting treatment of pension surpluses in joint sponsored pension plans (namely TPP and OPSEUPP) to take a valuation allowance equivalent to the plan surplus for the 2015-16 audit.
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(2) For greater certainty, any change to the comparative financial results required by subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for the fiscal year ending March 31, 2015.

(3) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

From: Killoch, Alex (MOF) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Pension accounting TB-MBC submission.pptx
Date: Tuesday, September 27, 2016 12:24:26
Attachment 1: Pension accounting TB-MBC submission.pptx

Hi Ian

Some minor changes in red to align with the changes we have already provided.

Has EDU been alerted to the likely option? This will likely affect their stakeholder relations.

Alex

Update to Regulation 395/11 under the FAA and impacts to the financial results for the 2015-16 Public Accounts

Treasury Board Secretariat

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September 27, 2016

President of Treasury Board

Deputy Minister of Treasury Board

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FINANCIAL ADMINISTRATION ACT

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(3) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Pension information re: OTPP
Date: Tuesday, October 25, 2016 19:14:44

Hi Alex,

A few weeks ago we had a hallway conversation re: the benefits provided under the OTPP – they issue being how those benefits compare to other plans, as we were trying to understand whether there would be a push to improve benefits in the future re: reducing contributions.

We need that analysis in connection with the pension work we are doing. Is that something you can take care of? I think a comparison to other plans offered in the OPS/BPS would be an appropriate starting point.

This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Di Pasquale, Romina (EDU) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; White, Emily (EDU) [Emily.White@ontario.ca]
Subject: Pensions and AGO accounting debate - message for the minister EDU
Date: Wednesday, February 28, 2018 12:23:58
Attachment 1: image001.jpg

Hi Mark,

Our minister is looking for some for messaging for tomorrow with respect to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple as that".

We don't want to get pulled into the accounting debate as I believe this is TBS' area of expertise, however, we are still being tasked with providing language for the minister. Could you please assist us with this matter.

We have attempted to draft language below. Please let me know if you think different messaging is required and what you prefer the message to be. Thanks for your assistance on this matter.

The Ontario government and the Ontario Teachers' Federation (OTF) jointly sponsor the Ontario Teachers' Pension Plan. This co-sponsorship arrangement was established through a partnership agreement whereby both the government and OTF agreed to jointly design, administer and manage the OTPP.

This partnership agreement is based on the principle of reaching consensus between the sponsors as no individual sponsor can unilaterally make a decision with regards to the pension plan itself or its surplus.

Requesting a letter from the OTF that half of any pension surplus belongs to the Province would undermine the established relationship with the OTF.

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A/Director, Labour, Finance and Implementation Branch

Ministry of Education

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romina.dipasquale@ontario.ca

(416) 325-2057

From: Davis, Andrew (EDU)
Sent: February-27-18 11:22 AM
To: Di Pasquale, Romina (EDU); Lamarche, Doreen (EDU)

Cc: Ngira-Batware, Douglas (EDU)
Subject: FW: Pensions

Please see Chris' q's below. Basically, we're being pulled into the accounting debate. My thought is something along the lines of:

· Plan changes require agreement of the parties.

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Cc: Li, Sharon (EDU) <Sharon.Li@ontario.ca>
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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Please review
Date: Friday, September 23, 2016 20:57:31

Alex/Rob,

We haven't bothered you in at least an hour, so thought we'd send a request on this beautiful Friday nightJ

Below is an extract from the draft Management Letter of Representation that Greg, Scott and I will have to sign off on and provide the AG, possibly as early as Monday.

Please advise by Monday am if you have any comments or concerns with the scope and wording.

Thanks in advance for your feedback.

Nadine

P.s. wondering if you had any luck finding the additional details on the earlier indexation increases?

Employee future benefit obligations, costs and assets are determined, accounted for and disclosed in accordance with the requirements of PS 3250, *Retirement Benefits* (PS 3250) and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits* (PS 3255).

In particular:

o The Province is applying PS 3250 and PS 3255 accurately and completely in the consolidated financial statements.

o Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

o The best estimate assumptions used are, as a whole, internally consistent, and

consistent with the asset valuation method adopted.

o The discount rate used to determine the accrued benefit obligation was determined by reference to the expected rate of return on pension assets based on the Government's best estimate.

o The economic assumptions included in the actuarial valuation are those that management provided to the pension plan boards (i.e. Ontario Pension Board, OPSEU Pension Trust, Ontario Teachers' Pension Plan Board, Healthcare of Ontario Pension Plan and Colleges of Applied Arts & Technology Pension Plan) in a letter requesting actuarial and financial information, to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3250.

o In arriving at these assumptions, management has obtained the advice of the actuaries, but has retained the final responsibility for them The data provided to the actuaries for non-pension post-retirement benefits, severance pay and other post-employment benefits was sufficient for the purpose of the valuation,

the actuarial assumptions were appropriate; and,

o the methods used were in accordance with sound actuarial principles.

o All significant changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuaries.

o The extrapolations are accurate and properly reflect the effects of significant changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.

o We agree with the findings of Mercer as management's expert in evaluating the valuation of employee future benefits and have adequately considered the qualifications of the expert in determining the amounts and disclosures used in the financial statements and underlying accounting records.

From: Petsche, Nadine (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Public Accounts Planning
Date: Wednesday, February 01, 2017 18:37:34

Rob/Alex,

We were hoping to get a status update on your team's work to compile support for assumptions used as input to the pension valuations. I understand from Cindy that the work is likely already underway, if not complete.

Below is an extract of the OAG's current asks related to pension assumptions. We hope to have engaged our external actuarial support by early next week. Once they are on board, we would like to arrange for a meeting with you to see how they might be able to help to provide an independent perspective on our support before it is shared with the OAG.

Thanks in advance.

Nadine

1. The "assumptions binder" supporting the 2017 pension Economic Assumptions (this document is titled "Rationale for Management's Best Estimates of Long-term Economic Assumptions used for the Actuarial Valuation (for financial statement purposes) of the pension plans that are consolidated on the Province's Financial Statements) that outlines the asset allocations and the plan's expected returns for these plans

2. A more robust/detailed rationale to explain the 25 bps increase of the salary escalation rate for OTPP and PSPP

From: Sullivan, Bryant (TBS) []
To: Di Pasquale, Romina (EDU) [Romina.DiPasquale@ontario.ca]; Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; White, Emily (EDU) [Emily.White@ontario.ca]
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Thursday, March 01, 2018 10:31:19
Attachment 1: image001.jpg
Attachment 2: image002.jpg

We were just at SCOPA yesterday and this item came up, among others.

Let us know if there's any other support we can provide. Is your comm branch involved in the prep?

Bryant

From: Di Pasquale, Romina (EDU)
Sent: March-01-18 9:28 AM
To: Sullivan, Bryant (TBS); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
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Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
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Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Thursday, March 01, 2018 10:28:26
Attachment 1: image001.jpg
Attachment 2: image002.jpg

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Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
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Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Thursday, March 01, 2018 10:26:54
Attachment 1: image002.jpg
Attachment 2: image003.jpg

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Sent: February 27, 2018 9:51 AM
To: Davis, Andrew (EDU) <Andrew.Davis@ontario.ca>
Cc: Li, Sharon (EDU) <Sharon.Li@ontario.ca>
Subject: Pensions

Hey Andrew,

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From: Di Pasquale, Romina (EDU) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; White, Emily (EDU) [Emily.White@ontario.ca]; Sullivan, Bryant (TBS) [Bryant.J.Sullivan@ontario.ca]
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Thursday, March 01, 2018 09:57:36
Attachment 1: image001.jpg

Thanks Mark. Much appreciated.

From: Donaldson, Mark (TBS)
Sent: March-01-18 8:35 AM
To: Di Pasquale, Romina (EDU)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Romina,

Comments inserted below re: accounting for pension assets – standard TBS comms approved language we use in addressing the pension asset issue.

The highlighted line – wasn't sure how this fits or what the point is getting at – don't think a letter would necessarily do either.

Mark

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Ministry of Education

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Date: Thursday, March 01, 2018 09:35:00
Attachment 1: image001.jpg

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Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Wednesday, February 28, 2018 13:12:54
Attachment 1: image001.jpg

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From: Davis, Andrew (EDU)
Sent: February-27-18 11:22 AM
To: Di Pasquale, Romina (EDU); Lamarche, Doreen (EDU)
Cc: Ngira-Batware, Douglas (EDU)
Subject: FW: Pensions

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To: Sullivan, Bryant (TBS) [Bryant.J.Sullivan@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; White, Emily (EDU) [Emily.White@ontario.ca]; Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Thursday, March 01, 2018 10:53:42
Attachment 1: image001.jpg
Attachment 2: image002.jpg

Thanks, that's good to know. The query came from our minister's office (Chris Martin) so I imagine comms is involved.

From: Sullivan, Bryant (TBS)
Sent: March-01-18 9:31 AM
To: Di Pasquale, Romina (EDU); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

We were just at SCOPA yesterday and this item came up, among others.

Let us know if there's any other support we can provide. Is your comm branch involved in the prep?

Bryant

From: Di Pasquale, Romina (EDU)
Sent: March-01-18 9:28 AM
To: Sullivan, Bryant (TBS); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Bryant, it's for the Public Accounts Standing Committee. The AG raised this as a concern that they want to talk about and our ministry wanted to be prepared if it indeed is raised.

From: Sullivan, Bryant (TBS)
Sent: March-01-18 9:27 AM
To: Di Pasquale, Romina (EDU); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Romina, just curious what the messaging will be used for?

Thanks

Bryant

Bryant Sullivan, APR

Assistant Director, Corporate Communications

Treasury Board Secretariat

(o) 416-325-1378

(c) 647-330-5784

(e) Bryant.J.Sullivan@ontario.ca

Communications Branch

Your Strategic Partner

From: Di Pasquale, Romina (EDU)
Sent: March-01-18 8:58 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

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From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Actuary for expert panel
Date: Friday, October 07, 2016 12:21:38

Hi Alex,

We have a meeting with Greg and Helen re: moving this panel ahead on Tuesday. Would you be able to connect with the actuary you mention below before then to see if he is interested in having a conversation with me?

Thanks,

From: Veinot, Cindy (TBS)
Sent: October-06-16 5:20 PM
To: Killoch, Alex (MOF)
Subject: RE: Actuary for expert panel

That would be great – thanks,

Cindy

From: Killoch, Alex (MOF)
Sent: October-06-16 5:06 PM
To: Veinot, Cindy (TBS)
Subject: RE: Actuary for expert panel

I think I could get his email from the foursome we played in. It was a fundraiser scramble.

Would you like me to contact him to see if he would be interested in speaking to you?

From: Veinot, Cindy (TBS)
Sent: Thursday, October 06, 2016 5:00 PM
To: Killoch, Alex (MOF)
Subject: RE: Actuary for expert panel

Ok – how do we connect with him?

From: Killoch, Alex (MOF)
Sent: October-06-16 3:48 PM
To: Veinot, Cindy (TBS)
Subject: RE: Actuary for expert panel

Well, one name comes to mind.

The actuary who worked on the Teachers' Pension Plan on behalf of the OTF retired this summer. He would know the plan very well and might be suitable. I have no idea of his interest, although I did see him on the golf course this summer.

From: Veinot, Cindy (TBS)
Sent: Thursday, October 06, 2016 3:39 PM
To: Killoch, Alex (MOF)
Subject: Actuary for expert panel

Hi Alex,

In connection with setting up the expert panel, I'm looking for an actuary who has a high level of expertise in JSPPs. Ideally, it would be someone from one of the actuarial firms (could be retired). I've attached the terms of reference.

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There is a report back date by the end of this calendar year, so we need to get moving on this.

Thanks,

Cindy

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Actuary for expert panel
Date: Thursday, October 06, 2016 17:19:31

That would be great – thanks,

Cindy

From: Killoch, Alex (MOF)
Sent: October-06-16 5:06 PM
To: Veinot, Cindy (TBS)
Subject: RE: Actuary for expert panel

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Subject: RE: Actuary for expert panel

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on this.

Thanks,

Cindy

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Actuary for expert panel
Date: Thursday, October 06, 2016 17:06:18

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Sent: Thursday, October 06, 2016 5:00 PM
To: Killoch, Alex (MOF)
Subject: RE: Actuary for expert panel

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Subject: RE: Actuary for expert panel

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Subject: Actuary for expert panel

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Cindy

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Actuary for expert panel
Date: Thursday, October 06, 2016 16:59:32

Ok – how do we connect with him?

From: Killoch, Alex (MOF)
Sent: October-06-16 3:48 PM
To: Veinot, Cindy (TBS)
Subject: RE: Actuary for expert panel

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Subject: Actuary for expert panel

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Thanks,

Cindy

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Actuary for expert panel
Date: Thursday, October 06, 2016 15:48:14

Well, one name comes to mind.

The actuary who worked on the Teachers' Pension Plan on behalf of the OTF retired this summer. He would know the plan very well and might be suitable. I have no idea of his interest, although I did see him on the golf course this summer.

From: Veinot, Cindy (TBS)
Sent: Thursday, October 06, 2016 3:39 PM
To: Killoch, Alex (MOF)
Subject: Actuary for expert panel

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There is a report back date by the end of this calendar year, so we need to get moving

on this.

Thanks,

Cindy

From: Veinot, Cindy (TBS) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
Subject: RE: Additional Documentation
Date: Sunday, September 18, 2016 15:09:38
Attachment 1: image001.jpg

Yesterday

From: Paul, Joshua (EDU)
Sent: September-18-16 3:09 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Additional Documentation

We'll see what we can up.

Timing?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Sunday, September 18, 2016 2:55 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Cc: Petsche, Nadine (TBS)

Subject: FW: Additional Documentation

Alex and Josh – see below re: Deloitte's question that is highlighted. Are you aware of a good summary of how the indexation of inflation works.

Thanks,

Thanks,

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September-18-16 2:48 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Additional Documentation

Hi Nadine,

After our call with the lawyers there are a couple of items that we were wondering if we could see:

1. The announcement that was made this week on the indexation of inflation to 90% is a tough concept to understand in how this reduces future funding requirements (I think the share the pain payment was specifically mentioned). Could someone on your team do a write up on what this means? Additionally, I believe that this indexation was increased in the past – would the write up be able to talk how future contributions were reduced in those instances as well.

2. Osler's has made reference to a 2012 term sheet. Could you get us a copy of this?

3. There was a memo from Lise Houlse (at Mercer's) to Mary Cover (Ontario Teachers' Pension Plan) dated June 17, 2016. Could we obtain this as well?

Kind regards,

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

D: 416-643-8428

mcolley@deloitte.ca | deloitte.ca

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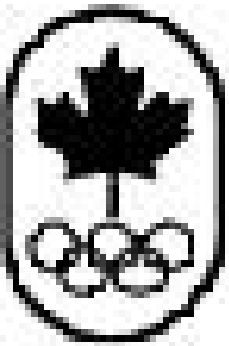

Deloitte.

NATIONAL
PARTNER

From: Petsche, Nadine (TBS) []
To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Morton, Sarah (EDU) [Sarah.Morton@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Availability for a call this weekend - Auditor General and Teachers Pensions issue
Date: Saturday, September 10, 2016 10:52:07

Thanks for this Shemin.

Nadine

From: Manji, Shemin (MOF)
Sent: September-10-16 10:29 AM
To: Petsche, Nadine (TBS); Hatzis, Len (TBS); Morton, Sarah (EDU); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS)
Subject: RE: Availability for a call this weekend - Auditor General and Teachers Pensions issue

Hi Nadine,

In our call this morning you were asking about the specific ITA rules that in effect prohibit an employer from making contributions when there is excess surplus in the plan that exceeds a prescribed threshold. I understand that the rules are found in the ITA s. 147.2 and Reg s. 8502(b) (An employer's permissible contributions to a pension plan are not deductible from the employer's income if the surplus in the plan exceeds 25 per cent of the amount of actuarial liabilities apportioned to the employer in respect of the employer's employees and former employees).

The excess can be reduced by taking a contribution holiday, enhancing employee benefits, granting the employee a contribution holiday or seeking the consent of the Superintendent of Financial Services (FSCO) to withdraw or distribute some of the surplus.

These ITA rules apply to DB plans - presumably they would also apply to a JSPP because it is similar to a DB (provides a defined benefit) although in a JSPP the

employer's contributions are limited and the employer is not required to pay unfunded liabilities or solvency deficiencies, if this is what the plan documents provide.

Shemin

From: Petsche, Nadine (TBS)
Sent: Friday, September 09, 2016 8:36 PM
To: Hatzis, Len (TBS); Manji, Shemin (MOF); Morton, Sarah (EDU); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS)
Subject: Re: Availability for a call this weekend - Auditor General and Teachers Pensions issue

All, sorry. My battery died. I haven't heard back from Martin and he was traveling to BC. The call will take place sometime over the weekend. Nadine

From: Hatzis, Len (TBS)

Sent: Friday, September 9, 2016 7:38 PM

To: Manji, Shemin (MOF); Morton, Sarah (EDU); Killoch, Alex (MOF)

Cc: Kaufman, Paul (TBS); Petsche, Nadine (TBS)

Subject: RE: Availability for a call this weekend - Auditor General and Teachers Pensions issue

Paul and I are around for a call

From: Manji, Shemin (MOF)
Sent: September 9, 2016 7:37 PM
To: Hatzis, Len (TBS); Morton, Sarah (EDU); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS); Petsche, Nadine (TBS)
Subject: RE: Availability for a call this weekend - Auditor General and Teachers Pensions issue
Importance: High

I just spoke to Alex and he said that he was going to get in touch with you so that the call can be scheduled in shortly. I was on my way to the subway and he asked me to return to the office for the call.

I don't know if everyone else is available. Please let me know ASAP if we are going to proceed with the call soon and whether I should continue wait for the call in my office. I live in Markham and it will take me a while to get home.

Shemin

From: Hatzis, Len (TBS)
Sent: Friday, September 09, 2016 7:12 PM
To: Manji, Shemin (MOF); Morton, Sarah (EDU); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS); Petsche, Nadine (TBS)
Subject: FW: Availability for a call this weekend - Auditor General and Teachers Pensions issue

Hi

See below – given the tight timeframes, i think it makes sense for everyone to be on call at same time to ensure everyone is on the same page, so once I get the details on timing of proposed call, I will flip and invite you as well. thanks

From: Petsche, Nadine (TBS)
Sent: September 9, 2016 7:07 PM
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)
Cc: Veinot, Cindy (TBS); Hatzis, Len (TBS); Kaufman, Paul (TBS)
Subject: Availability for a call this weekend

Hi Martin.

I am sorry to bother you, but we were hoping that you might be able to find some time

this weekend to chat on the asset ceiling file. Our legal advisors, Len Hatzis and Paul Kaufman, will be working on a legal opinion related to benefit access for the OTPP asset. They would benefit from some additional insights from you to help them scope their response. In the meantime, I have shared a copy of your initial report as well as a copy of the response to the AG's follow up questions.

Please let us know what time works best for you. I understand that you are in BC, so there will be a time difference involved.

The teleconference line we can plan to use is 416 212 8014 code: 1474532#.

Hope you're enjoying your trip. Thanks in advance for your flexibility.

Regards,

Nadine

416 562 8509

From: Killoch, Alex (MOF) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]
CC: Bilar, Justin (MOF) [Justin.Bilar@ontario.ca]
Subject: RE: BPS Comparison Chart
Date: Thursday, November 03, 2016 14:17:08

We chose plans that are on the generous side of the spectrum and in the BPS.

OPCD is looking for generous plans so that it can demonstrate that Teachers is at the top end of benefits and therefore the OTF will not be as interested in further benefits improvements and would instead prefer contribution holidays. Certainly within the directly comparable plans, they offer as good as, or better, benefits as the other plans, and are less costly than OMERS or CAAT. Historically OTF has preferred benefits to contribution breaks, which makes sense when half the cost of benefits is paid by the government sponsor.

We chose Guelph because it is generous, manages a relatively large plan within the university sector, and has all its plan text including 2016 contribution rates easily available. Some details of university plans can be harder to find. Uof T would have comparable benefits, although it has later early retirement, it has more indexation. Perhaps it could be labeled generically as a BPS university plan.

I would also like to see what the briefing material will be for the panel. Apparently one member dropped out due to a conflict so they are still finalizing plan members. We have a meeting tomorrow where I thought I could ask where the panel is at and how it will be briefed.

From: Myers, Leah (MOF)
Sent: Thursday, November 03, 2016 1:51 PM
To: Killoch, Alex (MOF)
Cc: Bilar, Justin (MOF)
Subject: FW: BPS Comparison Chart

Why did you choose those plans – ie., U of G Professional Plan?

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Thursday, November 3, 2016 9:59 AM

To: Talwar, Garima (MOF)

Cc: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)

Subject: BPS Comparison Chart

Hi Garima

We have prepared the attached table for OPCD. It is a summary of plan provisions across the BPS, with representation from SEPP's, based on what we have, and from the JSPP's. It lists most of the benefits offered by plans and the employee contribution rates.

I would like to provide to OPCD in response to their request for some comparators to Teachers', once Leah is comfortable with it.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: BPS Discount Rate QAs (1)
Date: Thursday, September 08, 2016 17:33:06
Attachment 1: BPS Discount Rate QAs (GT).docx

Just one question (and added title). Once I hear back, I will share with Leah. Hope to get back to you shortly.

From: Killoch, Alex (MOF)
Sent: September 8, 2016 5:26 PM
To: Talwar, Garima (MOF)
Cc: Mah, Catherine (MOF); Tsang, Ingrid (MOF); Pomykacz, Rob (MOF)
Subject: BPS Discount Rate QAs (1)

Hi Garima

Here is the answer to Nadine's question on the discount rate. If no concerns, we will send tonight.

We have talked to EDU. I will respond to Cindy's email to say that EDU will have concerns with the printing of the asset base and should be involved in that issue.

Alex

QAs on BPS Pension Plans Discount Rate

Q. For OTPP and OPSEUPP, please provide an explanation for the difference between the discount rate used for purposes of the Province's accounting and the rate used by the plans for contribution funding purposes.

With regards to OTPP, please explain why the OTPP reported a surplus of $6.5B, which is lower than the funding surplus of $13.5B, and even lower than the $20B surplus as calculated by the Province.

A. Funding and accounting valuations are for different purposes. The purpose of an accounting valuation is to determine the cost of pensions as reported in the Public Accounts while a funding valuation determines the contribution required to fund the benefits promised.

For purposes of determining the cost of pensions, the Province follows PSAB recommendations for economic assumptions used for the accounting valuations of consolidated pension plans. As required by PSAB, the discount rate used is management's best estimate of the long-term expected return earned on plan assets. The process and methodology is documented in a report prepared by MOF and submitted to the AG annually. Please refer to the appendix for the estimation of the expected real return by asset class for the OTPP and the OPSEU Pension Plan which forms the basis of the discount rate used in the Province's accounting valuations.

Commented [TG(1]: Who's management?

Pension plan contributions are governed by the *Pension Benefits Act* (PBA) and its regulations as well as by actuarial professional standards. There are many factors affecting the selection of actuarial assumptions for funding purposes that may result in assumptions varying from those used for PSAB. Benefit security is one of the major considerations. As required by the PBA, plan administrators (e.g., OTPP) are responsible for setting actuarial assumptions for funding purposes. Generally speaking, the discount rate for funding is set by the plan administrator and reflects its long-term expected return on plan assets plus a provision for adverse deviation (PfAD).

The OTPP is the only plan that we are aware of which does not follow this methodology in setting the discount rate for funding purposes. Instead of using the long-term expected return on plan assets, the OTPP sets its discount rate using a proxy based on the yield for Real Return Bonds (RRBs) plus a premium that is defined in the plan's Funding Management Policy based on the FMP zone the plan is in. It does not reflect the plan's expected return on assets but instead reflects the OTPP's judgment on how much risk the plan can afford to accept.

Additionally, the OTPP uses an aggregate actuarial cost method (a level cost method) for the funding valuation. For the Province's accounting valuation, PSAB recommends an accrued benefit method.

Since the valuations have a different purpose, it should be expected that the actuarial assumptions and / or actuarial valuation methods for the same plan will be different for funding and for accounting purposes. Different actuarial cost methods and different actuarial assumptions will result in different valuation results and a different surplus.

APPENDIX

Estimation of Each Pension Plan's Long-Term Expected Returns

Teachers' Pension Plan	**Weight**	**Real Return**	**Contribution**
Cash	-0.160	0.900	-0.144
Fixed Income Bonds (CAD)	0.220	2.000	0.440
TSX Composite Index	0.020	5.350	0.107
S&P 500	0.210	5.600	1.176
EAFE	0.140	5.650	0.791
EM Equity	0.070	6.400	0.448
GSCI, Timberland, Oil Well (Commodity)	0.060	5.017	0.301
Real Estate & Infra	0.250	5.000	1.250
Real Return Bonds (TIP)	0.060	2.300	0.138
RRB (CAD)	0.130	1.900	0.247
Total	**1.000**		**4.754**
Investment Expenses			(0.265)
Return Net of Investment Expenses			4.489

OPSEU Pension Plan			
Cash & Short Term Investments	0.025	0.900	0.023
Mid Term Bonds	0.200	2.000	0.400
TSX Composite Index	0.080	5.350	0.428
Foreign Developed Equity	0.140	5.200	0.728
Emerging Markets Equity	0.080	6.400	0.512
Real Return Bonds**	0.025	1.900	0.048
Real Estate	0.150	4.582	0.687
Private Equity	0.100	6.250	0.625
Infrastructure	0.150	6.320	0.948
Energy Commodities	0.050	5.017	0.251
Total	**1.000**		**4.649**
Investment Expenses			(0.990)
Return Net of Investment Expenses			3.660

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Derivation of the $4.3B Reduction
Date: Saturday, September 24, 2016 08:43:18

Thought so (because it has happened to me beforeJ). Thx. n

From: Killoch, Alex (MOF)
Sent: September-24-16 8:33 AM
To: Petsche, Nadine (TBS)
Subject: Re: Derivation of the $4.3B Reduction

Sorry

My BlackBerry randomly pastes in messages when I use the letter "v" so when I type "valuation" it pastes from something else. It is a known glitch.

Here is message again:

Both were more complicated than 2016. In 2014 indexation was below 50 percent so the valuation does not reflect dollar for dollar matching for share all the pain . Remember that we only match down to 50 percent.

In 2015 there was also a change to the discount rate after the preliminary discount rate was established. That makes it hard to compare the preliminary valuation against what we decided.

From: Petsche, Nadine (TBS)

Sent: Friday, September 23, 2016 10:00 PM

To: Killoch, Alex (MOF)

Subject: Re: Derivation of the $4.3B Reduction

Thanks Alex. Not sure about some of the terminology used in the first para. Can you please confirm the message is as intended (i.e. Gol golfed).

In terms of where we are at, we're expecting an opinion from Deloitte sometime this weekend. In the meantime., Cindy and I will be drafting a position paper with our recommended accounting position. Materials will be provided to the AG over the weekend as they come due, and hopefully we hear back from the AG on Monday if she's willing to be flexible. Keeping our fingers crossed. Based on discussion s with the accountnts today, seems like we're in a better place, but still no certainty wrt what DT will say and how the AG will react. N

From: Killoch, Alex (MOF)

Sent: Friday, September 23, 2016 9:37 PM

To: Petsche, Nadine (TBS)

Cc: Pomykacz, Rob (MOF)

Subject: Derivation of the $4.3B Reduction

Hi Nadine

We worked up the attached explanation for the splits in 2014 and 2015.

Hopefully this helps.

Where are we at?

Alex

nt Development of the Province’s Economic Assumptions for the 2018 Budget - Final.pptx (0 Bytes) cannot be converted to PD

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Did you hear back from OTPP?
Date: Thursday, September 15, 2016 20:48:44

OK, thanks Alex.

Are you able to call me in my office? 416 325 8027

From: Killoch, Alex (MOF)
Sent: September 15, 2016 7:56 PM
To: Petsche, Nadine (TBS)
Subject: Re: Did you hear back from OTPP?

Yes, but it was not what we need. They focused on what they do for our financial statements. We already know that.

I have contacted them to have it revised.

Alex

From: Petsche, Nadine (TBS)

Sent: Thursday, September 15, 2016 6:57 PM

To: Killoch, Alex (MOF)

Subject: Did you hear back from OTPP?

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
Subject: RE: Do we have a summary?
Date: Monday, September 19, 2016 11:43:37

That's fine. It's less of a priority right now and can follow later. n

From: Killoch, Alex (MOF)
Sent: September 19, 2016 11:43 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: Fong, Pauline (TBS)
Subject: Re: Do we have a summary?

We might need to ask TB about OPSEU

Isn't all of $10.1 accounting ours? We would never discuss the accounting surplus with otf .

From: Petsche, Nadine (TBS)

Sent: Monday, September 19, 2016 11:36 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: Fong, Pauline (TBS)

Subject: RE: Do we have a summary?

Hi.

I stand corrected….$10.1B for the accounting surplus for OTPP vs. $6.6B (1/2 of

$13.2B) for the funding surplus for OTPP. With a similar summary for OPSEUPP.

N

From: Killoch, Alex (MOF)
Sent: September 19, 2016 11:33 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: Fong, Pauline (TBS)
Subject: Re: Do we have a summary?

I don't these numbers. Otpp was $13,2 at start of 2016. What is 10.6?

From: Petsche, Nadine (TBS)

Sent: Monday, September 19, 2016 11:03 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: Fong, Pauline (TBS)

Subject: RE: Do we have a summary?

Hi Alex.

To clarify, what I'm looking for is the equivalent of the Province's share of $13.5 B vs. $10.6 B for each year. n

From: Killoch, Alex (MOF)
Sent: September 19, 2016 11:01 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: Fong, Pauline (TBS)
Subject: Re: Do we have a summary?

We would not have accounting surplus. We might have vals but edu might be too

From: Petsche, Nadine (TBS)

Sent: Monday, September 19, 2016 10:52 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: Fong, Pauline (TBS)

Subject: Do we have a summary?

Alex/Rob,

Wondering if we might have a summary for the period 2001-2015 that summarizes for OTPP and OPSEU, respectively:

Net surplus/deficit reported by the OTPP for funding purposes vs. Net asset/deficit position reported for accounting purposes

If not, can we ask that one be compiled?

Thanks.

N

From: Myers, Leah (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Draft FSD&A
Date: Tuesday, September 27, 2016 10:29:44

Ok, thanks Nadine.

From: Petsche, Nadine (TBS)
Sent: September-27-16 10:05 AM
To: Killoch, Alex (MOF); Myers, Leah (MOF)
Cc: Veinot, Cindy (TBS)
Subject: Draft FSD&A

Alex/Leah,

Just letting you know that copies of the draft FSD&A are being delivered to you shortly. Two alternative versions have been prepared at this time:
1) Status Quo – reflecting consistent treatment with the Pension Assets for OTPP and OPSEUPP as used in the past

2) Legislated Accounting version which reflects the AG's view that the Pension Assets for OTPP and OPSEUPP are impaired under PSAB (write-off of $10.6B of assets, $1.5B increase in 2015-16 deficit).

Discussions with the AG continue. Many thanks to Alex and team for their ongoing support and patience as we work to finalize the numbers for this year's Public Accounts.

Regards,

Nadine

From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Draft FSD&A
Date: Tuesday, September 27, 2016 10:15:56

Yes please – with a copy to Leah.

From: Killoch, Alex (MOF)
Sent: September 27, 2016 10:14 AM
To: Talwar, Garima (MOF)
Subject: Fw: Draft FSD&A

We are reviewing now

Comments can go straight to Nadine I assume.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Tuesday, September 27, 2016 10:04 AM

To: Killoch, Alex (MOF); Myers, Leah (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Draft FSD&A

Alex/Leah,

Just letting you know that copies of the draft FSD&A are being delivered to you shortly. Two alternative versions have been prepared at this time:
1) Status Quo – reflecting consistent treatment with the Pension Assets for OTPP and OPSEUPP as used in the past

2) Legislated Accounting version which reflects the AG's view that the Pension Assets

for OTPP and OPSEUPP are impaired under PSAB (write-off of $10.6B of assets, $1.5B increase in 2015-16 deficit).

Discussions with the AG continue. Many thanks to Alex and team for their ongoing support and patience as we work to finalize the numbers for this year's Public Accounts.

Regards,

Nadine

From: Tsang, Ingrid (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Expert Panel - Relevance of Document for the Panel
Date: Thursday, November 17, 2016 12:28:26

Hi Alex / Rob,

Suggested response:

The material is still relevant as it provides information on the genesis of CIP and other related information and some history of it. However, we would suggest the package to include a MOU to file the 2013 funding valuation, dated early 2012. That 2012 MOU summarized the decision to further amend the Conditional Inflation Protection provision, from 50% to 0% guarantee with government matching for the portion between 50% to 100%. The MOU dated September 18, 2008 only dealt with the CIP to 50%.

From: Pomykacz, Rob (MOF)
Sent: November 17, 2016 9:40 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: RE: Expert Panel - Relevance of Document for the Panel

I think it is relevant as it provides information on the genesis of CIP, the share the pain provision, the discount rate review process (i.e., the Hearing Officer), and the Partners Consultative Committee. A lot of the items were subsequently included in the Plan's governing documents, so I think it's a good document to include.

Ingrid, do you agree?

From: Killoch, Alex (MOF)
Sent: November 17, 2016 9:25 AM
To: Pomykacz, Rob (MOF)

Subject: FW: Expert Panel - Relevance of Document for the Panel

From: Tam, Nelson (TBS)
Sent: Thursday, November 17, 2016 8:33 AM
To: Killoch, Alex (MOF)
Subject: Expert Panel - Relevance of Document for the Panel

Good morning Alex

Cindy and I were reviewing the contents of the binder for the panel. Currently, we included the attached document and wanted your advice whether the document is still relevant for the panel's work. Specifically the first six pages. We will be removing the last six pages (letters).

Please respond this morning as I am trying to finalize the binder materials.

Your advice is greatly appreciated.

Thanks

Nelson

X20514

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Expert Panel - Relevance of Document for the Panel
Date: Thursday, November 17, 2016 10:39:48

I think it is relevant as it provides information on the genesis of CIP, the share the pain provision, the discount rate review process (i.e., the Hearing Officer), and the Partners Consultative Committee. A lot of the items were subsequently included in the Plan's governing documents, so I think it's a good document to include.

Ingrid, do you agree?

From: Killoch, Alex (MOF)
Sent: November 17, 2016 9:25 AM
To: Pomykacz, Rob (MOF)
Subject: FW: Expert Panel - Relevance of Document for the Panel

From: Tam, Nelson (TBS)
Sent: Thursday, November 17, 2016 8:33 AM
To: Killoch, Alex (MOF)
Subject: Expert Panel - Relevance of Document for the Panel

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Please respond this morning as I am trying to finalize the binder materials.

Your advice is greatly appreciated.

Thanks

Nelson

X20514

From: Killoch, Alex (MOF) []
To: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Expert Panel - Relevance of Document for the Panel
Date: Thursday, November 17, 2016 12:58:57

Hi Nelson

The material is still relevant as it provides information on the genesis of Conditional Inflation Protection (CIP) and other related information and some history of it.

However, we would suggest including in the package the MOU to file the 2013 funding valuation, dated early in 2012. That MOU summarized the decision to further amend the CIP provision, from 50% to 0% guarantee with government matching for the portion between 50% to 100%. The MOU dated September 18, 2008 only dealt with the CIP to 50%.

Alex

From: Tam, Nelson (TBS)
Sent: Thursday, November 17, 2016 8:33 AM
To: Killoch, Alex (MOF)
Subject: Expert Panel - Relevance of Document for the Panel

Good morning Alex

Cindy and I were reviewing the contents of the binder for the panel. Currently, we included the attached document and wanted your advice whether the document is still

relevant for the panel's work. Specifically the first six pages. We will be removing the last six pages (letters).

Please respond this morning as I am trying to finalize the binder materials.

Your advice is greatly appreciated.

Thanks

Nelson

X20514

From: Killoch, Alex (MOF) []
To: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: RE: Expert Panel - Slides
Date: Thursday, November 17, 2016 11:48:33

Can I get an invite to the meeting please.

We are not providing slides, but I believe EDU will be

From: Tam, Nelson (TBS)
Sent: Thursday, November 17, 2016 10:47 AM
To: Duffy, Paul (EDU); Killoch, Alex (MOF)
Subject: Expert Panel - Slides

Paul, Alex

Will you be providing any slides for the 1:15 scheduled with the panel?

I received some slides from legal.

Please advise. If yes, can you please send by 3PM so I can incorporate into the panel binder.

Thanks

Nelson

X20514

From: Duffy, Paul (EDU) []
To: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Expert Panel - Slides
Date: Thursday, November 17, 2016 11:49:49

We will be walking the panel through a presentation, and hope to share before end of day today, but we are still working on the deck.

From: Tam, Nelson (TBS)
Sent: November 17, 2016 10:47 AM
To: Duffy, Paul (EDU); Killoch, Alex (MOF)
Subject: Expert Panel - Slides

Paul, Alex

Will you be providing any slides for the 1:15 scheduled with the panel?

I received some slides from legal.

Please advise. If yes, can you please send by 3PM so I can incorporate into the panel binder.

Thanks

Nelson

X20514

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Extracts from Pension Asset Position Paper
Date: Tuesday, November 15, 2016 10:52:14

Hi Josh

I have an invite to a meeting today to review your presentation to the Expert Panel on the OTPP.

Do you have anything you can share in advance?

From: Paul, Joshua (EDU)
Sent: Monday, November 14, 2016 11:32 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

See below for comments from Paul and his team.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Duffy, Paul (EDU) <Paul.Duffy@ontario.ca>

Sent: Monday, November 14, 2016 9:09 PM

To: Paul, Joshua (EDU)

Subject: FW: Extracts from Pension Asset Position Paper

Only one small comment on page 4 where they outline the special contributions, wondering if it would be helpful to add the avg special contribution made by government since 2011 – roughly $1.5B per year. We'll add in the morning and share again. Other than that, no comments. Rob was pretty thorough.

From: Duffy, Paul (EDU)
Sent: November 14, 2016 1:44 PM
To: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: FW: Extracts from Pension Asset Position Paper

Steve and Nicole, I'd like you to both review the attached (and the extract). Ideally for end of day.

Paul

From: Paul, Joshua (EDU)
Sent: November 14, 2016 1:40 PM
To: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

Comments?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Monday, November 14, 2016 1:38 PM

To: Petsche, Nadine (TBS)

Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)

Subject: RE: Extracts from Pension Asset Position Paper

Hi Josh

Attached are our comments on the extracts

Alex

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 1:23 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)
Subject: RE: Extracts from Pension Asset Position Paper

Hi Alex. Thanks for getting back to me. I had not shared the email with EDU, so I am copying Josh on this response. I'll look forward to hearing back from both of you on any comments/edits (if possible by end of day today, that would be much appreciated).

Thanks.

Nadine

From: Killoch, Alex (MOF)
Sent: November 14, 2016 9:35 AM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Re: Extracts from Pension Asset Position Paper

Hi Nadine

Has this gone to EDU? They should see it as they are the signatory to the FMP.

We will look at it asap

From: Petsche, Nadine (TBS)

Sent: Sunday, November 13, 2016 5:18 AM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: Extracts from Pension Asset Position Paper

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

There are a couple of items that we need your help with. Rather than forwarding you the entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a

particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province’s contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners’ Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners’ Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing

documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government’s share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be

noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed “minimum contribution” in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.

$41.2

The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB[KJ(4] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

---

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the

government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1)]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2)]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[KJ(3)]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

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Subject: RE: Extracts from Pension Asset Position Paper
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As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

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- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3)] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

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Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

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There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

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The ITA surplus limit is reached at the end of 2025, leading to forced contribution

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5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1)]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

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The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1)]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2)]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[KJ(3)]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4)]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5)]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Extracts from Pension Asset Position Paper
Date: Monday, November 14, 2016 14:38:32
Attachment 1: BPS Comments Final.docx

Hi Josh

Attached are our comments on the extracts

Alex

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 1:23 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)
Subject: RE: Extracts from Pension Asset Position Paper

Hi Alex. Thanks for getting back to me. I had not shared the email with EDU, so I am copying Josh on this response. I'll look forward to hearing back from both of you on any comments/edits (if possible by end of day today, that would be much appreciated).

Thanks.

Nadine

From: Killoch, Alex (MOF)
Sent: November 14, 2016 9:35 AM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Re: Extracts from Pension Asset Position Paper

Hi Nadine

Has this gone to EDU? They should see it as they are the signatory to the FMP.

We will look at it asap

From: Petsche, Nadine (TBS)

Sent: Sunday, November 13, 2016 5:18 AM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: Extracts from Pension Asset Position Paper

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

There are a couple of items that we need your help with. Rather than forwarding you the entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province’s contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners’ Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners’ Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government’s share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution

level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed “minimum contribution” in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3)] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is

required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.

$41.2

The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB[KJ(4] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution

reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and

match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

---

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan

members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1)]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2)]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[KJ(3)]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4)]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5)]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) ~~to~~from exceeding the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.
2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the

[1] TPA, subsection 5(1.1)

Commented [p1]: This seems to suggest that a surplus must be eliminated through negotiation, which is not correct. The Partners could decide to do nothing with the surplus and park it in the contingency reserve.

Commented [KJ(2]: Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)) ISPPD has provided benefit provisions for other BPS plans. No further analysis is possible.

time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of "good faith" negotiations between the Province and the OTF.

   This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, ~~a decrease in benefits by the employees~~reduced indexation for current retirees w~~ere~~as ~~offset~~ matched by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this ~~increase in benefits~~ restoration of indexation resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their

Commented [KJ(3]: Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

Commented [t4]: It is not material. To date, no credit has been accrued for OTF as there have been no benefit reductions to date during the freeze period. The freeze will end on December 30, 2017. As the plan has filed the 2016 actuarial valuation report, the next required filing will be in 2019 which is outside of the freeze period. It is unlikely any credit will be accrued before the expiration of the freeze period.

Commented [p5]: Mediation precedes arbitration.

Commented [p6]: For only the first 50% of indexation reduction.

Commented [p7]: A reduction in indexation is not a reduction in benefits, and likewise, an increase in indexation is not a benefit improvement.

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.
[3] FMP, section 6.03

substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

Commented [t8]: There is no minimum contributions stipulated in the plan text or legislation or partners' agreement.

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to partially restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Commented [KJ(9]: Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

Commented [p10]: Special payments scheduled to end December 2026.

Commented [t11]: Every valuation will review the funded status and if there is a new deficit, a new special contribution may be established to liquidate the new deficit. If the plan is well funded, the existing special contributions may end sooner than 2026.

Table 1: Summary of Asset Ceiling Models performed for OTPP

Commented [t12]: We are unsure about the accuracy of the table.

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB is reduced for 2 years by $1.7B at March 31, 2016.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.	$12.9	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

Commented [KJ(13]: I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

Commented [KJ(14]: Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting) date is 2026, unless conditions warrant an earlier change.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plan~~s~~ to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Commented [p15]: We suggest reversing the 3rd and 4th columns, as it is easier to read when it was the government that initiated changes.

Commented [p16]: The OTPP became a JSPP in 1992, not 1990.

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	$(7.8 billion) unfunded liability	~~Increased~~ ~~c~~Contributions by teachers increased ~~by 1%~~ percentage point (from 7.9% to 8.9%) effective January 1, 1990 per legislation.	Legislated an increase in matching contributions (from 7.9% to 8.9%) effective January 1, 1990 and responsibility to ~~Aagreed to~~ finance the initial unfunded liability through ~~make~~ a series of special payments ~~to eliminate the unfunded liability and match increased contributions~~	Special payments considered an asset bringing the plan to a $0 surplus

1993	$1.5 billion	$325 million to offset social contract days	Eliminated special payments for $1.2 billion saving	$0
1996	$0.7 billion	$0.6 billion for benefit improvements and RCA contributions	N/A	$0.1 billion
1998	$6.8 billion	$2.2 billion for benefit improvements	$4.6 billion to reduce the value of remaining special payments	$0
1999	$3.5 billion	N/A	$3.5 billion to reduce the value of remaining special payments	$0
2001	$6.8 billion	$6.2 billion for benefit improvements	N/A	$0.6 billion
2002	$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		$1.9 billion
Total		$9.3 Billion	$9.3 Billion	

Commented [NP17]: Check if anything more recent? The TPP has been in a deficit position since 2005 until recently. All uses of "surplus" in recent years have been used to restore indexation.

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Extracts from Pension Asset Position Paper
Date: Monday, November 14, 2016 14:22:52

Hi Alex. Thanks for getting back to me. I had not shared the email with EDU, so I am copying Josh on this response. I'll look forward to hearing back from both of you on any comments/edits (if possible by end of day today, that would be much appreciated).

Thanks.

Nadine

From: Killoch, Alex (MOF)
Sent: November 14, 2016 9:35 AM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Re: Extracts from Pension Asset Position Paper

Hi Nadine

Has this gone to EDU? They should see it as they are the signatory to the FMP.

We will look at it asap

From: Petsche, Nadine (TBS)

Sent: Sunday, November 13, 2016 5:18 AM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: Extracts from Pension Asset Position Paper

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

There are a couple of items that we need your help with. Rather than forwarding you the entire 70 page document, I have just extracted the relevant sections for your review, comment and edit below. A couple of the points refer to your current dialogue with Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners'

agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future

contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As

this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3)] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with

respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

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$41.2

The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB[KJ(4)] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5)] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

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[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[KJ(3]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5)]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: RE: Extracts from Pension Asset Position Paper
Date: Tuesday, November 15, 2016 11:04:08

From their extract they seem to think that we have to spend surplus and that is not clear to me, the partners can keep a reserve and choose not to spend it. And there is a history of conservatism that suggests caution.

I have asked Ingrid if there can be a "surplus" when we are still making special payments of 1.1%. I am not sure that what we are spending now to restore inflation etc, is surplus, in the way it is portrayed in the extract.

I think the collaborative nature of the relationship is helpful focus. Until recently, contributions were not important (ie not a large fiscal impact) so it is not clear that we would have spent much time reducing them below the current service level.

From: Paul, Joshua (EDU)
Sent: Tuesday, November 15, 2016 9:58 AM
To: Killoch, Alex (MOF)
Cc: Duffy, Paul (EDU)
Subject: Re: Extracts from Pension Asset Position Paper

I believe Paul is attending w Ross as i'm acting for Gabe this week/month.

Is there something you wanted us to focus on?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Tuesday, November 15, 2016 9:52 AM

To: Paul, Joshua (EDU)

Subject: RE: Extracts from Pension Asset Position Paper

Hi Josh

I have an invite to a meeting today to review your presentation to the Expert Panel on the OTPP.

Do you have anything you can share in advance?

From: Paul, Joshua (EDU)
Sent: Monday, November 14, 2016 11:32 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

See below for comments from Paul and his team.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Duffy, Paul (EDU) <Paul.Duffy@ontario.ca>

Sent: Monday, November 14, 2016 9:09 PM

To: Paul, Joshua (EDU)

Subject: FW: Extracts from Pension Asset Position Paper

Only one small comment on page 4 where they outline the special contributions, wondering if it would be helpful to add the avg special contribution made by government since 2011 – roughly $1.5B per year. We'll add in the morning and share again. Other than that, no comments. Rob was pretty thorough.

From: Duffy, Paul (EDU)
Sent: November 14, 2016 1:44 PM
To: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: FW: Extracts from Pension Asset Position Paper

Steve and Nicole, I'd like you to both review the attached (and the extract). Ideally for end of day.

Paul

From: Paul, Joshua (EDU)
Sent: November 14, 2016 1:40 PM
To: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

Comments?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Monday, November 14, 2016 1:38 PM

To: Petsche, Nadine (TBS)

Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)

Subject: RE: Extracts from Pension Asset Position Paper

Hi Josh

Attached are our comments on the extracts

Alex

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 1:23 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)
Subject: RE: Extracts from Pension Asset Position Paper

Hi Alex. Thanks for getting back to me. I had not shared the email with EDU, so I am copying Josh on this response. I'll look forward to hearing back from both of you on any comments/edits (if possible by end of day today, that would be much appreciated).

Thanks.

Nadine

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Cc: Pomykacz, Rob (MOF)
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Cc: Pomykacz, Rob (MOF)

Subject: Extracts from Pension Asset Position Paper

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Martin Raymond. For purposes of the Panel, we need to make sure that the facts are appropriately presented. I`m hoping you will be able to provide any edits or feedback by noon on Monday so we can reflect it in a revised draft for Cindy tomorrow. Thanks in advance.

Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province)

and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province’s contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners’ Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners’ Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally

procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the Sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government’s share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view

(highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation unde`r the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed “minimum contribution” in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.

- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3)] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change, $1.98B for the 2015 change, and $1.68B for the 2014 change).

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions

Expected Future Benefit or Asset Ceiling

($ Billions)

Results

1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.

$44.6

There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.

$41.2

The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB[KJ(4] is reduced for 2 years by $1.7B at March 31, 2016.

3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(5] not just for the period of the current funding report.

$29.3

Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.

4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.

$23.2

The ITA surplus limit is reached at the end of 2025, leading to forced contribution

reductions from 2026. EFB is reduced by $21.4B at March 31, 2016

5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.

$12.9

The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1990

$(7.8 billion) unfunded liability

Increased contributions by 1% to 8.9%

Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions

Special payments considered an asset bringing the plan to a $0 surplus

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002[NP6]

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

[1] TPA, subsection 5(1.1)

[2] The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

[3] FMP, section 6.03

[KJ(1)]Nadine - We have asked Alex Killoch to provide an analysis of the relative strength of the benefits provided under this plan – we should add this in once received (or provide separately if not received in the next few days)

[KJ(2)]Nadine - At one point, I had heard from the lawyers (Len/Paul) that this Call Right was not material – we need to better understand the quantitative impact – Nadine – can you follow up with Len and perhaps Alex as well.

[KJ(3)]Nadine – can you confirm this understanding is correct based on what Alex said in the meeting today re: contributions reducing to 12% in 2020…

[KJ(4)]I don't think its EFB as EFB is the net – I think we should use the term "present value of the expected future accruals for service for the current number of active employees"

[KJ(5)]Nadine - See previous comment re: ensuring this is correct based on comments made by Alex Killoch (Nadine was at the meeting)

[NP6]Check if anything more recent?

From: Manji, Shemin (MOF) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Duffy, Stephen (TBS) [Stephen.Duffy@ontario.ca]
Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Monday, September 26, 2016 16:44:29

Hi Paul,

The highlighted provision does not raise any concerns. However, I should note that I don't fully understand what the highlighted provision is saying (for e.g. I don't quite understand what a "valuation allowance" is).

Shemin

From: Kaufman, Paul (TBS)
Sent: Monday, September 26, 2016 4:35 PM
To: Manji, Shemin (MOF)
Cc: Hatzis, Len (TBS); Killoch, Alex (MOF); Provis, Ian (TBS); Duffy, Stephen (TBS)
Subject: RE: FAA Reg re: 15/16 accounting practices

Hi Shemin,

It looks like this regulation may have life again. We've played with the wording in 3(1)1 since you last saw it, but I think the highlighted wording below is consistent with your prior advice re: not referencing the province making contributions to the plans. Please let us know though if you have any concerns.

****

Accounting policies and practices for the 2015-2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared in accordance with the following rules:

1. The carrying value of an asset relating to a jointly sponsored pension plan in respect of which the Province would have otherwise recorded a positive amount before any valuation allowance is deemed to be zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

(2) For greater certainty, any change to the comparative financial results required by subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for the fiscal year ending March 31, 2015.

(3) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the Pension Benefits Act.

Commencement

2. This Regulation comes into force on the day it is filed.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

This email contains privileged and confidential information intended only for the personal and confidential use of the recipient(s) named above. If the reader of this email is not an intended recipient, you have received this email in error and any review, dissemination, distribution or copying is strictly prohibited. If you have received this email in error, please notify the sender immediately by return email and permanently delete the copy you received. Thank you.

From: Manji, Shemin (MOF)
Sent: September-18-16 9:18 AM
To: Kaufman, Paul (TBS)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: Re: FAA Reg re: 15/16 accounting practices

Paul,

I would recommend not saying anything about the Province contributing on behalf of the employer.

Shemin

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Kaufman, Paul (TBS)

Sent: Sunday, September 18, 2016 8:16 AM

To: Manji, Shemin (MOF)

Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)

Subject: RE: FAA Reg re: 15/16 accounting practices

Shemin, thanks a lot for this. in light of your last sentence, do you think it would work to say "under which the province is a participating employer or to which the province contributes on behalf of an employer"?

if you think there is a problem with that construction, i'll just go with your other suggestion of removing references to the province as a participating employer altogether, assuming OPCD can confirm that we aren't recognizing an asset in connection with any other JSPP.

From: Manji, Shemin (MOF)
Sent: Sunday, September 18, 2016 7:38 AM
To: Kaufman, Paul (TBS)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: Re: FAA Reg re: 15/16 accounting practices

Paul,

Under the ITA the Province cannot make contributions unless it is a participating employer, which is defined in the PBA in relation to a jointly sponsored pension plan as "as a employer required to make contributions to the pension fund". If Province makes contributions otherwise (not as an employer) it would not be authorized under the ITA and my concern is that it would put the registration of such plans at risk.

I suggest leaving the words "or to which the Province makes contributions" out or alternatively leave out the words "under which the Province is a participating employer". If the Province is not contributing as employer it must be contributing on behalf of an employer.

Shemin

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Kaufman, Paul (TBS)

Sent: Saturday, September 17, 2016 11:36 AM

To: Manji, Shemin (MOF)

Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS)

Subject: FAA Reg re: 15/16 accounting practices

Hi Shemin - we are still working on an FAA reg re: accounting practices for 15/16 as one possible way of resolving the public accounts issues we are dealing with. in the course of drafting it occurred to me that for the OTPP the Province does not contribute to the plan as an employer, so I've added some wording to the draft reg to account for this - could you have a look at the highlighted text below and let me know if you think it is problematic (I'm thinking "in respect of" might be better than "to" in that wording)? also you'll note that we're avoiding the use of the word "surplus" so the concern about how that term is used under the PBA vs by the accountants is hopefully moot. if you are able to have a quick look today i'd appreciate it but if not we'll incorporate any feedback you have in a subsequent draft.

Thanks.

Paul

Change in accounting policies and practices for the 2015/2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared on a basis that:

(a) in respect of any jointly sponsored pension plan under which the Province is

a participating employer or to which the Province makes contributions, deems a carrying value of zero in instances where the Province would have otherwise recorded an asset before any valuation allowance; and

(b) reflects the change required under clause (a) in all related liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

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“jointly sponsored pension plan” has the same meaning as in the Pension Benefits Act. (“French”);

From: Kaufman, Paul (TBS) []
To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Duffy, Stephen (TBS) [Stephen.Duffy@ontario.ca]
Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Monday, September 26, 2016 16:35:26

Hi Shemin,

It looks like this regulation may have life again. We've played with the wording in 3(1)1 since you last saw it, but I think the highlighted wording below is consistent with your prior advice re: not referencing the province making contributions to the plans. Please let us know though if you have any concerns.

****

Accounting policies and practices for the 2015-2016 fiscal year

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Paul Kaufman

Counsel

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Sent: September-18-16 9:18 AM
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Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: Re: FAA Reg re: 15/16 accounting practices

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From: Kaufman, Paul (TBS)

Sent: Sunday, September 18, 2016 8:16 AM

To: Manji, Shemin (MOF)

Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)

Subject: RE: FAA Reg re: 15/16 accounting practices

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From: Manji, Shemin (MOF)
Sent: Sunday, September 18, 2016 7:38 AM
To: Kaufman, Paul (TBS)

Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: Re: FAA Reg re: 15/16 accounting practices

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Shemin

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Kaufman, Paul (TBS)

Sent: Saturday, September 17, 2016 11:36 AM

To: Manji, Shemin (MOF)

Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS)

Subject: FAA Reg re: 15/16 accounting practices

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Paul

Change in accounting policies and practices for the 2015/2016 fiscal year

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(a) in respect of any jointly sponsored pension plan under which the Province is a participating employer or to which the Province makes contributions, deems a carrying value of zero in instances where the Province would have otherwise recorded an asset before any valuation allowance; and

(b) reflects the change required under clause (a) in all related liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

(2) For greater certainty, any change to the comparative financial results for the fiscal year ending March 31, 2015 required under subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for that fiscal year.

(3) In this section,

“jointly sponsored pension plan” has the same meaning as in the Pension Benefits Act.

(“French”);

From: Kaufman, Paul (TBS) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]
CC: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Duffy, Stephen (TBS) [Stephen.Duffy@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Hanslep, Malle (MOF) [Malle.Hanslep@ontario.ca]
Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Sunday, September 18, 2016 11:46:30

Hi Ian

We have a revised draft of the FAA reg, the text of it is set out below. Can you please have a look and let me know if you have any concerns. Also, there are two issues we'd like your confirmation on:

1. Legislative counsel asked that we confirm that all of the accounting terminology used in the regulation (e.g. "carrying value" "valuation allowance" "deemed to be zero") is being used in the normal way that accountants would use it - if any of these terms are being used in a way that means something that isn't normal in the accounting world we should consider defining those terms.

2. I've proposed some changes to the text that you saw yesterday in red below. the replacement of "is" with "shall be" is just a grammatical issue. the substantive change is the deletion of references to contributions and being a participating employer - the rationale for this change is that these references may not accurately reflect our status in connection with OTPP under the PBA and could raise issues under the *Income Tax Act*. is it okay to just refer to JSPPs generally? I'm thinking this would only be problematic if we were recognizing an asset in connection with a JSPP other than OTPP or OPSEUPP, but appreciate your confirmation/correction.

Happy to talk if its easier.

****

Accounting policies and practices for the 2015-2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared in accordance with the following rules:

1. The carrying value in respect of any jointly sponsored pension plan ~~under which the Province is a participating employer or to which the Province makes contributions on behalf of an employer is~~ shall be deemed to be zero in instances where the Province would have otherwise recorded an asset before any valuation allowance.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

(2) For greater certainty, any change to the comparative financial results required by subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for the fiscal year ending March 31, 2015.

(3) In subsection (1),

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Commencement

2. This Regulation comes into force on the day it is filed.

From: Kaufman, Paul (TBS)
Sent: Saturday, September 17, 2016 1:05 PM
To: Provis, Ian (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: RE: FAA Reg re: 15/16 accounting practices

Thanks, Ian. "or to which the Province makes contributions" came from me - concern is that I didn't think we were technically a "participating employer" in respect of the OTPP so needed something further but (a) I've reached out to MOF legal to get help/confirmation on that wording (Shemin Manji, if that matters for you, Alex) and (b) Alex, do let us know if this might be overbroad or if my understanding is just plain wrong. I have legislative counsel lined up to do a draft of the regulation overnight so any further feedback this afternoon can be reflected in the next draft.

From: Provis, Ian (TBS)
Sent: Saturday, September 17, 2016 12:54 PM
To: Kaufman, Paul (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: Re: FAA Reg re: 15/16 accounting practices

Looks really good. I wonder where or to which the Province makes contributions came from. I will check with Alex on what this might capture.

At first I was a little concerned about the talk on 14-15. But reading it carefully it seems ok using change 14-15 and with the clarification of not restating the original.

With nadines suggestion on asset we might as well include revenue as well to be fully inclusive

Thanks Ian

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Kaufman, Paul (TBS)
Sent: Saturday, September 17, 2016 11:22
To: Provis, Ian (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: FAA Reg re: 15/16 accounting practices

Hi Ian - we're trying to keep moving the reg forward - sorry for bothering you over the weekend but your views on this today would be appreciated. A revised version of the reg text is attached (and set out below in case you are on black berry) - this reflects your most recent input and some thoughts Nick had as well. Leg counsel might fiddle with some wording and we are going to seek input from MOF legal on the pension terminology, but can you let me know if this accurately reflects the accounting treatment, as that is obviously the key issue?

Change in accounting policies and practices for the 2015/2016 fiscal year

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(a) in respect of any jointly sponsored pension plan under which the Province is a participating employer or to which the Province makes contributions, deems a carrying value of zero in instances where the Province would have otherwise recorded an asset before any valuation allowance; and

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that fiscal year.

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“jointly sponsored pension plan” has the same meaning as in the Pension Benefits Act. (“French”);

Commencement

2. This Regulation comes into force on the day it is filed.

From: Kaufman, Paul (TBS) []
To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Hanslep, Malle (MOF) [Malle.Hanslep@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Sunday, September 18, 2016 08:16:18

Shemin, thanks a lot for this. in light of your last sentence, do you think it would work to say "under which the province is a participating employer or to which the province contributes on behalf of an employer"?

if you think there is a problem with that construction, i'll just go with your other suggestion of removing references to the province as a participating employer altogether, assuming OPCD can confirm that we aren't recognizing an asset in connection with any other JSPP.

From: Manji, Shemin (MOF)
Sent: Sunday, September 18, 2016 7:38 AM
To: Kaufman, Paul (TBS)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: Re: FAA Reg re: 15/16 accounting practices

Paul,

Under the ITA the Province cannot make contributions unless it is a participating employer, which is defined in the PBA in relation to a jointly sponsored pension plan as "as a employer required to make contributions to the pension fund". If Province makes contributions otherwise (not as an employer) it would not be authorized under the ITA and my concern is that it would put the registration of such plans at risk.

I suggest leaving the words "or to which the Province makes contributions" out or alternatively leave out the words "under which the Province is a participating employer". If the Province is not contributing as employer it must be contributing on behalf of an employer.

Shemin

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Kaufman, Paul (TBS)
Sent: Saturday, September 17, 2016 11:36 AM
To: Manji, Shemin (MOF)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS)

Subject: FAA Reg re: 15/16 accounting practices

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Thanks.

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Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Sunday, September 18, 2016 08:16:18

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Change in accounting policies and practices for the 2015/2016 fiscal year

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From: Killoch, Alex (MOF) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Saturday, September 17, 2016 13:14:55

There are not many JSPPs in total and we only make contributions to OPTT and OPSEU.

HOOPP and CAAT are funded by employers (hospitals and colleges) and their members, so I think this works.

I am not sure what the definition of "participating employer" captures, but Shemin will know that

---

From: Kaufman, Paul (TBS)
Sent: September 17, 2016 1:05 PM
To: Provis, Ian (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: RE: FAA Reg re: 15/16 accounting practices

Thanks, Ian. "or to which the Province makes contributions" came from me - concern is that I didn't think we were technically a "participating employer" in respect of the OTPP so needed something further but (a) I've reached out to MOF legal to get help/confirmation on that wording (Shemin Manji, if that matters for you, Alex) and (b) Alex, do let us know if this might be overbroad or if my understanding is just plain wrong. I have legislative counsel lined up to do a draft of the regulation overnight so any further feedback this afternoon can be reflected in the next draft.

From: Provis, Ian (TBS)
Sent: Saturday, September 17, 2016 12:54 PM
To: Kaufman, Paul (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: Re: FAA Reg re: 15/16 accounting practices

Looks really good. I wonder where or to which the Province makes contributions came from. I will check with Alex on what this might capture.

At first I was a little concerned about the talk on 14-15. But reading it carefully it seems ok using change 14-15 and with the clarification of not restating the original.

With nadines suggestion on asset we might as well include revenue as well to be fully inclusive

Thanks Ian

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Kaufman, Paul (TBS)
Sent: Saturday, September 17, 2016 11:22
To: Provis, Ian (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: FAA Reg re: 15/16 accounting practices

Hi Ian - we're trying to keep moving the reg forward - sorry for bothering you over the weekend but your views on this today would be appreciated. A revised version of the reg text is attached (and set out below in case you are on black berry) - this reflects your most recent input and some thoughts Nick had as well. Leg counsel might fiddle with some wording and we are going to seek input from MOF legal on the pension terminology, but can you let me know if this accurately reflects the accounting treatment, as that is obviously the key issue?

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Commencement

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From: Kaufman, Paul (TBS) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Saturday, September 17, 2016 13:05:33

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To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Duffy, Stephen (TBS) [Stephen.Duffy@ontario.ca]
Subject: RE: FAA Reg re: 15/16 accounting practices
Date: Monday, September 26, 2016 16:51:03

Thanks, Shemin, and fair enough re: the accounting terminology. We are confirming that with OPCD.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

This email contains privileged and confidential information intended only for the personal and confidential use of the recipient(s) named above. If the reader of this email is not an intended recipient, you have received this email in error and any review, dissemination, distribution or copying is strictly prohibited. If you have received this email in error, please notify the sender immediately by return email and permanently delete the copy you received. Thank you.

From: Manji, Shemin (MOF)
Sent: September-26-16 4:44 PM
To: Kaufman, Paul (TBS)
Cc: Hatzis, Len (TBS); Killoch, Alex (MOF); Provis, Ian (TBS); Duffy, Stephen (TBS)
Subject: RE: FAA Reg re: 15/16 accounting practices

Hi Paul,

The highlighted provision does not raise any concerns. However, I should note that I don't fully understand what the highlighted provision is saying (for e.g. I don't quite

understand what a “valuation allowance” is).

Shemin

From: Kaufman, Paul (TBS)
Sent: Monday, September 26, 2016 4:35 PM
To: Manji, Shemin (MOF)
Cc: Hatzis, Len (TBS); Killoch, Alex (MOF); Provis, Ian (TBS); Duffy, Stephen (TBS)
Subject: RE: FAA Reg re: 15/16 accounting practices

Hi Shemin,

It looks like this regulation may have life again. We’ve played with the wording in 3(1)1 since you last saw it, but I think the highlighted wording below is consistent with your prior advice re: not referencing the province making contributions to the plans. Please let us know though if you have any concerns.

****

Accounting policies and practices for the 2015-2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared in accordance with the following rules:

1. The carrying value of an asset relating to a jointly sponsored pension plan in respect of which the Province would have otherwise recorded a positive amount before any valuation allowance is deemed to be zero.

2. The rule in paragraph 1 shall be reflected in all related asset, revenue, liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

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Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

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email in error, please notify the sender immediately by return email and permanently delete the copy you received. Thank you.

From: Manji, Shemin (MOF)
Sent: September-18-16 9:18 AM
To: Kaufman, Paul (TBS)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: Re: FAA Reg re: 15/16 accounting practices

Paul,

I would recommend not saying anything about the Province contributing on behalf of the employer.

Shemin

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Kaufman, Paul (TBS)

Sent: Sunday, September 18, 2016 8:16 AM

To: Manji, Shemin (MOF)

Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)

Subject: RE: FAA Reg re: 15/16 accounting practices

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To: Orencsak, Greg (TBS) [som.1Greg.Orencsak@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Thompson, Scott (MOF) [SOM.9Scott.Thompson@ontario.ca]; Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; MacIntyre, Kyle (TBS) [Kyle.MacIntyre@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx
Date: Thursday, September 15, 2016 08:55:27

Good morning

I will leave the question of whether we could use the funding valuation to establish an accounting asset to OPCD to consider.

I will note that there is not a $13.2 billion surplus in the plan. That was a preliminary number only.

$13.2 billion preliminary funding valuation was as of January 1, 2016. The partners decided to use $8.6 billion of this amount to restore inflation protection.

The $8.6 billion cost of moving to 90% conditional inflation protection is made up primarily of two parts:

1. Approximately $4.3 billion increase in future payments to members, to provide inflation protection at 90% instead of 70%

2. Approximately $4.3 billion reduction in future “share the pain” payments by the Province to the Plan

That would leave $4.6 billion in the plan for contingencies. That would be split 50/50 with the OTF, so the value that could be attributed to government is $2.3 billion.

Hope that helps

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Orencsak, Greg (TBS)
Sent: Thursday, September 15, 2016 8:09 AM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF); Petsche, Nadine (TBS)
Cc: Thompson, Scott (MOF); Hughes, Karen (TBS); MacIntyre, Kyle (TBS)
Subject: Fwd: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

See below, for your advice and consideration. I think this may be as much of a pension policy as an accounting issue.

Greg

Begin forwarded message:

> **From:** "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>
> **Date:** September 15, 2016 at 8:05:57 AM EDT
> **To:** "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "Davidson, Steven (CAB)" <Steven.Davidson@ontario.ca>, "Betzner, Lynn (CAB)" <Lynn.Betzner@ontario.ca>
> **Cc:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>
> **Subject: RE: Fiscal Impact if Policy is to write off Pension Assets for joint**

plans.xlsx

Among the options to look at, can you see if there is a rationale could justify freezing any additional incremental pension assets under the regulation pending a full review? It is one thing to prevent the reporting of new assets compared to reversing what has been accumulated. Also, what if we were to match the reported surplus TPP is filing with FSCO. It could maintain at least a $13B surplus.

From: Orencsak, Greg (TBS)
Sent: September-14-16 7:47 PM
To: Orsini, Steve (CAB); Thompson, Scott (MOF); Davidson, Steven (CAB); Betzner, Lynn (CAB)
Cc: MacIntyre, Kyle (TBS); Bromm, William (CAB)
Subject: FW: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Steve, here is a table that shows the estimate of the annual impact of not having pension assets on our books from any of the JSPPs. This is based on the pension expense numbers from the 2016 Budget. We are having this checked with our actuaries as well to confirm.

Accepting the AG's interpretation could add over $3.2B to the deficit in 17-18, and $3.9B in 19-20.

On another note, Scott and I are meeting with the AG again tomorrow to put all the issues, other than pensions, to bed with regard to the Public Accounts audit. If that's done, we will just be fighting a battle on one front. A big one.

Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

Title: TBS logo

The contents of this email may be confidential and/or commercially sensitive. If received in error or you are not the intended recipient, please notify sender and delete any copies immediately.

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: Wednesday, September 14, 2016 at 5:52 PM
To: "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>
Cc: "Chen, Raymond (TBS)" <Raymond.Chen@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Coulter, Travis (TBS)" <Travis.Coulter@ontario.ca>
Subject: Fw: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Fong, Pauline (TBS) <Pauline.Fong@ontario.ca>

Sent: Wednesday, September 14, 2016 17:40

To: Veinot, Cindy (TBS)

Cc: Patel, Bharat (TBS)

Subject: Fiscal Impact if Policy is to write off Pension Assets for joint plans.xlsx

Revised for minor wording edits. I will print the copies.

Pauline

From: Killoch, Alex (MOF) []
To: Keates, James (TBS) [James.Keates@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Funding Valuation Discount Rates
Date: Monday, November 14, 2016 11:54:18
Attachment 1: image001.jpg

Hi James

We don't track these plans and don't have discount rate information available. Are they available publicly somewhere?

From: Keates, James (TBS)
Sent: Monday, November 14, 2016 10:40 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)
Subject: Funding Valuation Discount Rates

Alex, could you help us with completing the below table. We would like to compare the most recent discount rates used by certain pension plans across the country, comparing the discount rate for financial statement purposes with the discount rate used for funding valuation purposes. Would you be able to provide the most recent discount rates used for funding valuation purposes for the following pension plans?

Thanks,

Jim

Pension Plan

Discount rate for Funding Purposes

Discount rate for financial statement purposes

Ontario

Ontario Teachers’ Pension Plan

4.85%

3.25%

Alberta

Teachers’ Post-1992 Pension Plan

7.00%

Saskatchewan

Saskatchewan Healthcare Employees' Pension Plan

6.50%

British Columbia

Teachers’ Pension Plan

6.50%

Quebec

Commission administrative des regimes de retraite et d'assurances

6.40%

Nfld

Memorial University of Newfoundland Pension Plan

5.80%

Nova Scotia

Nova Scotia Teachers' Pension Plan

6.25%

Manitoba

Teachers Pension Plan

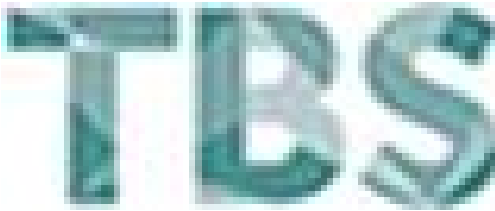
6.00%

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721


TBS

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Funding Valuation Discount Rates
Date: Monday, November 14, 2016 12:06:51
Attachment 1: image001.jpg

In Ontario, the regulator would have the funding valuations, but funding valuations are not public. I don't know the practice of other provinces.

It would be a matter of using google and hoping to find information from public sources. Financial statements are public, but I have no idea what funding valuations are available elsewhere.

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 11:02 AM
To: Killoch, Alex (MOF); Keates, James (TBS)
Cc: Tsang, Ingrid (MOF)
Subject: Re: Funding Valuation Discount Rates

Hi Alex.

We were hoping you might be able to help populate the table. Any ideas how to get the details? N

From: Killoch, Alex (MOF)

Sent: Monday, November 14, 2016 10:54 AM

To: Keates, James (TBS)

Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)

Subject: RE: Funding Valuation Discount Rates

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From: Keates, James (TBS)
Sent: Monday, November 14, 2016 10:40 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)
Subject: Funding Valuation Discount Rates

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Thanks,

Jim

Pension Plan

Discount rate for Funding Purposes

Discount rate for financial statement purposes

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3.25%

Alberta

Teachers’ Post-1992 Pension Plan

7.00%

Saskatchewan

Saskatchewan Healthcare Employees' Pension Plan

6.50%

British Columbia

Teachers’ Pension Plan

6.50%

Quebec

Commission administrative des regimes de retraite et d'assurances

6.40%

Nfld

Memorial University of Newfoundland Pension Plan

5.80%

Nova Scotia

Nova Scotia Teachers' Pension Plan

6.25%

Manitoba

Teachers Pension Plan

6.00%

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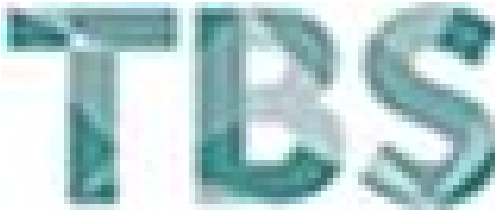
TBS

From: Smook, Nick (TBS) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Help to understand how to express what the auditor is making us do
Date: Thursday, September 15, 2016 09:45:06
Attachment 1: Help to understand how to express what the auditor is making us do

---

Hi Ian.

It would help our work if you could show us a blackline of the relevant provisions in the 2015-2016 Public Accounts that shows the changes that you intend to make.

For example, do you only intend to change the reported results for 2015-2016 but leave the reported results (for comparison purposes) for the budget and the actual results for the previous fiscal year unchanged?

Thanks

Nick

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This communication is solicitor/client privileged and contains confidential information intended only for the person(s) to whom it is addressed. Any unauthorized disclosure, copying, other distribution of this communication or taking any action on its contents is strictly prohibited. If you have received this message in error, please notify us immediately and delete this message without reading, copying or forwarding it to anyone.

From: Provis, Ian (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Smook, Nick (TBS) [Nick.Smook@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Help to understand how to express what the auditor is making us do
Date: Thursday, September 15, 2016 09:35:00
Attachment 1: image003.png

Proposed regulation to legislate our accounting to get the AG's desired outcome- I want to have people look at this as see how it is interpreted- and if it works - thanks

Accounting policies and practices to be followed to prepare the consolidated financial statements of the Province

1.0 This section applies to the consolidated financial statements of the Province as set out in the Public Accounts. O. Reg. 51/12, s. 1 (2) for the fiscal year ending March 31, 2016 and for the comparative financial results for the year ending March 31, 2015[IDP1] *(Note: needs to be explicit that this expires or only applicable to this one year of statements)*

2.0 In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit in connection with surpluses in jointly sponsored pension plans that are sponsored by the Province.

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Ian Provis, CPA C.A.

Manager

Office of the Provincial Controller Division

' 416.327.2722 | 8 ian.provis@ontario.ca

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[IDP1]Note for legal counsel: the 2015-16 public accounts has consolidated financial statements that present the current year's 2015-16 results and an updated 2014-15 financial results as comparative figures.

We do not want this regulation to impact the official 2014-15 public accounts published a year ago but only the "restated" 2014-15 numbers presented in the 2015-16 public accounts.

(i.e. there is no plan to republish the 14/15 public accounts, but for purposes of comparison in the FSD&A and f/s, they would be similarly adjusted). n

From: Tsang, Ingrid (MOF) []
To: Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Sheehy, Stephanie (MOF) [Stephanie.Sheehy@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
Subject: RE: ITC
Date: Monday, March 19, 2018 16:46:42
Attachment 1: image001.png

Hi Khal,

Thanks for the message. We will get back to you tomorrow.

Thanks,
Ingrid

Ingrid Tsang, FSA FCIA

BPS Pensions Branch

Ministry of Finance

Tel: 416-327-1799

Fax:416-327-0160

email: Ingrid.Tsang@ontario.ca

From: Noor, Khalida (TBS)
Sent: Monday, March 19, 2018 3:57 PM
To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF); Sheehy, Stephanie (MOF); Provis, Ian (TBS); Keates, James (TBS); Hosick, Sarah (TBS)
Subject: RE: ITC

Hi Alex & Rob,

Thank you for provide information below and working with Ian on #9. In the attached please find the updates made to the document. Can you please review the document and let me know if it aligns with your expectation.

We are hoping to send the information by Wed / Thursday.

Thanks

Khal

From: Pomykacz, Rob (MOF)
Sent: March 19, 2018 11:25 AM
To: Noor, Khalida (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF); Sheehy, Stephanie (MOF)
Subject: RE: ITC

Hi Khal,

Without the benefit of some additional context, and in the time we had, we have put together the following in answer to the question. If time permits, we could look into this question further.

The risks outlined in these sections should be taken into consideration when developing assumptions for the private sector. However, in the context of the public sector, those risks are not a cause for concern for a variety of reasons.

It is well known that public sector and private sector employers exist for different reasons. Unlike the public sector, the private sector works in a competitive business environment where a failure or default of a sponsor is entirely possible. Therefore, when developing the discount rate, we do not consider any risks attributable to individual plans or sponsors.

As we indicate in our rationale note that is provided to the Auditor, we look at the general trend in discount rates in Ontario and the discount rates of the consolidated plans, which are reflective of changes in general economic conditions. If there is an established trend (either upward or downward), we will amend our discount rates accordingly.

We would also suggest including Allan's bullets under the heading "Nature of Public Sector Pension Plans in Canada" as they point out the distinct features of public sector plans in Canada.

Please let us know if you have any questions.

Rob

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>

Sent: Monday, March 19, 2018 9:19 AM

To: Killoch, Alex (MOF)

Subject: RE: ITC

Hi Alex,

I have back to back meeting until 12 today and our meeting to discuss Cindy's points is scheduled for 11:45.

Question below is based on question #9 of the ITC.

9. If you support a discount rate basis that includes adjustments for risks, which risks should be included in determining the discount rate (paragraphs .040-.046 and .080-.082)?

Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans.

That's the answer provided. Can we expand on this answer to include a discussion on what risks (if any) we consider for the discount rates used?

Thanks

Khal

From: Killoch, Alex (MOF)
Sent: March 19, 2018 9:12 AM
To: Noor, Khalida (TBS)
Subject: RE: ITC

Can we discuss a bit later this morning? Any time after 10:30

At little context might be helpful for me.

From: Noor, Khalida (TBS)
Sent: March 19, 2018 9:07 AM
To: Killoch, Alex (MOF)
Subject: ITC

Hi Alex,

Hope you had a good weekend. Cindy has reviewed the document and she had some follow-up questions. Can you please help me address below?

What risks do we / should we consider in determining the following discount rates?

- Expected return on plan assets for funded plans; and
- Government's cost of borrowing for unfunded plans

Thanks

Khal

Khalida Noor, CPA, CA

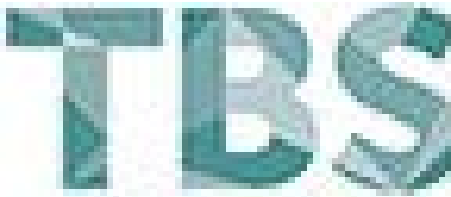
Director, Controllership Policy & Accounting Consultation

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 325-2631

Khalida.noor@ontario.ca


TBS

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Subject: RE: ITC
Date: Monday, March 19, 2018 15:56:32
Attachment 1: Ontario Response to PSAB on ITC - Employment Benefits Discount Rate March 2018_cv (3).doc
Attachment 2: image001.png

Hi Alex & Rob,

Thank you for provide information below and working with Ian on #9. In the attached please find the updates made to the document. Can you please review the document and let me know if it aligns with your expectation.

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Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF); Sheehy, Stephanie (MOF)
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7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 325-2631

Khalida.noor@ontario.ca

1. **Do you agree that PSAB needs to consider whether the discount rate guidance in RETIREMENT BENEFITS, Section PS 3250, is appropriate and sufficient?**

   Yes. Ontario supports PSAB's efforts to review Sections PS 3250 and PS 3255 considering these standards have been in effect for over 15 years. Canadian public sector pension plans need to remain current and consider changes in the way that benefit plans are structured as well as changes made to benefits accounting standards by other major standard setters.

   It is however a challenge to review and comment on elements of Sections PS 3250 and PS 3255 without understanding the overall direction being taken by PSAB on these standards. In addition, responding to this Invitation to Comment while PSAB continues to review the reporting model through its Concepts Underlying Financial Performance is challenging.

   It will therefore be important for PSAB, after issuance of Invitation to Comments on specific matters, and after the conceptual framework project is complete, to allow the public sector community an opportunity to comment on the matters being covered collectively to ensure consistency between recommendations and with the underlying concepts in the Handbook.

2. **What challenges do you have, if any, in applying the discount rate guidance in Section PS 3250?**

   There is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates. Specific to the discount rate guidance in PS 3250, challenges in calculating the expected return on plan assets include:
   - Ensuring consistency between assumptions made in calculating the discount rate with assumptions made with respect to other financial statement components;
   - Difficulty in projecting future conditions / events;
   - Determining the best estimate in a range; and
   - Assessing the reasonability of the projection.

3. **What discount rate bases do you use in estimating accrued benefit obligation? If different discount rate bases are used for fully funded, partially funded and unfunded benefit plans, please identify them separately.**

For funded pension plans, Ontario uses a discount rate based on the expected return on plan assets is used. For unfunded benefit plans, Ontario uses a discount rate based on the borrowing rate of the Province.

4. **If you use the expected return on plan assets as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?**

   a. Significant analysis is done to develop the expected rate of return used to determine the obligation to ensure it is a reasonable expectation in the long-run. The assumption used takes into account the asset allocation of the particular pension plan and the expectation of the long-term return for each of the asset classes. Each asset class expectation is carefully analyzed with the assistance of experts to ensure that this is a reasonable assumption of the return on each asset class.
   b. As mentioned, there is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates.
   c. Additional guidance should be provided on:
      - Accounting partially funded plans; and
      - Determining the best estimate in a range of possible discount rates.

5. **If you use the entity's cost of borrowing as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?**

   Ontario uses the cost of borrowing as the discount rate for its unfunded plans. a) The discount rate is determined based on Ontario's borrowing rate for an obligation of similar maturity b) The guidance provided in Section PS 3250 is fairly limited is sufficient for our purposes c) Additional guidance could be provided on determining the appropriate cost of borrowing for a plan. For example whether the discount rate should consider the cost of borrowing with a term to maturity equivalent to the EARSL of the plan. Additional guidance could be provided with respect to the interpolating and extrapolating of government borrowing rates.

6. **Which of the discount rate bases identified in paragraphs .052-.092 is most appropriate for estimating the fulfillment value of the accrued**

benefit obligation? Please identify any guidance that may need to be considered.

Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans.

The nature of pension plans in the public sector in Canada is often very different from pension plans in the private sector, and for that matter public sector pension plans in other countries:

- Most public sector pension plans require member contributions, with member and employer contributions at or close to 50/50;

- Many public sector pensions plan have levers to share cost/risk with members, including increased member contributions or reduction in future benefits; they have demonstrated the ability to self-adjust over time;

- Governance structures are very robust, with the investment management and risk management of the pension funds often performed by an external Board that is separate from the Plan Sponsor(s); and

- Most of the public sector pension plans are not subject to solvency funding requirements and in fact for many of the plans, in the highly unlikely event of plan wind-up, the benefits can be reduced if there are insufficient assets.

The purpose of financial statements for a commercial enterprise in the private sector is to focus on the pricing of that enterprise at a particular point in time. Alternatively, the purpose of financial statement in the public sector is to demonstrate accountability by the government to the public and its legislature. Financial statements are a vehicle by which governments demonstrate whether they did or did not do what they intended and why or why not. Government financial statements should therefore be clear and understandable to the public. Pension plans are long-term in nature. Because of the long-term nature of pension plans, government's long-term accountability should be demonstrated to the public with respect to pension plans. Standards on retirement benefits in the PSA Handbook should consider the long-term accountability of government to the public.

For public sector pension plans, the public is interested in knowing whether the assets segregated for pension purposes are sufficient to meet the government's current pension obligations. If not, how much of a pension shortfall exists.

Most of Ontario's pension plans are funded plans. The Province does not need to borrow or raise additional funds to pay for their current pension obligations. The pension assets set aside by government are expected to earn a rate of return over future years, which along with future contributions, will be sufficient to meet the pension obligations as they come due.

Discounting the future pension payments to be made by the expected return on plan assets (projected over the period of the pension plan) represents the plan assets required to be held by the government to fully fund the pension plan. The expected return on plan assets represents the cost of funding the pension obligation and best reflects the current obligation of the Province.

If a government has set aside sufficient assets to fund its current pension obligations, the benefit of treating the pension obligation as if it needs to be debt financed is not clear. Recording the pension obligation assuming the government will need to borrow to fund the obligation will result in reporting an obligation and an unfunded balance not reflective of the current needs of government. It does not accurately reflect the future financial needs of the government; it does not accurately reflect how well the government has been in funding its long-term obligations. Using an assumption that the pension obligation needs to be debt financed will increase the net debt of the Province as compared to that presented valuing the accrued benefit obligation at the long-term expected rate of return. As noted in Section PS 1100.28, "Net debt provides a measure of the future revenues required to pay for past transactions and events." If the pension plan has sufficient assets set aside to fund its pension obligations, future revenues will not be required to be raised for the pension plan obligation, and yet the financial statements of the Province will suggest otherwise.

For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government must pay for its debt. Other PSAS require use of the government's average borrowing rate, for example PS 3050, PS 3270 and PS 3310.

7. **Which of the discount rate views identified in paragraphs .093-.106 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.**

As pension plans are long term in nature and to be funded through assets set aside to generate returns, projected rates of return on plan assets are most appropriate for funded plans. The current borrowing rate is most appropriate

for unfunded plans, the current rate being the best estimate of future borrowing costs.

8. **Are there any discount rate bases that may be used to estimate accrued benefit obligation that have not been identified in paragraphs .052-.092?**

   None noted.

9. **If you support a discount rate basis that includes adjustments for risks, which risks should be included in determining the discount rate (paragraphs .040-.046 and .080-.082)?**

   Ontario uses the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. The expected return on plan assets reflects the forecasted net return on its plan assets considering for example trends in returns of various asset classes. The government's cost of borrowing already reflect risks such as credit risk and liquidity risk through the rates established by the market. No additional adjustments for risk are made by the Province.

10. **Are there any practical issues related to determining discount rates for which further guidance may need to be considered that have not been identified in the Invitation to Comment (specifically in paragraphs .065, .070, .076, .101, .105 and .107-.110)?**

    See the response to question 4c.

11. **Do you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans? If yes, should it be based on: (a) the entity's funding policy as described in paragraph .116; or (b) the benefit plan's funding level as described in paragraph .121?**

    Yes. Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. The discount rate should be based on the funding level of the plan which best demonstrates the funding source of the pension obligation.

12. **If you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans, which of the discount rate basis/view (paragraphs .050-.106) is most appropriate for estimating the fulfillment value of the accrued benefit obligation of: (a) a fully funded**

benefit plan; (b) a partially funded benefit plan; and (c) an unfunded benefit plan?

Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. Additionally see the response to question 7.

13. **Are there any reasons that a discount rate approach taken for estimating accrued pension benefit obligation would not be appropriate for estimating accrued non-pension benefit obligation?**

See response to question 6. For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government will pay for debt borrowed to finance its current obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3050, PS 3270 and PS 3310. We believe that this methodology is appropriate and consistency in practice exists across the sector.

14. **As shown in Chart 2, market yields of high-quality debt instruments at the reporting date is a discount rate used in most other equivalent standards reviewed by PSAB. Are there any reasons that can justify that the public sector in Canada is different from the others?**

Yes. The overwhelming prevalence of the use of "market yields of high-quality debt instruments at the reporting date" is shown in other standards including IASB, US FASB, UK ASB and IPSASB. What is not noted in the document is the difficulty of the applicability of that methodology in most major markets as well as the lack of guidance. In the late 1980s, a position statement by a staff of the SEC defined high quality debt as a debt that was of higher quality than Aa and from that point, regardless of the standard, that opinion has been the guiding principle in establishing the accounting discount rate. The economic environment has changed significantly since the late 1980s when that opinion was published such that the number of AA corporate bonds at longer durations decreased significantly but the methods to rate these bonds has also changed. The main issue facing the Canadian as well as most major economies is the lack of depth of the Aa market past the 10 year maturity mark. In Canada, only one Corporate Aa bond exits past 10 years. Under IASB and US FASB, issuers extrapolate rates from existing market information to determine the "pseudo" Aa rate past the 10 year mark for an obligation with cash flows that stretches more than 100 years. In the wake of these issues that spreads beyond Canada, standard setters have tried to resolve the

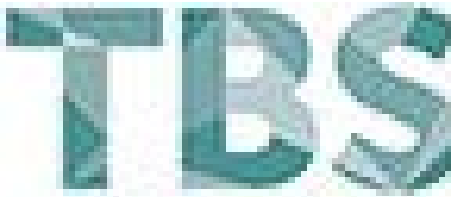
imperfect methodology that relies on market yields of high-quality debt and continue to question the validity of that methodology. These difficulties should be considered in thinking about implementing that methodology and the potential of other standard setters eventually moving away from it.

15. **ADDED QUESTION (Include response in opening comment section on the online response form): Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the "Background to the project" section (page ii) that PSAB should consider in this project?**

Ontario would additionally like to highlight the follow areas which should be considered by PSAB's Employment Benefits Task Force:

- Inconsistencies between the employment benefit standards and other standards in the PSA Handbook. For example, the deferral mechanisms in Section PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in Section PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when Section PS 3250 is not clear on a particular issue or different interpretations could be made.
- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard's measurement guidance to the plan as a whole or to the government's portion of the plan.
- How "minimum contributions" and "regardless of any surplus" should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.
- Significant differences that can exist between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. Significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. PSAB's Employment Benefits Task Force should consider whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.
- A review should be performed of the valuation allowance guidance in the standards to ensure the guidance is clear and complete.

- A review should be performed of the guidance on accounting for multi-employer plans in the standards to ensure the guidance is clear and complete.


TBS

From: Pomykacz, Rob (MOF) []
To: Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Sheehy, Stephanie (MOF) [Stephanie.Sheehy@ontario.ca]
Subject: RE: ITC
Date: Monday, March 19, 2018 11:25:24
Attachment 1: image001.png

Hi Khal,

Without the benefit of some additional context, and in the time we had, we have put together the following in answer to the question. If time permits, we could look into this question further.

The risks outlined in these sections should be taken into consideration when developing assumptions for the private sector. However, in the context of the public sector, those risks are not a cause for concern for a variety of reasons.

It is well known that public sector and private sector employers exist for different reasons. Unlike the public sector, the private sector works in a competitive business environment where a failure or default of a sponsor is entirely possible. Therefore, when developing the discount rate, we do not consider any risks attributable to individual plans or sponsors.

As we indicate in our rationale note that is provided to the Auditor, we look at the general trend in discount rates in Ontario and the discount rates of the consolidated plans, which are reflective of changes in general economic conditions. If there is an established trend (either upward or downward), we will amend our discount rates accordingly.

We would also suggest including Allan's bullets under the heading "Nature of Public Sector Pension Plans in Canada" as they point out the distinct features of public sector plans in Canada.

Please let us know if you have any questions.

Rob

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>

Sent: Monday, March 19, 2018 9:19 AM

To: Killoch, Alex (MOF)

Subject: RE: ITC

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That's the answer provided. Can we expand on this answer to include a discussion on what risks (if any) we consider for the discount rates used?

Thanks

Khal

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Sent: March 19, 2018 9:12 AM
To: Noor, Khalida (TBS)
Subject: RE: ITC

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At little context might be helpful for me.

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Khal

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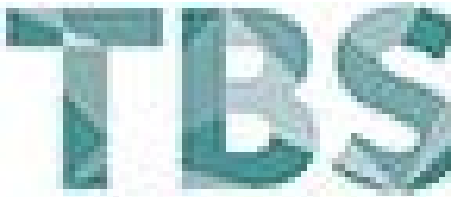
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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: ITC
Date: Monday, March 19, 2018 09:58:11
Attachment 1: image001.png

I agree, it doesn't help that we don't have the context, nor the ability to get more information from OPCD on the context.

From: Killoch, Alex (MOF)
Sent: March 19, 2018 9:50 AM
To: Pomykacz, Rob (MOF)
Subject: Re: ITC

Yeah, bit hard to understand the context

From: Pomykacz, Rob (MOF)

Sent: Monday, March 19, 2018 9:44 AM

To: Killoch, Alex (MOF)

Subject: RE: ITC

Reading the ITC to see what risks they're talking about…

From: Killoch, Alex (MOF)
Sent: March 19, 2018 9:37 AM
To: Pomykacz, Rob (MOF)
Subject: Fw: ITC

Can you take a stab at this.

Note the short timeline

Alex

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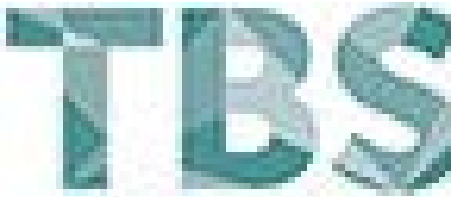
TBS

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: ITC
Date: Monday, March 19, 2018 09:57:27
Attachment 1: image001.png

The short answer is that we don't consider risks when developing the discount rate.

Paragraphs 0.040 to 0.046 include phrases such as:

"adjustment for the risk that the entity may default on its financial obligations is included in the discount rate used to estimate fair value"

"…an entity defaulting on its obligations should be reflected in the measurement of the liability…"

"…employees often do not have the ability to demand compensation for bearing the credit risk of the employer/sponsor."

These seem to be points more relevant to private sector employers, not the big plans for which we determine the discount rates.

We don't take risks into account, although given that they are based on the return expectations from the plans themselves, perhaps we do take them into account implicitly.

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Sent: March 19, 2018 9:37 AM
To: Pomykacz, Rob (MOF)
Subject: Fw: ITC

Can you take a stab at this.

Note the short timeline

Alex

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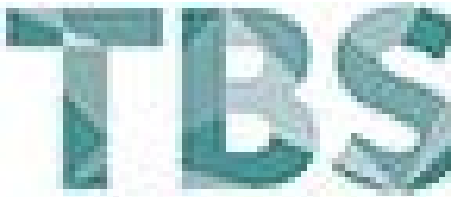
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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: ITC
Date: Monday, March 19, 2018 09:44:09
Attachment 1: image001.png

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Subject: Fw: ITC

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Note the short timeline

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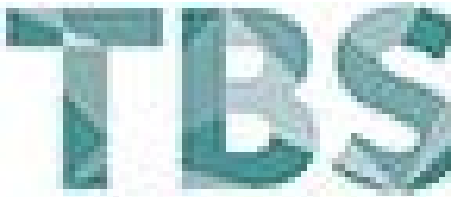
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From: Noor, Khalida (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: ITC
Date: Monday, March 19, 2018 09:19:15
Attachment 1: image001.png

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Thanks

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From: Killoch, Alex (MOF)
Sent: March 19, 2018 9:12 AM
To: Noor, Khalida (TBS)

Subject: RE: ITC

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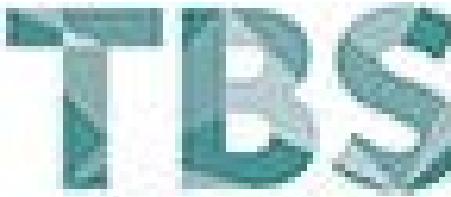
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From: Killoch, Alex (MOF) []
To: Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]
Subject: RE: ITC
Date: Monday, March 19, 2018 09:11:47
Attachment 1: image001.png

Can we discuss a bit later this morning? Any time after 10:30

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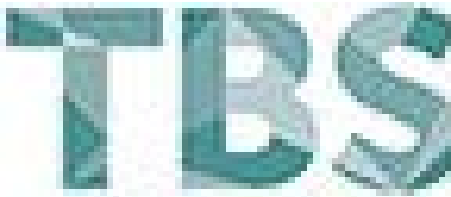
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From: Tsang, Ingrid (MOF) []
To: Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Sheehy, Stephanie (MOF) [Stephanie.Sheehy@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: ITC
Date: Tuesday, March 20, 2018 14:48:00
Attachment 1: image001.png
Attachment 2: Ontario Response to PSAB ITC on Employment Benefit Discoun Rate with Consultant Comments March 20.doc

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Hi Khalida,

Attached please find the file which includes the latest comments from Allan, our consultant. He suggested that if we support the current guidance, we should be clear in the response and not open up the floodgate by seeking further changes/guidance.

MOF is in agreement with the Allan. We think the current guidance is appropriate. We do not have any difficulties following the guidance in developing the discount rate assumptions. Furthermore, that fact that the AGO has found our discount rate assumptions within the reasonable range provides further support to our argument that the current guidance is sufficient and appropriate.

Please let us know if you have any questions.

Thanks,
Ingrid

From: Noor, Khalida (TBS)
Sent: Monday, March 19, 2018 3:57 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF); Sheehy, Stephanie (MOF); Provis, Ian (TBS); Keates, James (TBS); Hosick, Sarah (TBS)
Subject: RE: ITC

Hi Alex & Rob,

Thank you for provide information below and working with Ian on #9. In the attached please find the updates made to the document. Can you please review the document and let me know if it aligns with your expectation.

We are hoping to send the information by Wed / Thursday.

Thanks

Khal

From: Pomykacz, Rob (MOF)
Sent: March 19, 2018 11:25 AM
To: Noor, Khalida (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF); Sheehy, Stephanie (MOF)
Subject: RE: ITC

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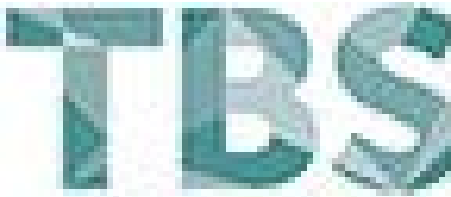
TBS

1. **Do you agree that PSAB needs to consider whether the discount rate guidance in RETIREMENT BENEFITS, Section PS 3250, is appropriate and sufficient?**

   Yes. Ontario supports PSAB's efforts to review Sections PS 3250 and PS 3255 considering these standards have been in effect for over 15 years. Canadian public sector pension plans need to remain current and consider changes in the way that benefit plans are structured as well as changes made to benefits accounting standards by other major standard setters.

   It is however a challenge to review and comment on elements of Sections PS 3250 and PS 3255 without understanding the overall direction being taken by PSAB on these standards. In addition, responding to this Invitation to Comment while PSAB continues to review the reporting model through its Concepts Underlying Financial Performance is challenging.

   It will therefore be important for PSAB, after issuance of Invitation to Comments on specific matters, and after the conceptual framework project is complete, to allow the public sector community an opportunity to comment on the matters being covered collectively to ensure consistency between recommendations and with the underlying concepts in the Handbook.

2. **What challenges do you have, if any, in applying the discount rate guidance in Section PS 3250?**

   Ontario has followed the PSAB guidance to develop discount rate assumptions for both funded and unfunded benefit plans. For funded plans, Ontario determines the discount rate by referencing the long term expected return on plan assets. For unfunded plans, the discount rate is tied to the province's borrowing cost. The approach is consistent with the funding model of the plan and has worked well. Therefore, Ontario is supportive of the current discount rate guidance.

   ~~There is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates. Specific to the discount rate guidance in PS 3250, challenges in calculating the expected return on plan assets include:~~

   - ~~Ensuring consistency between assumptions made in calculating the discount rate with assumptions made with respect to other financial statement components;~~
   - ~~Difficulty in projecting future conditions / events;~~
   - ~~Determining the best estimate in a range; and~~

- ~~Assessing the reasonability of the projection.~~
-

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3. What discount rate bases do you use in estimating accrued benefit obligation? If different discount rate bases are used for fully funded, partially funded and unfunded benefit plans, please identify them separately.

For funded pension plans, Ontario uses a discount rate based on the expected return on plan assets ~~is used~~. For unfunded benefit plans, Ontario uses a discount rate based on the borrowing rate of the Province.

4. If you use the expected return on plan assets as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?

a. Significant analysis is done to develop the expected rate of return used to determine the obligation to ensure it is a reasonable expectation in the long-run. The assumption used takes into account the asset allocation of the particular pension plan and the expectation of the long-term return for each of the asset classes. Each asset class expectation is carefully analyzed with the assistance of experts to ensure that this is a reasonable assumption of the return on each asset class.

~~b. As mentioned, there is limited guidance provided in this standard and other standards in the PSA Handbook on discount rates.~~

~~c.~~b. Additional guidance should be provided on:

- Accounting partially funded plans; and
- Determining the best estimate in a range of possible discount rates.

Commented [TI(1]: Suggest to take out b as per Allan's comments. For c, there is no such plan in Ontario. The only plan we can think of is the Federal public Service Pension plan. All public sector pension plans in Ontario are either funded (such as the PSPP) or unfunded (such as the above max or CRF accounts).

5. If you use the entity's cost of borrowing as the discount rate basis in estimating accrued benefit obligation, please answer the following: (a) How do you determine the discount rate? (b) Do you find the discount rate guidance in Section PS 3250 sufficient? (c) What additional discount rate guidance would be helpful?

Ontario uses the cost of borrowing as the discount rate for its unfunded plans. a) The discount rate is determined based on Ontario's borrowing rate for an obligation of similar maturity b) The guidance provided in Section PS 3250 is ~~fairly limited~~ is sufficient for our purposes c~~) Additional guidance could be provided on determining the appropriate cost of borrowing for a plan. For~~

~~example whether the discount rate should consider the cost of borrowing with a term to maturity equivalent to the EARSL of the plan. Additional guidance could be provided with respect to the interpolating and extrapolating of government borrowing rates.~~

Commented [TI(2]: Suggest to take out C as per comments by Allan, the consultant. As well, MOF staff has no difficulty following the current guidance in setting discount rate. Allan has advised that we don't open up the floodgate by seeking more guidance. In our opinion, the current guidance is sufficient.

6. Which of the discount rate bases identified in paragraphs .052-.092 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.

Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans.

The nature of pension plans in the public sector in Canada is often very different from pension plans in the private sector, and for that matter public sector pension plans in other countries:

- Most public sector pension plans require member contributions, with member and employer contributions at or close to 50/50;
- Many public sector pensions plan have levers to share cost/risk with members, including increased member contributions or reduction in future benefits; they have demonstrated the ability to self-adjust over time;
- Governance structures are very robust, with the investment management and risk management of the pension funds often performed by an external Board that is separate from the Plan Sponsor(s); and
- Most of the public sector pension plans are not subject to solvency funding requirements and in fact for many of the plans, in the highly unlikely event of plan wind-up, the benefits can be reduced if there are insufficient assets.

The purpose of financial statements for a commercial enterprise in the private sector is to focus on the pricing of that enterprise at a particular point in time. Alternatively, the purpose of financial statement in the public sector is to demonstrate accountability by the government to the public and its legislature. Financial statements are a vehicle by which governments demonstrate whether they did or did not do what they intended and why or why not. Government financial statements should therefore be clear and understandable to the public. Pension plans are long-term in nature. Because of the long-term nature of pension plans, government's long-term accountability should be demonstrated to the public with respect to pension

plans. Standards on retirement benefits in the PSA Handbook should consider the long-term accountability of government to the public.

For public sector pension plans, the public is interested in knowing whether the assets segregated for pension purposes are sufficient to meet the government's current pension obligations. If not, how much of a pension shortfall exists.

Most of Ontario's pension plans are funded plans. The Province does not need to borrow or raise additional funds to pay for their current pension obligations. The pension assets set aside by government are expected to earn a rate of return over future years, which along with future contributions, will be sufficient to meet the pension obligations as they come due.

Discounting the future pension payments to be made by the expected return on plan assets (projected over the period of the pension plan) represents the plan assets required to be held by the government to fully fund the pension plan. The expected return on plan assets represents the cost of funding the pension obligation and best reflects the current obligation of the Province.

If a government has set aside sufficient assets to fund its current pension obligations, the benefit of treating the pension obligation as if it needs to be debt financed is not clear. Recording the pension obligation assuming the government will need to borrow to fund the obligation will result in reporting an obligation and an unfunded balance not reflective of the current needs of government. It does not accurately reflect the future financial needs of the government; it does not accurately reflect how well the government has been in funding its long-term obligations. Using an assumption that the pension obligation needs to be debt financed will increase the net debt of the Province as compared to that presented valuing the accrued benefit obligation at the long-term expected rate of return. As noted in Section PS 1100.28, "Net debt provides a measure of the future revenues required to pay for past transactions and events." If the pension plan has sufficient assets set aside to fund its pension obligations, future revenues will not be required to be raised for the pension plan obligation, and yet the financial statements of the Province will suggest otherwise.

For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government must pay for its debt. Other PSAS require use of the government's average borrowing rate, for example PS 3050, PS 3270 and PS 3310.

7. Which of the discount rate views identified in paragraphs .093-.106 is most appropriate for estimating the fulfillment value of the accrued benefit obligation? Please identify any guidance that may need to be considered.

As pension plans are long term in nature and to be funded through assets set aside to generate returns, projected rates of return on plan assets are most appropriate for funded plans. The current borrowing rate is most appropriate for unfunded plans, the current rate being the best estimate of future borrowing costs.

8. Are there any discount rate bases that may be used to estimate accrued benefit obligation that have not been identified in paragraphs .052-.092?

None noted.

9. If you support a discount rate basis that includes adjustments for risks, which risks should be included in determining the discount rate (paragraphs .040-.046 and .080-.082)?

Ontario uses the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans and continues to support this approach. ~~The expected return on plan assets reflects the forecasted net return on its plan assets considering for example trends in returns of various asset classes~~. The government's cost of borrowing already reflect risks such as credit risk and liquidity risk through the rates established by the market. ~~No additional adjustments for risk are made by the Province.~~ Again, Ontario supports the current guidance and believe the resulting obligation properly reflects the benefit obligations of the government.

Commented [TI(3]: Allan suggests taken out this details so that language is consistent with other places.

Commented [TI(4]: Allan suggests that we emphasis on Ontario's support of the current guidance and not to open up the floodgate for further changes.

10. Are there any practical issues related to determining discount rates for which further guidance may need to be considered that have not been identified in the Invitation to Comment (specifically in paragraphs .065, .070, .076, .101, .105 and .107-.110)?

~~See the response to question 4c.~~

One of the distinct characteristics of Ontario public sector plans is that they all have robust governance structure with investment management and risk management of the pension funds often performed by external professional Boards. The Pension Benefits Act and regulations require that all plans must establish an investment policy statement and goal and the document must be reviewed annually. Therefore, both the investment policy and actual

investment itself must be appropriate to the plan and such policy and investment also need to be assessed frequently to ensure it is still appropriate. This further supports the appropriateness of the current guidance.

11. **Do you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans? If yes, should it be based on: (a) the entity's funding policy as described in paragraph .116; or (b) the benefit plan's funding level as described in paragraph .121?**

Yes. Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. The discount rate should be based on the funding level of the plan which best demonstrates the funding source of the pension obligation.

12. **If you support using different discount rate bases/views for fully funded, partially funded and unfunded benefit plans, which of the discount rate basis/view (paragraphs .050-.106) is most appropriate for estimating the fulfillment value of the accrued benefit obligation of: (a) a fully funded benefit plan; (b) a partially funded benefit plan; and (c) an unfunded benefit plan?**

Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans. A blended rate should be used for partially funded plans. Additionally see the response to question 7.

13. **Are there any reasons that a discount rate approach taken for estimating accrued pension benefit obligation would not be appropriate for estimating accrued non-pension benefit obligation?**

See response to question 6. For those plans that are not funded, using the cost of borrowing is appropriate. It reflects the borrowing rate the government will pay for debt borrowed to finance its current obligation. Other PSAS require use of the government's average borrowing rate, for example PS 3050, PS 3270 and PS 3310. We believe that this methodology is appropriate and consistency in practice exists across the sector.

14. **As shown in Chart 2, market yields of high-quality debt instruments at the reporting date is a discount rate used in most other equivalent standards reviewed by PSAB. Are there any reasons that can justify that the public sector in Canada is different from the others?**

Yes. The overwhelming prevalence of the use of “market yields of high-quality debt instruments at the reporting date” is shown in other standards including IASB, US FASB, UK ASB and IPSASB. What is not noted in the document is the difficulty of the applicability of that methodology in most major markets as well as the lack of guidance. In the late 1980s, a position statement by a staff of the SEC defined high quality debt as a debt that was of higher quality than Aa and from that point, regardless of the standard, that opinion has been the guiding principle in establishing the accounting discount rate. The economic environment has changed significantly since the late 1980s when that opinion was published such that the number of AA corporate bonds at longer durations decreased significantly but the methods to rate these bonds has also changed. The main issue facing the Canadian as well as most major economies is the lack of depth of the Aa market past the 10 year maturity mark. In Canada, only one Corporate Aa bond exits past 10 years. Under IASB and US FASB, issuers extrapolate rates from existing market information to determine the “pseudo” Aa rate past the 10 year mark for an obligation with cash flows that stretches more than 100 years. In the wake of these issues that spreads beyond Canada, standard setters have tried to resolve the imperfect methodology that relies on market yields of high-quality debt and continue to question the validity of that methodology. These difficulties should be considered in thinking about implementing that methodology and the potential of other standard setters eventually moving away from it.

15. **ADDED QUESTION (Include response in opening comment section on the online response form): Are there any specific issues with, or related to, Sections PS 3250 and PS 3255 that have not been identified in the “Background to the project” section (page ii) that PSAB should consider in this project?**

Ontario would additionally like to highlight the follow areas which should be considered by PSAB's Employment Benefits Task Force:

- Inconsistencies between the employment benefit standards and other standards in the PSA Handbook. For example, the deferral mechanisms in Section PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in Section PS 1000. Such conceptual inconsistency makes it more difficult to apply the concepts in developing appropriate accounting policies when Section PS 3250 is not clear on a particular issue or different interpretations could be made.

- Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard’s measurement guidance to the plan as a whole or to the government’s portion of the plan.
- How “minimum contributions” and “regardless of any surplus” should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.
- Significant differences that can exist between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. This can be confusing to users trying to assess the underlying financial health of the plan and the assets and liabilities of the sponsor in respect of that plan. Significant differences can arise between the amounts reported for accounting purposes and those reported for funding purposes that can also be confusing to users when both valuations are made publicly available sometimes in the same document. PSAB's Employment Benefits Task Force should consider whether additional disclosures regarding the purpose of the accounting valuation compared to a funding valuation may be helpful to users of government financial statements.
- A review should be performed of the valuation allowance guidance in the standards to ensure the guidance is clear and complete.
- A review should be performed of the guidance on accounting for multi-employer plans in the standards to ensure the guidance is clear and complete.

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
Date: Tuesday, October 11, 2016 14:23:48

Thanks Alex – I appreciate the follow up.

I have a meeting with Nancy Naylor tomorrow morning on an unrelated issue, so I'll raise this one with her.

Cindy

From: Killoch, Alex (MOF)
Sent: October-11-16 2:01 PM
To: Veinot, Cindy (TBS)
Cc: Talwar, Garima (MOF)
Subject: RE: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

Hi Cindy

FYI, I have written to Scott Simpson, formerly the actuary for the OTF, to ask about his interest in this work. I will let you know when I hear from him.

Also, I had a meeting on Friday with the Ministry of Health on another unrelated pension issue and they raised the issue of the potential impact of changing HOOPP consolidation. The ADM is Nancy Naylor. It might be worth bringing them in early. I don't fully appreciate how the Ministry of Health funds pension expense, but I expect it would be quite indirect, via hospital funding for procedures. They are certainly aware that a change in the accounting would be a significant impact on the Ministry.

Alex

-----Original Appointment-----
From: Veinot, Cindy (TBS)
Sent: Tuesday, October 11, 2016 1:15 PM
To: Killoch, Alex (MOF); Tsang, Ingrid (MOF); Pomykacz, Rob (MOF); Jozefacki, Janette (TBS); Paul, Joshua (EDU); Smithies, Roger (TBS); Fong, Pauline (TBS); Petsche, Nadine (TBS)
Cc: Talwar, Garima (MOF); MacPherson, Michael (TBS)
Subject: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
When: Thursday, October 13, 2016 10:30 AM-11:30 AM (UTC-05:00) Eastern Time (US & Canada).
Where: 7 Queen's Park Cres., Frost Building South 2nd Floor - ADM Boardroom - teleconference available - details below

<< File: Agenda.docx >> << File: Letter to Len Hatzis re Surplus Rights in regards to Ontario and BC Plan....pdf >>

Teleconference:

(416) 212-8013

Access Code: 4950903

Chair Passcode: 1705 (Cindy moderator)

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
Date: Tuesday, October 11, 2016 14:01:09

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To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
Date: Wednesday, October 12, 2016 08:44:05

Yes please – thanks,

From: Killoch, Alex (MOF)
Sent: October-11-16 6:27 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

Hi Cindy

I heard back from Scott and he would be interested in working on the accounting issue. He would be well placed I think to work on the issue as he was actuary for the OTF and understands the plan.

What are next steps? Should I connect him with you?

From: Veinot, Cindy (TBS)

Sent: Tuesday, October 11, 2016 2:23 PM

To: Killoch, Alex (MOF)

Cc: Talwar, Garima (MOF)

Subject: RE: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

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Teleconference:

(416) 212-8013

Access Code: 4950903

Chair Passcode: 1705 (Cindy moderator)

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Leech
Date: Wednesday, October 19, 2016 15:49:22

Will do!

From: Killoch, Alex (MOF)
Sent: October 19, 2016 3:49 PM
To: Pomykacz, Rob (MOF)
Subject: Re: Leech

Don't

Keep it tight

From: Pomykacz, Rob (MOF)

Sent: Wednesday, October 19, 2016 3:47 PM

To: Killoch, Alex (MOF)

Subject: RE: Leech

He did not agree that we did not reflect conditional inflation protection in our books (since we continue to reflect 100% in our books). He thought that was wrong. AG told him we were doing it correctly.

Was a few years ago. Could ask Pauline if it's important.

From: Killoch, Alex (MOF)
Sent: October 19, 2016 3:45 PM

To: Pomykacz, Rob (MOF)
Subject: Leech

Did he agree with our pension accounting?

When did he go to ag?

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Leech
Date: Wednesday, October 19, 2016 15:47:09

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Subject: Leech

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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Leech
Date: Wednesday, October 19, 2016 15:54:57

That's correct.

From: Killoch, Alex (MOF)
Sent: October 19, 2016 3:54 PM
To: Pomykacz, Rob (MOF)
Subject: Re: Leech

So his treatment would likely have reduced expense

From: Pomykacz, Rob (MOF)

Sent: Wednesday, October 19, 2016 3:47 PM

To: Killoch, Alex (MOF)

Subject: RE: Leech

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To: Pomykacz, Rob (MOF)
Subject: Leech

Did he agree with our pension accounting?

When did he go to ag?

From: Tsang, Ingrid (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Date: Tuesday, October 18, 2016 11:27:07

FYI. I confirmed with Pauline that she was sending this to us for FYI with the thought that it may even come to us . They are on it at the moment.

From: Fong, Pauline (TBS)
Sent: October 18, 2016 9:21 AM
To: Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Importance: High

From: Hosick, Sarah (TBS)
Sent: October-18-16 8:20 AM
To: Fong, Pauline (TBS)
Cc: Makrigeorgos, Niki (TBS)
Subject: Fw: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Pauline

Please see below - is this something we have off hand? Response required first thing today if so, or tomorrow if we need to calculate it. Please let me know asap.

Thanks

Sarah

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Tuesday, October 18, 2016 8:11 AM

To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)

Cc: @TBS-L-Issues and Media

Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will

need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting

future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

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From: Pomykacz, Rob (MOF) []
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Date: Tuesday, October 18, 2016 12:00:09

Hi Pauline,

We certainly don't have the information based on the valuation discount rates. As you note below, we would have to ask the boards to ask their external actuaries to undertake this exercise, but I'm not sure the boards would be willing to do so without passing the cost on to the Province. This would not be a request for purposes of calculating the Province's expense and liability for Budget and Public Accounts purposes (the Province does not have to pay for such requests as the boards are required to provide the information under the *Financial Administration Act*).

We would be asking the boards to provide information in order to respond to a media report. As such, it would be difficult to justify members incurring such a cost. Even if there was a willingness on the part of the Province to pay for it (likely $10,000 to $15,000 for each run), it's not clear how such a payment would be made.

The other issue is timing. This information would take some time to generate and would definitely not be available by tomorrow morning.

As you note below, it would be inappropriate to use these rates in any event given that they would not be management's best estimates, which is required by PSAB.

Rob

From: Fong, Pauline (TBS)
Sent: October 18, 2016 11:45 AM
To: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Subject: FW: MO Question: Pension Asset Value - 10 am deadline

I sent this to Cindy. Waiting for further instruction.

From: Fong, Pauline (TBS)
Sent: October-18-16 11:24 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Cindy,

Not sure how to answer the MOs request as we don't have the actuarial valuations for accounting using the funding discount rate. This is information we don't have and would require another request of actuarial information to be run by the boards.

Here is what I come up so far but I don't think it answers the questions posed below:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating it's pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered.

The OTPP and OSPEUPP discount rate of 4.8% and 5.55% is the discount rate on a funding basis. The funding basis valuation determines whether a pension plan has sufficient money to pay for its obligation when they become due. The funding valuation also determines the contributions required to meet the pension benefit obligations.

Because the purposes of valuation for accounting versus funding are different, the discount rate used for accounting is different from funding, and thus will be inappropriate to use the funding discount rate for accounting purposes.

As for using what discount rate to use in the future and whether we can take a contribution holiday, I don't think I am in position to comment on it.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-18-16 9:28 AM
To: Veinot, Cindy (TBS)
Cc: Fong, Pauline (TBS)
Subject: FW: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Cindy

Just wanted to give you a heads up that MO has asked quick turnaround questions on:

- the rates that we discount our pension liabilities
- the rates OTPP and OPSEUPP plans discount and
- what the pension assets would look like using the pension fund discount rate.

As neither OPCD or ERD has this info off hand, we have until 10am tomorrow to provide a response. Pauline is taking a closer look at the article today and will give us

an update on what information we can provide.

Thanks

Sarah

From: Hosick, Sarah (TBS)
Sent: October-18-16 8:20 AM
To: Fong, Pauline (TBS)
Cc: Makrigeorgos, Niki (TBS)
Subject: Fw: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Pauline

Please see below - is this something we have off hand? Response required first thing today if so, or tomorrow if we need to calculate it. Please let me know asap.

Thanks

Sarah

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Tuesday, October 18, 2016 8:11 AM

To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)

Cc: @TBS-L-Issues and Media

Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas

the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with

revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent.

Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

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(e) Emilie.Smith@ontario.ca

From: Pomykacz, Rob (MOF) []
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Minister request
Date: Tuesday, January 17, 2017 10:52:42

Yes, the Province's special payments were eliminated from its share of the surplus in the late 1990s. The information on the OTPP's website confirms that there wasn't a contribution holiday in the 1990s. Teachers made their regular contributions to the Plan and the Province matched those contributions.

From: Fong, Pauline (TBS)
Sent: January 17, 2017 9:40 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF); Killoch, Alex (MOF)
Subject: RE: Minister request

Hi Rob,

Based on the Key Funding Decision from the OTPP website it seems like in the early 90's OTPP surplus was applied to reduce special payments but I don't see anything relating to any contribution holiday.

Pauline

From: Pomykacz, Rob (MOF)
Sent: January-17-17 9:37 AM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF); Killoch, Alex (MOF)
Subject: RE: Minister request

I don’t recall there ever being a contribution holiday in the TPP.

From: Fong, Pauline (TBS)
Sent: January 17, 2017 9:34 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF)
Subject: RE: Minister request

Hi Rob,

Can you confirm the on the request below?

Pauline

From: Petsche, Nadine (TBS)
Sent: January-17-17 9:20 AM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Hosick, Sarah (TBS)
Subject: Minister request

Please confirm if OTPP had a contribution holiday in the 90's. N

From: Fong, Pauline (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Minister request
Date: Tuesday, January 17, 2017 10:40:00
Attachment 1: Key Funding Decisions.pdf

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Subject: Minister request

Please confirm if OTPP had a contribution holiday in the 90's. N

Key Funding Decisions Since 1990

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the regulators at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Ontario Teachers' Pension Plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

YEAR	VALUATION STATUS AND KEY DECISIONS
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.

YEAR	VALUATION STATUS AND KEY DECISIONS
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.

YEAR	VALUATION STATUS AND KEY DECISIONS
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

From: Petsche, Nadine (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Laughton, Patrick (TBS) [Patrick.Laughton@ontario.ca]
Subject: RE: Minister request
Date: Tuesday, January 17, 2017 11:20:43

Thanks all.

Nadine

From: Pomykacz, Rob (MOF)
Sent: January 17, 2017 9:53 AM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF); Killoch, Alex (MOF)
Subject: RE: Minister request

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From: Fong, Pauline (TBS)
Sent: January 17, 2017 9:40 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF); Killoch, Alex (MOF)
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From: Sawosch, Mercedes (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: NB
Date: Friday, September 30, 2016 17:33:33

Ian confirmed with NB. I verbally updated on my side, but it would be good to close the loop with a response to Kyle and David. If you don't mind, I will modify your response below for circulation and ensure our DMO gets an answer.

Mercedes

From: Pomykacz, Rob (MOF)
Sent: September-30-16 3:17 PM
To: Sawosch, Mercedes (TBS)
Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: RE: NB

According to what's written in the notes to their consolidated financial statements (p. 28 of Volume 1),

"Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets."

So on this basis, it appears that they do not have a claim to the assets. (This is not the case in Ontario for the TPP and the OPSEU Pension Plan, as there is no such agreement.) That's all the information we have. I understand Ian is attempting to get more information from NB. Perhaps they will confirm this.

Rob

From: Sawosch, Mercedes (TBS)
Sent: September 30, 2016 2:47 PM
To: Pomykacz, Rob (MOF)
Subject: FW: NB

Can your folks clarify for David McLean that NB specifically doesn't have a claim to the assets? My peeps are a bit swamped today. I will close the loop here after you do that.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 2:05 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Fong, Pauline (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 2:01:21 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**
>
> FYI
>
> **From:** Killoch, Alex (MOF)
> **Sent:** September 30, 2016 2:00 PM
> **To:** McLean, David (MOF); Schuurman, Tim (MOF); Pomykacz, Rob (MOF)
> **Subject:** RE: NB

Not sure that is entirely accurate. As the 2016 public accounts noted, they have deemed the asset to be nil for shared risk plans (which are not unlike jspp). It is true that NB was using DC accounting, but they seem to agree with AG now.

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From: McLean, David (MOF)
Sent: Friday, September 30, 2016 1:55 PM
To: Schuurman, Tim (MOF); Killoch, Alex (MOF)
Cc: Pearce, Christopher (MOF); Clarke-Darshanand, Jamille (MOF)
Subject: FW: NB

OPCD's response below. Short answer – different issue.

From: MacIntyre, Kyle (TBS)
Sent: September 30, 2016 1:48 PM
To: McLean, David (MOF)
Subject: Fwd: NB

Begin forwarded message:

From: "Fong, Pauline (TBS)" <Pauline.Fong@ontario.ca>
Date: September 30, 2016 at 1:46:57 PM EDT
To: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Sawosch, Mercedes (TBS)" <Mercedes.Sawosch@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Cc: "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
Subject: RE: NB

Cindy is correct. Previously NB reported their shared risk plan as defined contribution plan and this year they have accounted for their shared risk plans as a defined benefit plan. This issue is not similar to what Ontario is facing.

From: Veinot, Cindy (TBS)
Sent: September-30-16 1:37 PM
To: Sawosch, Mercedes (TBS); MacIntyre, Kyle (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

My understanding is that NB changed their plan into a shared risk plan. Government accounted for it as a defined contribution plan and the auditor said it should be accounted for as a defined benefit plan. Looks like NB now agreed to account for the plan as a defined benefit plan.

Cindy

From: Sawosch, Mercedes (TBS)
Sent: September-30-16 1:36 PM
To: MacIntyre, Kyle (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

Pauline is on it.

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Subject: Fwd: NB

Can folks pls review ASAP?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 1:33:05 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**
>
> Hey Kyle - have you seen this? Wondering if OPCD should look into this? Our MO is looking for background on whether this is the same or similar situation we're in and what this could mean for us. Attached email has the tweet.
>
> -----Original Message-----
> From: Mendes, Elizabeth (MOF)
> Sent: September 30, 2016 1:22 PM
> To: McLean, David (MOF)
> Subject: Fw: NB
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> Original Message
> From: Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>
> Sent: Friday, September 30, 2016 1:20 PM
> To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
> Subject: NB
>
> On Twitter it says that the Auditor of New Brunswick has given their PA a clean audit based on pensions treatment. Eerily like us. Can we look into this asap? Want to know what media is saying. Liz need to know substance.

Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From: Sawosch, Mercedes (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: NB
Date: Friday, September 30, 2016 15:17:58

Thank you Rob

From: Pomykacz, Rob (MOF)
Sent: September-30-16 3:17 PM
To: Sawosch, Mercedes (TBS)
Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: RE: NB

According to what's written in the notes to their consolidated financial statements (p. 28 of Volume 1),

"Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets."

So on this basis, it appears that they do not have a claim to the assets. (This is not the case in Ontario for the TPP and the OPSEU Pension Plan, as there is no such agreement.) That's all the information we have. I understand Ian is attempting to get more information from NB. Perhaps they will confirm this.

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From: Sawosch, Mercedes (TBS)
Sent: September 30, 2016 2:47 PM

To: Pomykacz, Rob (MOF)
Subject: FW: NB

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Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
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> **Subject: FW: NB**
>
> FYI

> **From:** Killoch, Alex (MOF)
> **Sent:** September 30, 2016 2:00 PM
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> **Subject:** RE: NB

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From: McLean, David (MOF)
Sent: Friday, September 30, 2016 1:55 PM
To: Schuurman, Tim (MOF); Killoch, Alex (MOF)
Cc: Pearce, Christopher (MOF); Clarke-Darshanand, Jamille (MOF)
Subject: FW: NB

OPCD's response below. Short answer – different issue.

From: MacIntyre, Kyle (TBS)
Sent: September 30, 2016 1:48 PM
To: McLean, David (MOF)
Subject: Fwd: NB

Begin forwarded message:

From: "Fong, Pauline (TBS)" <Pauline.Fong@ontario.ca>

Date: September 30, 2016 at 1:46:57 PM EDT
To: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Sawosch, Mercedes (TBS)" <Mercedes.Sawosch@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Cc: "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
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Subject: Fwd: NB

Can folks pls review ASAP?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 1:33:05 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**
>
> Hey Kyle - have you seen this? Wondering if OPCD should look into this? Our MO is looking for background on whether this is the same or similar situation we're in and what this could mean for us. Attached email has the tweet.
>
> -----Original Message-----
> From: Mendes, Elizabeth (MOF)
> Sent: September 30, 2016 1:22 PM
> To: McLean, David (MOF)
> Subject: Fw: NB
>
> Original Message
> From: Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>
> Sent: Friday, September 30, 2016 1:20 PM
> To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
> Subject: NB
>
> On Twitter it says that the Auditor of New Brunswick has given their PA a clean audit based on pensions treatment. Eerily like us. Can we look into this asap? Want to know what media is saying. Liz need to know substance.
>
> Ali Ghiassi
> Chief of Staff
> Minister of Finance
> 416.948.5409

From: Pomykacz, Rob (MOF) []
To: Sawosch, Mercedes (TBS) [Mercedes.Sawosch@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: NB
Date: Friday, September 30, 2016 15:16:39

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To: Pomykacz, Rob (MOF)
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> FYI

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> **Subject:** RE: NB

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Cc: Pearce, Christopher (MOF); Clarke-Darshanand, Jamille (MOF)
Subject: FW: NB

OPCD's response below. Short answer – different issue.

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To: McLean, David (MOF)
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> **Date:** September 30, 2016 at 1:46:57 PM EDT
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To: McLean, David (MOF)
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Sent: Friday, September 30, 2016 1:20 PM
To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
Subject: NB

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Chief of Staff
Minister of Finance
416.948.5409

From: McLean, David (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: NB
Date: Friday, September 30, 2016 14:02:32

Thanks Alex. I shared this view with Kyle over at TBS. Will let you know if they have anything else to say.

From: Killoch, Alex (MOF)
Sent: September 30, 2016 2:00 PM
To: McLean, David (MOF); Schuurman, Tim (MOF); Pomykacz, Rob (MOF)
Subject: RE: NB

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Subject: FW: NB

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To: McLean, David (MOF)
Subject: Fwd: NB

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> **Cc:** "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
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Sent: Friday, September 30, 2016 1:20 PM
To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
Subject: NB

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Chief of Staff
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From: Killoch, Alex (MOF) []
To: McLean, David (MOF) [David.McLean@ontario.ca]; Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: NB
Date: Friday, September 30, 2016 13:59:41

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Pauline is on it.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 1:35 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

Can folks pls review ASAP?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 1:33:05 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**
>
> Hey Kyle - have you seen this? Wondering if OPCD should look into this? Our MO is looking for background on whether this is the same or similar situation we're in and what this could mean for us. Attached email has the tweet.
>
> -----Original Message-----
> From: Mendes, Elizabeth (MOF)
> Sent: September 30, 2016 1:22 PM
> To: McLean, David (MOF)
> Subject: Fw: NB

Original Message
From: Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>
Sent: Friday, September 30, 2016 1:20 PM
To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
Subject: NB

On Twitter it says that the Auditor of New Brunswick has given their PA a clean audit based on pensions treatment. Eerily like us. Can we look into this asap? Want to know what media is saying. Liz need to know substance.

Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From: Allan Shapira [allan.shapira@aonhewitt.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: New Model Output
Date: Monday, September 26, 2016 16:26:15
Attachment 1: image001.png

Why are we looking at this model.

From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: September-26-16 4:09 PM
To: Allan Shapira
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: FW: New Model Output

Allan

Would you be able to take a look at the latest modelling results from Deloitte, assuming that we are using 50% of surplus on benefits.

Thanks for your help

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Veinot, Cindy (TBS)
Sent: Monday, September 26, 2016 3:58 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Petsche, Nadine (TBS)
Subject: FW: New Model Output

Hi Alex,

Deloitte completed some additional modelling described both in 2 below and in the word document. We asked what the results of the asset ceiling test would be if 50% of the surplus was used to improve benefits. Could you ask Allan to do a cold review of this scenario. The result Deloitte noted is that the asset ceiling would still exceed the asset == $12.xB vs. 10.1 B.

Thanks very much,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-26-16 3:18 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: New Model Output

Cindy and Nadine

To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the ITA limit.

Note the document is in bullet form mostly for ease of reading and really describes the step-by-step of the work performed.

It also includes a short summary at the end that is just factual observations of the results obtained.

There are also the 2 excel files that were used (same files as last time for 1- projection and 2- expected future benefit calculation by applying reduction % to Government contributions coming from the projection).

There are 2 scenarios:

1- Similar to last time, no use of surplus before attainment of the ITA limit and then 50% / 50% share to the employees and Government contribution reduction. The % reduction in Government contribution may differ a little from the previous set of results due to some refinements in calculation but only minor difference if any

2- I was not sure about your scenario Cindy about benefit improvement. If your question was about using in scenario 1- above the 50% of employee to improve benefit instead of reducing their contribution, then the results are similar to 1- as only a small difference in interest on obligation (4.85%) vs return on asset (6.25%) would affect the results and really small impact. However, as it was not so clear if you were referring to the surplus above ITA, we also looked at what would happen if the surplus before reaching ITA limit was spent at 50% to improve employee benefits. The remaining 50% would be maintained unused until reaching the ITA limit when the 50% / 50%

contribution reduction would apply. This scenario is like saying that we always use the 50% share of the employees for their benefit and we leave the Government share in the plan not to be spent. Even in this scenario, we reach ITA limit in year 2041 and we do have expected future benefit that supports the accrued benefit asset, although much closer. So either your question is easy and only related to the surplus above ITA limit to be used for benefit improvement – answer is same or almost results as 1- or your question was also targeting surplus before ITA limit and the Scenario 2 covers this.

Note that the Scenario 2 is found in excel calculation but also described in the word document on the approach. So if this was not the intended scenario, it can be taken out easily.

Also note that the excel file on projection also includes the data input sheet from the Government accounting spreadsheet that was provided to us for calculation purposes. Just wanted you to know in case some information in it were not meant to be distributed afterward.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Envoyé : 25 septembre 2016 09:50
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Objet : RE: New Model Output

Re: the additional modelling, I will try to explain in a bit more detail We have an internal call at 10 am (so in 10 minutes) and then another at noon so maybe we can connect live between those or after the noon update.

As I understand it, both the initial model from August and the ITA model from Friday both assume that benefits will not increase (other than the cost of the benefits that are currently being provided). In other words there will not be a decision by the sponsors to improve the benefits provided

We have been asked to determine the outcome of the pension ceiling test on the assumption that 50% of the surplus is used to improve benefits for the teachers. So instead of assuming that the level of benefits remains constant, we're assuming that for 50% of the surplus, instead of using the surplus to reduce contributions, the sponsors agree the benefits for the teachers will be improved.

I'm not sure how this scenario is modeled, but I think the question would then be how many years of contributions would be made before the asset ceiling would be reached.

I❑ ❑m testing my understanding of the actuarial model here, but would the service cost in the model increase (e.g. part 1 of 56(a)) as well as the level of contributions required to support the increased benefits (part 2 of 56(a)) ?

Thanks all for your assistance,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-25-16 9:28 AM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: New Model Output

Cindy

Will work today but will need review by Matt on the wording

For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%

If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...

Envoyé de mon iPhone

Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

> Hi Martin,

Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.

Two questions for you:

1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.

2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?

Thanks again,

Cindy

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:30 AM
To: Veinot, Cindy (TBS)
Subject: FW: New Model Output

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]

Sent: September-23-16 3:13 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

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maraymond@deloitte.ca | www.deloitte.ca

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<image001.png>

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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<calculation_EFB _estimate_Sept_23_2016.xlsx>

<Valuation_allowance_projection.xlsx>

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From: Veinot, Cindy (TBS) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: New Model Output
Date: Sunday, September 25, 2016 21:37:06

Thanks Allan – I appreciate you working on this over the weekend and getting back to us today.

Cindy

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September-25-16 8:09 PM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

Hi Cindy.

Sorry to take a little longer to get back to you on this. I have been trying to get some additional information from the OTPP on how they would actually do the 25% test given the actuarial cost method they use for the funding valuation and how this might actually work if we reach the 25%. We have been going back and forth on this issue over the weekend. As I expected, the first response I got was that we would not get to 25% since there would be 50/50 sharing in the temporary zone before we ever reached the 25%. I know that I keep harping on that point but do so because in my view the AG's position is fundamentally flawed.

Not sure where the 15 years comes from since it looks like the spreadsheet starts reducing the member and government contributions in 2025. Having said that, whether it is 10 years or 15 years, the mathematics will get us to the 25% limit using the funding accrued liabilities, as shown in the spreadsheet. If you look at the fair value of assets/ accounting liabilities at the start of the spreadsheet, the starting ratio is at 35%. So that tells me that if we project this out under the actuarial assumptions being used, we will get to the 25% using the funding accrued liabilities within a foreseeable time frame.

Please let me know if you need anything else.

Allan

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: September-24-16 2:00 PM
To: Allan Shapira
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

Thanks Allan – re: the first statement, I don't think we need to know whether it would be in the temporary or permanent.

With respect to the modelling that Martin has done re: when the plan would be expected to hit the CRA limit, have you had a chance to review and are you in agreement with the output (e.g. that based on the assumptions used, the plan would be expected to hit the CRA limit in 15 years)?

Thanks again,

Cindy

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September-24-16 10:15 AM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)

Subject: Re: New Model Output

It would definitely be in the temporary zone and may even be in the permanent zone. I would have to take some time today to figure that out if that is important.

It seems like the AG is hung up on the fact that the government needs agreement of another party, the other joint sponsor to use surplus. That is the essence of a joint plan and it plays out in both increasing contributions when necessary and reducing then when there is an opportunity to do so. I should remind everyone that the temporary zone was introduced in response to the concerns of the member sponsor that with what they view as conservative funding the surplus would grow very large with only a permanent zone and they would not get access to it early enough. Clearly that reflects their desire to use the surplus and they can only do so if the government gets its 50% share.

Allan

Sent from my iPhone

On Sep 24, 2016, at 9:01 AM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

> Thanks everyone for looking at this so quickly.
>
> One question on #3 ❑ ❑❑ does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued expected returns, one model suggests that the plan would be in the permanent zone in 15 years?
>
> **From:** Killoch, Alex (MOF)
> **Sent:** September-24-16 8:57 AM
> **To:** Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
> **Cc:** allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
> **Subject:** Re: New Model Output

I talked to Allan last night.

The answer to number 1 is that the rule applies� to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The otf would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

2- Is the Income Tax Act only requiring the employer to reduce contribution even in a joint plan ? if so, our estimate of using 50% of the excess surplus would move to 100%. However, we have used 50% of the excess surplus as a benefit to the employer knowing that under the plan, the sharing principle would lead to employees and employer reducing both their contributions to meet the requirement of the Income Tax Act

3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

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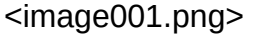

De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

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1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

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maraymond@deloitte.ca | www.deloitte.ca

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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From: Allan Shapira [allan.shapira@aonhewitt.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: New Model Output
Date: Sunday, September 25, 2016 20:08:46

Hi Cindy.

Sorry to take a little longer to get back to you on this. I have been trying to get some additional information from the OTPP on how they would actually do the 25% test given the actuarial cost method they use for the funding valuation and how this might actually work if we reach the 25%. We have been going back and forth on this issue over the weekend. As I expected, the first response I got was that we would not get to 25% since there would be 50/50 sharing in the temporary zone before we ever reached the 25%. I know that I keep harping on that point but do so because in my view the AG's position is fundamentally flawed.

Not sure where the 15 years comes from since it looks like the spreadsheet starts reducing the member and government contributions in 2025. Having said that, whether it is 10 years or 15 years, the mathematics will get us to the 25% limit using the funding accrued liabilities, as shown in the spreadsheet. If you look at the fair value of assets/ accounting liabilities at the start of the spreadsheet, the starting ratio is at 35%. So that tells me that if we project this out under the actuarial assumptions being used, we will get to the 25% using the funding accrued liabilities within a foreseeable time frame.

Please let me know if you need anything else.

Allan

From: Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Sent: September-24-16 2:00 PM
To: Allan Shapira
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

Thanks Allan – re: the first statement, I don't think we need to know whether it would be in the temporary or permanent.

With respect to the modelling that Martin has done re: when the plan would be expected to hit the CRA limit, have you had a chance to review and are you in agreement with the output (e.g. that based on the assumptions used, the plan would be expected to hit the CRA limit in 15 years)?

Thanks again,

Cindy

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September-24-16 10:15 AM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: Re: New Model Output

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share.

Allan

Sent from my iPhone

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> Thanks everyone for looking at this so quickly.
>
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Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

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Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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<image001.png>

De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

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One for the expected future benefit and asset ceiling test

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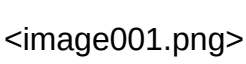

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: New Model Output
Date: Sunday, September 25, 2016 11:54:18

Hi all,

One more question for you on OTPP. We have been asked to run an actuarial model to assess the impact on the need for a valuation allowance on the asset should 50% of the surplus in the plan be used to improve benefits. This is simply scenario modelling and not indicative of any plans re: use of surplus.

However, I would like to better understand what limits, if any, exist on improving benefits under the plan (e.g. does the income tax act set limits on what type of benefits can be provided in a plan?)

Setting aside the conditional indexation improvements, are there other benefits that have been requested by the OTF in the past? Or are there benefit improvements that one would expect could be contemplated if you compared to the benefits under the OTPP to other plans.

This is all getting to is there a limit on how much of the surplus could be used for benefit improvements.

Thanks all

Cindy

From: Veinot, Cindy (TBS)
Sent: September-25-16 10:49 AM
To: Killoch, Alex (MOF)

Cc: Petsche, Nadine (TBS)
Subject: FW: New Model Output

Alex – have you heard back from Allan? Could you follow up with him?

From: Veinot, Cindy (TBS)
Sent: September-24-16 2:00 PM
To: Allan Shapira
Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Model Output

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Allan

Sent from my iPhone

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> **To:** Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
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Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

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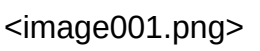

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To: Allan Shapira [allan.shapira@aonhewitt.com]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: New Model Output
Date: Saturday, September 24, 2016 14:00:21

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Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

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Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
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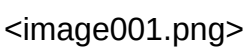

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

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Thanks.

Nadine

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From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: allan.shapira@aonhewitt.com [allan.shapira@aonhewitt.com]
Subject: RE: New Model Output
Date: Saturday, September 24, 2016 09:00:42
Attachment 1: image001.png

Thanks everyone for looking at this so quickly.

One question on #3 – does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued expected returns, one model suggests that the plan would be in the permanent zone in 15 years?

From: Killoch, Alex (MOF)
Sent: September-24-16 8:57 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: Re: New Model Output

I talked to Allan last night.

The answer to number 1 is that the rule applies to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The otf would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

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Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: New Model Output
Date: Saturday, September 24, 2016 08:59:26
Attachment 1: image001.png

Thanks. n

From: Killoch, Alex (MOF)
Sent: September-24-16 8:59 AM
To: Petsche, Nadine (TBS)
Subject: Re: New Model Output

Just sent answers. Think Allan and I must have crossed signals on who was answering.

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:56 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Subject: FW: New Model Output

DT will be finalizing their opinion today (which will be shared with the AG immediately after receipt by the gov't). If it's at all possible to get some feedback on the questions soon, that would be very helpful (just in case they are waiting for further details before having comfort to reference the results of their model in their opinion). Thanks. N

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:36 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: RE: New Model Output
Importance: High

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
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À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
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Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
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Importance : Haute

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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: allan.shapira@aonhewitt.com [allan.shapira@aonhewitt.com]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: New Model Output
Date: Saturday, September 24, 2016 08:35:41
Attachment 1: image001.png

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Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
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Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
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From: Killoch, Alex (MOF) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: New Model Output
Date: Friday, September 23, 2016 17:16:36
Attachment 1: image001.png

It is a bit confusing. Deloite is trying to show that if no surplus is used then the plan will hit the maximum surplus allowed under the ITA, requiring the partners to do something with the surplus.

The reality is that the partners would spend the surplus in the temporary zone before we hit the ITA maximum.

Alex

From: Duffy, Paul (EDU)
Sent: Friday, September 23, 2016 5:01 PM
To: Killoch, Alex (MOF); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)
Cc: Pomykacz, Rob (MOF)
Subject: Re: New Model Output

Alex, we're not clear on the distinction Deloitte seems to be making between surplus and excess surplus. Are they making a distinction between the surplus required for the temporary versus permanent improvement zone?

There are provisions for what happens in the permanent improvement zone in the fmp, but we can't cite them from memory. Can forward or review the fmp later tonight.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Friday, September 23, 2016 4:47 PM

To: Paul, Joshua (EDU); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)

Cc: Pomykacz, Rob (MOF)

Subject: Fw: New Model Output

Anyone know answer to #3?

I am assuming someone at Delloitte knows about the ITA questions in 1 and 2

From: Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>

Sent: Friday, September 23, 2016 4:43 PM

To: Petsche, Nadine (TBS)

Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)

Subject: RE: New Model Output

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Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

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One for the expected future benefit and asset ceiling test

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Envoyé : 23 septembre 2016 15:10
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Subject: RE: New Model Output
Date: Friday, September 23, 2016 16:43:42
Attachment 1: image001.png

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Subject: RE: New Model Output
Date: Friday, September 23, 2016 15:12:42
Attachment 1: image001.png
Attachment 2: calculation_EFB_estimate_Sept_23_2016.xlsx
Attachment 3: Valuation_allowance_projection.xlsx

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	Plan	OTPP	(in $B)
a)	Value of asset - market value used		85.7
b)	Value of accounting obligation		58.2
c)	Surplus (deficit)		27.5
d)	Unamortized (gains) losses - market value used		-16.2
e)	Adjustment for March 31, 2016		-0.9
f)	Asset (liability) position		10.4
g)	Specific Government adjustment		-0.3
h)	Final Asset (liability) position on balance sheet		10.1
i)	Adjusted benefit asset		10.1
j)	Expected future benefit		22.3
k)	- Perpetuity of employer service cost		44.6
l)	- Minimum funding requirement		22.3
m)	- Surplus withdrawal		0.0
	TEST : Valuation allowance = max (0 ; i - j)		0.0

Expected Future Benefit Calculations

n)	Total plan service accrual accounting	2.9
o)	Employer service accrual share	50%
p)	Expected return on asset - accounting assumption	6.25%
q)	Salary increase - accounting assumption	3.00%
r)	Perpetuity of Employer service cost - accounting	44.6
s)	Minimum employer funding requirement as at March 31, 2016	22.3
t)	Expected Future Benefit	22.3

Reduction in Gov contr based on projection	**Year**	**Estimated Contributions[1]**	**Contribution required considering use of 50% of the surplus in excess of ITA excess surplus threshold**	**Present value of each contribution required**
0.0%	2016[2]	1.3	1.3	1.2
0.0%	2017	1.7	1.7	1.6
0.0%	2018	1.8	1.8	1.6
0.0%	2019	1.8	1.8	1.5
0.0%	2020	1.9	1.9	1.5
0.0%	2021	2.0	2.0	1.4
0.0%	2022	2.0	2.0	1.4
0.0%	2023	2.1	2.1	1.3
0.0%	2024	2.1	2.1	1.3
-2.5%	2025	2.2	2.1	1.2
-62.5%	2026	2.3	0.8	0.5
-65.4%	2027	2.3	0.8	0.4
-66.7%	2028	2.4	0.8	0.4
-67.7%	2029	2.5	0.8	0.4
-68.6%	2030	2.5	0.8	0.3
-69.5%	2031	2.6	0.8	0.3
-70.4%	2032	2.7	0.8	0.3
-71.2%	2033	2.8	0.8	0.3

-72.1%	2034	2.9	0.8	0.3
-72.9%	2035	3.0	0.8	0.2
-73.6%	2036	3.0	0.8	0.2
-74.4%	2037	3.1	0.8	0.2
-75.1%	2038	3.2	0.8	0.2
-75.8%	2039	3.3	0.8	0.2
-76.5%	2040	3.4	0.8	0.2
-77.2%	2041	3.5	0.8	0.2
-77.8%	2042	3.6	0.8	0.2
-78.4%	2043	3.7	0.8	0.2
-79.0%	2044	3.9	0.8	0.1
-79.5%	2045	4.0	0.8	0.1
-80.0%	2046	4.1	0.8	0.1
-80.5%	2047	4.2	0.8	0.1
-80.9%	2048	4.3	0.8	0.1
-81.3%	2049	4.5	0.8	0.1

Information

From Excel File
From Excel File
a - b
From Excel File
From Excel File
c + d + e
From Excel File
f + g

h - max (0 ; d) as per PS3250.053

Minimum EFB basis calculation illustrated (k - l + m)
r)
s), assuming contribution based on use of 50% of the excess surplus as per the Income Tax Act
As per the plan funding policy, the employer may have some access to surplus withdrawal. For simplicity, we have used 0 in the test.

No valuation allowance required, no adjustment to the balance sheet asset position, PS3250.050 and PS3250.054

From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation
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*n * o / (p - q), present value of all future service cost to the employer (the 50% share)*

Sum of the present value of future required contributions (table below), using the funding report, projections and assuming the Government uses 50% of the surplus above Income Tax Act excess surplus threshold for contribution holiday and the employees use the other 50%

r - s, Perpetuity of employer service cost minus the minimum funding requirement as at March 31, 2016

	% assumpt	$B return
Accounting return on asset	*6.25%*	*5.4*
Funding return on asset	*4.85%*	*4.2*
Excess return each year using best estimate		*1.2*

[1] Estimated contributions from funding report (p.16), increased based on salary increase accounting assumption
[2] Remaining contributions used as at March 31,2016 (9 months for 2016)

accounting best estimate
funding report page 29
accounting best estimate
accounting best estimate
based on recent experience average (data input)

funding report page 9 for service rendered and 100% CPI
data input sheet
data input sheet

data input sheet
= (gg) assuming employees use same % of the ITA excess surplus
data input sheet
= (gg)
data input sheet
looking at the PV of future service / PV future contribution (funding report page 9)
data input sheet

= (f) x (b) + (l) x (b) x 50% + (k) x (b) x 50%
= (g) x (c) + (m) x (c) x 50% + (k) x (c) x 50%
= (h) x (a) + (i -1) x (a) x 50% + (j - 1) x (a) x 50% + (i -2) x (a) x 50% + (j - 2) x (a) x 50% + (k) x (a) x 50%

= (f) + (l) + (k) + (n)
= (g) + (m) + (k) + (o)
= (h) + (i -1) + (j - 1) + (i -2) + (j - 2) + (k) + (p)
= (s) - (ee)

= (s) - (q)
= (s) - (r)
= (t) - (q)

= (s) / (q)
= (s) / (r)
= (t) / (q)

Market-related value calculation
expected return for the year at 4.85% = (p) / (a) * (b)
actual return for the year = (p)
gain (loss) on asset return = (bb) - (aa)
spread over 3 years = (cc) / 3
3-year adjustment to get market related value = (dd) + (dd) previous year

Going-concern surplus in excess of 125% from the Income Tax Act = (t) - 125% x (q)

Reduction required in Government contribution assuming uses 50% of excess surplus = min (50% x (ff) ; (j -1) form Asuming employees get the other 50% of excess surplus through cont reduction

% reduction in the Government contribution

		Calendar year	2015	2016	2017
	a	Return on plan asset	6.25%	6.25%	6.25%
	b	Interest rate on funding obligation	4.85%	4.85%	4.85%
	c	Interest rate on accounting obligation	6.25%	6.25%	6.25%
	d	Increase in salary (used for cont)	3.00%	3.00%	3.00%
	e	Increase in benefit	4.00%	4.00%	4.00%
		Total Plan			
		Beginning of calendar year			
	f	Funding obligation - 100% CPI	142,569	148,197	154,003
	g	Accounting obligation - 100% CPI	113,801	116,367	120,785
	h	Asset fair value	154,476	171,420	179,701
	i - 1	Employee contributions	1,615	1,663	1,713
	i - 2	Employee reduction in cont			
	j - 1	Government contributions	1,684	1,735	1,787
	j - 2	Government reduction in contribution			
	k	Benefit payments	(5,536)	(5,757)	(5,987)
129.7%	l	Funding service cost	4,280	4,408	4,540
	m	Accounting service cost	2,902	2,989	3,079
	n	Funding obligation interest	6,884	7,155	7,434
	o	Accounting obligation interest		7,186	7,458
	p	Asset return for the year	19,181	10,640	11,154
			12.4%		
		End of year			
	q	Funding obligation - 100% CPI	148,197	154,003	159,990
	r	Accounting obligation - 100% CPI	116,367	120,785	125,335
	s	Asset fair value	171,420	179,701	188,368
	t	Market related value			186,741
		Surplus (Deficit) in $M			
	u	Going concern (using fair value)	23,223	25,698	28,378
	v	Accounting	55,053	58,916	63,033
	w	Going concern (using market related)			26,751
		Ratio in %			
	x	Going concern (using fair value)	115.7%	116.7%	117.7%
	y	Accounting	147.3%	148.8%	150.3%
	z	Going concern (using market related)			116.7%
	aa			8,257	8,656
	bb			10,640	11,154
	cc			2,383	2,498
	dd			794	833
	ee				1,627
	ff				0

next year)	gg	0
	hh	0.0%

2018	2019	2020	2021	2022	2023	2024	2025
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
159,990	166,162	172,522	179,072	185,817	192,759	199,902	207,248
125,335	130,018	134,835	139,787	144,875	150,100	155,461	160,958
188,368	197,438	206,930	216,863	227,258	238,136	249,519	261,430
1,764	1,817	1,872	1,928	1,986	2,046	2,107	2,170
0	0	0	0	0	0	0	(56)
1,841	1,896	1,953	2,012	2,072	2,134	2,198	2,264
0	0	0	0	0	0	0	(56)
(6,226)	(6,475)	(6,734)	(7,003)	(7,283)	(7,574)	(7,877)	(8,192)
4,676	4,816	4,960	5,109	5,262	5,420	5,583	5,750
3,171	3,266	3,364	3,465	3,569	3,676	3,786	3,900
7,722	8,019	8,324	8,639	8,963	9,297	9,640	9,992
7,738	8,026	8,322	8,626	8,939	9,259	9,588	9,926
11,691	12,254	12,842	13,458	14,103	14,777	15,483	16,218
166,162	172,522	179,072	185,817	192,759	199,902	207,248	214,798
130,018	134,835	139,787	144,875	150,100	155,461	160,958	166,592
197,438	206,930	216,863	227,258	238,136	249,519	261,430	273,779
195,732	205,142	214,989	225,294	236,078	247,363	259,171	271,412
31,276	34,408	37,791	41,441	45,377	49,617	54,182	58,981
67,420	72,095	77,076	82,383	88,036	94,058	100,472	107,187
29,570	32,620	35,917	39,477	43,319	47,461	51,923	56,614
118.8%	119.9%	121.1%	122.3%	123.5%	124.8%	126.1%	127.5%
151.9%	153.5%	155.1%	156.9%	158.7%	160.5%	162.4%	164.3%
117.8%	118.9%	120.1%	121.2%	122.5%	123.7%	125.1%	126.4%
9,072	9,509	9,965	10,443	10,944	11,467	12,015	12,585
11,691	12,254	12,842	13,458	14,103	14,777	15,483	16,218
2,619	2,745	2,877	3,015	3,159	3,310	3,468	3,633
873	915	959	1,005	1,053	1,103	1,156	1,211
1,706	1,788	1,874	1,964	2,058	2,156	2,259	2,367
0	0	0	0	0	0	111	2,915

0	0	0	0	0	0	56	1,458
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-2.5%

2026	2027	2028	2029	2030	2031	2032	2033
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
214,798	222,556	230,523	238,701	247,092	255,696	264,513	273,544
166,592	172,360	178,262	184,296	190,458	196,746	203,156	209,683
273,779	283,808	294,021	304,489	315,222	326,231	337,513	349,071
2,235	2,302	2,371	2,442	2,515	2,590	2,668	2,748
(1,458)	(1,570)	(1,650)	(1,726)	(1,801)	(1,879)	(1,960)	(2,043)
2,332	2,402	2,474	2,548	2,624	2,703	2,784	2,868
(1,458)	(1,570)	(1,650)	(1,726)	(1,801)	(1,879)	(1,960)	(2,043)
(8,520)	(8,861)	(9,215)	(9,584)	(9,967)	(10,366)	(10,781)	(11,212)
5,923	6,101	6,284	6,473	6,667	6,867	7,073	7,285
4,017	4,138	4,262	4,390	4,522	4,658	4,798	4,942
10,355	10,727	11,109	11,502	11,904	12,316	12,739	13,172
10,271	10,625	10,987	11,356	11,733	12,118	12,510	12,909
16,897	17,510	18,137	18,779	19,438	20,113	20,806	21,514
222,556	230,523	238,701	247,092	255,696	264,513	273,544	282,789
172,360	178,262	184,296	190,458	196,746	203,156	209,683	216,322
283,808	294,021	304,489	315,222	326,231	337,513	349,071	360,904
281,335	291,452	301,828	312,466	323,378	334,560	346,015	357,744
61,252	63,498	65,788	68,130	70,535	73,000	75,527	78,115
111,448	115,759	120,193	124,764	129,485	134,357	139,388	144,582
58,779	60,929	63,127	65,374	67,682	70,047	72,471	74,955
127.5%	127.5%	127.6%	127.6%	127.6%	127.6%	127.6%	127.6%
164.7%	164.9%	165.2%	165.5%	165.8%	166.1%	166.5%	166.8%
126.4%	126.4%	126.4%	126.5%	126.5%	126.5%	126.5%	126.5%
13,112	13,588	14,074	14,573	15,084	15,608	16,145	16,695
16,897	17,510	18,137	18,779	19,438	20,113	20,806	21,514
3,785	3,922	4,063	4,206	4,354	4,505	4,661	4,819
1,262	1,307	1,354	1,402	1,451	1,502	1,554	1,606
2,473	2,569	2,661	2,756	2,853	2,953	3,056	3,160
3,140	3,299	3,452	3,601	3,758	3,919	4,085	4,258

1,570	1,650	1,726	1,801	1,879	1,960	2,043	2,129
-62.5%	-65.4%	-66.7%	-67.7%	-68.6%	-69.5%	-70.4%	-71.2%

2034	2035	2036	2037	2038	2039	2040	2041
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
282,789	292,247	301,917	311,797	321,885	332,176	342,666	353,352
216,322	223,067	229,911	236,844	243,858	250,941	258,081	265,265
360,904	373,010	385,389	398,038	410,955	424,135	437,572	451,260
2,830	2,915	3,002	3,092	3,185	3,281	3,379	3,480
(2,129)	(2,218)	(2,308)	(2,402)	(2,498)	(2,598)	(2,700)	(2,805)
2,954	3,043	3,134	3,228	3,325	3,425	3,528	3,634
(2,129)	(2,218)	(2,308)	(2,402)	(2,498)	(2,598)	(2,700)	(2,805)
(11,660)	(12,126)	(12,611)	(13,115)	(13,640)	(14,186)	(14,753)	(15,343)
7,504	7,729	7,961	8,200	8,446	8,699	8,960	9,229
5,090	5,243	5,400	5,562	5,729	5,901	6,078	6,260
13,614	14,067	14,530	15,003	15,485	15,977	16,479	16,989
13,315	13,727	14,144	14,567	14,994	15,425	15,859	16,295
22,240	22,982	23,740	24,515	25,306	26,112	26,934	27,771
292,247	301,917	311,797	321,885	332,176	342,666	353,352	364,227
223,067	229,911	236,844	243,858	250,941	258,081	265,265	272,477
373,010	385,389	398,038	410,955	424,135	437,572	451,260	465,193
369,743	382,012	394,549	407,352	420,415	433,732	447,299	461,108
80,763	83,472	86,241	89,070	91,959	94,906	97,908	100,966
149,943	155,478	161,194	167,097	173,194	179,491	185,995	192,716
77,496	80,095	82,752	85,467	88,239	91,066	93,947	96,881
127.6%	127.6%	127.7%	127.7%	127.7%	127.7%	127.7%	127.7%
167.2%	167.6%	168.1%	168.5%	169.0%	169.5%	170.1%	170.7%
126.5%	126.5%	126.5%	126.6%	126.6%	126.6%	126.6%	126.6%
17,258	17,834	18,422	19,024	19,637	20,263	20,901	21,550
22,240	22,982	23,740	24,515	25,306	26,112	26,934	27,771
4,982	5,148	5,318	5,491	5,669	5,849	6,033	6,221
1,661	1,716	1,773	1,830	1,890	1,950	2,011	2,074
3,267	3,377	3,489	3,603	3,720	3,840	3,961	4,085
4,435	4,616	4,803	4,996	5,195	5,400	5,609	5,825

2,218	2,308	2,402	2,498	2,598	2,700	2,805	2,913
-72.1%	-72.9%	-73.6%	-74.4%	-75.1%	-75.8%	-76.5%	-77.2%

2042	2043	2044	2045	2046	2047	2048	2049
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
364,227	375,285	386,517	397,915	409,470	421,169	432,999	444,946
272,477	279,701	286,917	294,105	301,242	308,302	315,258	322,078
465,193	479,361	493,757	508,367	523,179	538,181	553,354	568,679
3,584	3,692	3,803	3,917	4,035	4,156	4,281	4,409
(2,913)	(3,022)	(3,136)	(3,253)	(3,371)	(3,493)	(3,618)	(3,744)
3,743	3,855	3,971	4,090	4,213	4,339	4,469	4,603
(2,913)	(3,022)	(3,136)	(3,253)	(3,371)	(3,493)	(3,618)	(3,744)
(15,957)	(16,595)	(17,259)	(17,949)	(18,667)	(19,414)	(20,191)	(20,999)
9,506	9,791	10,085	10,388	10,700	11,021	11,352	11,693
6,448	6,641	6,840	7,045	7,256	7,474	7,698	7,929
17,509	18,036	18,572	19,116	19,666	20,223	20,786	21,354
16,733	17,170	17,607	18,041	18,471	18,896	19,313	19,721
28,623	29,488	30,367	31,259	32,162	33,077	34,001	34,934
375,285	386,517	397,915	409,470	421,169	432,999	444,946	456,994
279,701	286,917	294,105	301,242	308,302	315,258	322,078	328,729
479,361	493,757	508,367	523,179	538,181	553,354	568,679	584,138
475,150	489,418	503,898	518,578	533,446	548,483	563,670	578,991
104,076	107,240	110,452	113,709	117,012	120,355	123,733	127,144
199,660	206,840	214,262	221,937	229,879	238,096	246,601	255,409
99,865	102,901	105,983	109,108	112,277	115,484	118,724	121,997
127.7%	127.7%	127.8%	127.8%	127.8%	127.8%	127.8%	127.8%
171.4%	172.1%	172.9%	173.7%	174.6%	175.5%	176.6%	177.7%
126.6%	126.6%	126.6%	126.6%	126.7%	126.7%	126.7%	126.7%
22,211	22,883	23,565	24,257	24,958	25,668	26,385	27,109
28,623	29,488	30,367	31,259	32,162	33,077	34,001	34,934
6,412	6,605	6,802	7,002	7,204	7,409	7,616	7,825
2,137	2,202	2,267	2,334	2,401	2,470	2,539	2,608
4,211	4,339	4,469	4,601	4,735	4,871	5,009	5,147
6,044	6,272	6,505	6,741	6,985	7,235	7,488	7,749

3,022	3,136	3,253	3,371	3,493	3,618	3,744	3,875
-77.8%	-78.4%	-79.0%	-79.5%	-80.0%	-80.5%	-80.9%	-81.3%

2050	2051	2052	2053	2054	2055	2056	2057
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
456,994	469,126	481,321	493,557	505,811	518,057	530,267	542,410
328,729	335,175	341,376	347,287	352,861	358,046	362,785	367,017
584,138	599,706	615,361	631,074	646,814	662,548	678,242	693,856
4,541	4,677	4,817	4,962	5,111	5,264	5,422	5,585
(3,875)	(4,006)	(4,141)	(4,280)	(4,420)	(4,562)	(4,706)	(4,853)
4,741	4,883	5,029	5,180	5,335	5,495	5,660	5,830
(3,875)	(4,006)	(4,141)	(4,280)	(4,420)	(4,562)	(4,706)	(4,853)
(21,839)	(22,713)	(23,622)	(24,567)	(25,550)	(26,572)	(27,635)	(28,740)
12,044	12,405	12,777	13,160	13,555	13,962	14,381	14,812
8,167	8,412	8,664	8,924	9,192	9,468	9,752	10,045
21,927	22,503	23,081	23,661	24,241	24,820	25,397	25,969
20,118	20,502	20,869	21,217	21,543	21,843	22,115	22,354
35,874	36,820	37,771	38,724	39,678	40,630	41,579	42,521
469,126	481,321	493,557	505,811	518,057	530,267	542,410	554,451
335,175	341,376	347,287	352,861	358,046	362,785	367,017	370,676
599,706	615,361	631,074	646,814	662,548	678,242	693,856	709,347
594,419	609,933	625,505	641,103	656,694	672,245	687,717	703,067
130,580	134,040	137,517	141,003	144,491	147,975	151,446	154,896
264,531	273,985	283,787	293,953	304,502	315,457	326,839	338,671
125,293	128,612	131,948	135,292	138,637	141,978	145,307	148,616
127.8%	127.8%	127.9%	127.9%	127.9%	127.9%	127.9%	127.9%
178.9%	180.3%	181.7%	183.3%	185.0%	187.0%	189.1%	191.4%
126.7%	126.7%	126.7%	126.7%	126.8%	126.8%	126.8%	126.8%
27,838	28,572	29,310	30,050	30,790	31,529	32,265	32,996
35,874	36,820	37,771	38,724	39,678	40,630	41,579	42,521
8,036	8,248	8,461	8,674	8,888	9,101	9,314	9,525
2,679	2,749	2,820	2,891	2,963	3,034	3,105	3,175
5,287	5,428	5,569	5,711	5,854	5,997	6,139	6,280
8,012	8,282	8,559	8,840	9,123	9,412	9,705	10,004

4,006	4,141	4,280	4,420	4,562	4,706	4,853	5,002
-81.7%	-82.0%	-82.3%	-82.6%	-82.8%	-83.0%	-83.1%	-83.2%

2058	2059	2060	2061	2062	2063	2064	2065
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
554,451	566,353	578,076	589,577	600,809	611,721	622,256	632,356
370,676	373,689	375,976	377,454	378,030	377,605	376,071	373,312
709,347	724,666	739,763	754,582	769,063	783,144	796,752	809,811
5,753	5,926	6,104	6,287	6,476	6,670	6,870	7,076
(5,002)	(5,153)	(5,305)	(5,459)	(5,612)	(5,767)	(5,923)	(6,078)
6,005	6,185	6,371	6,562	6,759	6,962	7,171	7,386
(5,002)	(5,153)	(5,305)	(5,459)	(5,612)	(5,767)	(5,923)	(6,078)
(29,890)	(31,086)	(32,329)	(33,622)	(34,967)	(36,366)	(37,821)	(39,334)
15,256	15,714	16,185	16,671	17,171	17,686	18,217	18,764
10,346	10,656	10,976	11,305	11,644	11,993	12,353	12,724
26,536	27,095	27,645	28,183	28,708	29,215	29,704	30,170
22,557	22,717	22,831	22,893	22,898	22,839	22,709	22,500
43,455	44,377	45,283	46,171	47,037	47,876	48,684	49,456
566,353	578,076	589,577	600,809	611,721	622,256	632,356	641,956
373,689	375,976	377,454	378,030	377,605	376,071	373,312	369,202
724,666	739,763	754,582	769,063	783,144	796,752	809,811	822,239
718,246	733,205	747,888	762,235	776,185	789,665	802,601	814,911
158,313	161,687	165,005	168,254	171,423	174,496	177,455	180,283
350,977	363,787	377,128	391,033	405,539	420,681	436,499	453,037
151,893	155,129	158,311	161,426	164,464	167,409	170,245	172,955
128.0%	128.0%	128.0%	128.0%	128.0%	128.0%	128.1%	128.1%
193.9%	196.8%	199.9%	203.4%	207.4%	211.9%	216.9%	222.7%
126.8%	126.8%	126.9%	126.9%	126.9%	126.9%	126.9%	126.9%
33,721	34,437	35,140	35,829	36,501	37,152	37,779	38,378
43,455	44,377	45,283	46,171	47,037	47,876	48,684	49,456
9,734	9,940	10,143	10,342	10,536	10,724	10,905	11,078
3,245	3,313	3,381	3,447	3,512	3,575	3,635	3,693
6,420	6,558	6,694	6,828	6,959	7,087	7,210	7,328
10,305	10,610	10,917	11,224	11,534	11,845	12,156	12,466

5,153	5,305	5,459	5,612	5,767	5,923	6,078	6,233
-83.3%	-83.3%	-83.3%	-83.2%	-83.0%	-82.8%	-82.6%	-82.3%

2066
6.25%
4.85%
6.25%
3.00%
4.00%
641,956
369,202
822,239
7,288
(6,233)
7,608
(6,233)
(40,907)
19,327
13,106
30,612
22,206
50,188
650,988
363,607
833,950
826,510
182,962
470,343
175,522
128.1%
229.4%
127.0%
38,946
50,188
11,242
3,747
7,440
12,775

-81.9%

From: Fong, Pauline (TBS) []
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 13:23:50

The Province follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada.

An accounting valuation is performed using the Province's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit earned over the employees' working life. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

From: Hosick, Sarah (TBS)
Sent: October-19-16 12:55 PM
To: Pomykacz, Rob (MOF); Veinot, Cindy (TBS); Fong, Pauline (TBS)

Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks – Pauline can you send me an updated version of the response with Cindy's comments incorporated?

From: Pomykacz, Rob (MOF)
Sent: October-19-16 12:13 PM
To: Veinot, Cindy (TBS); Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

The OTPP and the OTF websites both make reference to the use of part of the $13.2 billion surplus to partially restore inflation protection, but neither seems to cite the $4.5 billion figure. So it doesn't appear to be in the public domain at the moment.

Rob

From: Veinot, Cindy (TBS)
Sent: October 19, 2016 11:50 AM
To: Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Is the $4.5 Billion public information – e.g. is it on the OTPP site? If not, I would prefer to keep the $13.2 and use the word preliminary – please confirm.

Cindy

From: Fong, Pauline (TBS)
Sent: October-19-16 10:31 AM
To: Hosick, Sarah (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

One more edit from me, I added the word “earned” over the employees’ working life.

From: Hosick, Sarah (TBS)
Sent: October-19-16 10:25 AM
To: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks – Cindy please let me know if you are ok with the answer as it currently stands.

From: Fong, Pauline (TBS)
Sent: October-19-16 10:22 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

In light of Rob’s comments, I added a bit more explanation below. Please review and provide any further comments.

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My edits are in green. If you have a chance please review and provide any further comments.

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Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
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Hi Pauline,

Lots of interest on this one this morning…DMO has some questions/clarifications in red. Can we see what we can clarify for them by 10am? (sorry for the tight turnaround)

Let me know if any questions

Thanks

Sarah

The Provinces (all of them?) follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada. (who writes these standards, so we can reinforce legitimacy)

An accounting valuation is performed using the Province's management's (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered earned over the employees' working life. (what does this previous sentence mean, thinking of a public audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

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Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

Many thanks,

Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

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Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks Niki!

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Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

Working with program area on getting you a response to the 6.25% discount rate

Thanks

From: Smith, Emilie (TBS)

Sent: October-18-16 10:34 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah and Niki,

Checking in on this request. I know there's a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 9:47 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

-Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 9:19 AM
To: Smith, Emilie (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Same on our end – we don't have this information offhand. Program area here will see if this is something we can help calculate or shed light on today.

Thanks,

Sarah

From: Smith, Emilie (TBS)
Sent: October-18-16 9:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Thanks Niki! I'll let the MO know to expect the response tomorrow morning.

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 9:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Emilie

We need more time with this. Program area is working on a TB/MBC submission and prepping for a DM briefing this morning

From: Smith, Emilie (TBS)
Sent: October-18-16 9:08 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Sarah and Niki,

Checking in to see if it's possible to provide this information this morning to the MO?

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 8:11 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)

Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn’t on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial

government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been

netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 13:07:23

OTF website essentially has the same wording. Members can request the valuation and to that extent it could become public. As I noted in my response, that number doesn't seem to be in the public domain at the moment.

From: Killoch, Alex (MOF)
Sent: October 19, 2016 1:05 PM
To: Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: Re: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

What does the otf web page say? They put a press release out.

It is public to extent someone asks for it from fsco?

From: Pomykacz, Rob (MOF)

Sent: Wednesday, October 19, 2016 12:12 PM

To: Veinot, Cindy (TBS); Fong, Pauline (TBS); Hosick, Sarah (TBS)

Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

The OTPP and the OTF websites both make reference to the use of part of the $13.2 billion surplus to partially restore inflation protection, but neither seems to cite the $4.5 billion figure. So it doesn't appear to be in the public domain at the moment.

Rob

From: Veinot, Cindy (TBS)
Sent: October 19, 2016 11:50 AM
To: Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Is the $4.5 Billion public information – e.g. is it on the OTPP site? If not, I would prefer to keep the $13.2 and use the word preliminary – please confirm.

Cindy

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Cc: Pomykacz, Rob (MOF)
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Working with program area on getting you a response to the 6.25% discount rate

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 10:34 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah and Niki,

Checking in on this request. I know there’s a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

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Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

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Subject: RE: MO Question: Pension Asset Value - 10 am deadline

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Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record

Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp

up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

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Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Tone: Negative
Ad Value: $2,562
Circulation: 63,465

Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets.

This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Hosick, Sarah (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 12:55:04

Thanks – Pauline can you send me an updated version of the response with Cindy's comments incorporated?

From: Pomykacz, Rob (MOF)
Sent: October-19-16 12:13 PM
To: Veinot, Cindy (TBS); Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

The OTPP and the OTF websites both make reference to the use of part of the $13.2 billion surplus to partially restore inflation protection, but neither seems to cite the $4.5 billion figure. So it doesn't appear to be in the public domain at the moment.

Rob

From: Veinot, Cindy (TBS)
Sent: October 19, 2016 11:50 AM
To: Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Is the $4.5 Billion public information – e.g. is it on the OTPP site? If not, I would prefer to keep the $13.2 and use the word preliminary – please confirm.

Cindy

From: Fong, Pauline (TBS)
Sent: October-19-16 10:31 AM
To: Hosick, Sarah (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

One more edit from me, I added the word “earned” over the employees’ working life.

From: Hosick, Sarah (TBS)
Sent: October-19-16 10:25 AM
To: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks – Cindy please let me know if you are ok with the answer as it currently stands.

From: Fong, Pauline (TBS)
Sent: October-19-16 10:22 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

In light of Rob’s comments, I added a bit more explanation below. Please review and provide any further comments.

From: Fong, Pauline (TBS)
Sent: October-19-16 9:43 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

My edits are in green. If you have a chance please review and provide any further comments.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 9:07 AM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline,

Lots of interest on this one this morning…DMO has some questions/clarifications in red. Can we see what we can clarify for them by 10am? (sorry for the tight turnaround)

Let me know if any questions

Thanks

Sarah

The Provinces (all of them?) follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada. (who writes these standards, so we can reinforce legitimacy)

An accounting valuation is performed using the Province's management's (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered earned over the employees' working life. (what does this previous sentence mean, thinking of a public audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). (do the plans have websites or the pension organizations - what can we call them) The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why – the fact is mentioned in the two paragraphs above), the discount rates and the methodologies used for the valuations differ.

From: Fong, Pauline (TBS)
Sent: October-19-16 8:45 AM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

The $13.2 billion and $8 million are using the discount rates of the plans itself and not the province's rates. The surplus for the plans are based on the plans funding valuation. We do not have the actuarial information to calculate the net pension assets for accounting purposes using the individual plan rates.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 8:29 AM
To: Fong, Pauline (TBS)
Subject: Fw: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

Many thanks,

Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie,

Please see below for the response prepared by OPCD:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating their

pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

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Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

Thanks,

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Hi Emilie

I have confirmed with program area that TCSB is not able to answer any of these - this is an OPCD lead

Thanks

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From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been

netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Pomykacz, Rob (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 12:12:49

The OTPP and the OTF websites both make reference to the use of part of the $13.2 billion surplus to partially restore inflation protection, but neither seems to cite the $4.5 billion figure. So it doesn't appear to be in the public domain at the moment.

Rob

From: Veinot, Cindy (TBS)
Sent: October 19, 2016 11:50 AM
To: Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Is the $4.5 Billion public information – e.g. is it on the OTPP site? If not, I would prefer to keep the $13.2 and use the word preliminary – please confirm.

Cindy

From: Fong, Pauline (TBS)
Sent: October-19-16 10:31 AM
To: Hosick, Sarah (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

One more edit from me, I added the word “earned” over the employees’ working life.

From: Hosick, Sarah (TBS)
Sent: October-19-16 10:25 AM
To: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks – Cindy please let me know if you are ok with the answer as it currently stands.

From: Fong, Pauline (TBS)
Sent: October-19-16 10:22 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

In light of Rob’s comments, I added a bit more explanation below. Please review and provide any further comments.

From: Fong, Pauline (TBS)
Sent: October-19-16 9:43 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

My edits are in green. If you have a chance please review and provide any further

comments.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 9:07 AM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline,

Lots of interest on this one this morning…DMO has some questions/clarifications in red. Can we see what we can clarify for them by 10am? (sorry for the tight turnaround)

Let me know if any questions

Thanks

Sarah

The Provinces (all of them?) follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada. (who writes these standards, so we can reinforce legitimacy)

An accounting valuation is performed using the Province's ~~management~~'s (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit ~~obligations to the period related to services that have been rendered~~ earned over the employees' working life. (what does this previous sentence mean, thinking of a public audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). (do the plans have websites or the pension organizations - what can we call them) The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of $~~13.2~~ billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why – the fact is mentioned in the two paragraphs above), the discount rates and the methodologies used for the valuations differ.

From: Fong, Pauline (TBS)
Sent: October-19-16 8:45 AM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

The $13.2 billion and $8 million are using the discount rates of the plans itself and not the province's rates. The surplus for the plans are based on the plans funding valuation. We do not have the actuarial information to calculate the net pension assets for accounting purposes using the individual plan rates.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 8:29 AM
To: Fong, Pauline (TBS)
Subject: Fw: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

Many thanks,

Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie,

Please see below for the response prepared by OPCD:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The OTPP and OSPEUPP discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans. The most recent funding

valuation for OTPP (as of January 1, 2016) reported a funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

Thanks,

Sarah

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:22 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

I have confirmed with program area that TCSB is not able to answer any of these - this is an OPCD lead

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 11:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks Niki!

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

Working with program area on getting you a response to the 6.25% discount rate

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 10:34 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah and Niki,

Checking in on this request. I know there’s a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 9:47 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

-Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 9:19 AM
To: Smith, Emilie (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Same on our end – we don't have this information offhand. Program area here will see if this is something we can help calculate or shed light on today.

Thanks,

Sarah

From: Smith, Emilie (TBS)
Sent: October-18-16 9:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Thanks Niki! I'll let the MO know to expect the response tomorrow morning.

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 9:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Emilie

We need more time with this. Program area is working on a TB/MBC submission and prepping for a DM briefing this morning

From: Smith, Emilie (TBS)
Sent: October-18-16 9:08 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Sarah and Niki,

Checking in to see if it's possible to provide this information this morning to the MO?

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 8:11 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using

the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about

$21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province

did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Pomykacz, Rob (MOF) []
To: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 10:05:47

Hi Sarah,

We'd like to clarify one point made in the response below. In the last line of the second paragraph, it is noted that the OTPP valuation as at January 1, 2016 reported a $13.2 billion surplus.

The $13.2 billion surplus was reported in the TPP's "preliminary" valuation. The preliminary valuation is prepared by the plan actuary in February each year before the sponsors decide whether to use any of the surplus to, for example, improve benefits. Later in 2016, the sponsors decided to use about $8.5 billion of the surplus to restore inflation protection, leaving about $4.5 billion surplus in the plan. The valuation was filed with the regulator with a $4.5 billion surplus, so that is the amount that should be referenced in the response below.

Please let us know if you have any questions.

Rob

From: Hosick, Sarah (TBS)
Sent: October 19, 2016 9:07 AM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

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Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why), the discount rates and the methodologies used for the valuations differ.

From: Fong, Pauline (TBS)
Sent: October-19-16 8:45 AM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

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Sent: October-19-16 8:29 AM
To: Fong, Pauline (TBS)
Subject: Fw: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

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Emilie

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Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie,

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Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

Thanks,

Sarah

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:22 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

I have confirmed with program area that TCSB is not able to answer any of these - this is an OPCD lead

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 11:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks Niki!

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:15 AM
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Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

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Working with program area on getting you a response to the 6.25% discount rate

Thanks

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Cc: @TBS-L-Issues and Media
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah and Niki,

Checking in on this request. I know there's a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 9:47 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

-Emilie

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Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Same on our end – we don't have this information offhand. Program area here will see if this is something we can help calculate or shed light on today.

Thanks,

Sarah

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To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Thanks Niki! I'll let the MO know to expect the response tomorrow morning.

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 9:15 AM
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Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Emilie

We need more time with this. Program area is working on a TB/MBC submission and prepping for a DM briefing this morning

From: Smith, Emilie (TBS)
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To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
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Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Sarah and Niki,

Checking in to see if it's possible to provide this information this morning to the MO?

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 8:11 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM

To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation

on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees'

Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Hosick, Sarah (TBS) []
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 13:44:28

Thank you!

From: Fong, Pauline (TBS)
Sent: October-19-16 1:24 PM
To: Hosick, Sarah (TBS); Pomykacz, Rob (MOF); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

The Province follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada.

An accounting valuation is performed using the Province's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit earned over the employees' working life. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

From: Hosick, Sarah (TBS)
Sent: October-19-16 12:55 PM
To: Pomykacz, Rob (MOF); Veinot, Cindy (TBS); Fong, Pauline (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks – Pauline can you send me an updated version of the response with Cindy's comments incorporated?

From: Pomykacz, Rob (MOF)
Sent: October-19-16 12:13 PM
To: Veinot, Cindy (TBS); Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

The OTPP and the OTF websites both make reference to the use of part of the $13.2 billion surplus to partially restore inflation protection, but neither seems to cite the $4.5 billion figure. So it doesn't appear to be in the public domain at the moment.

Rob

From: Veinot, Cindy (TBS)
Sent: October 19, 2016 11:50 AM
To: Fong, Pauline (TBS); Hosick, Sarah (TBS)

Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Is the $4.5 Billion public information – e.g. is it on the OTPP site? If not, I would prefer to keep the $13.2 and use the word preliminary – please confirm.

Cindy

From: Fong, Pauline (TBS)
Sent: October-19-16 10:31 AM
To: Hosick, Sarah (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

One more edit from me, I added the word “earned” over the employees’ working life.

From: Hosick, Sarah (TBS)
Sent: October-19-16 10:25 AM
To: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks – Cindy please let me know if you are ok with the answer as it currently stands.

From: Fong, Pauline (TBS)

Sent: October-19-16 10:22 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

In light of Rob's comments, I added a bit more explanation below. Please review and provide any further comments.

From: Fong, Pauline (TBS)
Sent: October-19-16 9:43 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

My edits are in green. If you have a chance please review and provide any further comments.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 9:07 AM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline,

Lots of interest on this one this morning…DMO has some questions/clarifications in red. Can we see what we can clarify for them by 10am? (sorry for the tight turnaround)

Let me know if any questions

Thanks

Sarah

The Province~~s~~ (all of them?) follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada. (who writes these standards, so we can reinforce legitimacy)

An accounting valuation is performed using the Province's ~~management~~'s (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit ~~obligations to the period related to services that have been rendered~~ earned over the employees' working life. (what does this previous sentence mean, thinking of a public audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans

(https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). (do the plans have websites or the pension organizations - what can we call them) The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of ~~$13.2~~ billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why – the fact is mentioned in the two paragraphs above), the discount rates and the methodologies used for the valuations differ.

From: Fong, Pauline (TBS)
Sent: October-19-16 8:45 AM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

The $13.2 billion and $8 million are using the discount rates of the plans itself and not the province's rates. The surplus for the plans are based on the plans funding valuation. We do not have the actuarial information to calculate the net pension assets for accounting purposes using the individual plan rates.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 8:29 AM
To: Fong, Pauline (TBS)
Subject: Fw: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

Many thanks,

Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am

deadline

Hi Emilie,

Please see below for the response prepared by OPCD:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

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Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

Thanks,

Sarah

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Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

I have confirmed with program area that TCSB is not able to answer any of these - this is an OPCD lead

Thanks

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Thanks Niki!

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Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

Working with program area on getting you a response to the 6.25% discount rate

Thanks

From: Smith, Emilie (TBS)
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Cc: @TBS-L-Issues and Media
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Hi Sarah and Niki,

Checking in on this request. I know there's a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

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Cc: @TBS-L-Issues and Media
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Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

-Emilie

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Same on our end – we don't have this information offhand. Program area here will see if this is something we can help calculate or shed light on today.

Thanks,

Sarah

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Thanks Niki! I'll let the MO know to expect the response tomorrow morning.

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We need more time with this. Program area is working on a TB/MBC submission and prepping for a DM briefing this morning

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Hi Sarah and Niki,

Checking in to see if it's possible to provide this information this morning to the MO?

Many thanks,

Emilie

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To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)

Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension

Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Myers, Leah (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: New Release on Public Accounts
Date: Thursday, October 06, 2016 14:45:24
Attachment 1: image001.jpg

Ok, thanks

From: Killoch, Alex (MOF)
Sent: October-06-16 2:43 PM
To: Myers, Leah (MOF)
Cc: Talwar, Garima (MOF)
Subject: Re: New Release on Public Accounts

It is expected that I will provide some.

I think EDU will do a lot on the Teachers access to surplus and funding policy but we will have to do some work on our discount rate assumptions, which drive part of the issue.

Also, HOOPP is a larger issue. If the discussion remains one of access to surplus, we are going to need to explain a bit about our relationship with HOOPP. Allan has already flagged that we are unlikely to be able to argue that HOOPP or CAAT should be treated the same as TPP as we are not a sponsor and have no access to any surplus.

Nadine tells me they are thinking a report back by mid-december. They will need to be that quick to leave time for the 2017 budget process.

There is an open discussion at the moment regarding how to show this in FES and Budget.

A

From: Myers, Leah (MOF)

Sent: Thursday, October 6, 2016 2:37 PM

To: Killoch, Alex (MOF); Talwar, Garima (MOF)

Subject: RE: New Release on Public Accounts

Is it expected that you would have to provide any support/advice to the independent expert panel? Do you know the timeframe for its work? Just wondering…

From: Killoch, Alex (MOF)
Sent: October-06-16 2:25 PM
To: Myers, Leah (MOF); Talwar, Garima (MOF)
Subject: FW: New Release on Public Accounts

Progress, the AG has qualified her opinion, even though the government adopted her financial position.

This will allow the public accounts to be tabled with a $5 billion deficit.

News Release

Ontario Releases 2015-16 Public Accounts

Expert Panel to Review Accounting Standards

October 6, 2016 1:15 P.M.

Treasury Board Secretariat

Ontario's Annual Report and Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

The government has received the Auditor General's opinion on the 2015-16 Public Accounts of Ontario, enabling it to release them. The results reported in the Public Accounts are identical to the unaudited financial statements released earlier this week. They confirm Ontario has beaten its annual deficit target for the seventh year in a row.

The Auditor General has provided her opinion, which says that the 2015-16 results are fairly stated but qualifies her opinion for lack of restatement of the 2014-15 results.

In preparing the Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of the Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.

The Auditor General's qualified opinion is based on the government's decision to report the accounting change in 2015-16 without restating the prior year's results. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt.

The Auditor General's qualification relates only to the presentation of the 2014-15

comparative financial information. There is no impact on the 2015-16 annual deficit, accumulated deficit or net debt as illustrated in the table below.

($ millions)

Annual Deficit

2014-15

Accumulated Deficit

2014-15

Net Debt

2014-15

Annual Deficit

2015-16

Accumulated Deficit

2015-16

Net Debt

2015-16

Province's 2015-16 financial statements

10,315

187,511

284,576

5,029

202,697

305,233

Auditor General's 2015-16 opinion

11,268

196,665

293,730

5,029

202,697

305,233

Auditor General's 2014-15 opinion

10,315

187,511

284,576

n/a

n/a

n/a

The government is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets.

Panel members will also provide advice on how to value pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors. The report is expected later this year.

Responsible financial management is part of our plan to create jobs, grow our economy and help people in their everyday lives.

Quick Facts

- Public Accounts are a retrospective report that compares Ontario’s actual performance to what was planned in the Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board.

Additional Resources

- Read the 2015-16 Public Accounts and explore supplementary information available through new data visualization tools
- Watch a video explaining Public Accounts
- Learn about the government's fiscal cycle

Quotes

https://news.ontario.ca/profiles/en/liz-sandals

"I wish to thank the Auditor General for providing her audit opinion of the 2015-16 Public Accounts. The Public Accounts confirm this is the seventh year in a row that Ontario has beaten its annual deficit target. Ontario remains committed to balancing the budget in 2017-18 while remaining balanced in 2018-19."

Liz Sandals

President of the Treasury Board

Media Contacts

From: Kaufman, Paul (TBS) []
To: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Smook, Nick (TBS) [Nick.Smook@ontario.ca]; Duffy, Stephen (TBS) [Stephen.Duffy@ontario.ca]
Subject: RE: Now they're resurfacing the leg acctg optionm
Date: Monday, September 26, 2016 15:52:02

They did – where it was left was we were waiting for your shop to confirm comfort with wording re: JSPPs (then this option fell off the table). Will flip you where the chain ended.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Provis, Ian (TBS)
Sent: September-26-16 3:49 PM
To: Killoch, Alex (MOF); Kaufman, Paul (TBS)
Cc: Smook, Nick (TBS)
Subject: FW: Now they're resurfacing the leg acctg optionm

Paul – News from the meeting today – discussion on the reg on accounting treatment again. Where did this land – did Leg council do a draft

Ian Provis

' 416.327.2722 | 8 ian.provis@ontario.ca

From: Petsche, Nadine (TBS)
Sent: Monday, September 26, 2016 3:33 PM
To: Provis, Ian (TBS); Sun, Alicia (TBS); Patel, Bharat (TBS); Fong, Pauline (TBS)
Subject: Now they're resurfacing the leg acctg optionm

Ian-. Please work with LSB/MAG ASAP

Bharat/Alicia, please prep CFS and FSDA with the additional note disclosure and Intro/Foreword versions

From: Pomykacz, Rob (MOF) []
To: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: OPSEU Contribution Level
Date: Wednesday, February 15, 2017 13:12:23

Hi Nelson,

Yes, plan members and the government equally share the normal cost. In terms of whether the government has taken a contribution holiday, it would be best to ask the pension folks at TBS. You could email Karen Elstone or call her at 327-3828. She will be able to track down that information for you.

Thanks,

Rob

From: Tam, Nelson (TBS)
Sent: February 15, 2017 12:04 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OPSEU Contribution Level

Alex, Rob

We are currrently drafting a memo for the Minister in response to the Mr. Thomas' press release regarding the Province trying to take the surplus assets out of the OPSEUPP.

We have a question – currently, is the contributions made by the Province and the employees equal? We understand that the surplus is divided equally and each sponsor can deccide how to "use" the surplus. We were wondering if the province has taken a contribution holiday.

Not sure if you will know or you have someone that may be of assistance in answering

this question.

Thanks

Nelson

X20514

From: Killoch, Alex (MOF) []
To: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: OPSEU Contribution Level
Date: Wednesday, February 15, 2017 13:22:26

Hi Nelson

I have not seen the press release, but either way, you will need to connect with TBS staff on the OPSEUPP. They are best positioned to speak to the issue, and Mr Thomas is their stakeholder, as well.

I am not sure who is best staff person to contact, at the moment.

Alex

From: Tam, Nelson (TBS)
Sent: February 15, 2017 12:04 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OPSEU Contribution Level

Alex, Rob

We are currrently drafting a memo for the Minister in response to the Mr. Thomas' press release regarding the Province trying to take the surplus assets out of the OPSEUPP.

We have a question – currently, is the contributions made by the Province and the

employees equal? We understand that the surplus is divided equally and each sponsor can deccide how to “use” the surplus. We were wondering if the province has taken a contribution holiday.

Not sure if you will know or you have someone that may be of assistance in answering this question.

Thanks

Nelson

X20514

From: Pomykacz, Rob (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: OTF Financial Statements
Date: Friday, September 16, 2016 11:15:14

Hi Nadine,

If I understand correctly what is being asked, the OTF would not have audited financial statements relating to the OTPP. The OTF is merely an umbrella organization whose mandate it is to represent all teachers in pension discussions/negotiations.

Please let me know if you have any questions.

Thanks,

Rob

From: Petsche, Nadine (TBS)
Sent: September 16, 2016 10:01 AM
To: Pomykacz, Rob (MOF)
Subject: FW: OTF Financial Statements

Hi Rob.

Just wondering if we might have these f/s? n

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September 16, 2016 9:57 AM
To: Petsche, Nadine (TBS)
Subject: OTF Financial Statements

Does the Province have financial statements that are audited for OTF?

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: OTPP
Date: Thursday, September 15, 2016 16:19:30

It is done.

Minister looked like he needed a hug when he got back to Frost

P does not want to regulate is the rumour

From: Paul, Joshua (EDU)
Sent: Thursday, September 15, 2016 4:18 PM
To: Killoch, Alex (MOF)
Subject: Re: OTPP

Is the P briefing still on?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Thursday, September 15, 2016 4:13 PM

To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)

Cc: Paul, Joshua (EDU)

Subject: OTPP

Hi Matt

As discussed, attached are excerpts from a few documents that might help with your analysis.

From the 2000 Financials – p. 17-18

Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;

(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost

of $8.45 billion; and

(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008.

From this summary of Key funding Decisions

A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor

window from 1998 to 2002 and further lower the CPP reduction to 0.6%;

$4.6 billion to reduce the value of special payments owed by the Ontario government.

OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

From the Annual Report 2000 (pg. 6)

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability.

This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion. The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to improve benefits.

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: OTPP
Date: Tuesday, September 13, 2016 08:55:54

Happy to look your response over.

I have time with my MO at 2pm and will raise the issue then

From: Paul, Joshua (EDU)
Sent: Tuesday, September 13, 2016 8:51 AM
To: Killoch, Alex (MOF)
Subject: Re: OTPP

Oops. Actually I think she wanted me to respond even though it's sent to you.

I'll send you what I 'll respond to her before i send to her.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Paul, Joshua (EDU)

Sent: Tuesday, September 13, 2016 8:49 AM

To: Killoch, Alex (MOF)

Subject: Re: OTPP

Great. Want us to review your response to Cindy before you share?

My DM and MO have given green light to share those docs officially. My MO may have contacted yours and TBS's.

Go team!

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Tuesday, September 13, 2016 8:39 AM

To: Paul, Joshua (EDU)

Subject: FW: OTPP

I will look at what you are proposing to share now

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: Monday, September 12, 2016 9:52 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

The numbers do match. Here is part of the balance sheet from the actuarial report

Plus:

Reduction in present value of benefits to reflect less than 100% indexing for service after December 31, 2009 (up to 50% indexing): $5,947

Present value of special contributions receivable from province and other employers in respect of benefit reduction due to conditional indexing: $5,947

Reduction in present value of benefits to reflect less than 50% indexing for service after December 31, 2013: $0

Allan H. Shapira, FSA, FCIA | Managing Director
Aon Hewitt Canada
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: OTPP
Date: Wednesday, September 21, 2016 13:05:12

Good point. Will do in the future.

-----Original Message-----
From: Killoch, Alex (MOF)
Sent: September 21, 2016 12:45 PM
To: Pomykacz, Rob (MOF)
Subject: Re: OTPP

Try to keep edu on everything so that there is no daylight. So far, we have done well. It will help Josh at ag meeting if he sees everything

Original Message
From: Pomykacz, Rob (MOF)
Sent: Wednesday, September 21, 2016 11:57 AM
To: Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF)
Subject: FW: OTPP

Hi Nadine,

As requested, please find information below from Allan Shapira on the "Call Right" provision under the term sheet.

Thanks,
Rob

-----Original Message-----
From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September 21, 2016 10:27 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

I am responding to the questions on the surplus credits under the term sheet.

It is important to understand the purpose of the term sheet. The OTF and the government entered into this agreement to freeze any increase in contribution rates for a specified period. That meant that if the plan funding deteriorated during this perIod such that an actuarial report identified a funding shortfall that had to be addressed by the sponsors, this shortfall would have to be addressed by benefit reductions for future service.

If there were benefit reductions, the term sheet created a corresponding surplus credit that could be used by the OTF if and when the plan was in surplus. There have been no material benefit reductions to date nor are any anticipated now that the next required filing is after the expiration of the term sheet. Any credit that exists would be a negligible amount.

Allan

Sent from my iPhone

****
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From: Keates, James (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: OTPP Funding Valuation
Date: Tuesday, November 08, 2016 10:59:52
Attachment 1: image001.jpg

Thanks Rob. Tomorrow will be fine.

Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

From: Pomykacz, Rob (MOF)
Sent: Tuesday, November 08, 2016 9:59 AM
To: Keates, James (TBS); Tsang, Ingrid (MOF)
Cc: Killoch, Alex (MOF)
Subject: RE: OTPP Funding Valuation

Hi Jim,

Thanks for forwarding the revised version to us. Ingrid is not in the office today, but will get back to you with any additional comments tomorrow morning. I hope that timing works for you.

Thanks,

Rob

From: Keates, James (TBS)
Sent: November 7, 2016 11:52 AM
To: Tsang, Ingrid (MOF)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: OTPP Funding Valuation

Hi Ingrid, thanks very much for your help.

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Thanks again,

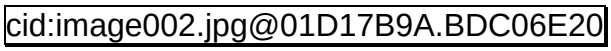
Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721



From: Tsang, Ingrid (MOF)
Sent: Friday, November 04, 2016 3:13 PM
To: Keates, James (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: OTPP Funding Valuation

Hi Jim,

It was very nice talking to you today. Attached are our comments. We would appreciate the opportunity to see the next version once you've had the opportunity to incorporate our suggested changes.

Many thanks,
Ingrid

From: Keates, James (TBS) <James.Keates@ontario.ca>

Sent: Friday, October 28, 2016 2:10 PM

To: Killoch, Alex (MOF)

Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS)

Subject: OTPP Funding Valuation

Alex, I am working on a paper for the Pension Asset Expert Advisory Panel.

We have prepared a summary of the similarities and differences in valuation assumptions and methodologies for OTPP under their funding valuation relative to their Part IV and PSAS valuations. Could you confirm the descriptions below are correct?

Thanks

Jim

Appendix I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public

Sector Accounting Standards.

Assumption/ methodology

Funding valuation

(Going concern basis)

Accounting Part IV –

(OTPP Financial statements)

Accounting PSAS –

(Province Financial statements)

Purpose

To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits

Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.

Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.

Actuarial cost method

[To confirm – not clear from the valuation report]

Projected benefit method prorated on services

Asset valuation

The actuary should select an asset valuation method that is consistent with the circumstances of the work.

The value of assets may be, subject to specific requirements for different types of valuation, any of:

• Their market value;

• Their market value adjusted to moderate volatility in investment returns;

• The present value of their cash flows after the calculation date; and

• Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values

[To confirm the approach taken in OTPP funding valuation][NP1]

Fair value for all plan assets.

Fair value is determined in accordance with IFRS 13, *Fair value measurement*.

Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently.

The Province uses adjusted market values for some classes of assets in certain plans.

Discount rate

Best estimate less Margins for adverse deviations and expenses where appropriate.

For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work

To confirm the approach taken in OTPP funding valuation][NP2]

In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.

Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists.

Per their financial statements OTPP uses a discount rate based on bonds issued by the

Province of Ontario.

Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[1]

The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.

Underlying population data

All valuation methodologies should use consistent underlying data of the population covered by the plan

Inflation rate

All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate).

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Demographic assumptions

All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Other economic assumptions

All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?][NP3]

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[1] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

[NP1]Opcd to confirm with Alex Killoch

[NP2]OPCD to confirm with Alex Killoch

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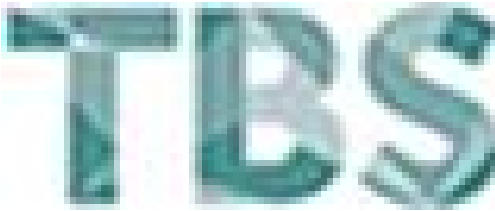
TBS

From: Pomykacz, Rob (MOF) []
To: Keates, James (TBS) [James.Keates@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: OTPP Funding Valuation
Date: Tuesday, November 08, 2016 10:58:34

Hi Jim,

Thanks for forwarding the revised version to us. Ingrid is not in the office today, but will get back to you with any additional comments tomorrow morning. I hope that timing works for you.

Thanks,

Rob

From: Keates, James (TBS)
Sent: November 7, 2016 11:52 AM
To: Tsang, Ingrid (MOF)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: OTPP Funding Valuation

Hi Ingrid, thanks very much for your help.

Attached is an updated version – most of the changes I have made are editorial in nature. Could you please review to make sure the clean version is accurate? Nadine requested we include the most recent discount rates under each of the three valuations so I have added this information as well.

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To: Keates, James (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
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Many thanks,
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From: Keates, James (TBS) <James.Keates@ontario.ca>

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Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS)

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[NP3]Opcd to confirm with Alex Killoch

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To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: OTPP Funding Valuation
Date: Monday, November 07, 2016 12:52:27
Attachment 1: Assumption comparisons for OPCD v2np.docx
Attachment 2: Assumption comparisons for OPCD v2np.docx

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Actuarial cost method	*[To confirm – not clear from the valuation report]*Modified aggregate method (one of thea level cost methods).	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value;	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. Market related value for plan assets.

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	• Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values Market related value for plan assets. [To confirm the approach taken in OTPP funding valuation] Market value of assets adjusted with iInvestments gains/losses smoothedare adjusted to market value over a period of 3 year period.s		The Province uses adjusted market values for some classes of assets in certain plans. Market value of assets adjusted withThe Province adjusts investmentsadjusts investments to market value gains/losses over a period of 5 year periods.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken	In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used. [*Note: Suggest taking out as this dese not appear to be applicable. OTPP is a JSPP. The OTPP Board is the administrator and its financial statement is not the sponsor's financial statement.]* [*Additional Note: as per statement on page 37 of the 2015 annual report, the Board is reporting based on*	Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing. The Province of Ontario uses a discount rate fo OTPP determined by reference to the expected long-term

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	~~in~~ OTPP's funding valuation uses ~~]~~ ~~[m~~~~M~~arket related rates averaged ~~over~~ over a 3 year period~~36 months~~ as a discount rate.~~]~~ The discount rate used in the most recent funding valuation for OTPP as at January 1, 2015 was 4.85%.	~~*section 3460 of the CPA Handbook. Not sure if this is the same as IFRS 13 or Section 3462 or IAS 19]*~~ Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. OTPP follows Part I (IAS 19) which requires the use of government bonds when no deep market for high quality corporate bonds exists. ~~-~~Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario. The discount rate used by OTPP in their December 31, 2015 financial statements was 3.25%.	return on plan assets ~~earnings~~. The discount rate used by the Province to account for OTPP in their March 31, 2016 financial statements is 6.25%.
Underlying population data	All valuations use consistent underlying data of the population covered by the plan (membership data as at August 30 of the prior year projected to the valuation date is used].		
Inflation rate	All valuations treat inflation in a consistent manner (on a best estimate basis). Best estimate assumptions are derived based on the best estimate of future events. Best estimates of inflation by the Province may be different from those of the OTPP Board, even though they are both best estimate assumptions. In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board.		
Demographic	Valuations use consistent demographic assumptions (best		Under PSAS, the Province is not required to

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assumptions	estimate by the OTPP Board).	prescribe demographic assumptions.
Other economic assumptions	The OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. These are the same for funding valuation and the Board's financial statement valuation.	The Province prescribes the future salary escalation rates. The Province develops this assumption by referencing the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted.
~~Underlying population data~~	~~All valuations methodologies should use consistent underlying data of the population covered by the plan [membership data based on August 30 of previous year and projected to the valuation date].~~	
~~Inflation rate~~	~~All valuations methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate). [Note: best estimate assumption means that the assumption is derived based on best estimate of future events. The final outcome of any best estimate may not be the same, ie, the best estimate of inflation assumption from the province may be different from that of the Board, even though they are both best estimate assumptions].~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board].~~	
~~Demographic assumptions~~	~~All valuations methodologies should use a consistent demographic assumptions (best estimate by the OTPP Board) in similar ways~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Based on PSAB, the Province is not required to prescribe demographic assumptions. It is our understanding the Board applies the same demographic assumption for the funding valuation and financial statement valuations].~~	

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~~Other economic assumptions~~	~~All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Another economic assumption the Province prescribes is the future salary escalation rates. The Province develops this assumption by referencing to the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted. It is our understanding that the OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation]. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. It is our understanding that they are the same for funding valuation and the Board's financial statement valuation.~~

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV of the CPA Canada Handbook – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
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	~~in~~ OTPP's funding valuation uses ~~] [m~~ ~~M~~arket related rates averaged ~~over~~ over a 3 year period~~36 months~~ as a discount rate.~~]~~ The discount rate used in the most recent funding valuation for OTPP as at January 1, 2015 was 4.85%.	~~*section 3460 of the CPA Handbook. Not sure if this is the same as IFRS 13 or Section 3462 or IAS 19]*~~ Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. OTPP follows Part I (IAS 19) which requires the use of government bonds when no deep market for high quality corporate bonds exists. ~~-~~Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario. The discount rate used by OTPP in their December 31, 2015 financial statements was 3.25%.	return on plan assets ~~earnings~~. The discount rate used by the Province to account for OTPP in their March 31, 2016 financial statements was 6.25%.
Underlying population data	All valuations use consistent underlying data of the population covered by the plan (membership data as at August 30 of the prior year projected to the valuation date is used].		
Inflation rate	All valuations treat inflation in a consistent manner (on a best estimate basis). Best estimate assumptions are derived based on the best estimate of future events. Best estimates of inflation by the Province may be different from those of the OTPP Board, even though they are both best estimate assumptions. In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board.		
Demographic	Valuations use consistent demographic assumptions (best		Under PSAS, the Province is not required to

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assumptions	estimate by the OTPP Board).	prescribe demographic assumptions.
Other economic assumptions	The OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. These are the same for funding valuation and the Board's financial statement valuation.	The Province prescribes the future salary escalation rates. The Province develops this assumption by referencing the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted.
~~Underlying population data~~	~~All valuations methodologies should use consistent underlying data of the population covered by the plan [membership data based on August 30 of previous year and projected to the valuation date].~~	
~~Inflation rate~~	~~All valuations methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate). [Note: best estimate assumption means that the assumption is derived based on best estimate of future events. The final outcome of any best estimate may not be the same, ie, the best estimate of inflation assumption from the province may be different from that of the Board, even though they are both best estimate assumptions].~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board].~~	
~~Demographic assumptions~~	~~All valuations methodologies should use a consistent demographic assumptions (best estimate by the OTPP Board) in similar ways~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Based on PSAB, the Province is not required to prescribe demographic assumptions. It is our understanding the Board applies the same demographic assumption for the funding valuation and financial statement valuations].~~	

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~~Other economic assumptions~~	~~All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Another economic assumption the Province prescribes is the future salary escalation rates. The Province develops this assumption by referencing to the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted. It is our understanding that the OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation]. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. It is our understanding that they are the same for funding valuation and the Board's financial statement valuation.~~

From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: OTPP Funding Valuation
Date: Friday, November 04, 2016 15:04:12
Attachment 1: image001.jpg
Attachment 2: Assumption comparisons for OPCD.docx

Hi Alex, see the attached file with Rob's comments reflected. Our comments are track changed.

Thanks,
Ingrid

From: Killoch, Alex (MOF)
Sent: October 28, 2016 2:21 PM
To: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Subject: Fw: OTPP Funding Valuation

Can we look at this early next week

From: Keates, James (TBS) <James.Keates@ontario.ca>

Sent: Friday, October 28, 2016 2:10 PM

To: Killoch, Alex (MOF)

Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS)

Subject: OTPP Funding Valuation

Alex, I am working on a paper for the Pension Asset Expert Advisory Panel.

We have prepared a summary of the similarities and differences in valuation

assumptions and methodologies for OTPP under their funding valuation relative to their Part IV and PSAS valuations. Could you confirm the descriptions below are correct?

Thanks

Jim

Appendix I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology

Funding valuation

(Going concern basis)

Accounting Part IV –

(OTPP Financial statements)

Accounting PSAS –

(Province Financial statements)

Purpose

To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits

Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.

Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.

Actuarial cost method

[To confirm – not clear from the valuation report]

Projected benefit method prorated on services

Asset valuation

The actuary should select an asset valuation method that is consistent with the circumstances of the work.

The value of assets may be, subject to specific requirements for different types of valuation, any of:

• Their market value;

• Their market value adjusted to moderate volatility in investment returns;

• The present value of their cash flows after the calculation date; and

• Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values

[To confirm the approach taken in OTPP funding valuation][NP1]

Fair value for all plan assets.

Fair value is determined in accordance with IFRS 13, *Fair value measurement*.

Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently.

The Province uses adjusted market values for some classes of assets in certain plans.

Discount rate

Best estimate less Margins for adverse deviations and expenses where appropriate.

For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work

To confirm the approach taken in OTPP funding valuation][NP2]

In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.

Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists.

Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.

Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[1]

The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.

Underlying population data

All valuation methodologies should use consistent underlying data of the population covered by the plan

Inflation rate

All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate).

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Demographic assumptions

All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Other economic assumptions

All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?][NP3]

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

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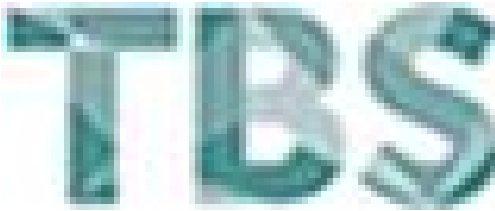
[1] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

[NP1]Opcd to confirm with Alex Killoch

[NP2]OPCD to confirm with Alex Killoch

[NP3]Opcd to confirm with Alex Killoch


TBS

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits and to provide information on financial position of the plan as of the valuation date on a funding basis.	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations and the financial position of the plan as of the valuation date on an IFRS basis. ***[Note: we can't confirm if the OTPP Board reports under IFRS. The wording here is just based on the description below on the asset valuation section]***	Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered and to provide information on financial position of the plan on a PSAB basis.
Actuarial cost method	*[To confirm – not clear from the valuation report]*Modified aggregate method (one of the level cost methods).	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date;	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. ~~The Province uses adjusted market values for some classes of assets in certain plans.~~ Market value of assets adjusted with investment

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	and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation] Market value of assets adjusted with investment gains/losses smoothed over a period of 3 years		gains/losses over a period of 5 years.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation] [Market related rates averaged over 36 months]	~~In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.~~ *[Note: Suggest taking out as this dese not appear to be applicable. OTPP is a JSPP. The OTPP Board is the administrator and its financial statement is not the sponsor's financial statement.]* *[Additional Note: as per statement on page 37 of the 2015 annual report, the Board is reporting based on section 3460 of the CPA Handbook. Not sure if this is the same as IFRS 13 or Section 3462 or IAS 19]* Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE	Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing. The Province of Ontario uses a discount rate for OTPP determined by reference to the expected long-term return on plan assets ~~earnings~~.

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		BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	
Underlying population data	All valuations ~~methodologies should~~ use consistent underlying data of the population covered by the plan [membership data based on August 30 of previous year and projected to the valuation date].		
Inflation rate	All valuations ~~methodologies should~~ treat inflation in a consistent manner ~~and use a consistent inflation assumption~~ (best estimate). [Note: best estimate assumption means that the assumption is derived based on best estimate of future events. The final outcome of any best estimate may not be the same, ie, the best estimate of inflation assumption from the province may be different from that of the Board, even though they are both best estimate assumptions]. [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board].		
Demographic assumptions	All valuations ~~methodologies should~~ use ~~a~~ consistent demographic assumptions (best estimate by the OTPP Board) ~~in similar ways~~ [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Based on PSAB, the Province is not required to prescribe demographic assumptions. It is our understanding the Board applies the same demographic assumption for the funding valuation and financial statement valuations].		
Other economic assumptions	~~All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways~~		

	[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Another economic assumption the Province prescribes is the future salary escalation rates. The Province develops this assumption by referencing to the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted. It is our understanding that the OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation]. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. It is our understanding that they are the same for funding valuation and the Board's financial statement valuation.

From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: OTPP Funding Valuation
Date: Friday, November 04, 2016 14:20:29
Attachment 1: image001.jpg
Attachment 2: Assumption comparisons for OPCD.docx

See attached file.

Thanks.
Ingrid

From: Killoch, Alex (MOF)
Sent: October 28, 2016 2:21 PM
To: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Subject: Fw: OTPP Funding Valuation

Can we look at this early next week

From: Keates, James (TBS) <James.Keates@ontario.ca>

Sent: Friday, October 28, 2016 2:10 PM

To: Killoch, Alex (MOF)

Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS)

Subject: OTPP Funding Valuation

Alex, I am working on a paper for the Pension Asset Expert Advisory Panel.

We have prepared a summary of the similarities and differences in valuation assumptions and methodologies for OTPP under their funding valuation relative to their

Part IV and PSAS valuations. Could you confirm the descriptions below are correct?

Thanks

Jim

Appendix I – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology

Funding valuation

(Going concern basis)

Accounting Part IV –

(OTPP Financial statements)

Accounting PSAS –

(Province Financial statements)

Purpose

To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits

Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits and pension obligations.

Measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered.

Actuarial cost method

[To confirm – not clear from the valuation report]

Projected benefit method prorated on services

Asset valuation

The actuary should select an asset valuation method that is consistent with the circumstances of the work.

The value of assets may be, subject to specific requirements for different types of valuation, any of:

• Their market value;

• Their market value adjusted to moderate volatility in investment returns;

• The present value of their cash flows after the calculation date; and

• Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values

[To confirm the approach taken in OTPP funding valuation][NP1]

Fair value for all plan assets.

Fair value is determined in accordance with IFRS 13, *Fair value measurement*.

Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently.

The Province uses adjusted market values for some classes of assets in certain plans.

Discount rate

Best estimate less Margins for adverse deviations and expenses where appropriate.

For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work

To confirm the approach taken in OTPP funding valuation][NP2]

In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.

Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists.

Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.

Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[1]

The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.

Underlying population data

All valuation methodologies should use consistent underlying data of the population covered by the plan

Inflation rate

All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate).

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Demographic assumptions

All valuation methodologies should use a consistent demographic assumptions (best

estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Other economic assumptions

All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?][NP3]

Jim Keates, MBA, CPA, CA

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2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

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[1] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

[NP1]Opcd to confirm with Alex Killoch

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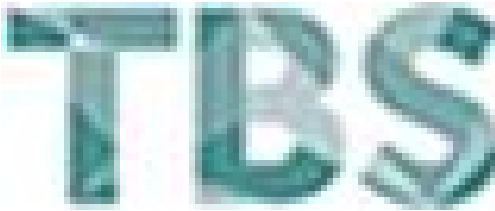
[NP3]Opcd to confirm with Alex Killoch


TBS

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
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Actuarial cost method	*[To confirm – not clear from the valuation report]**Modified aggregate method, one of the level cost methods.**	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. ~~The Province uses adjusted market values for some classes of assets in certain plans.~~ Market value of assets adjusted with investment gains/losses over a period of 5 years.

	maturity in the case of illiquid assets with fixed redemption values [To confirm the approach taken in OTPP funding valuation] Market value of assets adjusted with investment gains/losses smoothed over a period of 3 years		
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work To confirm the approach taken in OTPP funding valuation] [Market related rates average over 36 months]	~~In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.~~ [note: Suggest to take out as this is not applicable. OTPP is a JSPP. The OTPP Board is the administrator and its financial statement is not sponsor's financial statement.] [Additional Note: as per statement on page 37 of the 2015 annual report, the Board is reporting based on section 3460 of the CPA Handbook. Not sure if this is the same as IFRS 13 or Section 3462 or IAS 19] Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.	Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing. The Province of Ontario uses a discount rate for OTPP determined by reference to expected long term return on plan asset ~~earnings~~.

		Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.	
Underlying population data	All valuations ~~methodologies should~~ use consistent underlying data of the population covered by the plan [membership data based on August 30 of previous year and projected to the valuation date].		
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Demographic assumptions	All valuations ~~methodologies should~~ use a consistent demographic assumptions (best estimate) ~~in similar ways~~ [To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Based on PSAB, the Province is not required to prescribe demographic assumptions. It is our understanding the Board applies the same demographic assumption for the funding valuation and financial statement valuations].		
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From: Tsang, Ingrid (MOF) []
To: Keates, James (TBS) [James.Keates@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: OTPP Funding Valuation
Date: Wednesday, November 09, 2016 15:57:01
Attachment 1: Assumption comparisons for OPCD v2np MOF Comments.docx

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Hi Jim, attached is our comments on your new draft. As both of the files in your email are marked versions and they seem identical, I made changes to the first file.

Our comments are mostly technical in nature. Please let us know if you have any questions or concerns. Again, we would appreciate the opportunity to see the next version once you have an opportunity to review our comments.

Thanks,
Ingrid

From: Keates, James (TBS)
Sent: November 7, 2016 11:52 AM
To: Tsang, Ingrid (MOF)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: OTPP Funding Valuation

Hi Ingrid, thanks very much for your help.

Attached is an updated version – most of the changes I have made are editorial in nature. Could you please review to make sure the clean version is accurate? Nadine requested we include the most recent discount rates under each of the three valuations so I have added this information as well.

Thanks again,

Jim

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

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From: Tsang, Ingrid (MOF)
Sent: Friday, November 04, 2016 3:13 PM
To: Keates, James (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: OTPP Funding Valuation

Hi Jim,

It was very nice talking to you today. Attached are our comments. We would appreciate the opportunity to see the next version once you've had the opportunity to incorporate our suggested changes.

Many thanks,
Ingrid

From: Keates, James (TBS) <James.Keates@ontario.ca>

Sent: Friday, October 28, 2016 2:10 PM

To: Killoch, Alex (MOF)

Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS)

Subject: OTPP Funding Valuation

Alex, I am working on a paper for the Pension Asset Expert Advisory Panel.

We have prepared a summary of the similarities and differences in valuation assumptions and methodologies for OTPP under their funding valuation relative to their Part IV and PSAS valuations. Could you confirm the descriptions below are correct?

Thanks

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Assumption/ methodology

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Actuarial cost method

[To confirm – not clear from the valuation report]

Projected benefit method prorated on services

Asset valuation

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• The present value of their cash flows after the calculation date; and

• Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values

[To confirm the approach taken in OTPP funding valuation][NP1]

Fair value for all plan assets.

Fair value is determined in accordance with IFRS 13, *Fair value measurement*.

Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently.

The Province uses adjusted market values for some classes of assets in certain plans.

Discount rate

Best estimate less Margins for adverse deviations and expenses where appropriate.

For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR Reflect the yields on fixed income investments, considering

the expected future benefit payments of the pension plan and the circumstances of the work

To confirm the approach taken in OTPP funding valuation][NP2]

In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.

Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

Part I (IAS 19) requires the use of government bonds when no deep market for high quality corporate bonds exists.

Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario.

Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.[1]

The Province of Ontario uses a discount rate for OTPP determined by reference to plan asset earnings.

Underlying population data

All valuation methodologies should use consistent underlying data of the population covered by the plan

Inflation rate

All valuation methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate).

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Demographic assumptions

All valuation methodologies should use a consistent demographic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?]

Other economic assumptions

All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways

[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?][NP3]

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721

cid:image002.jpg@01D17B9A.BDC06E20

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[1] The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

[NP1]Opcd to confirm with Alex Killoch

[NP2]OPCD to confirm with Alex Killoch

[NP3]Opcd to confirm with Alex Killoch

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV of the CPA Canada Handbook – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits and to provide information on the financial position of the plan as of the valuation date on a funding basis in accordance with the Pension Benefits Act and Income Tax Act as well as the generally accepted actuarial practice.	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits, ~~and~~ pension obligations and the financial position of the plan as of the valuation date in accordance with Part IV of the CPA Canada Handbook (Part I of the CPA Canada Handbook (i.e. IFRS) is referred to where Part IV is silent). ~~on an IFRS basis.~~ ~~*[Note: we can't confirm if the OTPP Board reports under IFRS. The wording here is just based on the description below on the asset valuation section]*~~	Measure and report the obligation for employee retirement benefits, ~~and to~~ attribute the costs of those benefits to the periods in which the related services are rendered and to provide information on the financial position of the plan ~~on a PSAB basis~~in accordance with PSAS.
Actuarial cost method	~~*[To confirm – not clear from the valuation report]*~~Modified aggregate method (level cost method)~~.~~	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value;	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, *Fair value measurement*.	Market -related values, which are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied consistently. Market related value for plan assets which is

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	• Their market value adjusted to moderate volatility in investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values ~~Market related value for plan assets.~~ ~~[To confirm the approach taken in OTPP funding valuation]~~ ~~Isare adjusted to market value period.~~ For the funding valuation, the plan uses actuarial value of assets which are market value of assets adjusted for investment gains / losses spread over a period of 3 years. [suggest to use this language as they are consistent with the description in the funding valuation report]		market value of assets adjusted for investment gains/losses over a period of 5 years.~~,~~ - ~~The Province uses adjusted market values for some classes of assets in certain plans.~~ ~~The Province adjusts sadjusts investments to market value period~~
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit	~~In measuring a pension obligation amount, the defined benefit obligation amount determined by the plan's sponsor may be (but is not required to be) used.~~ ~~[*Note: Suggest taking out as this dese not appear to be applicable. OTPP is a JSPP. The OTPP Board is the administrator and its financial statement is not the sponsor's financial*~~	Not specified. However two methods are specifically acknowledged – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.

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	payments of the pension plan and the circumstances of the work ~~To confirm the approach taken in~~ For the purpose of the funding valuation, ~~OTPP's funding valuation~~the plan uses a discount rate which is based on ~~[~~ ~~[m~~Market related rates averaged ~~over~~ over a period of ~~3 year period~~36 months ~~as a discount rate.~~ ~~]~~ [Suggest to keep it as 36 months as they are monthly rates, not annual rates. There are subtle differences] The discount rate used in the most recent funding valuation for OTPP as at January 1, 2015 was 4.85%.	~~*statement.]*~~ ~~*[Additional Note: as per statement on page 37 of the 2015 annual report, the Board is reporting based on section 3460 of the CPA Handbook. Not sure if this is the same as IFRS 13 or Section 3462 or IAS 19]*~~ Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. OTPP follows Part I (IAS 19) which requires the use of government bonds when no deep market for high quality corporate bonds exists. ~~-~~Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario. The discount rate used by OTPP in their December 31, 2015 financial statements was 3.25%.	The Province of Ontario uses a discount rate for OTPP ~~determined~~ by reference to the expected long-term return on plan assets ~~earnings~~. The discount rate used by the Province to account for OTPP in their March 31, 2016 financial statements is 6.25%.
Underlying population data	All valuations use consistent underlying data of the population covered by the plan (membership data as at August 30 of the prior year projected to the valuation date is used].		
Inflation rate	All valuations treat inflation in a consistent manner (on a best estimate basis). Best estimate assumptions are derived based on the best estimate of future events. Best estimates of inflation by the Province may be different from those of the OTPP Board, even		

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	though they are both best estimate assumptions. In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board.	
Demographic assumptions	Valuations use consistent demographic assumptions (best estimate by the OTPP Board).	Under PSAS, the Province is not required to prescribe demographic assumptions.
Other economic assumptions	The OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. These are the same for funding valuation and the Board's financial statement valuation.	The Province prescribes the future salary escalation rates. The Province develops this assumption by referencing the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted.
~~Underlying population data~~	~~All valuations methodologies should use consistent underlying data of the population covered by the plan [membership data based on August 30 of previous year and projected to the valuation date].~~	
~~Inflation rate~~	~~All valuations methodologies should treat inflation in a consistent manner and use a consistent inflation assumption (best estimate). [Note: best estimate assumption means that the assumption is derived based on best estimate of future events. The final outcome of any best estimate may not be the same, ie, the best estimate of inflation assumption from the province may be different from that of the Board, even though they are both best estimate assumptions].~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board].~~	
~~Demographic~~	~~All valuations methodologies should use a consistent demographic assumptions (best~~	

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~~assumptions~~	~~estimate by the OTPP Board) in similar ways~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Based on PSAB, the Province is not required to prescribe demographic assumptions. It is our understanding the Board applies the same demographic assumption for the funding valuation and financial statement valuations].~~
~~Other economic assumptions~~	~~All valuation methodologies should use a consistent other economic assumptions (best estimate) in similar ways~~ ~~[To confirm this is actually the case – does the Province rely on the OTPP's Board's judgement or make their own estimates?] [Another economic assumption the Province prescribes is the future salary escalation rates. The Province develops this assumption by referencing to the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases granted. It is our understanding that the OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation]. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. It is our understanding that they are the same for funding valuation and the Board's financial statement valuation.~~

From: Killoch, Alex (MOF) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: OTPP backgrounder
Date: Thursday, November 17, 2016 17:26:41
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 02 11-17-2016 (MOF comments).pptx

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Hi Paul

Our changes are in green font. On page 9 we are trying to highlight that different valuations have differing purposes.

Let me know if you have any questions

Alex

From: Duffy, Paul (EDU)
Sent: Thursday, November 17, 2016 4:21 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Thanks – we're also adding a piece on the share the pain provisions.

From: Killoch, Alex (MOF)
Sent: November 17, 2016 4:11 PM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF)

Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Hi Paul

We have some edits that we are pulling together now

From: Duffy, Paul (EDU)
Sent: Thursday, November 17, 2016 2:58 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Apologies, I missed an update to the OTF on slide 18. See updated version attached.

From: Duffy, Paul (EDU)
Sent: November 17, 2016 2:31 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: OTPP backgrounder

Alex, Rob - see attached the backgrounder or 101 deck that we'll be taking the panel through tomorrow. I'm going to send it over to OPCD this afternoon, but if you see any key areas of concern or areas that are missing, please let me know and I'll provide an updated version tomorrow.

Thanks

Paul

Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets); and
  - The 2016 Funding Valuation.

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1991, the pension plan was entirely under the control of the Government of Ontario.
- In 1992, the plan became jointly sponsored through a partnership agreement between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
  - Managing investment strategy of the fund;
  - Complying with Legislation including *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
  - Deals with amendments to the pension plan including:
    - » Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - » Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement and was further amended in 2012 to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 10.4% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 12.0% for salary above the CPP limit ($54,900 in 2016).
  - The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
  - OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

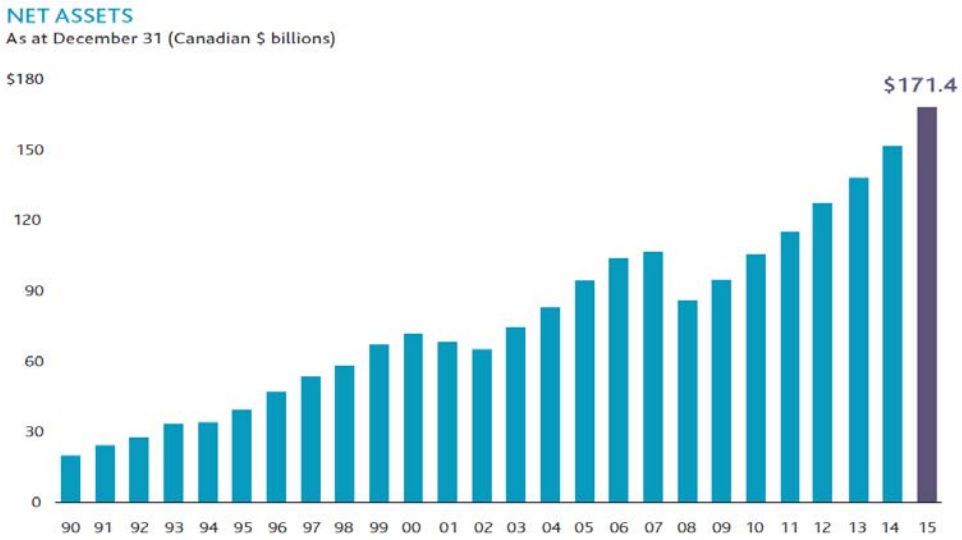
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)	**$4.2**	$2.4	$11.0	$16.3	$35.6

*OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.
*As of January 1, 2016, the pension plan's assets were valued at $171.4B.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year: a funding valuation and two accounting valuations. These valuations are different ways to estimate the cost to provide benefits to be paid in the future.
  - A **funding valuation** determines the required cash contribution to ensure long term benefit security. Funding valuations are governed by PBA and actuarial standards. It usually contains an element of conservatism.
  - A **accounting valuation** determines pension expense to be recorded in the financial statements. The purpose of the accounting valuation is to allow for the comparability of distinct entities. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
  - There are two types of accounting valuations performed by the OTPP
  - The province's accounting valuation determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements. It is performed in accordance with Public Sector Accounting Board (PSAB) recommendations.
  - The TPP Board's accounting valuation, which is commonly referred to as the Board's **financial statement** valuation is an account valuation performed based on International Financial Reporting Standard (IFRS).

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced future benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced, except in the case of JSPPs, which may reduce accrued benefits on wind-up.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for following the sponsors direction to file the valuation **[see Appendix D for valuation history]**.

Funding Management Policy

- The Funding Management Policy (FMP) is an agreement that forms part of the OTPP Partners' Agreement and is filed with the Financial Services Commission of Ontario (FSCO). **(See Appendix E for FMP Framework Description)**
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits as negotiated.
- The FMP also provides procedures for discount rate setting depending on the zone.

Ontario

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the plan's board members. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP liability by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history]**.
  - If either partner disputes the discount rate, a hearing process can be invoked whereby a third party expert will be selected to review and opine on the discount rate used by the Plan actuary.
  - The OTPP discount rate has been independently reviewed by industry experts three times in the last several years. Each time the rate was determined to be within a reasonable range, given the demographic profile of the plan **[see Appendix G for list of expert reviews]**. Discount rates will vary among pension plans because of, among other things, different membership characteristics and investment allocations and risk profiles.
- For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.

Ontario

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
  - This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP was currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board
  - The sponsors each appoint five members to the Board and they jointly appoint the Chair.
    - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
    - The current Chair is Jean Turmel. His term ends December 2016 but is expected to be reappointed.
  - Board members terms are two years and members are limited to serving four consecutive terms.
  - A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
  - The Board sets the remuneration levels for the members.
- The five Board of Directors appointed by the OTF are: John Murray, Bill Chinery, Rod Albert, Patti Croft and Lise Fournel.
- Chair – Jean Turmel.

Ontario

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Francine LeBlanc-Lebel, President • Diane Dewing, Past President • Michael Foulds, 1st Vice President

Ontario

Appendix C:
Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, equal to the amount of inflation protection between 50% to 100% of CPI forgone by the retired teachers. This is seen as the Government "sharing equal pain".

Ontario

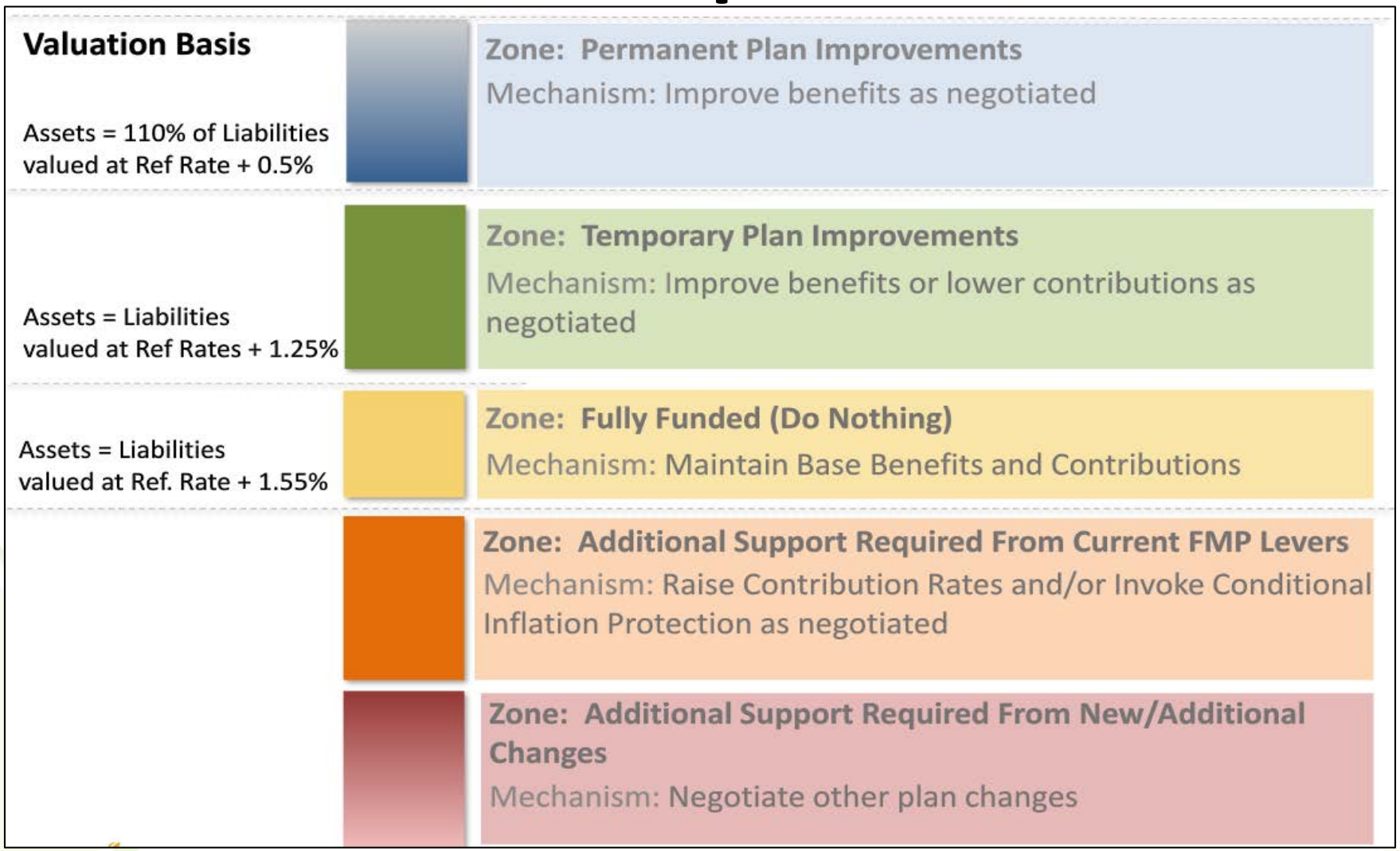
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: RE: OTPP backgrounder
Date: Thursday, November 17, 2016 17:20:51

Thanks – we're also adding a piece on the share the pain provisions.

From: Killoch, Alex (MOF)
Sent: November 17, 2016 4:11 PM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Hi Paul

We have some edits that we are pulling together now

From: Duffy, Paul (EDU)
Sent: Thursday, November 17, 2016 2:58 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Apologies, I missed an update to the OTF on slide 18. See updated version attached.

From: Duffy, Paul (EDU)
Sent: November 17, 2016 2:31 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: OTPP backgrounder

Alex, Rob - see attached the backgrounder or 101 deck that we'll be taking the panel through tomorrow. I'm going to send it over to OPCD this afternoon, but if you see any key areas of concern or areas that are missing, please let me know and I'll provide an updated version tomorrow.

Thanks

Paul

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: RE: OTPP backgrounder
Date: Thursday, November 17, 2016 15:57:41
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 03 11-17-2016.pptx

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Apologies, I missed an update to the OTF on slide 18. See updated version attached.

From: Duffy, Paul (EDU)
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Thanks

Paul

Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets); and
  - The 2016 Funding Valuation.

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1990, the pension plan (Teachers' Superannuation Fund) was entirely under the control of the Government of Ontario.
- Established in 1990 by the *Teachers' Pension Act,* the OTPP is a partnership between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
  - Managing investment strategy of the fund;
  - Complying with regulations including *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
  - Deals with amendments to the pension plan including:
    - Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 11.5% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 13.1% for salary above the CPP limit ($54,900 in 2016).
- The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
- OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

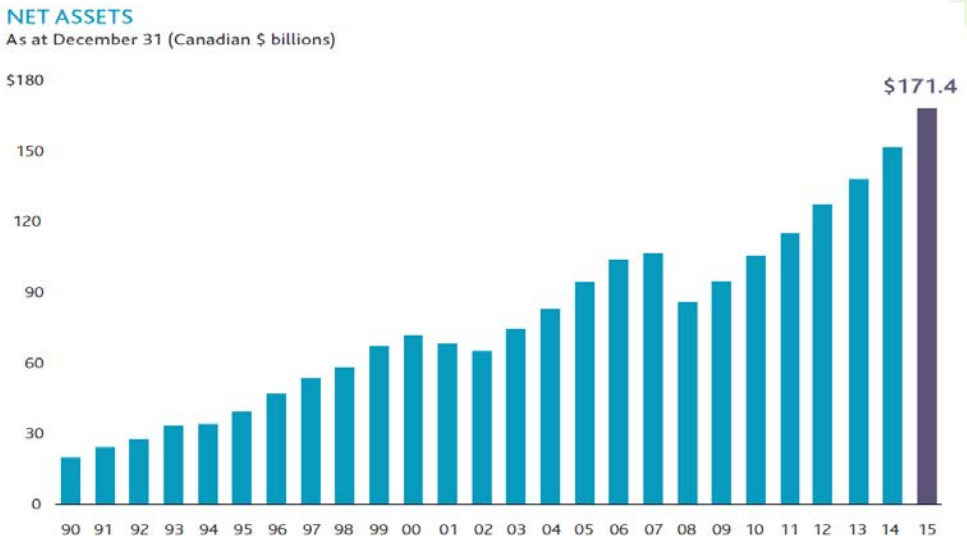
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- As of January 1, 2016, the pension plan's assets were valued at $171.4B.[1]
- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)[2]	**$4.2**	$2.4	$11.0	$16.3	$35.6

[1] Based on the 2016 Funding Valuation.

[2] OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year. These valuations are three different ways to estimate the cost to provide benefits to be paid in the future and they each have different methods and assumptions (e.g. of wages, inflation or discount rates).
  - The **funding valuation** determines the Plan's annual cash contribution by looking ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities.
  - The **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements in accordance with Public Sector Accounting Board (PSAB) recommendations. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
  - The **financial statement** valuation measures the fair value of the plan's net assets available for benefits and pension liabilities at a point in time. It does not assume any future contributions and does not project the cost of benefits that current members have not yet earned.

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for filing the valuation, following direction from the sponsors **[see Appendix D for valuation history]**.

Ontario

Funding Management Policy

- The Funding Management Policy (FMP) is a long-term agreement that forms part of the OTPP Partners' Agreement. **(See Appendix E for FMP Framework Description)**
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Temporarily Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits or lower contributions as negotiated.

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the OTPP Board. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the Plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP deficit by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history].**

Funding Valuation: Discount Rate Cont'd

- For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.
- If either partner disputes the discount rate, a hearing process can be invoked whereby a third party mediator will be selected to attempt to facilitate an agreement.
- The OTPP discount rate has been independently reviewed by industry experts three times in the last several years. Each time the rate was determined to be within a reasonable range, given the demographic profile of the plan **[see Appendix G for list of expert reviews]**.
- Other pension plans may use different discount rates because their membership characteristics are different.

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
- This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and use part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP is currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board.
- The sponsors each appoint five members to the Board and they jointly appoint the Chair.
  - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
  - The current Chair is Jean Turmel. His term ends December 2016 but he is expected to be reappointed.
- Board members terms are two years and members are limited to serving four consecutive terms.
- A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
- The Board sets the remuneration levels for the members.

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Michael Foulds, President • Anne Vinet-Roy, Past President • Chris Cowley, 1st Vice President

Ontario

Appendix C: Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, up to 50% of the amount of foregone inflation. This is seen as the Government “sharing equal pain”.

Ontario

Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
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Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
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2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
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2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

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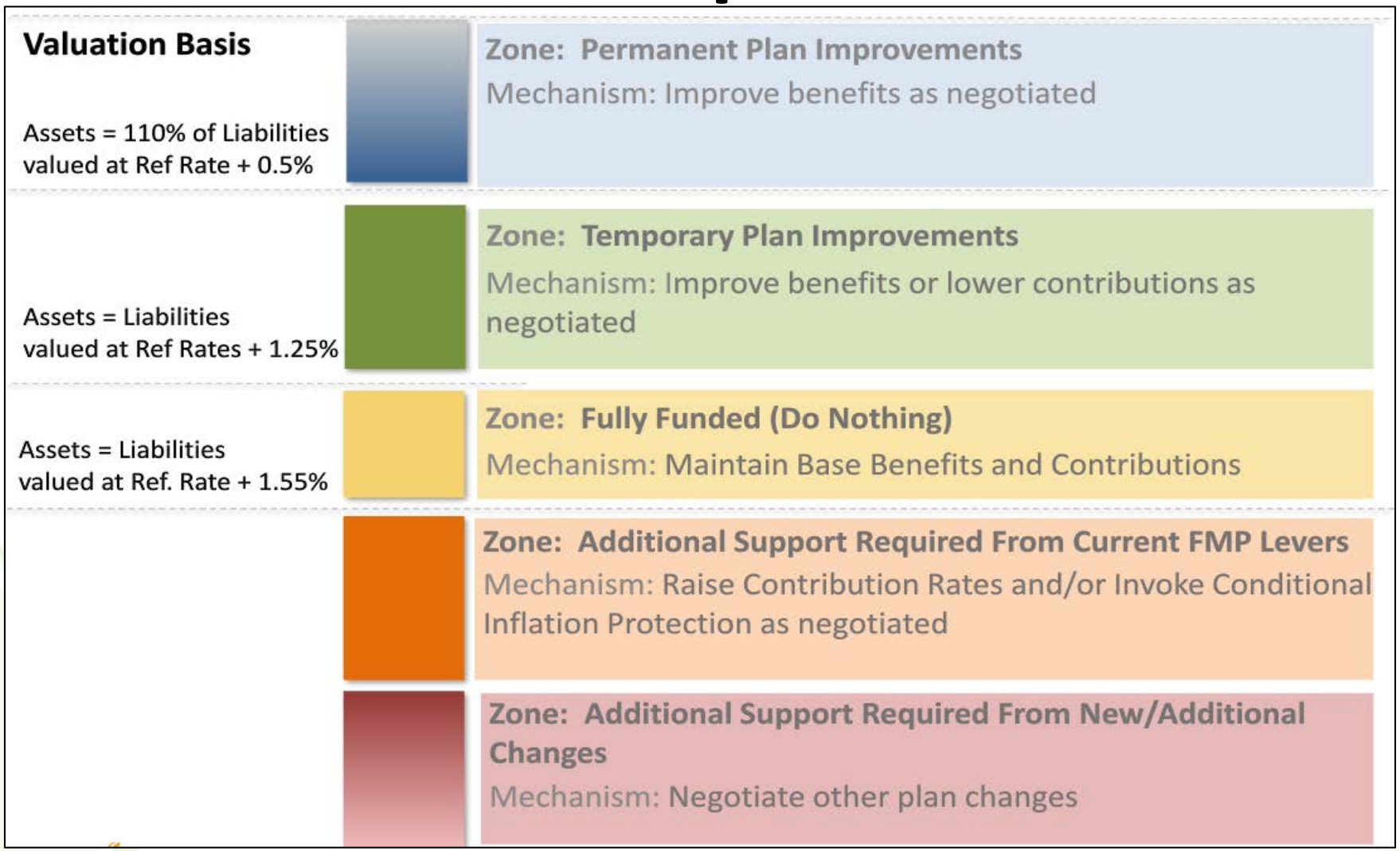

Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Di Renzo, Stephen (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
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Subject: RE: OTPP backgrounder
Date: Thursday, November 17, 2016 17:54:42
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 04 11-17-2016.pptx

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Thanks all for the feedback. Revised attached.

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Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets);
  - The Valuation types;
  - The Funding Management Policy (FMP); and
  - The 2016 Valuation

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1991, the pension plan was entirely under the control of the Government of Ontario.
- In 1992, the plan became jointly sponsored through a partnership agreement between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
  - Managing investment strategy of the fund;
  - Complying with Legislation including the *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Ontario

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
  - Deals with amendments to the pension plan including:
    - Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement and was further amended in 2012 to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C]**.
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 10.4% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 12.0% for salary above the CPP limit ($54,900 in 2016).
- The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
- OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

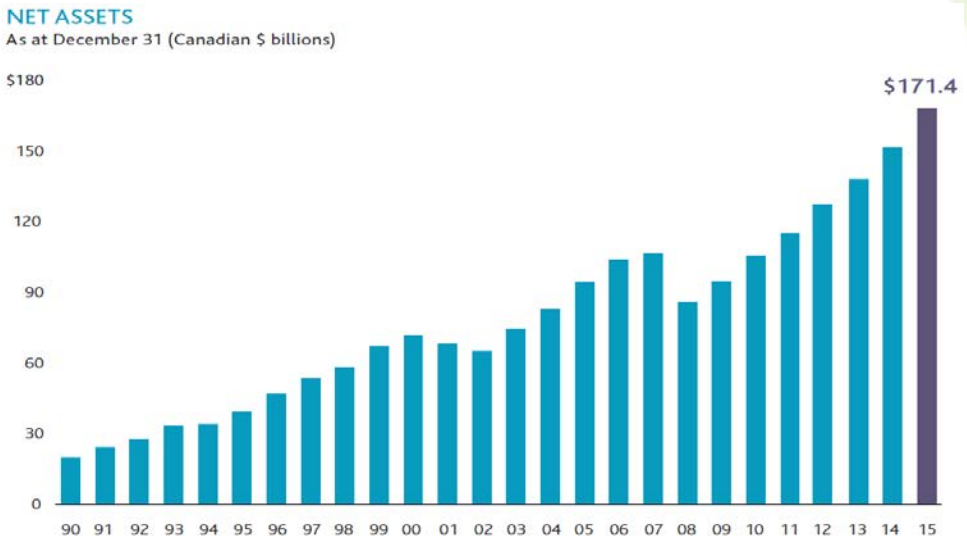
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- As of January 1, 2016, the pension plan's assets were valued at $171.4B.[1]
- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)[2]	**$4.2**	$2.4	$11.0	$16.3	$35.6

[1] Based on the 2016 Funding Valuation.

[2] OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.

Ontario

Valuation Types

The OTPP is required to perform three different valuations each year: a funding valuation and two accounting valuations. These valuations are different ways to estimate the cost to provide benefits to be paid in the future.

- A **funding valuation** determines the required cash contribution to ensure long term benefit security. Funding valuations are governed by PBA and actuarial standards. It usually contains an element of conservatism.
- An **accounting valuation** determines pension expense to be recorded in the financial statements. The purpose of the accounting valuation is to allow for the comparability of distinct entities. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
- There are two types of accounting valuations performed by the OTPP:
  - The province's **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements. It is performed in accordance with Public Sector Accounting Board (PSAB) recommendations.
  - The OTPP Board's accounting valuation, which is commonly referred to as the Board's **financial statement valuation** is an account valuation performed based on International Financial Reporting Standard (IFRS).

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced future benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced, except in the case of JSPPs, which may reduce accrued benefits on wind-up.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for filing the valuation, following direction from the sponsors **[see Appendix D for valuation history]**.

Funding Management Policy

- The Funding Management Policy (FMP) is an agreement that forms part of the OTPP Partners' Agreement **(See Appendix E for FMP Framework Description)**.
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Temporarily Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits or lower contributions as negotiated.

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
- This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP was at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.
- Filing this valuation will benefit both sponsors as a portion of the surplus will be used to partially restore inflation protection for teachers. The government will benefit through a reduction in "sharing equal pain" payments, additional contributions made to the plan, in conjunction with the OTF, since CIP was invoked **(See Appendix C)** .

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board.
- The sponsors each appoint five members to the Board and they jointly appoint the Chair.
  - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
  - The current Chair is Jean Turmel. His term ends December 2016 but he is expected to be reappointed.
- Board members terms are two years and members are limited to serving four consecutive terms.
- A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
- The Board sets the remuneration levels for the members.

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Michael Foulds, President • Anne Vinet-Roy, Past President • Chris Cowley, 1st Vice President

Ontario

Appendix C: Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2016**	**Levels in 2017**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	70%	90%
Earned after 2013	0% to 100%	70%	90%

- When CIP is invoked the government also makes additional contributions to the pension plan, equal to the amount of inflation protection between 50% to 100% of CPI forgone by the retired teachers. This is seen as the Government "sharing equal pain".
  - As part of the 2008 agreement to introduce CIP, the government agreed to a "sharing equal pain" provision.
  - The provision states that, for years during which CIP is invoked, the government will make additional contributions to the OTPP equal to an amount up to 50% of the amount of retired members' foregone inflation protection benefits.

Ontario

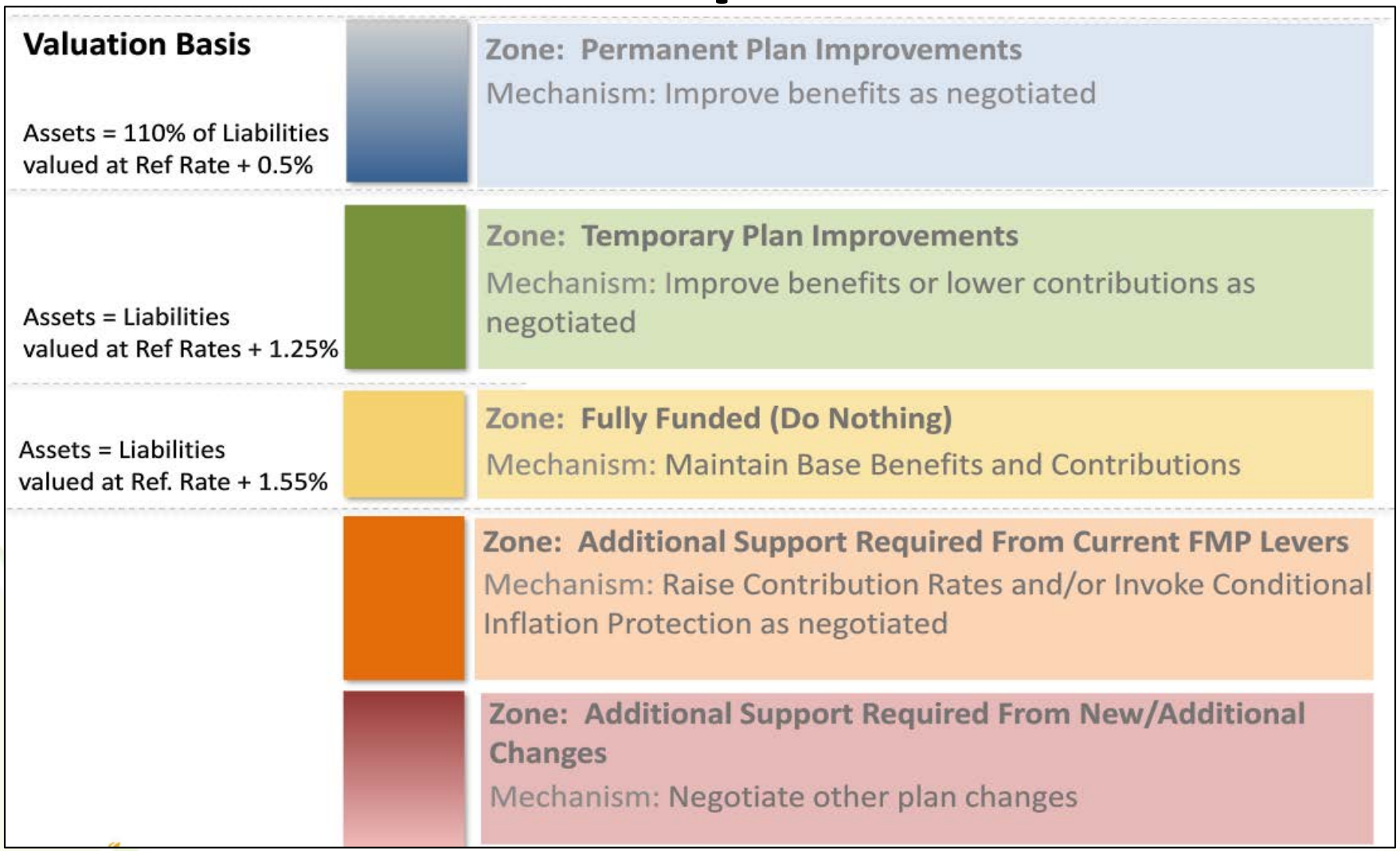
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

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Subject: RE: OTPP backgrounder
Date: Thursday, November 17, 2016 17:26:41
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 02 11-17-2016 (MOF comments).pptx

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    - » Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - » Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement and was further amended in 2012 to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 10.4% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 12.0% for salary above the CPP limit ($54,900 in 2016).
  - The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
  - OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

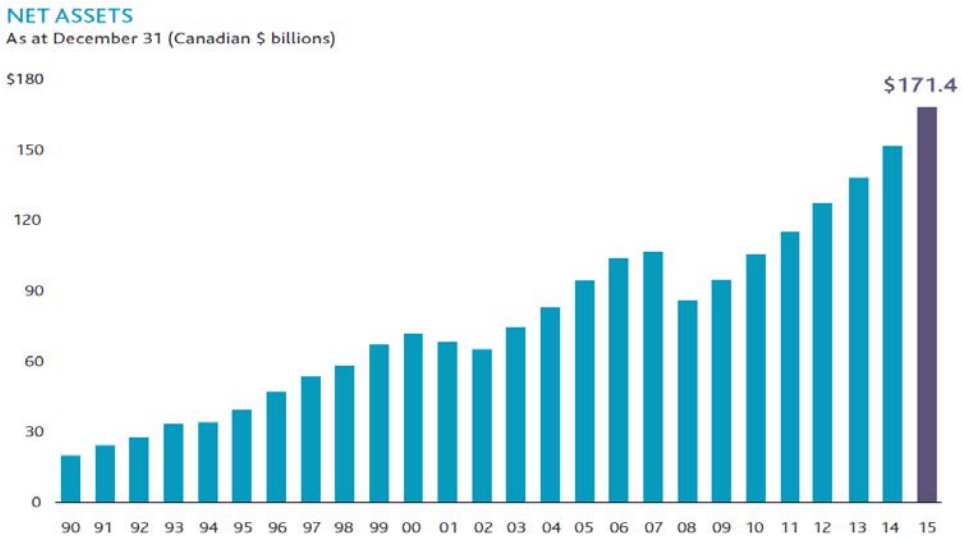
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)	**$4.2**	$2.4	$11.0	$16.3	$35.6

*OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.
*As of January 1, 2016, the pension plan's assets were valued at $171.4B.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year: a funding valuation and two accounting valuations. These valuations are different ways to estimate the cost to provide benefits to be paid in the future.
  - A **funding valuation** determines the required cash contribution to ensure long term benefit security. Funding valuations are governed by PBA and actuarial standards. It usually contains an element of conservatism.
  - A **accounting valuation** determines pension expense to be recorded in the financial statements. The purpose of the accounting valuation is to allow for the comparability of distinct entities. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
  - There are two types of accounting valuations performed by the OTPP
  - The province's accounting valuation determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements. It is performed in accordance with Public Sector Accounting Board (PSAB) recommendations.
  - The TPP Board's accounting valuation, which is commonly referred to as the Board's **financial statement** valuation is an account valuation performed based on International Financial Reporting Standard (IFRS).

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced future benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced, except in the case of JSPPs, which may reduce accrued benefits on wind-up.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for following the sponsors direction to file the valuation **[see Appendix D for valuation history]**.

Funding Management Policy

- The Funding Management Policy (FMP) is an agreement that forms part of the OTPP Partners' Agreement and is filed with the Financial Services Commission of Ontario (FSCO). **(See Appendix E for FMP Framework Description)**
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits as negotiated.
- The FMP also provides procedures for discount rate setting depending on the zone.

Ontario

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the plan's board members. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP liability by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history]**.
  - If either partner disputes the discount rate, a hearing process can be invoked whereby a third party expert will be selected to review and opine on the discount rate used by the Plan actuary.
  - The OTPP discount rate has been independently reviewed by industry experts three times in the last several years. Each time the rate was determined to be within a reasonable range, given the demographic profile of the plan **[see Appendix G for list of expert reviews]**. Discount rates will vary among pension plans because of, among other things, different membership characteristics and investment allocations and risk profiles.
- For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.

Ontario

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
  - This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP was currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board
  - The sponsors each appoint five members to the Board and they jointly appoint the Chair.
    - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
    - The current Chair is Jean Turmel. His term ends December 2016 but is expected to be reappointed.
  - Board members terms are two years and members are limited to serving four consecutive terms.
  - A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
  - The Board sets the remuneration levels for the members.
- The five Board of Directors appointed by the OTF are: John Murray, Bill Chinery, Rod Albert, Patti Croft and Lise Fournel.
- Chair – Jean Turmel.

Ontario

Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

Barbara Palk
EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Francine LeBlanc-Lebel, President • Diane Dewing, Past President • Michael Foulds, 1st Vice President

Ontario

Appendix C:
Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, equal to the amount of inflation protection between 50% to 100% of CPI forgone by the retired teachers. This is seen as the Government "sharing equal pain".

Ontario

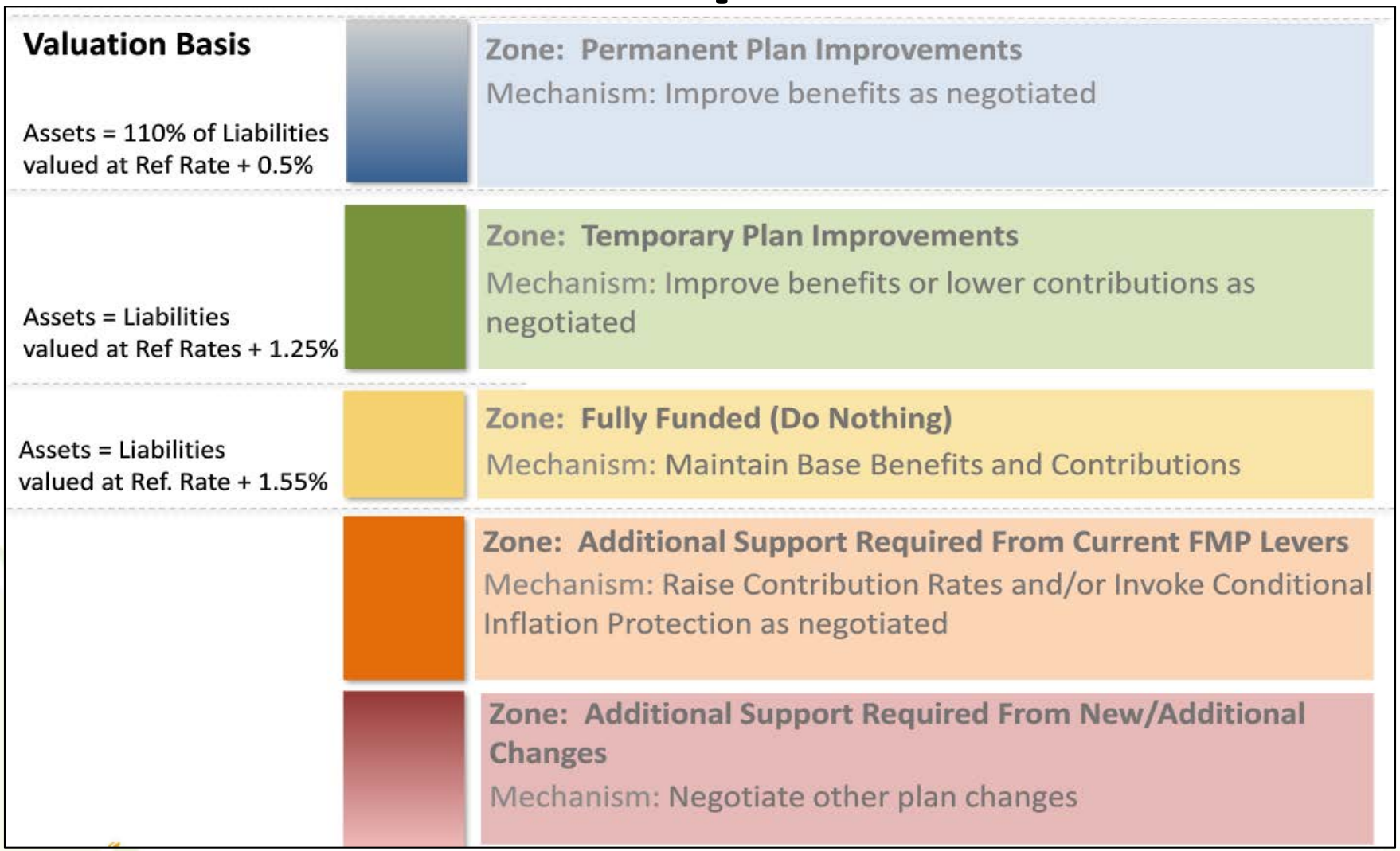
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: RE: OTPP backgrounder
Date: Thursday, November 17, 2016 15:57:41
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 03 11-17-2016.pptx

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Apologies, I missed an update to the OTF on slide 18. See updated version attached.

From: Duffy, Paul (EDU)
Sent: November 17, 2016 2:31 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: OTPP backgrounder

Alex, Rob - see attached the backgrounder or 101 deck that we'll be taking the panel through tomorrow. I'm going to send it over to OPCD this afternoon, but if you see any key areas of concern or areas that are missing, please let me know and I'll provide an updated version tomorrow.

Thanks

Paul

Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets); and
  - The 2016 Funding Valuation.

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1990, the pension plan (Teachers' Superannuation Fund) was entirely under the control of the Government of Ontario.
- Established in 1990 by the *Teachers' Pension Act,* the OTPP is a partnership between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
  - Managing investment strategy of the fund;
  - Complying with regulations including *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
  - Deals with amendments to the pension plan including:
    - Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

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- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C].**
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 11.5% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 13.1% for salary above the CPP limit ($54,900 in 2016).
- The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
- OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

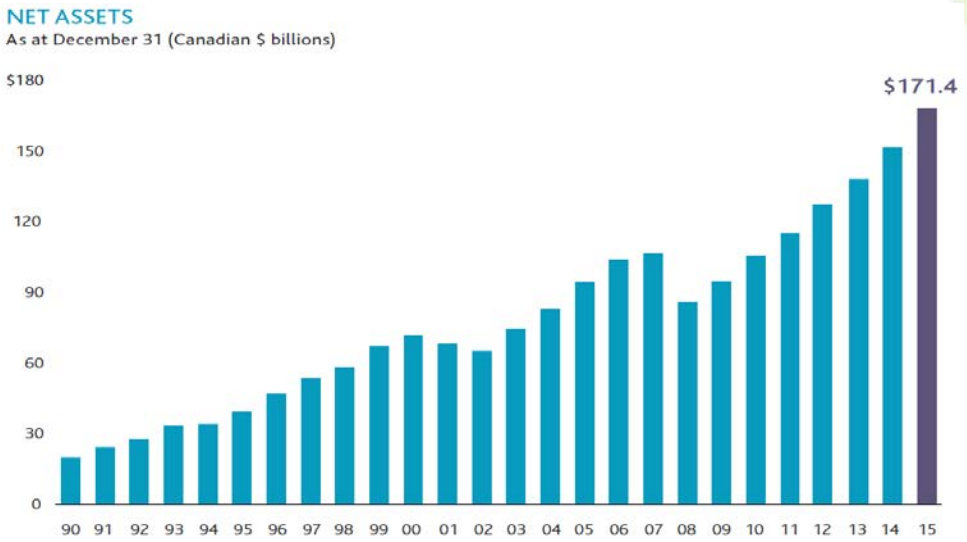
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- As of January 1, 2016, the pension plan's assets were valued at $171.4B.[1]
- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

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Total return	**13.0**	11.8	12.2	8.2	10.3
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Return above benchmark (Canadian $ billions)[2]	**$4.2**	$2.4	$11.0	$16.3	$35.6

[1] Based on the 2016 Funding Valuation.

[2] OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.

Ontario

Valuation Types

- The OTPP is required to perform three different valuations each year. These valuations are three different ways to estimate the cost to provide benefits to be paid in the future and they each have different methods and assumptions (e.g. of wages, inflation or discount rates).
  - The **funding valuation** determines the Plan's annual cash contribution by looking ahead 70+ years to assess the actuarial value of the OTPP's assets and liabilities.
  - The **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements in accordance with Public Sector Accounting Board (PSAB) recommendations. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
  - The **financial statement** valuation measures the fair value of the plan's net assets available for benefits and pension liabilities at a point in time. It does not assume any future contributions and does not project the cost of benefits that current members have not yet earned.

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
  - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for filing the valuation, following direction from the sponsors **[see Appendix D for valuation history]**.

Ontario

Funding Management Policy

- The Funding Management Policy (FMP) is a long-term agreement that forms part of the OTPP Partners' Agreement. **(See Appendix E for FMP Framework Description)**
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which "zone" the funded status is in. For example:
  - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
  - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
  - Temporary Improvement Zone – Temporarily Improve benefits or lower contributions as negotiated.
  - Permanent Plan Improvement Zone – Improve benefits or lower contributions as negotiated.

Funding Valuation: Discount Rate

- The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations.
  - It reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.
- The discount rate is approved annually by the OTPP Board. The process to set the discount rate is robust to ensure this assumption is reasonable and appropriate for the Plan.
- The higher the discount rate, the lower the projected cost of future pensions (and a higher potential surplus/lower potential deficit) and vice versa.
  - Each 0.25% decrease in the discount rate would increase the OTPP deficit by $7B.
- For the 2014 valuation, the discount rate was increased from 2.75% to 2.85% in acknowledgement of the steps taken by the partners to improve the sustainability of the Plan. This discount rate was maintained in 2015 **[see Appendix F for discount rate history].**

Funding Valuation: Discount Rate Cont'd

- For the 2016 valuation, the Plan has reduced the discount rate back to 2.75% given the volatile global investment outlook and the plan's demographic profile.
- If either partner disputes the discount rate, a hearing process can be invoked whereby a third party mediator will be selected to attempt to facilitate an agreement.
- The OTPP discount rate has been independently reviewed by industry experts three times in the last several years. Each time the rate was determined to be within a reasonable range, given the demographic profile of the plan **[see Appendix G for list of expert reviews]**.
- Other pension plans may use different discount rates because their membership characteristics are different.

Funding Valuations: Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP's preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about $13.2B with a discount rate of 2.75%.
- This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and use part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP is currently at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.

Appendix A.1:
OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board.
- The sponsors each appoint five members to the Board and they jointly appoint the Chair.
  - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
  - The current Chair is Jean Turmel. His term ends December 2016 but he is expected to be reappointed.
- Board members terms are two years and members are limited to serving four consecutive terms.
- A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
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Appendix A.2:
OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors

Jean Turmel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016

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EDU
3rd term ends
Dec. 31, 2017

Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017

David Smith
EDU
3nd term ends
Dec. 31, 2016

Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Michael Foulds, President • Anne Vinet-Roy, Past President • Chris Cowley, 1st Vice President

Ontario

Appendix C: Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2015**	**Levels in 2016**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	60%	70%
Earned after 2013	0% to 100%	60%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, up to 50% of the amount of foregone inflation. This is seen as the Government “sharing equal pain”.

Ontario

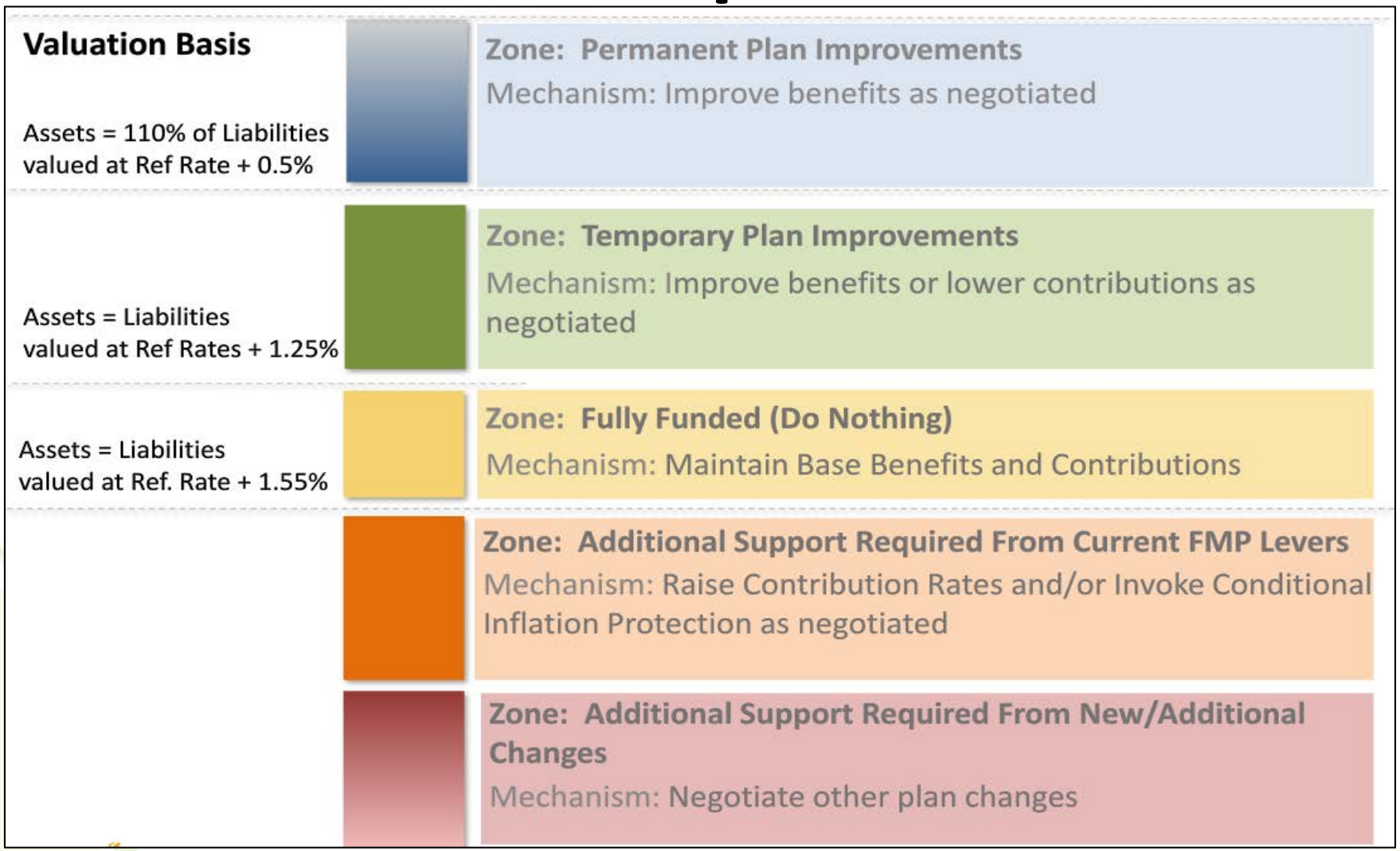
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

Appendix F: Discount Rate History

Valuation	Discount Rate/Inflation Rate
Jan. 1, 2016: Filed	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2016: Preliminary	4.80% (2.75% real, 2.0% inflation)*
Jan. 1, 2015: Filed	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2015: Preliminary	4.85% (2.85% real, 2.0% inflation)
Jan. 1, 2014: Filed	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2014: Preliminary	4.95% (2.85% real, 2.1% inflation)
Jan. 1, 2013: Preliminary	5.00% (2.75% real, 2.25% inflation)
Jan. 1, 2012: Filed	5.30% (3.1% real, 2.2% inflation)
Jan. 1, 2012: Preliminary	5.05% (2.85% real, 2.2% inflation)
Jan. 1, 2011: Filed	5.40% (3.25% real, 2.15% inflation)
Jan. 1, 2011: Preliminary	5.30% (3.15% real, 2.15% inflation)

*Real rate shown as the geometric difference between the discount rate and the inflation rate at Jan. 1, 2016. Previously, the real rate shown was based on the arithmetic difference between the discount rate and the inflation rate.

Appendix G: Discount Rate Reviews

The plan sponsors can request a review of the discount rate used for a funding valuation in certain circumstances. The board's discount rate has been independently reviewed three times in recent years and each time was confirmed to be valid and reasonable.

1. **2012 Discount Rate Review** - the last review was conducted by Don Smith, a partner at Western Compensation & Benefits. He was appointed as hearing officer by the plan sponsors and the OTPP Board to conduct an independent review of the discount rate assumed by the board. The Board used a real discount rate of 2.85% in a preliminary valuation and the review recommended a discount rate no higher than 2.95%. The preliminary valuation showed a $9.6 billion shortfall.
2. **2011 Discount Rate Review –** the 2011 review was conducted by actuary Jean-Pierre Provencher, an independent hearing officer. The valuation showed the plan had a preliminary $17.2 billion shortfall, and the OTF and the government raised concerns that the discount rate was too low (thus overstating the preliminary 2011 funding shortfall).
3. **2007 Discount Rate Review** - The first review was conducted by a five-person panel of internationally recognized experts in its 2007. Panel members – jointly selected by all of the parties – delivered an extensive analysis in November 2007. Their report did not state what the assumptions should be, but rather offered guidance on how they should be set to effectively meet the plan's objectives of benefit security, contribution rate stability and intergenerational equity. The panel confirmed the maturity of the plan and the need to strengthen the plan's mortality assumptions.

From: Di Renzo, Stephen (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: OTPP backgrounder
Date: Thursday, November 17, 2016 17:54:42
Attachment 1: Ontario Teachers' Pension Plan (OTPP) v 04 11-17-2016.pptx

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Thanks all for the feedback. Revised attached.

From: Killoch, Alex (MOF)
Sent: November 17, 2016 4:27 PM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Subject: RE: OTPP backgrounder

Hi Paul

Our changes are in green font. On page 9 we are trying to highlight that different valuations have differing purposes.

Let me know if you have any questions

Alex

From: Duffy, Paul (EDU)
Sent: Thursday, November 17, 2016 4:21 PM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Thanks – we're also adding a piece on the share the pain provisions.

From: Killoch, Alex (MOF)
Sent: November 17, 2016 4:11 PM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Hi Paul

We have some edits that we are pulling together now

From: Duffy, Paul (EDU)
Sent: Thursday, November 17, 2016 2:58 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: RE: OTPP backgrounder

Apologies, I missed an update to the OTF on slide 18. See updated version attached.

From: Duffy, Paul (EDU)
Sent: November 17, 2016 2:31 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: OTPP backgrounder

Alex, Rob - see attached the backgrounder or 101 deck that we'll be taking the panel through tomorrow. I'm going to send it over to OPCD this afternoon, but if you see any key areas of concern or areas that are missing, please let me know and I'll provide an updated version tomorrow.

Thanks

Paul

Ontario Teachers' Pension Plan

Overview and Current Status

Ontario

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
  - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
  - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets);
  - The Valuation types;
  - The Funding Management Policy (FMP); and
  - The 2016 Valuation

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1991, the pension plan was entirely under the control of the Government of Ontario.
- In 1992, the plan became jointly sponsored through a partnership agreement between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
  - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
  - Members make their share of contributions to the Plan and are represented by the **OTF.**
  - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Ontario

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
  - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [**Appendix A.1 and A.2**].
  - A Partner's committee provides advice to the sponsors on various issues relating to the plan [**Appendix B**].
- As plan administrator, the OTPP is responsible for:
  - Administering the plan in accordance with the conditions set by the plan sponsors;
  - Managing investment strategy of the fund;
  - Complying with Legislation including the *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
  - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Ontario

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA).*
  - Appoints members to the OTPP Board; and
  - Deals with amendments to the pension plan including:
    - Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA;* and
    - Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.

- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
  - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
  - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

- OTPP is a Defined Benefit Plan.
  - Basic annual pension = 2% × credit (years of service) × best-five years' average salary.
  - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
  - Pensions are indexed for annual inflation (maximum of 8%).
    - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement and was further amended in 2012 to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service **[see Appendix C]**.
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
  1. Basic Contribution Rate as of January 1, 2016 is set at 10.4% for salary up to the Canada Pension Plan (CPP) limit; and
  2. 12.0% for salary above the CPP limit ($54,900 in 2016).
- The government's cash contributions to OTPP total $1,664 million in 2016-17 (up from $1,496 million in 2015-16).
- OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

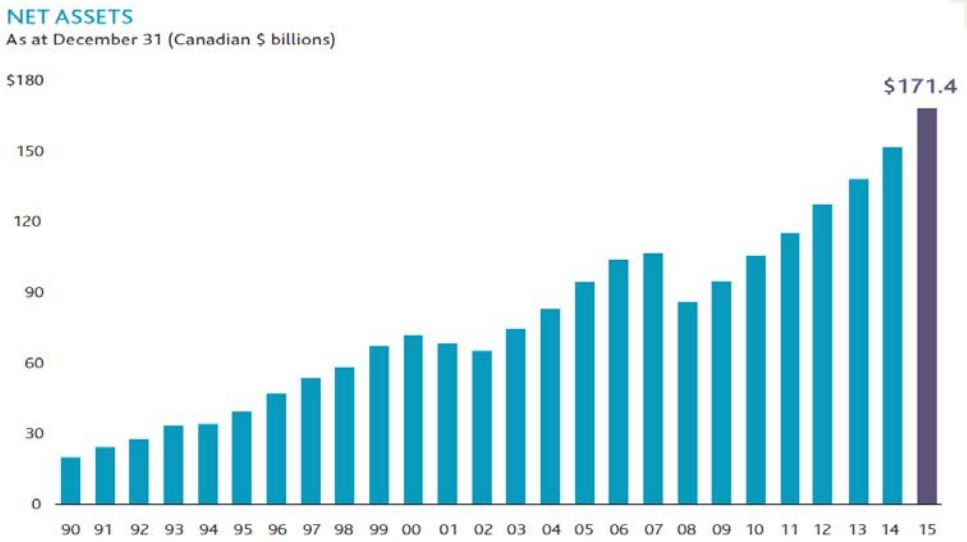
Ontario

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
  - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- As of January 1, 2016, the pension plan's assets were valued at $171.4B.[1]
- The OTPP's assets have grown by over $150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE
(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	**13.0**	11.8	12.2	8.2	10.3
Benchmark	**10.1**	10.1	10.1	6.9	8.1
Return above benchmark (Canadian $ billions)[2]	**$4.2**	$2.4	$11.0	$16.3	$35.6

[1] Based on the 2016 Funding Valuation.

[2] OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.

Ontario

Valuation Types

The OTPP is required to perform three different valuations each year: a funding valuation and two accounting valuations. These valuations are different ways to estimate the cost to provide benefits to be paid in the future.

- A **funding valuation** determines the required cash contribution to ensure long term benefit security. Funding valuations are governed by PBA and actuarial standards. It usually contains an element of conservatism.
- An **accounting valuation** determines pension expense to be recorded in the financial statements. The purpose of the accounting valuation is to allow for the comparability of distinct entities. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
- There are two types of accounting valuations performed by the OTPP:
  - The province's **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements. It is performed in accordance with Public Sector Accounting Board (PSAB) recommendations.
  - The OTPP Board's accounting valuation, which is commonly referred to as the Board's **financial statement valuation** is an account valuation performed based on International Financial Reporting Standard (IFRS).

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
  - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
  - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced future benefits.
  - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced, except in the case of JSPPs, which may reduce accrued benefits on wind-up.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
  - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
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  - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.

- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
  - Teachers, who are predominantly women (70%), are living longer.
  - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
  - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

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- This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan's funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
  - The CIP was at 70% as of January 2016 – up from 60% in 2015.
  - The last filed valuation was January 1, 2015.
- Filing this valuation will benefit both sponsors as a portion of the surplus will be used to partially restore inflation protection for teachers. The government will benefit through a reduction in "sharing equal pain" payments, additional contributions made to the plan, in conjunction with the OTF, since CIP was invoked **(See Appendix C)** .

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- The Partners' Agreement lays out the administration of the Board.
- The sponsors each appoint five members to the Board and they jointly appoint the Chair.
  - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
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Steven McGirr
EDU
1st term ends
Dec. 31, 2016

Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017

John Murray
OTF
1st term ends
Dec. 31, 2016

William Chinery
OTF
1st term ends
Dec. 31, 2016

Rod Albert
OTF
4th term ends
Dec. 31, 2017

Patti Croft
OTF
1st term ends
Dec. 31, 2017

Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTO
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSTF
Gabriel Sékaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Ontario

Appendix B: OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.

- Provides advice to the Government and the OTF Executive on:
  - Policy issues: e.g., funding, plan membership (designate eligible employers);
  - "Housekeeping" changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Michael Foulds, President • Anne Vinet-Roy, Past President • Chris Cowley, 1st Vice President

Ontario

Appendix C: Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009			
Pension credit	**Allowable levels**	**Levels in 2016**	**Levels in 2017**
Earned before 2010	100%	100%	100%
Earned during 2010-2013	50% to 100%	70%	90%
Earned after 2013	0% to 100%	70%	90%

- When CIP is invoked the government also makes additional contributions to the pension plan, equal to the amount of inflation protection between 50% to 100% of CPI forgone by the retired teachers. This is seen as the Government "sharing equal pain".
  - As part of the 2008 agreement to introduce CIP, the government agreed to a "sharing equal pain" provision.
  - The provision states that, for years during which CIP is invoked, the government will make additional contributions to the OTPP equal to an amount up to 50% of the amount of retired members' foregone inflation protection benefits.

Ontario

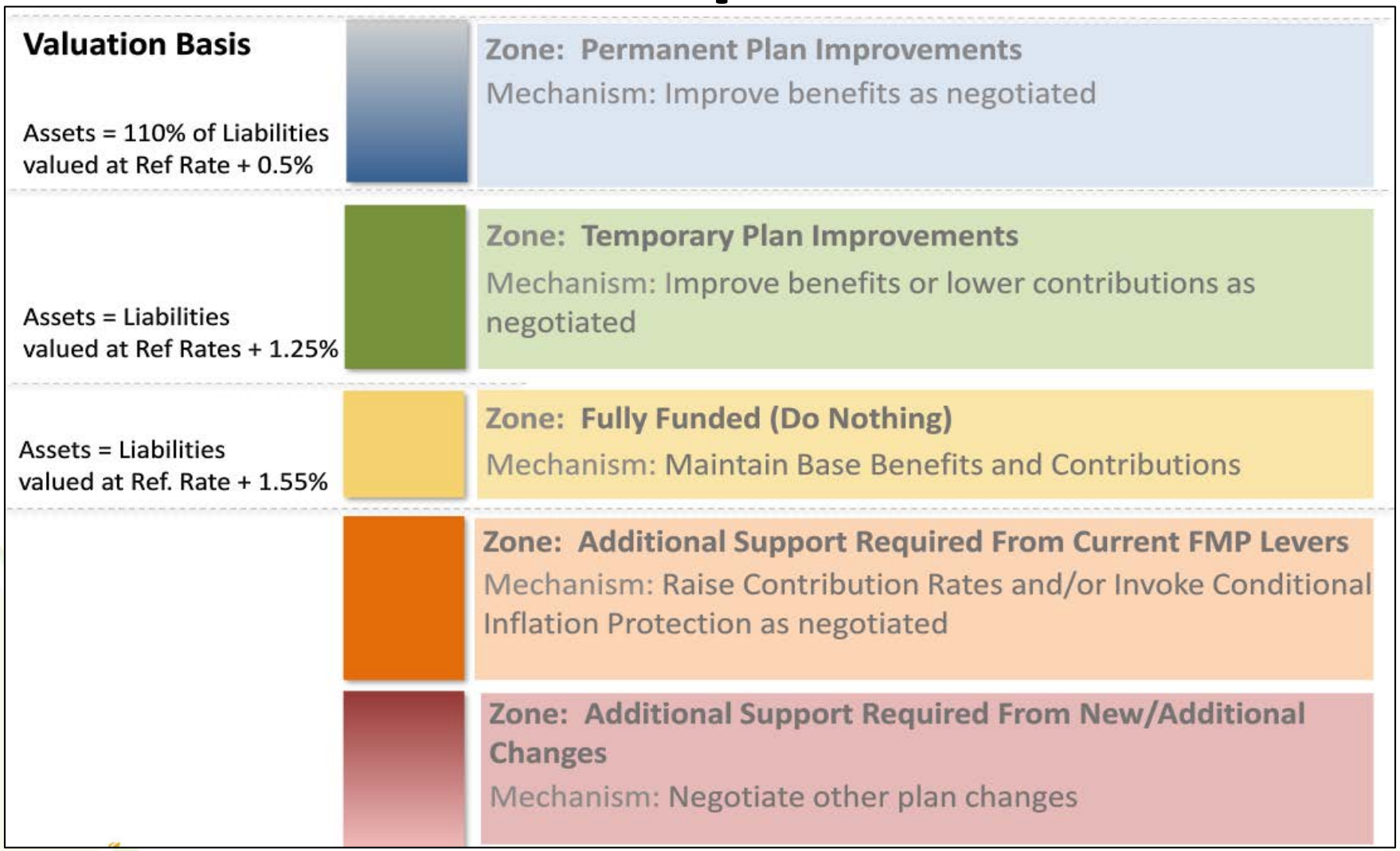
Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary $1.5 billion surplus was distributed: $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary $0.7 billion surplus was distributed: $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary $3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary $6.8 billion surplus was distributed: $6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining $76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	$1.9 billion surplus; no changes to benefits or contribution levels.
2003	$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary $6.1 billion shortfall was resolved, leaving plan with a $0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary $12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary $2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary $17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200 million surplus at Jan. 1, 2012.
2014	$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the $6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the $13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework Description



Ontario

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: OTPP question
Date: Friday, September 16, 2016 13:48:24

Any chance you could squeeze call in at 2pm?

EDU is available

From: Talwar, Garima (MOF)
Sent: Friday, September 16, 2016 1:24 PM
To: Killoch, Alex (MOF)
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Sent: Friday, September 16, 2016 1:18 PM

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Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)

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Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)
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Any update on this?

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Thanks,

Cindy

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Subject: RE: OTPP question
Date: Friday, September 16, 2016 13:45:25

Rob and I are good

From: Sekaly, Gabriel (EDU)
Sent: Friday, September 16, 2016 1:44 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF); Paul, Joshua (EDU); Pomykacz, Rob (MOF)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Duffy, Paul (EDU); Chen, Raymond (TBS)
Subject: Re: OTPP question

14h00 works for Josh and I.

What #?

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(EDU); Chen, Raymond (TBS)

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From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: OTPP question
Date: Friday, September 16, 2016 13:25:07

Waiting for edu to say, as I want them to assume more of the tpp work

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Subject: RE: OTPP question
Date: Friday, September 16, 2016 13:18:37

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To: Paul, Joshua (EDU); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
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Subject: RE: OTPP question
Date: Friday, September 16, 2016 13:17:10

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CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: OTPP question
Date: Friday, September 16, 2016 09:28:53

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From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: OTPP question
Date: Friday, September 16, 2016 15:15:38

When you have a moment

From: Talwar, Garima (MOF)
Sent: Friday, September 16, 2016 1:53 PM
To: Killoch, Alex (MOF)
Subject: Re: OTPP question

I have a conflict re MO debrief on CPP enhancement...

Sent from my BlackBerry 10 smartphone on the Rogers network.

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Sent: Friday, September 16, 2016 1:48 PM

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From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Friday, September 16, 2016 1:18 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)

Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)

Subject: RE: OTPP question

Does 2 pm work?

From: Killoch, Alex (MOF)
Sent: September-16-16 1:17 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)
Subject: RE: OTPP question

Any update on this?

From: Paul, Joshua (EDU)
Sent: Friday, September 16, 2016 9:36 AM
To: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU)
Subject: Re: OTPP question

I agree w Alex that we should discuss and delegate together to make most use of time and get you what you need when you need it.

How is 11?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Friday, September 16, 2016 9:28 AM

To: Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)

Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF)

Subject: RE: OTPP question

Hi Cindy

Can we do a call today at some point and discuss this issue, along with the request from last night that we obtain a letter covering the partner's approach to surplus.

Rather than various one-offs, I think it would be helpful, especially for our EDU colleagues, to have a conversation about what we need and to what purpose various materials would be used.

I know that Josh is in negotiations at the moment, so perhaps we can start with EDU availability. I am headed into a meeting now, but the rest of the day has flex.

Alex

From: Veinot, Cindy (TBS)
Sent: Friday, September 16, 2016 8:54 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Paul, Joshua (EDU)
Cc: Petsche, Nadine (TBS)
Subject: OTPP question

Good morning – another question on OTPP:

– if the sponsors of the plan were to decide to increase the benefits under the OTPP (something other than conditional inflation indexation), how would that impact the Province's share of the surplus in the plan.

– With the change in conditional inflation indexation, the impact to the surplus in the plan is a reduction that is tied to (a) increased payment to the teachers and (b) reduced future payments from the province, but I think that is unique to the conditional inflation indexation

Thanks,

Cindy

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
Subject: RE: OTPP surplus accounting issue - follow-up Q
Date: Saturday, September 17, 2016 12:51:30

Great idea. I'll send them the invite too and see if they can join. Thanks for the suggestion. n

From: Killoch, Alex (MOF)
Sent: September-17-16 12:51 PM
To: Petsche, Nadine (TBS)
Subject: Re: OTPP surplus accounting issue - follow-up Q

I can join the call but I know nothing of this topic. I read the emails but am not familiar with the provisions that they are referring to. I was not at mof when that was signed.

I think EDU needs to participate too, as they are the party to the fmp agreement and I think Josh and Gabe were involved in the term sheet.

From: Petsche, Nadine (TBS)

Sent: Saturday, September 17, 2016 12:38 PM

To: Killoch, Alex (MOF)

Subject: FW: OTPP surplus accounting issue - follow-up Q

Alex,

Hoping you'll be able to join the call at 2 pm. It will be an important discussion to help inform the external legal opinion that the accounting opinion will rely upon. The email below will help shed some light on the nature of their areas of interest to which Alan already provided some feedback today.

Thanks.

Nadine

From: Marin, Jon <jomarin@osler.com>

Sent: Saturday, September 17, 2016 10:13 AM

To: Allan Shapira

Cc: Rienzo, Douglas; Hatzis, Len (TBS); Steele, Jana

Subject: Re: OTPP surplus accounting issue - follow-up Q

Allan,

Many thanks for getting back to us so quickly with your comments.

Have a great weekend.

Best regards,

Jon

Sent from my iPhone

On Sep 17, 2016, at 10:09 AM, Allan Shapira <allan.shapira@aonhewitt.com> wrote:

> The arbitration issue is a legal issue that I don't think is in my bailiwick.

My reference was to the surplus credits from the term sheet. If there were benefit reductions arising from the application of the term sheet then the members would get a surplus credit from those reductions. I don't think there are any surplus credits so the term sheet provisions are a non-issue.

If the surplus is used contribution reductions for both parties there is an easy symmetry. If the members want to use their surplus for a benefit improvement then the form of the corresponding value to the government has to be addressed in the side agreement. It is only about the form not whether they get a corresponding value.

Allan

Sent from my iPhone

On Sep 16, 2016, at 1:32 PM, Rienzo, Douglas <DRienzo@osler.com> wrote:

> Allan:
>
> We have a few more questions about the technical application of the Funding Management Policy, and are hoping you can help us.
>
> 1. You mentioned some restrictions on the use of surplus to benefit members. Aside from the 2013 Term Sheet promises under 6.03 (which you said are not big ticket items, if they end up applying at all), are you referring to the "side agreement" provision in 4.06?
>
> **Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.**

What does that section mean? It refers to an agreement to "offset any surplus distribution or temporary improvement in benefits" – does that mean that the government is supposed to get a contribution reduction of equivalent value if surplus is used for a distribution to members or for a temporary benefit improvement? Are there any other provisions in the FMP like this, that the government can point to as supporting its expectation to benefit from part of the surplus?

2. We understand that every time there is a valuation, the parties must sit down and consider what action to take under Article III, and go to mediation and perhaps to arbitration if they cannot agree (i.e. they follow the procedures set out in sections 74 to 100 of the Partners Agreement). If the plan is in Zone 4 or Zone 5, are the potential actions under Articles IV and V also folded into the mediation/arbitration process? The FMP is unclear on this point, and only seems to refer to that process applying to Article III decisions as set out below:

Section 8.01

Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

3. The Partners Agreement contains some guidelines for the arbitrator, in section 92:

92. The award made by the board of arbitration will,

(a) deal only with the contribution rate and/or benefits of the pension plan and otherwise maintain the plan as it is set out in Schedule 1,

(b) comply with the laws of Ontario,

(c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,

(d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,

(e) ensure that any increase in benefits is adequately funded,

(f) not impair the ability of the Board to fulfil its fiduciary responsibilities,

(g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). [emphasis added]

Do you have any idea what the reference to "subparagraph EE(2) means?

Could you perhaps reply by email or, if it's easier, suggest a time when we might chat about this? We have been asked to provide our opinion asap, so if we could speak to you this afternoon that would be ideal. I apologize for the short notice. Thanks, Allan.

Doug

<image001.gif>

Douglas Rienzo
Partner, Pensions & Benefits

Chair, Diversity Committee

416.862.5683

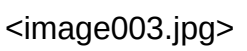
DIRECT

416.862.6666

FACSIMILE

drienzo@osler.com

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8



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From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: OTTP Asset options
Date: Tuesday, November 22, 2016 10:57:08

Thanks Alex.

From: Killoch, Alex (MOF)
Sent: November 22, 2016 8:49 AM
To: Duffy, Paul (EDU)
Subject: Re: OTTP Asset options

We have not worked up anything. The TPP model is certainly better than the OPSEU model. I think that is not a joint model.

We can discuss at meeting today. I am solid all day otherwise

From: Duffy, Paul (EDU)

Sent: Monday, November 21, 2016 6:57 PM

To: Killoch, Alex (MOF)

Subject: OTTP Asset options

Alex,

We’re working through the potential range of options to explore the possible and access the OTPP surplus and wanted to touch base about some of the potential options that were raised at the last meeting with TBS. We’re fleshing out some considerations around negotiating an agreement with the OTF, or going so far as legislating, but wondering if your team is working up the details around a shared asset model (along the lines of OMERS), or other potential JSPP structures that may exist that could be considered?

Cindy was at a session with Josh today and raised those two options in particular as things they expect to discuss at this Thursday’s meeting with Karen.

I'm available in the morning if you want to discuss before meeting with Josh - otherwise, we can chat then.

Thanks,

Paul

From: Killoch, Alex (MOF) []
To: Patel, Lesley (MOF) [Lesley.Patel@ontario.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]; Wynberg, Lynsey (OFA) [Lynsey.Wynberg@ofina.on.ca]
Subject: RE: PAEAP NR - TBS edits
Date: Thursday, February 09, 2017 11:56:51
Attachment 1: PAEAP Report NR AK edits.doc

Hi Lesley

I have made an edit that I hope makes it less confusing. OPCD will need to decide if it is accurate enough.

Also, I noted that the 'P" in "province" is often capitalized, but not always

Alex

From: Patel, Lesley (MOF)
Sent: February 9, 2017 9:09 AM
To: Birks, Ryan (MOF); Buckland Foster, Jamie (MOF); Wynberg, Lynsey (OFA)
Cc: Killoch, Alex (MOF)
Subject: PAEAP NR - TBS edits
Importance: High

Hi all,

TBS made some minor edits to the NR, please let me know if you have any concerns with any of the language asap. If you do, I can flag them for TBS but please note as they are the lead ministry on this file they may not accept all of them.

Thanks,

Lesley

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February 13, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans: the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

The panel's report concluded that the ~~province's~~ Province can recognize each of the OTPP and OPSEUPP as an asset ~~share of the net pension assets of both the OTPP and the OPSEUPP should be recognized~~ in Ontario's financial statements, which Ontario has done consistently since 2001.

The panel's report outlined the following reasons why an asset exists and should be reported in the financial statements:

- Recognizing the asset will provide a faithful representation of the Province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the Province's share of the assets in Public Accounts

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

As a result, the government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The Province remains on track to balance the budget by 2017-18, and remain balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"**TBC** I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"As a result of the expert assessment of the independent advisory panel, we now have additional advice on how to account for these jointly sponsored pension plans as assets. This

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Commented [KA(1]: I think "net pension assets" is the accounting phrase, but can be confused with the assets of the pension plan itself. Also, this line refers the "share of the net pension asset" while the line added below (in yellow) refers to the full amount. It could be confusing for one part to refer to a share and the other the full amount of the net pension asset. The latter point is acknowledging that the share is not further reduced in any fashion. Perhaps more general language might work better here.

Commented [CV2]: There were two main aspects to the panel's work – whether to recognize the assets and if so, how to measure them – this only addresses the first issue

Commented [CV3]: Not a reason why the asset exists – hence the change above

Commented [CV4]: Also not a reason by the asset exists – see comment 2 re: the change necessary in the introductory sentence

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Commented [CV5]: See comment #1

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Commented [KA(6]: The use of small 'p' and capital "P" varies in the release

DRAFT

advice will help us continue to present the province's finances fairly and accurately, as we work toward balancing the budget in 2017-18. We will provide a full update on the Province's fiscal situation in the near future."
— Charles Sousa, Minister of Finance

QUICK FACTS

- By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.
- For 2015-16, ~~this~~ following the advice of the panel means the province's deficit ~~has~~ would be~~been~~ ~~lowered by~~ $1.5 billion lower.
- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.
- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets.
- The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and Public Sector Accounting Standards.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [CV7]: Debt doesn't change – what is the message that we are trying to convey? -- the impact on net debt? Let us know and we can write the bullet.

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Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

From: Buckland Foster, Jamie (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: PAEAP Report QA_MOF_20170206
Date: Monday, February 06, 2017 22:06:29

Sounds good, thanks

From: Killoch, Alex (MOF)
Sent: February 6, 2017 7:30 PM
To: Buckland Foster, Jamie (MOF)
Subject: Re: PAEAP Report QA_MOF_20170206

She does not normally look at the accounting

From: Buckland Foster, Jamie (MOF)
Sent: Monday, February 6, 2017 6:35 PM
To: Killoch, Alex (MOF)
Subject: RE: PAEAP Report QA_MOF_20170206

Thanks Alex. Does Leah need to review?

From: Killoch, Alex (MOF)
Sent: February 6, 2017 3:59 PM
To: Buckland Foster, Jamie (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: PAEAP Report QA_MOF_20170206

Hi Jamie

I am not sure that one of the messages is correct. I have not read the panel report but I don't think it applies to all of the JSPPs, only the two we sponsor. I have adjusted the language. There were a couple of typo's that I expect have been caught

Alex

From: Patel, Lesley (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: RE: PAEAP info
Date: Tuesday, February 07, 2017 09:50:30

Morning Alex,

TBS has suggested using the word “current” to make it more clear– “current net pension assets for Ontario’s jointly sponsored plans should continue to be recognized in the province’s financial statements”

From: Killoch, Alex (MOF)
Sent: February-06-17 4:07 PM
To: Patel, Lesley (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: RE: PAEAP info

Having read the Q&A, I want to retract my earlier approval

To the best of my knowledge, the panel only reported on the two plans that the government co=-sponsored. I am not sure that the financial statements will have net pension assets for the two jointly sponsored plans that are not sponsored by the government.

“With President of the Treasury Board Liz Sandals, we are accepting all of the panel’s recommendations, including recognizing the Province’s net pension assets for jointly-sponsored plans in its financial statements. This accounting approach will be used on any future provincial financial reports.”

That statement should be confirmed by OPCD staff.

Alex

==========

I don’t have any concerns with the announcement. I also have the Q&A’s and will look at them now

From: Patel, Lesley (MOF)
Sent: February 6, 2017 11:31 AM
To: Killoch, Alex (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: RE: PAEAP info

Hi Alex,

Sharing a draft Minister statement on the potential release of the PAEAP as an **fyi only** at this point. It's with the MO, but as your team was planning to review the report, any input you have is welcome.

Please note that at this point there is no consensus around if this statement will be necessary or if another comms approach will happen as TBS is leading this announcement. I'm meeting with TBS at end of day and hopefully things will be firmed up by then. That means that the statement attached could potentially change as well.

Also, the release date is still up in the air, it might be moved up to this week which is why we are being proactive with the attached statement should TBS decide this is the way to go.

I will keep you posted on what the outcome of the meeting is and what MOF will be moving forward with in support of the announcement.

Thanks,

Lesley

From: Killoch, Alex (MOF)
Sent: January-26-17 10:07 AM
To: Patel, Lesley (MOF)
Subject: Re: PAEAP info

I don't see a negative reaction from the otf.

The report will confirm that the cost of the pension plan is less than the cash contributions made by the government.

I have asked edu about the OTF, as they will have better idea if any reaction. I will let you know what they say.

From: Patel, Lesley (MOF)

Sent: Thursday, January 26, 2017 9:56 AM

To: Killoch, Alex (MOF)

Subject: FW: PAEAP info

Hi Alex,

Catherine forwarded your response re: stakeholders reaction to the release of the PAEAP report. I understand that you're going to reach out to TBS to review the report and after that time, you'll have a better sense of what potential issues may be.

In the meantime, I'm connecting with TBS communications on products, as they are the lead, and was hoping you could explain a bit more about the potential negative reaction of the Teacher's Federation.

Much appreciated,

Lesley

From: Mah, Catherine (MOF)
Sent: January-26-17 9:49 AM
To: Patel, Lesley (MOF)
Subject: FW: PAEAP info

FYI

From: Killoch, Alex (MOF)
Sent: January 26, 2017 9:00 AM
To: Mah, Catherine (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: Re: PAEAP info

I don't see there being any reaction from stakeholders (saying that, I have not seen the report to know if there is anything to be concerned about).

Only exception might be Teachers Federation, but that would not be a public reaction. Only discussion would be at the partner's table.

I will ask if I can see report.

Alex

From: Mah, Catherine (MOF)

Sent: Wednesday, January 25, 2017 5:57 PM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: FW: PAEAP info

Hi you two,

TBS is looking for any insight into stakeholder reaction to the outcome of the forthcoming report. Can you help with this?

Thanks,

Catherine

From: Myers, Leah (MOF)
Sent: January 25, 2017 5:53 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Please follow up with Alex. Thanks.

From: Mah, Catherine (MOF)
Sent: January-25-17 5:26 PM
To: Myers, Leah (MOF)
Subject: FW: PAEAP info

Hi Leah,

I know this is a TBS lead – is this something we should be commenting on?

Thanks,

Catherine

From: Patel, Lesley (MOF)
Sent: January 25, 2017 4:43 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Hi Catherine,

As a follow up to our conversation. TBS is looking for any insight into stakeholder reaction to the outcome of the report — if they think they would be neutral? Any input/feedback you or your colleagues could provide would be helpful.

We can touch base tomorrow morning if you need a bit more context.

Talk soon,

Lesley

From: Patel, Lesley (MOF)
Sent: January-25-17 4:03 PM
To: Mah, Catherine (MOF)
Subject: PAEAP info

Hi Catherine,

Following up on the voicemail I left earlier today — looking to touch base on a few items, including the Pension Asset Expert Advisory Panel.

Could you please give me a call when you have a chance.

Much appreciated,

Lesley

From: Killoch, Alex (MOF) []
To: Patel, Lesley (MOF) [Lesley.Patel@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: RE: PAEAP info
Date: Monday, February 06, 2017 17:07:03

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Hi Catherine,

As a follow up to our conversation. TBS is looking for any insight into stakeholder reaction to the outcome of the report — if they think they would be neutral? Any input/feedback you or your colleagues could provide would be helpful.

We can touch base tomorrow morning if you need a bit more context.

Talk soon,

Lesley

From: Patel, Lesley (MOF)
Sent: January-25-17 4:03 PM
To: Mah, Catherine (MOF)
Subject: PAEAP info

Hi Catherine,

Following up on the voicemail I left earlier today — looking to touch base on a few items, including the Pension Asset Expert Advisory Panel.

Could you please give me a call when you have a chance.

Much appreciated,

Lesley

From: Patel, Lesley (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: RE: PAEAP info
Date: Monday, February 06, 2017 12:31:16
Attachment 1: Minister Statement - PAEAP report (before Q3 release) v3.docx

---

Hi Alex,

Sharing a draft Minister statement on the potential release of the PAEAP as an **fyi only** at this point. It's with the MO, but as your team was planning to review the report, any input you have is welcome.

Please note that at this point there is no consensus around if this statement will be necessary or if another comms approach will happen as TBS is leading this announcement. I'm meeting with TBS at end of day and hopefully things will be firmed up by then. That means that the statement attached could potentially change as well.

Also, the release date is still up in the air, it might be moved up to this week which is why we are being proactive with the attached statement should TBS decide this is the way to go.

I will keep you posted on what the outcome of the meeting is and what MOF will be moving forward with in support of the announcement.

Thanks,

Lesley

From: Killoch, Alex (MOF)
Sent: January-26-17 10:07 AM
To: Patel, Lesley (MOF)
Subject: Re: PAEAP info

I don't see a negative reaction from the otf.

The report will confirm that the cost of the pension plan is less than the cash contributions made by the government.

I have asked edu about the OTF, as they will have better idea if any reaction. I will let you know what they say.

From: Patel, Lesley (MOF)

Sent: Thursday, January 26, 2017 9:56 AM

To: Killoch, Alex (MOF)

Subject: FW: PAEAP info

Hi Alex,

Catherine forwarded your response re: stakeholders reaction to the release of the PAEAP report. I understand that you're going to reach out to TBS to review the report and after that time, you'll have a better sense of what potential issues may be.

In the meantime, I'm connecting with TBS communications on products, as they are the lead, and was hoping you could explain a bit more about the potential negative reaction of the Teacher's Federation.

Much appreciated,

Lesley

From: Mah, Catherine (MOF)
Sent: January-26-17 9:49 AM
To: Patel, Lesley (MOF)
Subject: FW: PAEAP info

FYI

From: Killoch, Alex (MOF)
Sent: January 26, 2017 9:00 AM
To: Mah, Catherine (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: Re: PAEAP info

I don't see there being any reaction from stakeholders (saying that, I have not seen the report to know if there is anything to be concerned about).

Only exception might be Teachers Federation, but that would not be a public reaction. Only discussion would be at the partner's table.

I will ask if I can see report.

Alex

From: Mah, Catherine (MOF)

Sent: Wednesday, January 25, 2017 5:57 PM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: FW: PAEAP info

Hi you two,

TBS is looking for any insight into stakeholder reaction to the outcome of the forthcoming report. Can you help with this?

Thanks,

Catherine

From: Myers, Leah (MOF)
Sent: January 25, 2017 5:53 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Please follow up with Alex. Thanks.

From: Mah, Catherine (MOF)
Sent: January-25-17 5:26 PM
To: Myers, Leah (MOF)
Subject: FW: PAEAP info

Hi Leah,

I know this is a TBS lead – is this something we should be commenting on?

Thanks,

Catherine

From: Patel, Lesley (MOF)
Sent: January 25, 2017 4:43 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Hi Catherine,

As a follow up to our conversation. TBS is looking for any insight into stakeholder reaction to the outcome of the report — if they think they would be neutral? Any input/feedback you or your colleagues could provide would be helpful.

We can touch base tomorrow morning if you need a bit more context.

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Could you please give me a call when you have a chance.

Much appreciated,

Lesley

Ontario

NEWS

Ministry of Finance

Statement by Finance Minister Charles Sousa on the Pension Asset Expert Advisory Panel's Recommendations

February 13, 2017

Today, Charles Sousa, Ontario Minister of Finance, issued the following statement on the release of the Pension Asset Expert Advisory Panel Report.

"Ontario welcomes the Expert Advisory Panel's report and their final recommendations.

With President of the Treasury Board Liz Sandals, we are accepting all of the panel's recommendations, including recognizing the Province's net pension assets for jointly-sponsored plans in its financial statements. This accounting approach will be used on any future provincial financial reports.

Ontario's deficit is lower than originally reported, sitting at $3.5 billion compared to $5 billion noted in the 2015-16 Public Accounts. This revised deficit figure highlights our government's commitment to eliminating the deficit, which is key to Ontario's long-term economic growth.

We have beaten our deficit targets for seven straight years while making strategic investments to create jobs and help people in their everyday lives. In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our progress on our plan to grow the economy.

I would like to thank the Pension Asset Expert Advisory Panel for its work on this complex issue. With the panel's recommendations in place, it is clear we are on track to balance the budget next year and the year after."

For Media Inquiries only:
Kelsey Ingram, Minister's Office
416-326-1409
Scott Blodgett, Ministry of Finance
416-325-0324

Available Online
Disponible en Français

From: Noor, Khalida (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
Subject: RE: PSAB ITC
Date: Thursday, March 15, 2018 17:57:42

Hi Alex

Thank you for getting us some help on this one. We have incorporated Alex's comments / feedback. I will let you know if Cindy has additional questions.

Thanks again!

From: Killoch, Alex (MOF)
Sent: March 15, 2018 2:01 PM
To: Donaldson, Mark (TBS); Noor, Khalida (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Fw: PSAB ITC

Attached is Allan's suggestions on the accounting issue.

Let me know if you would like to arrange a call.

Alex

From: Allan Shapira <allan.shapira@aon.com>

Sent: Thursday, March 15, 2018 1:39 PM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF); Jason Malone

Subject: PSAB ITC

Attached is a document which provides our thoughts/comments from our review of the draft responses to the ITC.

Would be pleases to have a call tomorrow if that would be helpful.

Thanks

Allan

Allan H. Shapira, FSA, FCIA | Managing Director
Aon
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
allan.shapira@aon.com | aon.com

PLEASE NOTE: My email has changed to allan.shapira@aon.com

****
This communication (and any attachments) is directed in confidence to the addressee(s) listed above, and may not otherwise be distributed, copied or used. The contents of this communication may also be subject to privilege, and all rights to that privilege are expressly claimed and not waived. If you have received this communication in error, please notify us by reply e-mail or by telephone and delete this communication (and any attachments) without making a copy. Thank you.

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From: Allan Shapira [allan.shapira@aon.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: PSAB's ITC: Discount Rates
Date: Wednesday, March 14, 2018 11:52:14

Working on it right now. Cindy likely knows I have been swamped on the Judges file.

Mary Cover called me late last week about the submission they decided to make. We went through some of the points they were going to make. The one issue I suggested they be careful of is creating the view that it would be better to account for these plans as DC plans (i.e. cash contributions). That would have a serious impact on the government's financial statements. That is an issue broader than the discount rate discussion.

I also met with Murray Gold on this. He was making a submission for one of the larger employee groups outside Ontario and we discussed a number of the points he wanted to raise. He wrote a very good letter. Not sure if he did something for the OTF.

Will send something out later today or tomorrow morning.

Thanks

Allan

-----Original Message-----
From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: March-14-18 11:35 AM
To: Allan Shapira
Cc: Pomykacz, Rob (MOF)
Subject: Fw: PSAB's ITC: Discount Rates

Hi Allan

OPCD is inquiring about our accounting submission. Do you have an update?

Alex

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Sent: Wednesday, March 14, 2018 10:08 AM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: RE: PSAB's ITC: Discount Rates

Hi Alex,

Hope you are doing well. I have my 1/1 with Cindy later today, can you please confirm that we are still on track with below for tomorrow?

Thanks
Khal

From: Noor, Khalida (TBS)
Sent: March 1, 2018 10:13 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: FW: PSAB's ITC: Discount Rates

Hi Alex

It was nice meeting you. In the attach please find the responses we have put together.

As discussed, can you please get Allan to:

1. Review and update the QA based on his experience with the plans

2. Develop an overall discussion on high-level differences between private vs public sectors and discount rate implications

I would appreciate to have something back from Allan by March 15, so that Cindy has sufficient review time. Please let me know if you foresee challenges with the date.

Thanks again for assisting us with this deliverable.

Thank you
Khal

Sent with BlackBerry Work
(www.blackberry.com<http://www.blackberry.com>)
From: Provis, Ian (TBS) <Ian.Provis@ontario.ca<mailto:Ian.Provis@ontario.ca>>
Date: Tuesday, Feb 27, 2018, 1:55 PM
To: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca<mailto:Khalida.Noor@ontario.ca>>
Subject: FW: PSAB's ITC: Discount Rates

Ian Provis, OPCD
' 416.327.2722 | * ian.provis@ontario.ca<mailto:ian.provis@ontario.ca>

From: Keates, James (TBS)
Sent: Wednesday, February 21, 2018 10:22 AM
To: Provis, Ian (TBS)
Subject: PSAB's ITC: Discount Rates

Hi Ian, attached is the draft briefing note and response letter for your review.
The parts highlighted in yellow are the areas where we need someone more involved in the calculations to provide input.
Thanks
Jim

Jim Keates, MBA, CPA, CA
Office of the Provincial Controller Division | Treasury Board Secretariat 2nd Floor Frost South, Toronto
james.keates@ontario.ca<mailto:james.keates@ontario.ca> | 416 325-8082
[cid:image002.jpg@01D17B9A.BDC06E20]

****
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From: Killoch, Alex (MOF) []
To: Keates, James (TBS) [James.Keates@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]
Subject: RE: PSAB's ITC: Discount Rates
Date: Friday, March 02, 2018 11:32:33
Attachment 1: image001.jpg

Hi Jim

I will ask Rob or Ingrid to contact you. Sounds like you use the financial statements, but when we consider whether a plan can meet its GC obligations we tend to use the funding valuation under the PBA. That does represent a problem where a plan is not filing.

We also have some questions about the discount rates in the tables in the back. They look several years old.

From: Keates, James (TBS)
Sent: March 2, 2018 10:27 AM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Noor, Khalida (TBS)
Subject: RE: PSAB's ITC: Discount Rates

Hello Alex, the funded status numbers are rough calculations based on a review of the respective 2016 annual reports. OTPP was calculated based on net assets available for benefits ($175.6 billion) / accrued pension benefits ($189.4 billion) on page 39. PSPP was taken from page 11 which indicated “At December 31, 2016, the financial position of the Plan improved so that 103% of the total pension obligation was supported by net assets …”. If you have more formal funded percentages, could you please update the table. Thanks very much,

Jim

From: Killoch, Alex (MOF)
Sent: Friday, March 02, 2018 10:02 AM
To: Noor, Khalida (TBS)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: RE: PSAB's ITC: Discount Rates

Thanks for this, I have sent along to Allan with a request that let us know if the 15th is doable.

I took a quick look at your material. There is a table on the TBS Issues note on page 2 that states the funded status of Ontario's plans. I did not recognize a couple of the numbers for the funded status, specifically 93% for OTPP at the end of 2016 and 103% for the PSPP. The OTPP number seems low. Are these values based on valuations? I am sure that OTPP was over 100% at end of 2016. These numbers will change shortly in any event as the plans release their results. OMERS is already out and I think CAATPP will publish its results next week. OTPP is likely to follow quite soon as we have instructed the plan to file the valuation immediately.

In the specific answers to the accounting questions, there are a couple of responses where Allan might want to add something regarding the shared nature of the plans. The immediate response to a funding shortfall is not necessarily increased contributions where there is a sharing of risk, such as OTPP, HOOPP and CAATPP. I do fuss a bit that the answer is different for our own plans, where the OPSEUPP shares contribution risk and the PSPP has no risk sharing. That might need some careful thought.

I will let you know what Allan says

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Noor, Khalida (TBS)
Sent: March 1, 2018 10:13 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: FW: PSAB's ITC: Discount Rates

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As discussed, can you please get Allan to:

1. Review and update the QA based on his experience with the plans

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I would appreciate to have something back from Allan by March 15, so that Cindy has sufficient review time. Please let me know if you foresee challenges with the date.

Thanks again for assisting us with this deliverable.

Thank you

Khal

Sent with BlackBerry Work
(www.blackberry.com)

From: Provis, Ian (TBS) <Ian.Provis@ontario.ca>

Date: Tuesday, Feb 27, 2018, 1:55 PM

To: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>

Subject: FW: PSAB's ITC: Discount Rates

Ian Provis, OPCD

' 416.327.2722 | 8 ian.provis@ontario.ca

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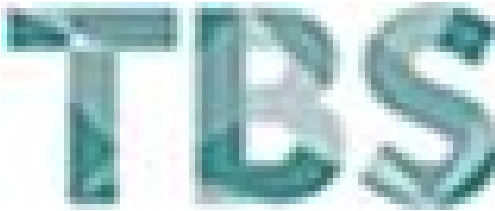
TBS

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To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Noor, Khalida (TBS) [Khalida.Noor@ontario.ca]
Subject: RE: PSAB's ITC: Discount Rates
Date: Friday, March 02, 2018 11:27:13
Attachment 1: image001.jpg

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Ministry of Finance

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Subject: FW: PSAB's ITC: Discount Rates

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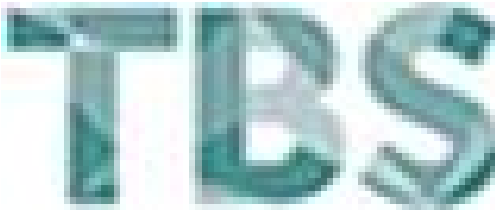
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Subject: RE: PSAB's ITC: Discount Rates
Date: Friday, March 02, 2018 11:01:55
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Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

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Jim Keates, MBA, CPA, CA

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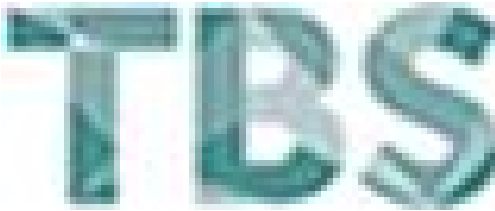
TBS

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Pension Asset -- Communications
Date: Thursday, October 20, 2016 17:11:35

Hi Josh

I reviewed these questions for the information on the panel and I noted the following response in the answer to question 26. It notes a surplus of $13.2 billion. That is the preliminary surplus that was filed, not the final surplus after the Jan 1 2016 valuation was filed. As a result of inflation restoration, the surplus is now about $4.5 billion. I do not think that number is public, although it is possible to ask FSCO for a copy of the valuation. We have noted to Cindy that it should at least say “preliminary”.

The OPSEU Pension Plan is fully funded with a small reserve of surplus assets standing to the credit of the joint-sponsors, while the Ontario Teachers’ Pension Plan has a funding surplus of $13.2 billion.

From: Paul, Joshua (EDU)
Sent: Thursday, October 20, 2016 9:51 AM
To: Killoch, Alex (MOF)
Subject: FW: Pension Asset -- Communications

From: Morris, David (TBS)
Sent: October 13, 2016 3:46 PM
To: Leaning, Murray (MET); DiMuzio, Sofie (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS); Luk, Derek (EDU); Gaudreau, Murray (MET)
Subject: RE: Pension Asset -- Communications

Hi there,

Questions 26, 30, and 31 in the attached document may be of assistance to you.

David Morris

Executive Communications Coordinator

(416) 326-2582

From: Leaning, Murray (MET)
Sent: October-13-16 3:37 PM
To: DiMuzio, Sofie (TBS); Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS); Morris, David (TBS); Luk, Derek (EDU); Gaudreau, Murray (MET)
Subject: RE: Pension Asset -- Communications

Thanks, Sofie.

I’m including Derek and Murray G.

Please send to all.

From: DiMuzio, Sofie (TBS)
Sent: October-13-16 3:18 PM
To: Veinot, Cindy (TBS); Leaning, Murray (MET)
Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS); Morris, David (TBS)
Subject: RE: Pension Asset -- Communications

For sure

Murray we'll send something over your way shortly

From: Veinot, Cindy (TBS)
Sent: October-13-16 11:57 AM
To: DiMuzio, Sofie (TBS); Leaning, Murray (MET)
Cc: Paul, Joshua (EDU); Hosick, Sarah (TBS)
Subject: Pension Asset -- Communications

Hi Sofie,

Josh Paul and I had a conversation re: Education being called to the Standing Committee on Estimates and that the impact of OTPP pension accounting on estimates may be a topic of discussion.

Could you connect with Murray re: the coms Q&As that have been produced on the topic as some of those may be useful for EDU.

Let me know if you have any questions.

Thanks,

Cindy

From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Thursday, November 17, 2016 11:40:32

Looks good. Thanks.

From: Killoch, Alex (MOF)
Sent: November 17, 2016 10:26 AM
To: Talwar, Garima (MOF)
Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

There are some endorsements of Murray in the trail from Ross and EDU MO is not concerned, so

My inclination is to respond to say:

“I am comfortable that the issue has been reviewed and any concerns have been allayed.”

From: Kaufman, Paul (TBS)
Sent: Thursday, November 17, 2016 9:46 AM
To: Veinot, Cindy (TBS); Duffy, Paul (EDU); Hughes, Karen (TBS); Hatzis, Len (TBS); Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Paul, Joshua (EDU)
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)

Cindy, on the legal side we don’t see him as having an actual conflict at this point, based on the conversations yesterday.

Depending on the information that the panel is given there is some risk that an actual or perceived conflict could arise in the future, but as long as everyone is comfortable knowing that a potential conflict may need to be managed in the future I don't think it's necessary to remove him at this point.

Paul

Paul Kaufman

Counsel

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9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

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Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Paul, Joshua (EDU)
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Paul – thanks for connecting with your MO so quickly.

Can others respond if they have concerns with Murray continuing to be on the panel ASAP. I'd like to close the loop with Murray this morning if possible, given he is currently holding tomorrow for us.

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Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)

I've touched base with our MO and they do not have any concerns with Murray Gold's participation on the panel.

Paul

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Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)

Thanks - might be worth finding a moment to talk on this tomorrow.

Karen

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, November 16, 2016 6:45 PM

To: Hughes, Karen (TBS); Hatzis, Len (TBS); Duffy, Paul (EDU); Kaufman, Paul (TBS)

Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)

Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

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It was also raised that Minister Sandals, as the previous Minister of Education, would likely be very familiar with Murray's role with OTF and so may have already considered his role in signing the appointments.

As a final step before concluding, we thought it prudent for Paul Duffy to have a conversation with his MO in Education given Education will be at the table negotiating with OTF in the future. My current leaning is if that if Education does not view this as a conflict then we should be fine with Murray on the Panel.

Paul and Paul – please add any additional considerations from our conversation earlier today.

Thanks,

Cindy

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Sent: November-16-16 3:49 PM
To: Hughes, Karen (TBS)
Cc: Laughton, Patrick (TBS)
Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

fyi

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: November-16-16 2:13 PM
To: Hatzis, Len (TBS)
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Pension Asset Expert Advisory Panel (Expert Panel)

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the Ontario Teachers Federation (OTF), as disclosed in my conflict of interest form with respect to the Expert Panel.

I have worked on a number of files for the OTF since the Ontario Teachers Pension Plan was formed as a jointly sponsored pension plan in 1990. For the most part, and especially in the last decade or so, the OTF and the Crown have had a similar view, as sponsors of the OTPP, concerning the Plan. OTF and the Crown have been of similar views for example, in regard to the OTPP's Funding Management Policy (FMP), while the OTPP Board has sometimes taken a different view of that agreement. In human rights litigation, another area in which I have worked for the OTF in regard to the OTPP, all of the Crown, the OTF and the OTPP Board have typically been named as co-defendants, and all three parties have historically cooperated and mounted similar or complementary defenses. In the most recent of these cases (2015), we worked with the Crown to amend the Teachers Pension Act with respect to the status of retired teachers who return to active employment. I have also given advice to the OTF about OTPP Plan terms and about other compliance issues. Future engagements by the OTF are unpredictable. They may of course include FMP issues, as they have in the past, which may, in turn, be affected by or affect pension accounting issues. Once again, however, there is every possibility that the OTF and the Crown will be aligned in their views of FMP changes, as they have been for the past many years.

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I also assume that all non-public materials before the Expert Panel are strictly confidential. I would not disclose them to OTF or to any other client or person.

I hope this helps, but if you have additional questions, please don't hesitate to ask.

Regards,

Murray

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From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:50 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject:

Murray,

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Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

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Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Thursday, November 17, 2016 10:46:03

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From: Veinot, Cindy (TBS) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Laughton, Patrick (TBS) [Patrick.Laughton@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Thursday, November 17, 2016 10:35:32

Paul – thanks for connecting with your MO so quickly.

Can others respond if they have concerns with Murray continuing to be on the panel ASAP. I'd like to close the loop with Murray this morning if possible, given he is currently holding tomorrow for us.

Thanks,

Cindy

From: Duffy, Paul (EDU)
Sent: November-17-16 9:29 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS); Kaufman, Paul (TBS)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Paul, Joshua (EDU)
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)

I've touched base with our MO and they do not have any concerns with Murray Gold's participation on the panel.

Paul

From: Hughes, Karen (TBS)

Sent: November 16, 2016 8:48 PM
To: Veinot, Cindy (TBS); Hatzis, Len (TBS); Duffy, Paul (EDU); Kaufman, Paul (TBS)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)
Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)

Thanks - might be worth finding a moment to talk on this tomorrow.

Karen

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, November 16, 2016 6:45 PM

To: Hughes, Karen (TBS); Hatzis, Len (TBS); Duffy, Paul (EDU); Kaufman, Paul (TBS)

Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)

Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

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n He does not believe Murray is in a conflict by being appointed to the Panel, but does acknowledge some may perceive this as a conflict

n He has had a discussion with Ronda Kimberley-Young at OTF re: Murray being appointed to the Panel and noted she did not perceive this to be a conflict

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n He believes that in connection with any future negotiation between the Province and OTF that Murray would at the table as he sees OTF as very reliant on Murray

It was also raised that Minister Sandals, as the previous Minister of Education, would likely be very familiar with Murray's role with OTF and so may have already considered his role in signing the appointments.

As a final step before concluding, we thought it prudent for Paul Duffy to have a conversation with his MO in Education given Education will be at the table negotiating with OTF in the future. My current leaning is if that if Education does not view this as a conflict then we should be fine with Murray on the Panel.

Paul and Paul – please add any additional considerations from our conversation earlier today.

Thanks,

Cindy

From: Veinot, Cindy (TBS)
Sent: November-16-16 3:49 PM
To: Hughes, Karen (TBS)
Cc: Laughton, Patrick (TBS)
Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

fyi

From: Murray Gold [mailto:mgold@kmlaw.ca]
Sent: November-16-16 2:13 PM

To: Hatzis, Len (TBS)
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Pension Asset Expert Advisory Panel (Expert Panel)

Hi Len,

You asked me on our call this morning for some additional information on my work for the Ontario Teachers Federation (OTF), as disclosed in my conflict of interest form with respect to the Expert Panel.

I have worked on a number of files for the OTF since the Ontario Teachers Pension Plan was formed as a jointly sponsored pension plan in 1990. For the most part, and especially in the last decade or so, the OTF and the Crown have had a similar view, as sponsors of the OTPP, concerning the Plan. OTF and the Crown have been of similar views for example, in regard to the OTPP's Funding Management Policy (FMP), while the OTPP Board has sometimes taken a different view of that agreement. In human rights litigation, another area in which I have worked for the OTF in regard to the OTPP, all of the Crown, the OTF and the OTPP Board have typically been named as co-defendants, and all three parties have historically cooperated and mounted similar or complementary defenses. In the most recent of these cases (2015), we worked with the Crown to amend the Teachers Pension Act with respect to the status of retired teachers who return to active employment. I have also given advice to the OTF about OTPP Plan terms and about other compliance issues. Future engagements by the OTF are unpredictable. They may of course include FMP issues, as they have in the past, which may, in turn, be affected by or affect pension accounting issues. Once again, however, there is every possibility that the OTF and the Crown will be aligned in their views of FMP changes, as they have been for the past many years.

The relationship between the OTF and the Crown has been, for a decade or more, quite collegial and cooperative, and we would expect (and want) it to continue in this way.

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I also assume that all non-public materials before the Expert Panel are strictly confidential. I would not disclose them to OTF or to any other client or person.

I hope this helps, but if you have additional questions, please don't hesitate to ask.

Regards,

Murray

 Original Message
From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:50 PM
To: Murray Gold
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject:

Murray,

We've been working with our clients to prepare for the Pension Asset Panel's upcoming work and wanted to follow up with you on a disclosure that you made in the conflict of interest section of your application form. We were hoping to talk to you about the work with the OTF that you referred to in section 2 of your COI disclosure and how that might intersect with information that you could have access to as part of the panel. Would you have time to discuss this with myself and Cindy Veinot tomorrow?

Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

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To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
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Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)
Date: Thursday, November 17, 2016 11:54:37

Hi Cindy,

Thanks for the update.

I am comfortable that the issue has been reviewed and any concerns have been allayed.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Veinot, Cindy (TBS)
Sent: Thursday, November 17, 2016 9:36 AM
To: Duffy, Paul (EDU); Hughes, Karen (TBS); Hatzis, Len (TBS); Kaufman, Paul (TBS); Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); Paul, Joshua (EDU)
Subject: RE: Pension Asset Expert Advisory Panel (Expert Panel)

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Subject: Re: Pension Asset Expert Advisory Panel (Expert Panel)

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Sent: Wednesday, November 16, 2016 6:45 PM

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Cc: Tam, Nelson (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS)

Subject: FW: Pension Asset Expert Advisory Panel (Expert Panel)

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fyi

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To: Hatzis, Len (TBS)
Cc: Veinot, Cindy (TBS); Kaufman, Paul (TBS)
Subject: Pension Asset Expert Advisory Panel (Expert Panel)

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engages conflict of interest considerations with OTF or other clients, precisely because it is expert and non-partisan.

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Regards,

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From: Hatzis, Len (TBS)
Sent: Tuesday, November 15, 2016 6:50 PM
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Subject:

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Thanks
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Murray Gold
Partner
T: +1 416-595-2085 | F: +1 416-204-2873 | E: mgold@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

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From: Killoch, Alex (MOF) []
To: Ovenden, Erin (TBS) [Erin.Ovenden@ontario.ca]
CC: Jackson, Sarah (TBS) [Sarah.Jackson@ontario.ca]; Sullivan, Bryant (TBS) [Bryant.J.Sullivan@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Pension Asset Expert Advisory Panel Update - Outreach Advice
Date: Monday, January 30, 2017 17:16:53

Hi Erin

Notice to the Ontario Teachers Federation, as sponsor of the Teachers' Pension Plan would be through the Ministry of Education. I expect they would appreciate the opportunity to notify the plan and co-sponsor.

Josh Paul is the director responsible for the plan. Edu has an external person, Ross Peebles, who is the liaison with the OTF who would likely inform both the plan and the OTF.

On the OPSEU plan, there is no comparable person. I don't know that the sponsors have been as involved in the issue, as it is a relatively small impact.

Does that help?

Alex

From: Ovenden, Erin (TBS)
Sent: Monday, January 30, 2017 3:35 PM
To: Killoch, Alex (MOF)
Cc: Jackson, Sarah (TBS); Sullivan, Bryant (TBS); Petsche, Nadine (TBS)
Subject: Pension Asset Expert Advisory Panel Update - Outreach Advice

Hi Alex-

My name is Erin and I'm in the Communications Branch at TBS. We're working on a plan for the upcoming release of the Pension Asset Expert Advisory Panel's report on pension assets related to OPSEUPP and OTPP. I understand you might have some insights and advice on the best way to give the pension plans and co-sponsors a heads up. Any chance you help us? This is time sensitive as we're trying to get this info in advance of a briefing this Wednesday.

Please let me know and thank you in advance.

Erin Ovenden

Senior Communications Consultant

Communications Branch | Treasury Board Secretariat

77 Wellesley Street West, Ferguson Block

Toronto, ON M7A 1N3

Tel: 416-326-7727

From: Killoch, Alex (MOF) []
To: Ovenden, Erin (TBS) [Erin.Ovenden@ontario.ca]
CC: Jackson, Sarah (TBS) [Sarah.Jackson@ontario.ca]; Sullivan, Bryant (TBS) [Bryant.J.Sullivan@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Pension Asset Expert Advisory Panel Update - Outreach Advice
Date: Monday, January 30, 2017 17:40:17

I expect it would have been through Total Compensation Branch at Treasury Board. Perhaps Roger Smithies, the manager in the branch, can help.

Alex

From: Ovenden, Erin (TBS)
Sent: Monday, January 30, 2017 4:37 PM
To: Killoch, Alex (MOF)
Cc: Jackson, Sarah (TBS); Sullivan, Bryant (TBS); Petsche, Nadine (TBS)
Subject: RE: Pension Asset Expert Advisory Panel Update - Outreach Advice

Hi Alex-

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Subject: RE: Pension Asset Expert Advisory Panel Update - Outreach Advice
Date: Monday, January 30, 2017 17:36:57

Hi Alex-

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From: Ovenden, Erin (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Pension Asset Expert Advisory Panel Update - Outreach Advice
Date: Monday, January 30, 2017 17:43:30

Thank you so much Alex!

Erin Ovenden

Senior Communications Consultant

Communications Branch | Treasury Board Secretariat

77 Wellesley Street West, Ferguson Block

Toronto, ON M7A 1N3

Tel: 416-326-7727

From: Killoch, Alex (MOF)
Sent: January-30-17 4:40 PM
To: Ovenden, Erin (TBS)
Cc: Jackson, Sarah (TBS); Sullivan, Bryant (TBS); Petsche, Nadine (TBS)
Subject: RE: Pension Asset Expert Advisory Panel Update - Outreach Advice

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To: Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Pension Asset note - risks
Date: Wednesday, September 14, 2016 13:19:26

I wouldn't say we have a direction yet.

More work to do.

From: Sekaly, Gabriel (EDU)
Sent: September 14, 2016 1:18 PM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Re: Pension Asset note - risks

Great. Thanks.

Are we moving in the direction we discussed last night?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hughes, Karen (TBS)

Sent: Wednesday, September 14, 2016 13:17

To: Sekaly, Gabriel (EDU); Veinot, Cindy (TBS)

Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)

Subject: RE: Pension Asset note - risks

Thanks Gabe, we will absolutely need to work with you on how to engage OTPP on this going forward.

Will try and call you later today.

Karen

From: Sekaly, Gabriel (EDU)
Sent: September 14, 2016 9:15 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Pension Asset note - risks
Importance: High

Please find attached the note we discussed yesterday on stakeholder and reputational risks

At some point, once we land the plan of action, we need to discuss how to engage the OTPP to provide them a head's up

gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

From: Hughes, Karen (TBS) []
To: Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Pension Asset note - risks
Date: Wednesday, September 14, 2016 13:17:10

Thanks Gabe, we will absolutely need to work with you on how to engage OTPP on this going forward.

Will try and call you later today.

Karen

From: Sekaly, Gabriel (EDU)
Sent: September 14, 2016 9:15 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Pension Asset note - risks
Importance: High

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From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: RE: Pension Assets
Date: Thursday, March 16, 2017 10:21:27
Attachment 1: image001.png

Thanks Alex

From: Killoch, Alex (MOF)
Sent: March-16-17 10:00 AM
To: Veinot, Cindy (TBS); Hosick, Sarah (TBS); Tam, Nelson (TBS); Keates, James (TBS); Pomykacz, Rob (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: RE: Pension Assets

Hi Cindy,

Contribution rates have never gone down. The plan was created in 1917 and the contribution rate has consistently gone up. David is correct that the government has never taken a contribution holiday for OTPP.

Attached is the historic information on employee and employer rates, which can also be found at:

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The current special payment of 1.1% which is reflected in the table as a contribution rate of 1.1% is currently scheduled to be removed in 2026. Still to be determined is what the long term current service cost contribution rate will be.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Veinot, Cindy (TBS)
Sent: March 15, 2017 7:09 PM
To: Hosick, Sarah (TBS); Tam, Nelson (TBS); Keates, James (TBS); Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: Pension Assets

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as a percentage of salary on a historical basis – there is a comment below that it has never gone down – not sure I've seen that data.

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Thanks all,

Cindy

From: Hughes, Karen (TBS)
Sent: March-13-17 3:03 PM
To: Veinot, Cindy (TBS)
Cc: Laughton, Patrick (TBS)
Subject: Fw: Pension Assets

Further to our conversation.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: David West <dwest@fao-on.org>

Sent: Monday, March 13, 2017 2:25 PM

To: Hughes, Karen (TBS)

Cc: Laughton, Patrick (TBS); Peter Harrison; Schuurman, Tim (MOF)

Subject: Pension Assets

Hello Karen,

Following our telephone call last week and your offer of assistance (I think you offered! J), there are two areas that we are hoping your staff could provide some assistance.

Specifically,

- Are there any precedents (perhaps with OPSEUPP) where the government benefited from a contribution holiday? If so, what agreement existed in these circumstances?

Our understanding is that the government has never taken a contribution holiday with the OTPP and in fact the government's OTPP contribution rates have only ever increased.

- Can the FAO obtain updated values for the impact of the pension adjustment on expense and net debt over the next four years – as was provided on page 141 of the 2016 FES?

We haven't determined (yet) how we will reflect the debate on the appropriate accounting treatment of net pension assets in the budget projections included in the FAO's next Economic and Fiscal Outlook report. However, it seems likely that we will want to present the budget balance both with and without the valuation allowance that was used in the 2016 FES presentation – which would require this updated information. (By the way, we plan to release our next EFO post Budget.)

As always, we greatly appreciate your assistance.

Cheers,

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----------David West

Chief Economist

2 Bloor Street W, Suite 900, Toronto, Ontario M4W 3E2

t.416.579.1465 | dwest@fao-on.org

www.fao-on.org

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Office of Ontario

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: RE: Pension Assets
Date: Thursday, March 16, 2017 09:59:56
Attachment 1: How Contribution Rates Have Evolved.pdf
Attachment 2: image001.png

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David

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www.fao-on.org

How Contribution Rates Have Evolved

Members contribute a percentage of their salary to their future pensions. The Ontario government and other employers match total annual member contributions.

Contributions are lower on earnings up to the Canada Pension Plan (CPP) contributions and benefits limit (also called the Year's Maximum Pensionable Earnings or YMPE) and higher on any salary above the limit. The YMPE changes annually.

For more information on the current YMPE and contributions, visit the Members section of our website at www.otpp.com. The following chart shows contribution rates for different periods since 1917, when a pension plan was established for Ontario teachers.

CONTRIBUTION RATES

PERIOD	EMPLOYEE RATE	EMPLOYER RATE
April 1, 1917 – Aug. 31, 1936	2.5%	2.5%
Sept. 1, 1936 – Aug. 31, 1940	3.0%	2.5%
Sept. 1, 1940 – Aug. 31, 1943	3.5%	2.5%
Sept. 1, 1943 – Aug. 31, 1945	3.5%	3.5%
Sept. 1, 1945 – Aug. 31, 1949	4.0%	4.0%
Sept. 1, 1949 – Dec. 31, 1955	6.0%	4.0%
Jan. 1, 1956 – Dec. 31, 1965	6.0%	6.0%
Jan. 1, 1966 – Aug. 31, 1975*	4.2%/6.0%	4.2%/6.0%
Sept. 1, 1975 – Aug. 31, 1984*	5.2%/7.0%	5.2%/7.0%
Sept. 1, 1984 – Aug. 31, 1989*	6.1%/7.9%	6.1%/7.9%
Jan. 1, 1990 – Dec. 31, 1991*	7.1%/8.9%	7.1%/8.9%
Jan. 1, 1992 – Dec. 31, 2006**	7.3%/8.9%	7.3%/8.9%
Jan. 1, 2007 – Dec. 31, 2007**	9.3%/10.9%	9.3%/10.9%

PERIOD	EMPLOYEE RATE	EMPLOYER RATE
Jan. 1, 2008 – Dec. 31, 2008**	9.6%/11.2%^	10.4%/12.0%
Jan. 1, 2009 – Dec. 31, 2011**	10.4%/12.0%	10.4%/12.0%
Jan. 1, 2012 – Dec. 31, 2012**	10.8%/12.4%	10.8%/12.4%
Jan. 1, 2013 – Dec. 31, 2013**	11.15%/12.75%	11.15%/12.75%
Jan. 1, 2014 – Present**	11.5%/13.1%	11.5%/13.1%

* Three-tier contribution formula in effect: higher rate on salary up to the Year's Basic Exemption (YBE), lower rate on salary between the YBE and YMPE (Year's Maximum Pensionable Earnings), and higher rate on salary above the YMPE

** Two-tier contribution formula in effect: lower rate on salary up to the YMPE and higher rate on salary above the YMPE

^ Member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations

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From: Keates, James (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Pension Assets
Date: Thursday, March 16, 2017 10:55:45
Attachment 1: image001.jpg
Attachment 2: image002.png

Hello Cindy,

For OTPP, a summary of surplus utilization is included as Appendix G of the Position Paper that you are going to provide to FAO. See below for reference.

We are still following up as to who might have similar information for OPSEUPP.

Jim

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plan to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

Valuation Date

Surplus/(Deficit)

OTF

Ontario Government

Surplus Remaining

1993

$1.5 billion

$325 million to offset social contract days

Eliminated special payments for $1.2 billion saving

$0

1996

$0.7 billion

$0.6 billion for benefit improvements and RCA contributions

N/A

$0.1 billion

1998

$6.8 billion

$2.2 billion for benefit improvements

$4.6 billion to reduce the value of remaining special payments

$0

1999

$3.5 billion

N/A

$3.5 billion to reduce the value of remaining special payments

$0

2001

$6.8 billion

$6.2 billion for benefit

improvements

N/A

$0.6 billion

2002

$1.9 billion

Sponsors agreed not to make any changes to benefits or contributions

$1.9 billion

Total

$9.3 Billion

$9.3 Billion

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1993 to 2002 the aggregate value obtained by each of the sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, $6.8 billion in surplus was utilized to cause a $2.2 billion benefit improvement and to provide the Province with a $4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in $3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next $6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 325-8082

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Sent: Wednesday, March 15, 2017 7:09 PM
To: Hosick, Sarah (TBS); Tam, Nelson (TBS); Keates, James (TBS); Killoch, Alex (MOF); Pomykacz, Rob (MOF)
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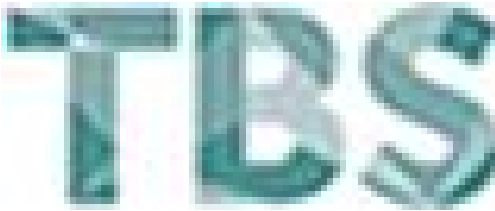
TBS

Financial
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Office of Ontario

From: Shayan Jafrani [Shayan.Jafrani@ca.ey.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Pension Assumptions
Date: Thursday, February 23, 2017 09:16:07
Attachment 1: image001.png
Attachment 2: OAG 2017 Budget Public Accounts Assumption Rationale - February 21 2017 FINAL (EY comments).docx

---

Hi Alex and Rob,

I have gone over the assumptions document and have a few initial comments/questions – see attached.

Please let me know your availability today so we can schedule some time to discuss.

Regards,

Shayan

Shayan Jafrani, FSA, FCIA | Senior Manager | People Advisory Services

Ernst & Young LLP
Ernst & Young Tower, 222 Bay Street, P. O. Box 251, Toronto, ON M5K 1J7 Canada
Phone: +1 416 943 2975 | Cell Phone: +1 647 885 9630
EY/Comm: 1675237 | Shayan.Jafrani@ca.ey.com
Thank you for considering the environmental impact of printing e-mails.

From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Wednesday, February 22, 2017 5:02 PM
To: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: Pension Assumptions

Hi Alex and Rob.

I have good news. As you know, the E&Y team has been in reviewing our pension models over the past couple of weeks. Their work is almost done on that part of the engagement and they have had a chance to turn their attention to your assumptions document. Shayan Jafrani of EY would be available to meet with you to discuss his preliminary comments. Please feel free to get in touch with him directly regarding your availability for tomorrow. I have cc'd him on this note.

Best regards,

Nadine

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Any tax advice in this e-mail should be considered in the context of the tax services we are providing to you. Preliminary tax advice should not be relied upon and may be insufficient for US penalty protection. Tout conseil de fiscalité contenu dans le présent courriel doit être pris dans le contexte des services de fiscalité que nous vous offrons. Aucune décision ou position ne doit être prise à la lumière de conseils de fiscalité préliminaires, lesquels pourraient ne pas permettre d'éviter des pénalités aux États-Unis.

EY

RATIONALE FOR MANAGEMENT'S BEST ESTIMATE ECONOMIC ASSUMPTIONS FOR THE PENSION PLANS THAT ARE CONSOLIDATED IN THE PROVINCE'S FINANCIAL STATEMENTS

ISSUE:

This note describes the process and rationale for the selection of the long-term economic assumptions that the Ministry included in its December 2016 letters[1] to the Ontario Teachers' Pension Plan Board, the Ontario Pension Board, the OPSEU Pension Trust, the Healthcare of Ontario Pension Plan Board, and the Colleges of Applied Arts and Technology Pension Plan Board.

This note also provides the rationale for the long-term economic assumptions that were ultimately adopted to derive the pension expense estimates for the 2017 Ontario Budget.

SUMMARY OF THE PROCESS AND FINDINGS:

The Province is the sole sponsor, or joint sponsor with plan members, of three pension plans: the Teachers' Pension Plan (TPP); the Public Service Pension Plan (PSPP); and the OPSEU Pension Plan. Two other pension plans, the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology (CAAT) Pension Plan are not sponsored by the Province but are consolidated in the Province's financial statements.

These plans are funded through the contributions made by plan members, the Province or other employers, and the investment earnings generated by each plan.

The Public Sector Accounting Board (PSAB) standard 3250 stipulates that accounting for retirement benefit obligations of defined benefit plans requires forecasts of future events, such as inflation rates, investment returns, interest rates, wage and salary increases etc. Such forecasts form the basis of the Province's economic assumptions.

PSAB further requires that each key economic assumption be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation. The assumptions would take into account the expected long-term experience of the plan and the short-term forecast. Such an approach ensures that the reported accrued benefit obligation and expense recognize the long-term nature of the retirement benefit promises as well as the experience of the plan expected in the short-term. However, assumptions about the long-term future are not to be unduly influenced by the experience expected in the short term. Assumptions need to be reassessed for each valuation. They would be revised if expectations about the future change.

Staff of the Ministry have followed the PSAB requirements in establishing the economic assumptions and carried out a detailed review of these assumptions for each valuation.

[1]The data sources used are those that were available up to late 2016.

For each valuation, the process includes collecting and reviewing the following data:

- TPP's annual projection of the 30-year expected real return by asset class;
- target / policy asset mix of each of the five plans;
- recently filed funding valuation reports of each of the five plans;
- most recent annual report of each of the five plans;
- most recently filed Actuarial Report of the Canada Pension Plan and Actuarial Valuation of the Québec Pension Plan; and
- Ontario's long-term report on the economy.

The Ministry's review of this data for the 2017 Budget concluded that:

- The real discount rate (real return on investment) assumption used in previous valuations is generally consistent with the assumption of each respective plan as well as the return expectation assumed by the CPP actuary. However, future returns are expected to be lower than that in the recent past.
- The inflation assumption is at the midpoint of the Bank of Canada's inflation-control target as well as consistent with inflation expectations in general.
- Although the salary escalation assumptions are in line with those used by the pension plans in their funding valuations, the rates used by the plans have been trending down.

Commented [SJ1]: This comparison is appropriate to the extent that the CPP asset allocation is similar to the Ontario plans.

Based on the above findings, the Ministry revised the discount rate and salary escalation assumptions for the 2017 Budget valuations. As a result, the Ministry developed the following bases for its letters to the pension boards for the 2017 Budget valuation:

- Basis 1 – used for the 2016 Budget;
- Basis 2 – discount rate sensitivity for Basis 1;
- Basis 3 – the recommended basis for the 2017 Budget;
- Basis 4 – discount rate sensitivity for Basis 3;
- Basis 5 for OPSEUPP only – this basis intends to provide a long-term salary escalation rate sensitivity. For the other 4 plans, the salary sensitivity can be derived by comparing results from Basis 2 and Basis 3.

Basis 3 was ultimately adopted for the 2017 Budget.

The following table summarizes the assumptions that were adopted for each of the five plans. A table that shows the assumptions used for the 2016 Budget is provided in Appendix A.

Table 1:* Summary of Economic Assumptions Used in 2017 Budget

	Public Service Pension Plan (PSPP)	OPSEU Pension Plan (OPSEU)	Teachers' Pension Plan (TPP)	Healthcare of Ontario Pension Plan (HOOPP)	Colleges of Applied Arts & Technology Pension Plan (CAAT)
Nominal Return on Investment	5.75	5.90	6.00	5.75	5.75
Annual Inflation Rate	2.00	2.00	2.00	2.00	2.00
Real Return on Investment	3.75	3.90	4.00	3.75	3.75
Nominal Salary Escalation**	2.00 to 2019 and 2.75 thereafter	1.75 to 2019 and 2.75 thereafter	2.00 to 2019 and 2.75 thereafter	3.00 to 2019 and 4.00 thereafter	2.25 to 2019 and 3.25 thereafter

* All assumptions are expressed as percentages.
** Some plans also have a separate promotional and seniority scale in addition to the salary escalation rates that are set out in this table.

The following sections provide details on how the economic assumptions were developed.

Return on Investment/Discount Rate

The return on investment assumption (the discount rate or valuation interest rate) is developed based on the target / policy asset allocation of each of the plans and the expected return for each of the asset classes. The Ministry's expected return is compared with the discount rate used in each plan's most recent funding valuation as well as the annual economic forecast survey and the return assumptions used in the CPP and QPP valuations. Since these are long-term assumptions as per PSAB requirements, the Ministry does not recommend revisions each year solely due to short-term market volatility but rather changes in long-term expectations.

The following two tables summarize the data sources on real investment returns that were used by the Ministry.

Table 2

ANNUAL LONG-TERM RATE OF RETURN ASSUMPTIONS FOR OTHER VALUATIONS	
Source	**Assumptions for Other Valuations**
CPP, 27th Actuarial Report of the Canada Pension Plan as at December 31, 2015	Real rate of return on investments is 3.0% for 2017; 2.9% for 2018; 3.1% for 2019; 3.4% for 2020; 3.5% for 2021 – 2022; 3.6% for 2023; 3.8% for 2024 and then 4.0% thereafter. Real rate of return on marketable bonds is -1.1% for 2017; -1.9% for 2018; -1.4% for 2019; -0.5% for 2020; -0.3% for 2021; 0.2% for 2022 and then 2.7% for 2025 thereafter.
Actuarial Valuation of the Québec Pension Plan as at 31 December 2015	Average real rate of return of 4.4%.
TPP's annual projection	30-year expected real return by various asset classes.

Commented [SJ2]: What abour 2023 and 2024?

Table 3

ANNUAL REAL RATE OF RETURN – EXPECTATIONS & HISTORICAL AVERAGES	
Source	**Historical Averages**
Libra Investments, All Canadian Bonds annual average in Canadian $	5.7% geometric average over the 1980 to 2016 period.
Libra Investments, MSCI Europe, Australia & Far East (EAFE) annual average in Canadian $	5.5% geometric average over the 1970 to 2016 period.

Commented [SJ3]: How is this information used? Based on current market rates, historical yields cannot be expected in the future.

Since each of the five pension plans has its own distinctive investment objectives that are reflected in the target / policy asset allocation, the Ministry develops the return assumptions by referencing the respective policy allocation of each of the plans. Plans may deviate from the policy allocation from time to time to take advantage of certain investment opportunities. According to PSAB requirements, the best estimate long-term rate of return assumptions should be based on the target / policy asset allocation and need not change to reflect any tactical change that is temporary in nature.

The following is a summary of the target/policy asset allocations for the five plans:

Commented [SJ4]: Did the policy allocation change for any plan since last year?

Table 4

Percentage Target Asset Allocations of Consolidated Pension Plans					
	TPP*	**PSPP**	**OPSEUPP**	**HOOPP**	**CAAT**
Fixed Income:					
Cash & Short Term	(16)	3	2.5	2	
Bonds	22	17	20	55	17
Total Fixed Income	**6**	**20**	**22.5**	**57**	**17**
Equities					
TSX Composite	2	7.5	8	28.5	8
Foreign Equities	42	29.5	22		44
Total Equities	**44**	**37**	**30**	**28.5**	**52**
Inflation Sensitive & Other					
Real Estate and Infrastructure	25	33	30	12.5	15
Private Equity		5	10	2	5
Commodity	6		5		5
Real Rate Products	19				
Real Return Bonds		5	2.5		6
Total Inflation Sensitive	**50**	**43**	**47.5**	**14.5**	**31**
Total Asset Allocation	**100**	**100**	**100**	**100**	**100**

*The TPP's negative Cash & Short Term / Total Fixed Income allocation means that the cash component of its asset portfolio was comprised of loans from other financial institutions that were equivalent to 16 per cent of its portfolio in 2016.

With the exception of the TPP, the funding valuation interest rates are comprised of the expected long-term return on fund assets and a provision for adverse deviation between 0 to 62 basis points. These rates were compared to the rates derived by the Ministry and were found to be largely consistent.

TPP derives its valuation interest rate using the smoothed yield on the Ontario long bond plus a risk premium in its funding valuation and the spot yield on the Ontario long bond in its financial statement valuation. This approach is different from the PSAB requirement and the approach taken by the Ministry. For this reason, the discount rate derived by the Ministry is not comparable to the rate used by the TPP in its funding valuation.

The table below summarizes the discount rate assumptions used in the funding and the financial statement valuations as well as the valuation for the 2017 Budget.

Table 5

Summary Comparison of Most Recent (Inflation Adjusted) Discount Rate Assumptions used by Each Plan & 2017 Ontario Budget Assumptions			
	Funding Valuation (%)	**Financial Statement Valuation (%)**	**Assumptions used by the Province (%)**
Public Service (OPB)	3.85	3.85	3.75
OPSEU (OPT)	3.55	3.75	3.90
Teachers (OTPP)	2.80	1.70	4.00
Healthcare of Ontario (HOOPP)	3.65	3.65	3.75
Colleges of Applied Arts & Technology (CAAT)	3.70	3.70	3.75

Although the discount rates developed by MOF have been within the reasonable range of long-term expectations, future returns are expected to be lower than in recent years. This is demonstrated in the trend in the consolidated plans' own return expectations, as revealed in their funding discount rates (see Appendix B). In addition, information contained in FSCO's annual *Report on the Funding of Defined Benefit Pension Plans in Ontario* shows that the majority of the plans that filed their funding valuations during the period of 2013 – 2015 used a nominal discount rate lower than 6%.

Based on these findings, MOF staff made the following changes to the 2017 real discount rate to reflect changes in market conditions and the long-term outlook:

- For OTPP, PSPP and CAATPP, the discount rate was lowered by 25 basis points.
- For OPSEUPP the discount rate was lowered by 35 basis points to reflect a similar asset mix to that of the PSPP.
- The discount rate for HOOPP was unchanged.

Commented [SJ5]: Do these rates include margins for adverse deviation and expense provisions?

Commented [SJ6]: Likely includes plans with a shorter time horizon (closed) and higher fixed income asset allocation.

Commented [SJ7]: Why was the HOOPP rate unchanged? The equity allocation is significantly lower than other plans, but rates are similar.

Inflation Assumption

The 2008 financial market volatility significantly changed market conditions. The expectation or outlook for inflation has gradually declined and is expected to remain low for some time. All five plans have reviewed their inflation assumptions and have made some adjustments to their own assumptions in recent years. In response, MOF has lowered the inflation assumptions from 2.5% to 2.0% by 25 basis points in each of 2015 and 2016.

The 2017 review has confirmed that a 2% inflation rate is well within general expectations as well as consistent with the Bank of Canada's inflation-control target. This target was last reviewed in October 2016. As a result, MOF is not recommending any further revisions of this assumption until evidence suggests otherwise.

The following table summarizes the data on inflation rates that were used by the Ministry for its analysis to determine the best estimate long-term assumptions for each pension plan.

Table 6

Long-term Inflation Expectations	
CPP Board	2.0%
QPP Board	2.2% (2031+)
Bank of Canada Inflation Rate Target	2.0% (mid-point of the 1.0% to 3.0% range)
Ontario's Long-Term Report on the Economy	2.0% to 2040

The following is a summary of the assumptions used by the pension plans in their most recent funding and financial statement valuations.

Table 7

Inflation Assumptions Used by the Pension Boards		
	Funding Valuation (%)	**Financial Statement Valuation (%)**
Public Service (OPB)	2.10	2.10
OPSEU (OPT)	2.00	2.00
Teachers (OTPP)	2.00	1.50
Healthcare of Ontario (HOOPP)	2.00	2.00
Colleges of Applied Arts & Technology (CAAT)	2.00	2.00

Long-Term Salary Escalation Rate

Similar to the inflation outlook above, the 2008 financial market volatility also impacted the expectation on salary growth which has gradually declined and is expected to stay modest for some time. All five pension plans have reviewed their valuation assumptions and many have made some adjustments to their own salary assumptions in recent years. In response, MOF lowered the salary escalation assumptions for the 2015 Budget. No change was recommended for the 2016 Budget.

For the 2017 Budget, MOF broadened its review by looking at not only the consolidated plans but also the increase in the Year's Maximum Pensionable Earnings (YMPE) under the CPP. MOF concluded that, while the annual rate of YMPE increase has been between 2% and 3% for the last decade until 2016, the annual increase from 2016 to 2017 was only 0.7%. This rate is also consistent with the Ontario Average Industrial Wage growth rate, which was about 0.9% from 2015 to 2016.

Based on these findings, MOF reduced the salary escalation rate by 25 basis points for all of the plans, with the exception of the CAATPP.

Commented [SJ8]: What about the average wage growth rate assumption?

Salary Escalation Rate for the CAATPP:

- The funding valuations for the TPP, PSPP and the OPSEUPP include a separate promotion and seniority scale. This means that the valuation assumes that plan members receive salary increases at the assumed rate plus increases as a result of seniority and promotions.
- However, there is no separate promotion and seniority scale for CAATPP which means that future salary increases are likely understated in the valuation. MOF staff increased the Province's salary escalation rate assumption for CAATPP by 25 basis points to account for seniority and promotional increases.

Salary Escalation Rate for HOOPP:

The salary escalation rate assumption for HOOPP has been higher than the other consolidated plans for the following reasons:

- Similar to CAATPP, there is no separate promotion and seniority scale for HOOPP.
- It is expected that the healthcare sector is likely to experience significant expansion in the future because of the aging population.

The following table summarizes the data on real salary escalation rates that were used by the Ministry for its analysis to determine the best estimate long-term assumption for each plan.

Table 8

Long-Term Expected Real Salary Escalation	
CPP Board	2.6% in 2017 rising to 3.1% in 2023 and thereafter
QPP Board	2.8% to 2019 and 3.2% in 2020 and thereafter

The following is a summary of assumptions used by the pension plans in their most recent funding and financial statement valuations.

Table 9

Summary Salary Growth Assumptions (%)			
	Funding Valuation	**Financial Statement Valuation**	**Assumptions used by the Province**
Public Service (OPB)	2017: 1.50 2018: 2.00 2019: 2.50 2020+: 3.10	2017: 1.50 2018: 2.00 2019: 2.50 2020+: 3.10	2.00% to 2019, 2.75% thereafter
OPSEU (OPT)	2.75	1.4 for 2017, 2.75 thereafter	1.75% to 2019, 2.75% thereafter
Teachers (OTPP)	3.00	2.50	2.00% to 2019, 2.75% thereafter
Healthcare of Ontario (HOOPP)	3.50	3.50	3.00% to 2019, 4.00% thereafter
Colleges of Applied Arts & Technology (CAAT)	3.75	3.75	2.25% to 2019, 3.25% thereafter

Commented [SJ9]: What are the reasons for the differences compared to funding?

Ontario Ministry of Finance
February 2017

APPENDIX A

The following table* are the assumptions used for 2016 Budget.

	Public Service Pension Plan (PSPP)	OPSEU Pension Plan (OPSEU)	Teachers' Pension Plan (TPP)	Healthcare of Ontario Pension Plan (HOOPP)	Colleges of Applied Arts & Technology Pension Plan (CAAT)
Nominal Return on Investment	6.00	6.25	6.25	5.75	6.00
Annual Inflation Rate	2.00	2.00	2.00	2.00	2.00
Real Return on Investment	4.00	4.25	4.25	3.75	4.00
Nominal Salary Escalation**	2.00 for 2016 to 2019 and 3.00 thereafter	2.00 for 2016 to 2019 and 3.00 thereafter	2.00 for 2016 to 2019 and 3.00 thereafter	3.25 for 2016 to 2019 and 4.25 thereafter	2.00 for 2016 to 2019 and 3.00 thereafter

* All assumptions are expressed as percentages.

** Some plans also have a separate promotional and seniority scale in addition to the salary escalation rates that are set out in this table.

APPENDIX B

Funding Discount Rate Assumptions Used by the Pension Boards (%)

	2014	2015	2016
OTPP	2.85	2.85	2.75
PSPP*	3.85	-	-
OPSEUPP	3.90	3.85	3.55
HOOPP	4.00	3.60	3.65
CAATPP	3.80	3.80	3.70

*PSPP has not filed a funding valuation since December 31, 2013.

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Scott Simpson [wssimpson@rogers.com]
Subject: RE: Pension Expense
Date: Wednesday, October 12, 2016 10:28:09

Thanks Alex

Hi Scott – As Alex mentioned, we are in the process of forming an expert panel to review a specific pension accounting issue. Any chance you have time for a quick conversation either at the end of the day today (say 5 pm) or first thing tomorrow?

Thanks,

Cindy

From: Killoch, Alex (MOF)
Sent: October-12-16 10:16 AM
To: Scott Simpson
Cc: Veinot, Cindy (TBS)
Subject: Pension Expense

Hi Scott,

By way of this email I would like to introduce you to Cindy Veinot, who is the Provincial Controller responsible for Ontario's public accounts.

As I mentioned, Cindy is assembling an expert panel to work on issues raised by the Provincial Auditor regarding the treatment of jointly sponsored pension plans for purposes of consolidation. Issues were raised by the Provincial Auditor as part of the 2015/16 Public Accounts, specifically with respect to the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.

The work will be conducted by external experts and is expected to be conducted this fall. We are expecting that they will require some actuarial assistance. Given your extensive knowledge of the OTTP, I thought you would be well placed to help.

I will leave it to Cindy to contact you regarding the next steps in the review.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Provis, Ian (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Pension accounting TB-MBC submission.pptx
Date: Tuesday, September 27, 2016 12:43:21

Thanks – I have incorporated them

Ian Provis

' 416.327.2722 | 8 ian.provis@ontario.ca

From: Killoch, Alex (MOF)
Sent: Tuesday, September 27, 2016 12:24 PM
To: Provis, Ian (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Pension accounting TB-MBC submission.pptx

Hi Ian

Some minor changes in red to align with the changes we have already provided.

Has EDU been alerted to the likely option? This will likely affect their stakeholder relations.

Alex

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Pension information re: OTPP
Date: Tuesday, November 01, 2016 17:39:46

Hi Alex – any update on this?

Thanks,

From: Killoch, Alex (MOF)
Sent: October-25-16 7:24 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: Re: Pension information re: OTPP

Hi Cindy

We have some of that work off the shelf, including work that was done as part of the Leech review of the electricity sector (which contains the most generous plans). We will need to ensure that it is still current.

If I recall, the comparisons get a bit tricky sometimes, such as whether 100 % conditional indexation is as good as 75 % guaranteed.

From: Veinot, Cindy (TBS)

Sent: Tuesday, October 25, 2016 7:14 PM

To: Killoch, Alex (MOF)

Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)

Subject: Pension information re: OTPP

Hi Alex,

A few weeks ago we had a hallway conversation re: the benefits provided under the OTPP – they issue being how those benefits compare to other plans, as we were trying to understand whether there would be a push to improve benefits in the future re: reducing contributions.

We need that analysis in connection with the pension work we are doing. Is that something you can take care of? I think a comparison to other plans offered in the OPS/BPS would be an appropriate starting point.

This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Veinot, Cindy (TBS) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Pension information re: OTPP
Date: Wednesday, October 26, 2016 08:37:09

Hi Leah – the expert panel should be announced within a few days. Give me a call if you would like to know more about the potential members.

Re: copying you on requests, let me know if you are talking about requests related to the expert panel or broader – assuming the former. Perhaps we can discuss this as well to ensure we understand your concerns.

By the way, Alex and team (Rob, Ingrid, etc) have been fantastic in working with us on recent pension issues.

Cindy

From: Myers, Leah (MOF)
Sent: October-25-16 10:32 PM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Talwar, Garima (MOF)
Subject: Re: Pension information re: OTPP

Cindy,

I would appreciate if you and your team could copy me on the requests you are making of Alex and my folks on pension matters.

Also, has the expert panel been appointed yet? Can you confirm for us who the members are? Thanks very much

Leah

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Tuesday, October 25, 2016 7:24 PM

To: Veinot, Cindy (TBS)

Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)

Subject: Re: Pension information re: OTPP

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Sent: Tuesday, October 25, 2016 7:14 PM

To: Killoch, Alex (MOF)

Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)

Subject: Pension information re: OTPP

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Please let me know if you have any questions.

Thanks,

Cindy

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From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Pension information re: OTPP
Date: Tuesday, October 25, 2016 19:28:05

Great – thanks Alex

From: Killoch, Alex (MOF)
Sent: October-25-16 7:24 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: Re: Pension information re: OTPP

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From: Veinot, Cindy (TBS)

Sent: Tuesday, October 25, 2016 7:14 PM

To: Killoch, Alex (MOF)

Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)

Subject: Pension information re: OTPP

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Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Myers, Leah (MOF) [Leah.Myers@ontario.ca]
Subject: RE: Pension information re: OTPP
Date: Friday, November 04, 2016 14:40:33
Attachment 1: BPS Comparison Chart.docx

Hi Cindy

Attached is the back pocket table of other plans in the OPS and BPS. There is some room still for benefit improvement in some areas, such as survivor benefits, but overall, the OTPP compares well with other JSPP's. Some of the single employer plans in the BPS offer higher benefits, at lower employee cost. Those are not JSPPs, and tend to be collectively bargained, so there is a different dynamic at play.

I will touch base with Nadine next week regarding plans for the supporting the panel. I am interested in what products might be required.

Let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Veinot, Cindy (TBS)
Sent: Tuesday, October 25, 2016 7:15 PM
To: Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)
Subject: Pension information re: OTPP

Hi Alex,

A few weeks ago we had a hallway conversation re: the benefits provided under the OTPP – they issue being how those benefits compare to other plans, as we were trying to understand whether there would be a push to improve benefits in the future re: reducing contributions.

We need that analysis in connection with the pension work we are doing. Is that something you can take care of? I think a comparison to other plans offered in the OPS/BPS would be an appropriate starting point.

This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

Comparison of key features of Ontario Teachers' Pension Plan with major SEPP pension plans.

Benefit Provision	Ontario Teachers' Pension Plan (OTPP)	OPG	Hydro One	Representative Generous University Plan	WSIB
Averaging Period For Earnings (yrs.)	5	3	3 (5 for new non-represented and society members)[1]	3	5
Benefit Rate After Age 65 (per year of pensionable service)					
• Below CPP Wage Base	1.55%	1.50%	1.50% (1.375% for non-represented and new society)[1]	1.50%	1.50%
• Above CPP Wage Base	2.00%	2.00%	2.00%	2.00%	2.00%
Benefit Rate Before Age 65 (per year of pensionable service)	2.00%	2.229%	2.229% (2.10% for non-represented) No bridge for new non-represented and society members[1]	2.00%	2.00%
Subsidized Payment Form					
• With Spouse	50% J&S	66⅔% J&S	66⅔% J&S	66⅔% J&S	66⅔% J&S
• Without Spouse	LG10	LG5 (life annuity with 5 years guaranteed)	LG5	LG5	
Earliest Age For Unreduced Early Retirement Pension	85 points	82 points (84 points non-represented), or age 60 + 25 years, or 35 years	82 points (85 points for new non-represented and society members)[1], or age 60 + 25 years, or 35 years	Age 55 plus 85 points	Age 60 with 20 years of service or 85 points
Indexation of Pension Benefits	Pre-2010 Benefits:100% of CPI 2010–2013 Benefits:50% of CPI plus conditional up to 100% of CPI Post-2013 Benefits: conditional up to 100% of CPI	100% of CPI	100% of CPI (75% of CPI for new non-represented and society members)[1]	CPI less 2%	75% of CPI
Member Contribution Rates				Varies by union. Highest level for Faculty is:	
• Below/Above CPP Wage Base	11.50% / 13.10%	PWU: 5.0% / 7.0% Society/non-represented: 7.0%	Non-represented: 4.75% / 6.75% Society: 4.0%/6.0% increasing to 6.5%/8.5%[3] PWU: 4.5%/6.5% increasing to 6.25%/8.25%[4]	7.78% / 9.48%	5.2% / 7.0%

1 Non-represented hired on or after January 1, 2004 or Society members hired on or after November 17, 2005.
2 Post-2006 Non-represented new hires.
3 Effective April 1, 2015.
4. Effective April 1, 2014 and rates 0.5% lower for post-November 2005 Society hires.
5. Effective April 1, 2014.

Comparison of key features of Ontario Teachers' Pension Plans with major JSPP pension plans.

Benefit Provision	Ontario Teachers' Pension Plan (OTPP)	HOOPP	OMERS	Ontario Public Service Pension Plan (OPB)	OPSEU Pension Plan (OPT)	CAAT
Averaging Period For Earnings (yrs.)	5	5	5	5	5	5
Benefit Rate After Age 65 (per year of pensionable service) • Below CPP Wage Base • Above CPP Wage Base	 1.55% 2.00%	 1.50% 2.00%	 1.325% 2.00%	 1.30% 2.00%	 1.35% 2.00%	 1.30% 2.00%
Benefit Rate Before Age 65 (per year of pensionable service)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Subsidized Payment Form • With Spouse • Without Spouse	 50% J&S LG10	 60% J&S LG15	 66⅔% J&S ROC	 50% J&S ROC	 60% J&S ROC	 50% J&S LG
Earliest Age For Unreduced Early Retirement Pension	85 points	age 60, or age 55 + 30 years	age 55 + 30 years, or age 55 + 90 points	age 60 + 20 years, or 90 points	age 60 + 20 years, or 90 points	age 60 with 20 years of service or 85 points
Indexation of Pension Benefits	Pre-2010 Benefits: 100% of CPI 2010–2013 Benefits: 50% of CPI plus conditional up to 100% of CPI Post-2013 Benefits: 0% of CPI plus conditional up to 100% of CPI	Pre-2006 Benefits: 75% of CPI Post-2005 Benefits: Conditional up to 75% of CPI	100% of CPI	100% of CPI	100% of CPI	Pre-2007 Benefits: 75% CPI Post -2008 Benefits: 0% CPI, ad-hoc based on funded status
Member Contribution Rates • Below/Above CPP Wage Base	11.50% / 13.10%	6.90% / 9.20% (employer pays 125% of employee contribution)	9.00% / 14.60%	6.40% / 9.50%	9.40% / 11.00%	11.2% / 14.8%

From: Di Pasquale, Romina (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Wednesday, February 28, 2018 13:27:25
Attachment 1: image001.jpg

It's for the Public Accounts Standing Committee. The AG raised this as a concern that they want to talk about. We are perfectly fine ducking out of this conversation, as long as one of the ministers is prepared to answer it when it comes up. Do you want to relay this to TBS?

From: Killoch, Alex (MOF)
Sent: February-28-18 12:21 PM
To: Di Pasquale, Romina (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

One question, what is the event that your minister is attending that they want to say something at? Just wondering what the audience is?

I forgot to ask the purpose of the request. That might also help Mark

From: Di Pasquale, Romina (EDU)
Sent: February 28, 2018 11:24 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: Pensions and AGO accounting debate - message for the minister EDU
Importance: High

Hi Mark,

Our minister is looking for some for messaging for tomorrow with respect to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple

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Requesting a letter from the OTF that half of any pension surplus belongs to the Province would undermine the established relationship with the OTF.

The government and the OTF are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations and one of the means to measure long-term sustainability is current pension fund surpluses. Surplus funds exist to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs and its related accounting treatment should be based on decisions made by the sponsors.

The government is not interested in potentially giving away rights associated with, nor stepping away from potential liabilities associated with the current surplus position.

The government remains committed to ongoing dialogue with our partner on how best to use pension plan surpluses in the best interest of its beneficiaries and the taxpayers of Ontario.

Romina.

Romina Di Pasquale, CPA, CA

A/Director, Labour, Finance and Implementation Branch

Ministry of Education

2 Carlton St. Suite 710

Toronto ON M5B 1J3

romina.dipasquale@ontario.ca

(416) 325-2057

From: Davis, Andrew (EDU)
Sent: February-27-18 11:22 AM
To: Di Pasquale, Romina (EDU); Lamarche, Doreen (EDU)
Cc: Ngira-Batware, Douglas (EDU)
Subject: FW: Pensions

Please see Chris' q's below. Basically, we're being pulled into the accounting debate. My thought is something along the lines of:

· Plan changes require agreement of the parties.

· An agreement could be to not use any of the surplus, half of it, or more than half of it. In the absence of an agreement, the plan stays as is.

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That said, I am not sure who the audience is. Is it the AG or unions. If the latter, than the last bullet needs to be changed. Comments welcomed.

From: Martin, Chris (EDU)
Sent: February 27, 2018 9:51 AM
To: Davis, Andrew (EDU) <Andrew.Davis@ontario.ca>
Cc: Li, Sharon (EDU) <Sharon.Li@ontario.ca>
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Also using the elimination of the special payments as a proof point for how savings can

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Chris Martin

Senior Policy Advisor

Office of the Hon. Indira Naidoo-Harris

Minister of Education & Minister Responsible for Early Years and Child Care

P: 416-212-3758 | C: 416-303 4878

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From: Killoch, Alex (MOF) []
To: Di Pasquale, Romina (EDU) [Romina.DiPasquale@ontario.ca]
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Wednesday, February 28, 2018 13:20:51
Attachment 1: image001.jpg

One question, what is the event that your minister is attending that they want to say something at? Just wondering what the audience is?

I forgot to ask the purpose of the request. That might also help Mark

From: Di Pasquale, Romina (EDU)
Sent: February 28, 2018 11:24 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: Pensions and AGO accounting debate - message for the minister EDU
Importance: High

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romina.dipasquale@ontario.ca

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To: Di Pasquale, Romina (EDU); Lamarche, Doreen (EDU)
Cc: Ngira-Batware, Douglas (EDU)
Subject: FW: Pensions

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That said, I am not sure who the audience is. Is it the AG or unions. If the latter, than the last bullet needs to be changed. Comments welcomed.

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Cc: Li, Sharon (EDU) <Sharon.Li@ontario.ca>
Subject: Pensions

Hey Andrew,

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What would your advice be on responding to this statement?

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Chris Martin

Senior Policy Advisor

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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU
Date: Thursday, March 01, 2018 11:00:22
Attachment 1: image001.jpg
Attachment 2: image002.jpg

How's your mom?

From: Killoch, Alex (MOF)
Sent: March 1, 2018 9:43 AM
To: Pomykacz, Rob (MOF)
Subject: Fw: Pensions and AGO accounting debate - message for the minister EDU

TBS comms involved now

From: Sullivan, Bryant (TBS) <Bryant.J.Sullivan@ontario.ca>

Sent: Thursday, March 1, 2018 9:31 AM

To: Di Pasquale, Romina (EDU); Donaldson, Mark (TBS)

Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)

Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

We were just at SCOPA yesterday and this item came up, among others.

Let us know if there's any other support we can provide. Is your comm branch involved in the prep?

Bryant

From: Di Pasquale, Romina (EDU)
Sent: March-01-18 9:28 AM
To: Sullivan, Bryant (TBS); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Bryant, it's for the Public Accounts Standing Committee. The AG raised this as a concern that they want to talk about and our ministry wanted to be prepared if it indeed is raised.

From: Sullivan, Bryant (TBS)
Sent: March-01-18 9:27 AM
To: Di Pasquale, Romina (EDU); Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Romina, just curious what the messaging will be used for?

Thanks

Bryant

Bryant Sullivan, APR

Assistant Director, Corporate Communications

Treasury Board Secretariat

(o) 416-325-1378

(c) 647-330-5784

(e) Bryant.J.Sullivan@ontario.ca

Communications Branch

Your Strategic Partner

From: Di Pasquale, Romina (EDU)
Sent: March-01-18 8:58 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Thanks Mark. Much appreciated.

From: Donaldson, Mark (TBS)
Sent: March-01-18 8:35 AM
To: Di Pasquale, Romina (EDU)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU); Sullivan, Bryant (TBS)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

Hi Romina,

Comments inserted below re: accounting for pension assets – standard TBS comms approved language we use in addressing the pension asset issue.

The highlighted line – wasn't sure how this fits or what the point is getting at – don't

think a letter would necessarily do either.

Mark

From: Di Pasquale, Romina (EDU)
Sent: February 28, 2018 12:13 PM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

And if you think we shouldn't be saying anything at all, which might your preference, we can relay that message back.

Thanks

From: Di Pasquale, Romina (EDU)
Sent: February-28-18 11:24 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
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The recommendations of the Pension Asset Expert Advisory Panel and accepted by the government are well documented. There is no requirement under the accounting rules that any formal agreement exist between the joint sponsors regarding timing or amount of a reduction in contributions to record an asset, and the ability to deny the actions of the other sponsor is sufficient evidence to support the Province's reporting.

~~Requesting a letter from the OTF that half of any pension surplus belongs to the Province would undermine the established relationship with the OTF.~~

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From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Please review
Date: Saturday, September 24, 2016 12:57:57

Hi Nadine

Overall I only have one comment and maybe one edit. There is a reference in yellow that I am not sure is correct, I have highlighted my comments in green. Otherwise, it seems fine.

If I understand correctly, this text will be in the standard cover letter that will accompany the Public Accounts. Do we normally include information on the pension expense in that letter or is this special for this year?

Alex

Employee future benefit obligations, costs and assets are determined, accounted for and disclosed in accordance with the requirements of PS 3250, *Retirement Benefits* (PS 3250) and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits* (PS 3255).

In particular:

o The Province is applying PS 3250 and PS 3255 accurately and completely in the consolidated financial statements.

o Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

o The best estimate assumptions used are, as a whole, internally consistent, and

consistent with the asset valuation method adopted.

o The discount rate used to determine the accrued benefit obligation was determined by reference to the expected rate of return on pension assets based on the Government's best estimate.

o The economic assumptions included in the actuarial valuation are those that management provided to the pension plan boards (i.e. Ontario Pension Board, OPSEU Pension Trust, Ontario Teachers' Pension Plan Board, Healthcare of Ontario Pension Plan and Colleges of Applied Arts & Technology Pension Plan) in a letter requesting actuarial and financial information, to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3250.

o In arriving at these [economic??] assumptions, management has obtained the advice of the actuaries [ntd: is this a reference to the economic assumptions established by BPS Pensions? We do not consult actuaries on the assumptions that we provide to the plans in order to determine the cost of the pensions, we provide our assumptions to the plan actuaries who in turn provide the outcome of their work back to the government for conversion to a fiscal cost] but has retained the final responsibility for them The data provided to the actuaries for non-pension post-retirement benefits, severance pay and other post-employment benefits was sufficient for the purpose of the valuation,

the actuarial assumptions were appropriate; and [not clear that the 'and' is in correct spot],

o the methods used were in accordance with sound actuarial principles.

o All significant changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuaries.

o The extrapolations are accurate and properly reflect the effects of significant changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.

o We agree with the findings of Mercer as management's expert in evaluating the valuation of employee future benefits and have adequately considered the qualifications of the expert in determining the amounts and disclosures used in the financial

statements and underlying accounting records.

From: Petsche, Nadine (TBS)
Sent: September 23, 2016 8:57 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Subject: Please review

Alex/Rob,

We haven't bothered you in at least an hour, so thought we'd send a request on this beautiful Friday nightJ

Below is an extract from the draft Management Letter of Representation that Greg, Scott and I will have to sign off on and provide the AG, possibly as early as Monday.

Please advise by Monday am if you have any comments or concerns with the scope and wording.

Thanks in advance for your feedback.

Nadine

P.s. wondering if you had any luck finding the additional details on the earlier indexation increases?

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o The economic assumptions included in the actuarial valuation are those that management provided to the pension plan boards (i.e. Ontario Pension Board, OPSEU Pension Trust, Ontario Teachers' Pension Plan Board, Healthcare of Ontario Pension Plan and Colleges of Applied Arts & Technology Pension Plan) in a letter requesting actuarial and financial information, to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3250.

o In arriving at these assumptions, management has obtained the advice of the actuaries, but has retained the final responsibility for them The data provided to the actuaries for non-pension post-retirement benefits, severance pay and other post-employment benefits was sufficient for the purpose of the valuation,

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-

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From: Killoch, Alex (MOF) []
To: Donaldson, Mark (TBS) [Mark.Donaldson@ontario.ca]
Subject: RE: Psab
Date: Friday, February 23, 2018 11:41:45
Attachment 1: Implications of Contribution Holiday Rules on BPS Plans Feb 22 .doc

---

Sorry, Mark, one more item for Monday

I have a question regarding accounting that I am interested in better understanding. The province is passing new funding rules that restrict access to contribution holidays. These rules will impose an extremely high level of funding before a holiday can be taken.

In the case of a plan like the PSPP, I can't see any way for them to meet the new threshold. At the moment, it would not matter as the PSPP is not in an asset position (and I have no idea if it ever will be) but I am stuck by the fact that if it was in an asset position, we could not take a contribution holiday.

Would that affect the accounting?

I have attached a note that we prepared that gives a bit of background to the new funding rule.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Donaldson, Mark (TBS)
Sent: February 23, 2018 10:26 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Virani, Shyrose (TBS)
Subject: RE: Psab

Happy to … can we do early next week? Monday or Tuesday?

From: Killoch, Alex (MOF)
Sent: February 23, 2018 10:24 AM
To: Donaldson, Mark (TBS); Pomykacz, Rob (MOF)
Subject: RE: Psab

Hi Mark

On the question of the choice of basis, only one assumption was changed for one plan, otherwise everything held constant from prior years.

Do you have some time today? We can walk you through the deck which might help with understanding the assumptions and the basis. I have time this morning and again at the end of the day.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Donaldson, Mark (TBS)
Sent: February 22, 2018 12:36 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: Psab

Perhaps we should make it as part of our Pre-Election Report disclosure. They've asked for pension and OPEB numbers from us. Is it just the deck you provided earlier (i.e. "what we have")?

From: Killoch, Alex (MOF)
Sent: February 21, 2018 11:27 AM
To: Donaldson, Mark (TBS); Pomykacz, Rob (MOF)
Subject: RE: Psab

We have not done a binder in a long time, but there is no reason not to give him what we have.

From: Donaldson, Mark (TBS)
Sent: February 21, 2018 11:26 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: Psab

Alex / Rob,

In speaking with Bill Pelow this morning on our regular bi-weekly, I mentioned to him about providing the pension assumptions (I have not sent anything as yet). Bill indicated that he normally receives the "binder" from Rob … when is the usual timing of that? Is it earlier than usual to send now? When would we have provided last year? Is there any reason we wouldn't send it?

On our call, Bharat also indicated we changed from basis 1 to basis 3 (which I'll need to understand better) – Bill was interested to understand the reasoning behind that so that may required some added explanation.

Happy to chat.
Mark

From: Killoch, Alex (MOF)
Sent: February 16, 2018 9:43 AM

To: Donaldson, Mark (TBS)
Cc: Noor, Khalida (TBS)
Subject: RE: Psab

Hi Mark

I have attached the deck that walks through the 2018 document assumptions. This is an updated version of what we shared last year and was used to brief this year.

Hi Khal

Nice to meet you. I have a consultant actuary (Allan Shapira) that we use for our work on the Ontario Teachers' Pension Plan, which is our biggest plan by far, who could do some work for us on this submission. I have a call at 1:30 today with Allan to talk about the accounting submission. Do you have time for a short discussion before that or would you like to join me on the call?

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Donaldson, Mark (TBS)
Sent: February 15, 2018 5:19 PM
To: Killoch, Alex (MOF)
Cc: Noor, Khalida (TBS)
Subject: RE: Psab

Hi Alex – apologize for not responding sooner. Khal will actually lead the PSAB response work out of the branch here in OPCD, so I would connect with her on the response to the PSAB invitation to comment.

On another note, I recalls seeing a slide deck on pension assumption your group produces but I think it was for last year. Is there a product that is usually shared with the AG prior to the calendar year end? I haven't sent anything over, but we should provide as soon as we can if not already done.

Thanks.

Mark

From: Killoch, Alex (MOF)
Sent: February 6, 2018 5:11 PM
To: Donaldson, Mark (TBS)
Subject: Psab

Hi Mark

Thanks for attending the meeting yesterday

Do you have some time to talk about the Psab posting for comment. I am wondering about a submission. It is potentially a big deal.

Alex

Implications of New Contribution Holiday Restrictions for BPS Plans

ISSUE

How will the new rules on contribution holidays impact single employer pension plans (SEPPs) in the broader public sector?

BACKGROUND

As part of the new funding rules for defined benefit (DB) pension plans, the government is proposing tightening the ability for plan sponsors to take a contribution holiday. This proposal is part of the package of regulatory amendments which are to be considered by LRC on March 26th.

Current Rule:

- At least 100% funded on both a going concern and a solvency basis after the contribution holiday.
- Annual re-certification that the requirement is met.

Proposed Rule:

- 105% transfer ratio (i.e., funded position on a wind up basis) after the contribution holiday.
- Annual re-certification permanently required.
- The new rule would not apply to jointly sponsored pension plans (JSPPs) as there are no changes proposed to JSPPs as a result of the funding review.

The proposed rule is significantly more stringent than the current rule as wind up liabilities include all benefits and therefore require a much higher degree of funding before a contribution holiday can be taken. Wind-up liabilities are different because:

- Certain benefits, such as future indexation, are excluded from solvency funding but included in the wind-up liabilities. Indexing can represent about 20% of plan liabilities.

- As indexing is more common in public sector SEPPs than in private sector SEPPs, this particular rule impacts a larger proportion of SEPPs in the public sector than in the private sector.

Note that neither the current rule nor the new proposed rule requires that contribution holidays apply to plan members. This is because, in a SEPP, member contributions are fixed by a formula and the sponsor is responsible for any additional funding required to meet the pension funding requirements.

ANALYSIS

While the new rules regarding contribution holidays would help to strengthen the funding of DB plans, they could disproportionately affect public sector SEPPs that are well funded on a solvency basis due to the prevalence of indexation in public sector SEPPs.

Hospital for Sick Kids

SickKids hospital has a well-funded DB plan that, under the current rules, is eligible for a contribution holiday. SickKids has been on a contribution holiday for a number of years as it is in a surplus position on both a going concern and a solvency basis.

The following table is a summary of the financial status of the plan based on the last filed report dated December 31, 2016.

The Hospital for Sick Children Pension Plan Funded Status			
(million $)	**Going Concern**	**Solvency**	**Wind-Up**
Assets	$1,500	$1,549	$1,549
Liabilities	$1,195	$1,378	$1,750
Surplus/(Deficit)	$305	$171	($201)
Funded Status (%)	126%	112%	89%

Under the proposed reforms, as soon as the next report is filed, the hospital would no longer qualify for a contribution holiday.

- The hospital has estimated that annual contribution requirements of approximately $50 million would commence in 2020.

- MOF approached SickKids regarding the possibility of joining HOOPP. However, SickKids indicated that they are not interested since a merger with HOOPP would significantly increase both their employer and employee contributions.

Impact on Contribution requirements

The rules will impact plans that are currently on contribution holiday, and will also have an implication for future funding of public sector plans as the new rule makes it much less likely that these plans would have the ability to take contribution holidays.

Many public sector plans, such as those in the electricity sector, are also well funded on a solvency basis.

- As an example, the Ontario Power Generation Pension Plan is 99% funded on a going concern basis, 102% funded on a solvency basis and 64% funded on a wind up basis.

- Under the current rule, the plan is on track to have the option of taking a contribution holiday.

- With the proposed new rule, contribution holiday is unlikely.

If a large surplus is built up in a plan, past experience suggests that members will attempt to bargain benefit improvements. If employers agree, and they likely would as the funds are available in the plan. This, however, could make plans more expensive and less sustainable for employers in the long term.

Implication for the Public Service Pension Plan (PSPP)

The PSPP is currently in the temporary public sector solvency funding relief. The last filed report was dated December 31, 2016. According to that report, the PSPP is 96% funded on a going concern basis, 84% funded on a solvency basis and 51% funded on a wide-up basis. Even though the PSPP is not expected to qualify for contribution holidays anytime soon, the proposed rules would make it almost impossible for the government, as the sponsor of the PSPP, to be able to take a contribution holiday in the future.

Rationale for Restrictions on Contribution Holidays

One of the objectives of the Solvency Funding Review is to balance considerations for benefit security with reduced solvency funding requirements. The Review proposed that restrictions on contribution holidays be enhanced to help strengthen pension plan funding.

Since certain benefits are excluded from solvency funding, a plan could be fully funded on a solvency basis but underfunded on a wind up basis and it is possible that benefits would be reduced in case of a sponsor insolvency. The intent of the proposed restrictions on contribution holidays is to mitigate such a risk.

- For example, the Carillion group of companies entered *Companies' Creditors Arrangement Act* (CCAA) protection in January 2018. The latest filed valuation report as at June 30, 2015 shows that the Carillion Plan has a solvency ratio of 111%. However, on a wind-up basis, the Carillion Plan has a wind-up ratio of 81% due to its generous indexation provisions.

- Currently, all pension benefits are unaffected by the Carillion insolvency and all members of the Carillion Plan are receiving 100% of their promised monthly pensions with no reductions. However, if the plan is wound up, members will not receive the full value of their pensions from the Plan.

Application of Funding Rules to Public Sector Plans

Ontario has maintained a practice of applying consistent rules to all SEPPs, whether in the public or private sector. The consistency in policies has ensured that public sector plans have been and continue to be well funded. For this reason, Ontario has avoided situations that have arisen, for example, in the United States, where public sector plans were not subject to the same funding rules and have become severely underfunded over time. These incidences have resulted in significant financial pressures on States and municipalities in the US.

In Ontario, differences in funding rules are based on the governance model of the pension plans. In this case, the large public sector JSPPs, which are jointly governed and sponsored, are not impacted by the change to the funding rules, including the change to the contribution rules.

OPTIONS

Benefits and member contributions in public sector SEPPs tend to be collectively bargained between employers and members. Restrictions on the ability of employers to take a contribution holiday could lead members to pressure employers to agree to improve benefits, as employees bargain to access the surplus in their plans.

- For example, in December 2017, the Ontario Pension Board has raised concerns that the new rules will lead to significant pressure from members on the government to improve benefits, for similar reasons.

As well, the public sector plans in Ontario are subject to the same going concern and solvency funding rules that all DB SEPPs are subject to, and that a public sector sponsor is unlikely to become insolvent, the government could consider developing a less stringent test for public sector DB SEPPs.

Alternatively or additionally, there could be stricter rules for benefit improvements.

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Public Accounts Planning
Date: Wednesday, February 01, 2017 19:07:58

Hi Nadine

I think it would be helpful for us to meet to discuss the role of the external actuary. I am not clear on what their role is in the process or to whom them are providing advice. Do you have some time this week?

From: Petsche, Nadine (TBS)
Sent: February 1, 2017 5:38 PM
To: Pomykacz, Rob (MOF); Killoch, Alex (MOF)
Subject: Public Accounts Planning

Rob/Alex,

We were hoping to get a status update on your team's work to compile support for assumptions used as input to the pension valuations. I understand from Cindy that the work is likely already underway, if not complete.

Below is an extract of the OAG's current asks related to pension assumptions. We hope to have engaged our external actuarial support by early next week. Once they are on board, we would like to arrange for a meeting with you to see how they might be able to help to provide an independent perspective on our support before it is shared with the OAG.

Thanks in advance.

Nadine

1. The "assumptions binder" supporting the 2017 pension Economic Assumptions (this document is titled "Rationale for Management's Best Estimates of Long-term Economic Assumptions used for the Actuarial Valuation (for financial statement purposes) of the pension plans that are consolidated on the Province's Financial Statements) that outlines the asset allocations and the plan's expected returns for these plans

2. A more robust/detailed rationale to explain the 25 bps increase of the salary escalation rate for OTPP and PSPP

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Virani, Shyrose (TBS) [Shyrose.Virani@ontario.ca]
Subject: RE: Public Accounts Planning
Date: Wednesday, February 01, 2017 19:11:08

Works for me. Shyrose will help to set up some time.

Nadine

From: Killoch, Alex (MOF)
Sent: February-01-17 6:08 PM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Planning

Hi Nadine

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From: Petsche, Nadine (TBS)
Sent: February 1, 2017 5:38 PM
To: Pomykacz, Rob (MOF); Killoch, Alex (MOF)
Subject: Public Accounts Planning

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2. A more robust/detailed rationale to explain the 25 bps increase of the salary escalation rate for OTPP and PSPP

From: Kaufman, Paul (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Armoogum, Vinod (MOF) [Vinod.Armoogum@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Friday, July 07, 2017 13:29:15

Hi Vinod,

I'm writing to you as I understand that Alex and Rob are both away. I wanted to (indirectly) thank Alex and Rob for their input in the email chain below, and to set out how I'm planning to incorporate that input into the legal opinion that I am preparing for TBS, for their information.

Alex had suggested I remove a couple of points from the draft opinion I sent to him earlier in this chain, but my understanding is that those points are legally accurate, even if in practice any real financial risk in these areas is not material. In light of that, I'm going to frame MOF's feedback as being operational views that are distinct from the legal advice I'm giving to TBS, as set out in the following bullets. If you have any questions, or concerns that this doesn't fairly reflect your branch's views, please just let me know.

Thanks,

Paul

· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:

o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year (while in practice it may not be possible for a party to obtain a writ of *mandamus* from a court requiring the Minister to pay out funds under Subsection 5(3), it would be possible for a court to declare that the Minister is obligated under the TPA to make

payments, and the long-standing practice of the Crown is to comply with such orders)

· Private schools and other ‘excluded employers’ not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP

· Further to your request, I have sought the views of the Income Security and Pension Policy Branch in the Ministry of Finance (MOF) for their views on how any funding risks to the Crown could be managed in practice. MOF provided the following input: “The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can’t be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MOF has participated in meetings to have schools delisted.”

· You may wish to consult MOF directly if you have further questions about the materiality of any funding risks for the Crown relating to the participation of entities that the Minister of Education does not make contributions on behalf of.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Killoch, Alex (MOF)
Sent: July-04-17 3:37 PM
To: Kaufman, Paul (TBS)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

Hi Paul,

With respect to the OTPP, if the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan.

Therefore, we do not think there is any risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

Let me know if you have any quesitons

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

Nadine Petsche asked me to contact your team to see if they have any input on the below (very high level) opinion re: funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The below was prepared to support the preparation of Public Accounts and reflects input from EDU re: the OTPP and TBS legal/pension policy re: the OPSEUPP, but Nadine thought your team might have insights into how this works in practice re: the OTPP that might be relevant.

If you have any thoughts or questions, please let us know.

Thanks,

Paul

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

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Nadine, here is an analysis of the potential funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The discussion of the OTPP reflects input from EDU legal and staff who are familiar with the OTPP.

I have kept this high level given the urgency but can elaborate on specific areas as necessary. I haven't included a discussion of the general obligations of employers and members to contribute to Jointly Sponsored Pension Plans under the *Pension Benefits Act* (PBA), or discussed the implications of the exemption from solvency funding requirements under the PBA that I understand both of these plans enjoy, as I understood the focus of your question to be specific to the relationship between the Crown and other employers.

If you require anything further please let us know.

Paul

OTPP:

· The OTPP is governed by the *Teachers' Pension Act* (TPA), the Plan text for the OTPP (the "Plan Text"), a Partners' Agreement between the Minister of Education and the Ontario Teachers' Federation, and a Funding Management Policy ("FMP") that is an appendix to the Partners' Agreement.

· The OTPP is also subject to the *Pension Benefits Act* ("PBA"), under which the OTPP is a Jointly Sponsored Pension Plan (JSPP)

· Under Section 24(1) of the Plan Text, the Minister of Education is required to pay employer contributions in respect of certain active employees. These types of active employees include teachers at school boards and teachers at provincial schools (run by the Ministry of Education and where teachers are the employees of the Provincial Schools Authority).

· However, the Minister is not required to make employer contributions under the Plan Text in respect of some other employers whose employees may participate in the OTPP, including participating private schools.

· Nothing in the Plan Text (or any other applicable OTPP document or statute) expressly requires the Minister of Education to make contributions in place of private schools and other 'excluded' employers who have failed to make their own required contributions to the OTPP.

· The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MoF has participated in meetings to have schools delisted.

~~· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:~~

~~o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year~~

~~o Private schools and other 'excluded employers' not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP~~

OPSEUPP:

· The OPSEUPP is governed by a Sponsorship Agreement dated April 18, 1994, as amended, between Ontario and OPSEU (“Sponsorship Agreement”); a trust agreement dated October 25, 1994, as amended, the OPTrust Plan Text and the *Ontario Public Service Employees' Union Pension Act, 1994*.

· Like the OTPP, the OPSEUPP is also a JSPP under the PBA.

· A list of participating employers for the OPSEUPP is set out below (this information is derived from the OPSEUPP’s most recent audited financial statements, but you may wish to verify it with the TBS Employee Relations Division). A number of the participating employers that are not part of the Province itself are nevertheless provincial agencies (AGCO, LCBO, OLGC, Public Health Ontario, etc.). The majority of the remaining employers are either public hospitals (that the Province funds) or public sector pension plan administrators. Therefore, the practical risk of a non-OPS employer failing to provide required contributions to the OPSEUPP seems quite low.

· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

• The Province of Ontario (civil servants and crown employees)

• Alcohol and Gaming Commission of Ontario

• Centre for Addiction and Mental Health

• Legislative Assembly of Ontario

• Liquor Control Board of Ontario

• Niagara Parks Commission

• North Bay Regional Health Centre (Northeast Mental Health Centre)

• Ontario Agency for Health Protection and Promotion

• Ontario Lottery and Gaming Corporation

• Ontario Pension Board

• Ontario College of Trades

• Ontario Public Service Employees Union (seconded or acting employees)

• Ontario Shores Centre for Mental Health Sciences

• Ontario Teachers' Pension Plan Board

• OPSEU Pension Plan Trust Fund (includes non-bargaining unit employees)

• Providence Continuing Care Centre

• St. Joseph's Care Group – Lakehead Psychiatric Hospital

• Waypoint Centre for Mental Health Care

• Workplace Safety and Insurance Appeals Tribunal

Paul Kaufman

Counsel

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From: Killoch, Alex (MOF) []
To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Wednesday, July 05, 2017 14:53:26

Hi Shemin,

Thanks for your message.

We agree with your analysis from a legal prospective that there is a risk for the Crown. However, we have been talking to OPCD about this, and it is an issue of materiality.

From a financial and accounting perspective, the impact, if any, would be immaterial, as private schools are a tiny portion of the overall membership of the plan. As well, as jointly sponsored pension plans, the government would account for only half of any such liability attributable to these plans. Teachers's is also exempt from funding on a solvency basis, which makes the liability lower than it otherwise would be. I do know that the OTPP Board will continue to pursue any outstanding amounts even after delisting.

We should also note that if the plan is in a surplus position at the time of de-listing, the plan would retain the surplus or gain attributable to that school. Again, we are talking about an amount that is immaterial.

We should also note that, as an ongoing plan, the province's obligation is to match the contributions from public school teachers. The government has no financial obligation with respect to the private schools.

Hope this context helps

Alex

From: Manji, Shemin (MOF)
Sent: July 5, 2017 9:06 AM
To: Killoch, Alex (MOF)
Subject: RE: Public Accounts Related Q's
Importance: High

Hi Alex,

This is in response to your e-mail below.

Re funding risks to the Crown:

I am sure you have good reasons for your view that there are no funding risks to the Crown. However, you do not say on what basis you have concluded that there are no risks. Based on your e-mail, I am not sure I agree with you. I have some questions/concerns. I have raised these concerns with TBS on a number of occasions relating to the participation of non-OPS employers in the PSPP and I have kept you informed of those concerns. These are not new questions/concerns.

Do OTPP and OPSEUPP enter into participation agreements with non-OPS employers before permitting those employers to join the pension plans to ensure that the Crown is protected or any risk to the Crown is mitigated when such employers do not meet their contribution requirements or if they become insolvent or stop participating in the pension plan?

In the case of the OTPP, I am not sure that delisting a private school if it fails to meet its funding obligations is sufficient to eliminate any funding risk to the Crown. Who is

responsible for the benefits that have accrued in the pension plan of employees of the private school that are participating or have participated in the OTPP (members, deferred vested members and retired members of the OTPP) prior to the delisting? The delisted employer? The Crown? If it is the delisted employer, on what basis? Depending on whether these pension plans have entered into participation agreements with non-OPS employers, unless the delisted employer continues making payments to the OTPP, wouldn't the Crown be responsible? Alternately, is it contemplated that the assets of plan that relate to the affected members would be transferred out of the plan (this would be the only way to eliminate funding risk to the Crown)? If so where would the assets be transferred? To another pension plan? To locked in retirement arrangements? On what basis?

What happens to the portion of the unfunded liability (assuming the plan has an unfunded liability) relating to the private school at the time the private school is delisted? Do the OTPP and OPSEUPP include a formula for apportioning liability between employers? If not and there is no participation agreement, wouldn't the Province be responsible under the TPA?

Unless these concerns are addressed, I would be reluctant to conclude that there is no risk to the Crown.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

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From: Killoch, Alex (MOF)
Sent: Tuesday, July 04, 2017 3:37 PM
To: Kaufman, Paul (TBS)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

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Therefore, we do not think there is any risk for the Crown in this situation. We have

included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

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Ministry of Finance

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From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Wednesday, July 05, 2017 14:43:40

See revised text…

From: Killoch, Alex (MOF)
Sent: July 5, 2017 2:40 PM
To: Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: Re: Public Accounts Related Q's

Can we also mention no solvency funding requirement

From: Pomykacz, Rob (MOF)

Sent: Wednesday, July 5, 2017 2:38 PM

To: Killoch, Alex (MOF)

Cc: Tsang, Ingrid (MOF)

Subject: FW: Public Accounts Related Q's

Hi Alex,

Here's our draft reply to Shemin:

Hi Shemin,

Thanks for your message. We agree with your analysis from a legal prospective that there is a risk for the Crown.

However, from a financial and accounting perspective, the impact, if any, would be immaterial. As well, as jointly sponsored pension plans, the government would account for only half of any such liability attributable to these plans. These plans are also exempt from funding on a solvency basis, which makes the liability lower than it otherwise would be. I should also note that if the plan is in a surplus position at the time of de-listing, the plan would retain the surplus or gain attributable to that school. Again, we are talking about an amount that is immaterial.

We should also note that, as an ongoing plan, the province's obligation is to match the contributions from public school teachers. The government has no financial obligation with respect to the private schools.

From: Manji, Shemin (MOF)
Sent: July 5, 2017 9:06 AM
To: Killoch, Alex (MOF)
Subject: RE: Public Accounts Related Q's
Importance: High

Hi Alex,

This is in response to your e-mail below.

Re funding risks to the Crown:

I am sure you have good reasons for your view that there are no funding risks to the Crown. However, you do not say on what basis you have concluded that there are no risks. Based on your e-mail, I am not sure I agree with you. I have some questions/concerns. I have raised these concerns with TBS on a number of occasions relating to the participation of non-OPS employers in the PSPP and I have kept you informed of those concerns. These are not new questions/concerns.

Do OTPP and OPSEUPP enter into participation agreements with non-OPS employers before permitting those employers to join the pension plans to ensure that the Crown is protected or any risk to the Crown is mitigated when such employers do not meet their contribution requirements or if they become insolvent or stop participating in the pension plan?

In the case of the OTPP, I am not sure that delisting a private school if it fails to meet its funding obligations is sufficient to eliminate any funding risk to the Crown. Who is responsible for the benefits that have accrued in the pension plan of employees of the private school that are participating or have participated in the OTPP (members, deferred vested members and retired members of the OTPP) prior to the delisting? The delisted employer? The Crown? If it is the delisted employer, on what basis? Depending on whether these pension plans have entered into participation agreements with non-OPS employers, unless the delisted employer continues making payments to the OTPP, wouldn't the Crown be responsible? Alternately, is it contemplated that the assets of plan that relate to the affected members would be transferred out of the plan (this would be the only way to eliminate funding risk to the Crown)? If so where would the assets be transferred? To another pension plan? To locked in retirement arrangements? On what basis?

What happens to the portion of the unfunded liability (assuming the plan has an unfunded liability) relating to the private school at the time the private school is delisted? Do the OTPP and OPSEUPP include a formula for apportioning liability between employers? If not and there is no participation agreement, wouldn't the Province be

responsible under the TPA?

Unless these concerns are addressed, I would be reluctant to conclude that there is no risk to the Crown.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Killoch, Alex (MOF)
Sent: Tuesday, July 04, 2017 3:37 PM
To: Kaufman, Paul (TBS)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

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Therefore, we do not think there is any risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

Let me know if you have any quesitons

Alex

_____

Alex Killoch

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Ministry of Finance

416 325-5724

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From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

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If you have any thoughts or questions, please let us know.

Thanks,

Paul

Paul Kaufman

Counsel

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To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Wednesday, July 05, 2017 09:06:00

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Sent: June 26, 2017 9:34 AM
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Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Tuesday, July 04, 2017 16:21:01

Thanks Alex!

Nadine

From: Killoch, Alex (MOF)
Sent: July 4, 2017 3:37 PM
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Paul Kaufman

Counsel

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From: Killoch, Alex (MOF) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Tuesday, July 04, 2017 15:37:18

Hi Paul,

With respect to the OTPP, if the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan.

Therefore, we do not think there is any risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

Let me know if you have any quesitons

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

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Paul

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· The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MoF has participated in meetings to have schools delisted.

~~· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:~~

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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Tuesday, July 04, 2017 14:55:09

Looks good!

From: Killoch, Alex (MOF)
Sent: July 4, 2017 12:24 PM
To: Pomykacz, Rob (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: RE: Public Accounts Related Q's

Bit longer, see red below

From: Pomykacz, Rob (MOF)
Sent: June 30, 2017 11:01 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

Please see our draft response to Paul below.

Rob

Hi Paul,

With respect to the OTPP, if the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan. Therefore, there is no risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

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If you have any thoughts or questions, please let us know.

Thanks,

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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Tuesday, July 04, 2017 12:23:44

Bit longer, see red below

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Sent: June 30, 2017 11:01 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: FW: Public Accounts Related Q's

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Hi Paul,

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From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

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Thanks,

Paul

Paul Kaufman

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From: Armoogum, Vinod (MOF) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Public Accounts Related Q's
Date: Friday, July 07, 2017 15:21:53

Paul,

Thank you for sharing and we appreciate that you are incorporating some of Alex's suggested language.

Since both Alex and Rob are away I've consulted with staff familiar with this file regarding the risk. It is indeed an issue of materiality as private schools account for only about 2% of the total plan. As a jointly sponsored pension plan, the government would account for only half of any liability as a result of a de-listing and in a surplus situation the plan would retain the surplus. Also, the province's obligation is to match the contributions from public school teachers and has no financial obligation with respect to the private schools.

Thanks.

Vinod

From: Kaufman, Paul (TBS)
Sent: July-07-17 1:29 PM
To: Killoch, Alex (MOF); Armoogum, Vinod (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

Hi Vinod,

I’m writing to you as I understand that Alex and Rob are both away. I wanted to (indirectly) thank Alex and Rob for their input in the email chain below, and to set out how I’m planning to incorporate that input into the legal opinion that I am preparing for TBS, for their information.

Alex had suggested I remove a couple of points from the draft opinion I sent to him earlier in this chain, but my understanding is that those points are legally accurate, even if in practice any real financial risk in these areas is not material. In light of that, I’m going to frame MOF’s feedback as being operational views that are distinct from the legal advice I’m giving to TBS, as set out in the following bullets. If you have any questions, or concerns that this doesn’t fairly reflect your branch’s views, please just let me know.

Thanks,

Paul

· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:

o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year (while in practice it may not be possible for a party to obtain a writ of *mandamus* from a court requiring the Minister to pay out funds under Subsection 5(3), it would be possible for a court to declare that the Minister is obligated under the TPA to make payments, and the long-standing practice of the Crown is to comply with such orders)

· Private schools and other ‘excluded employers’ not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP

· Further to your request, I have sought the views of the Income Security and Pension Policy Branch in the Ministry of Finance (MOF) for their views on how any funding risks to the Crown could be managed in practice. MOF provided the following

input: “The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can’t be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MOF has participated in meetings to have schools delisted.”

· You may wish to consult MOF directly if you have further questions about the materiality of any funding risks for the Crown relating to the participation of entities that the Minister of Education does not make contributions on behalf of.

Paul Kaufman

Counsel

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Sent: July-04-17 3:37 PM
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Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

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Let me know if you have any quesitons

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Kaufman, Paul (TBS)
Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

Nadine Petsche asked me to contact your team to see if they have any input on the below (very high level) opinion re: funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The below was prepared to support the preparation of Public Accounts and reflects input from EDU re: the OTPP and TBS legal/pension policy re: the OPSEUPP, but Nadine thought your team might have insights into how this works in practice re: the OTPP that might be relevant.

If you have any thoughts or questions, please let us know.

Thanks,

Paul

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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Nadine, here is an analysis of the potential funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The discussion of the OTPP reflects input from EDU legal and staff who are familiar with the OTPP.

I have kept this high level given the urgency but can elaborate on specific areas as necessary. I haven't included a discussion of the general obligations of employers and members to contribute to Jointly Sponsored Pension Plans under the *Pension Benefits Act* (PBA), or discussed the implications of the exemption from solvency funding requirements under the PBA that I understand both of these plans enjoy, as I understood the focus of your question to be specific to the relationship between the Crown and other employers.

If you require anything further please let us know.

Paul

OTPP:

· The OTPP is governed by the *Teachers' Pension Act* (TPA), the Plan text for the OTPP (the "Plan Text"), a Partners' Agreement between the Minister of Education and the Ontario Teachers' Federation, and a Funding Management Policy ("FMP") that is an appendix to the Partners' Agreement.

· The OTPP is also subject to the *Pension Benefits Act* (“PBA”), under which the OTPP is a Jointly Sponsored Pension Plan (JSPP)

· Under Section 24(1) of the Plan Text, the Minister of Education is required to pay employer contributions in respect of certain active employees. These types of active employees include teachers at school boards and teachers at provincial schools (run by the Ministry of Education and where teachers are the employees of the Provincial Schools Authority).

· However, the Minister is not required to make employer contributions under the Plan Text in respect of some other employers whose employees may participate in the OTPP, including participating private schools.

· Nothing in the Plan Text (or any other applicable OTPP document or statute) expressly requires the Minister of Education to make contributions in place of private schools and other ‘excluded’ employers who have failed to make their own required contributions to the OTPP.

· The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can’t be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MoF has participated in meetings to have schools delisted.

~~· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:~~

~~o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year~~

~~o Private schools and other ‘excluded employers’ not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP~~

OPSEUPP:

· The OPSEUPP is governed by a Sponsorship Agreement dated April 18, 1994, as amended, between Ontario and OPSEU (“Sponsorship Agreement”); a trust agreement dated October 25, 1994, as amended, the OPTrust Plan Text and the *Ontario Public Service Employees' Union Pension Act, 1994*.

· Like the OTPP, the OPSEUPP is also a JSPP under the PBA.

· A list of participating employers for the OPSEUPP is set out below (this information is derived from the OPSEUPP’s most recent audited financial statements, but you may wish to verify it with the TBS Employee Relations Division). A number of the participating employers that are not part of the Province itself are nevertheless provincial agencies (AGCO, LCBO, OLGC, Public Health Ontario, etc.). The majority of the remaining employers are either public hospitals (that the Province funds) or public sector pension plan administrators. Therefore, the practical risk of a non-OPS employer failing to provide required contributions to the OPSEUPP seems quite low.

· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

• The Province of Ontario (civil servants and crown employees)

• Alcohol and Gaming Commission of Ontario

• Centre for Addiction and Mental Health

• Legislative Assembly of Ontario

• Liquor Control Board of Ontario

• Niagara Parks Commission

• North Bay Regional Health Centre (Northeast Mental Health Centre)

• Ontario Agency for Health Protection and Promotion

• Ontario Lottery and Gaming Corporation

• Ontario Pension Board

• Ontario College of Trades

• Ontario Public Service Employees Union (seconded or acting employees)

• Ontario Shores Centre for Mental Health Sciences

• Ontario Teachers' Pension Plan Board

• OPSEU Pension Plan Trust Fund (includes non-bargaining unit employees)

• Providence Continuing Care Centre

• St. Joseph's Care Group – Lakehead Psychiatric Hospital

• Waypoint Centre for Mental Health Care

• Workplace Safety and Insurance Appeals Tribunal

Paul Kaufman

Counsel

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From: Pomykacz, Rob (MOF) []
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Request: Review Valuation Allowance
Date: Wednesday, September 21, 2016 11:11:37
Attachment 1: image001.png

Hi Pauline,

We've spoken to Allan and he's willing to review the model. As you know, he's currently out of town, but noted that he would be able to go through the model later this week.

Please forward the file to me and I'll forward it to Allan.

Thanks,

Rob

From: Fong, Pauline (TBS)
Sent: September 21, 2016 10:49 AM
To: Pomykacz, Rob (MOF)
Cc: Killoch, Alex (MOF); Patel, Bharat (TBS); Tsang, Ingrid (MOF); Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: Request: Review Valuation Allowance

Hi Rob,

As discussed, I have modelled how to calculate the valuation allowance in the OTPP calculation sheet back to 2001, with the *assumption* of expected future benefit being zero. We would like AON Hewitt to review our model to see if is consistent to their understanding in how the valuation allowance and adjusted benefit asset is arrived. In particular bringing the unamortized gains/losses from market related values to

unamortized gains/losses on a market value.

Please let me know if AON Hewitt is available to review. Thank you in advance.

Pauline Fong, CPA, CA

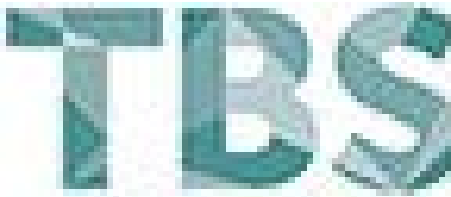
Senior Analyst, External Reporting

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 212-4007

Pauline.fong@ontario.ca


TBS

From: Fong, Pauline (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: RE: Request: Review Valuation Allowance
Date: Wednesday, September 21, 2016 11:22:42
Attachment 1: image001.png
Attachment 2: OTPP (incl RCA) Calculations 2015-16 PAv3 (Basis 3) with Valuation Allowance.xlsx

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Hi Rob,

Attached is the file. Thanks.

Pauline

From: Pomykacz, Rob (MOF)
Sent: September-21-16 11:12 AM
To: Fong, Pauline (TBS)
Cc: Killoch, Alex (MOF); Patel, Bharat (TBS); Tsang, Ingrid (MOF); Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: RE: Request: Review Valuation Allowance

Hi Pauline,

We've spoken to Allan and he's willing to review the model. As you know, he's currently out of town, but noted that he would be able to go through the model later this week.

Please forward the file to me and I'll forward it to Allan.

Thanks,

Rob

From: Fong, Pauline (TBS)
Sent: September 21, 2016 10:49 AM
To: Pomykacz, Rob (MOF)
Cc: Killoch, Alex (MOF); Patel, Bharat (TBS); Tsang, Ingrid (MOF); Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: Request: Review Valuation Allowance

Hi Rob,

As discussed, I have modelled how to calculate the valuation allowance in the OTPP calculation sheet back to 2001, with the *assumption* of expected future benefit being zero. We would like AON Hewitt to review our model to see if is consistent to their understanding in how the valuation allowance and adjusted benefit asset is arrived. In particular bringing the unamortized gains/losses from market related values to unamortized gains/losses on a market value.

Please let me know if AON Hewitt is available to review. Thank you in advance.

Pauline Fong, CPA, CA

Senior Analyst, External Reporting

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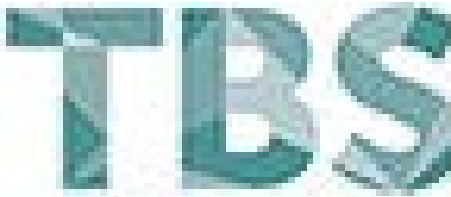
7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 212-4007

Pauline.fong@ontario.ca


TBS

Ontario Teachers' Pension Plan - PSAB Calculations

Pension Liability

Calendar Year	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013-14 2013	2014-15 2014	2015-16 2015
Market Value of Assets (MVA)																							
Accrued Benefit Obligation (100%)	Data input	36,848	39,007	41,833	46,470	48,635	50,346	55,087	64,369	67,319	71,009	74,089	80,371	83,120	88,356	92,022	96,608	99,117	103,693	105,954	109,524	113,801	116,367
Market Value of Assets (100%)	Data input	34,494	40,137	47,429	54,479	59,170	68,303	73,121	69,456	66,213	75,677	84,326	96,128	106,014	108,546	87,433	96,408	107,590	117,099	129,524	140,764	154,476	171,440
(Asset)/Liability or (Surplus)/Deficit (100%)	*formula*	2,354	(1,130)	(5,596)	(8,009)	(10,535)	(17,957)	(18,034)	(5,087)	1,106	(4,668)	(10,237)	(15,757)	(22,894)	(20,190)	4,589	200	(8,473)	(13,406)	(23,570)	(31,240)	(40,675)	(55,073)
Accrued Benefit Obligation (50%)	*formula*	18,424	19,504	20,917	23,235	24,318	25,173	27,544	32,185	33,660	35,505	37,045	40,186	41,560	44,178	46,011	48,304	49,559	51,847	52,977	54,762	56,901	58,184
Market Value of Assets (50%)	*formula*	17,247	20,069	23,715	27,240	29,585	34,152	36,561	34,728	33,107	37,839	42,163	48,064	53,007	54,273	43,717	48,204	53,795	58,550	64,762	70,382	77,238	85,720
(Asset)/Liability or (Surplus)/Deficit (50%)	*formula*	1,177	(565)	(2,798)	(4,005)	(5,268)	(8,979)	(9,017)	(2,544)	553	(2,334)	(5,119)	(7,879)	(11,447)	(10,095)	2,295	100	(4,237)	(6,703)	(11,785)	(15,620)	(20,338)	(27,537)
Market Related Value of Assets (MRVA)																							
Accrued Benefit Obligation (100%)	Data input	36,848	39,007	41,833	46,470	48,635	50,346	55,087	64,369	67,319	71,009	74,089	80,371	83,120	88,356	92,022	96,608	99,117	103,693	105,954	109,524	113,801	116,367
Market Related Value of Assets (100%)	Data input	34,242	38,092	43,013	48,901	54,382	61,039	68,780	72,429	75,857	79,157	82,791	88,694	94,850	104,917	106,957	109,112	114,246	115,685	119,864	130,867	143,076	156,998
(Asset)/Liability or (Surplus)/Deficit (100%)	*formula*	2,606	915	(1,180)	(2,431)	(5,747)	(10,693)	(13,693)	(8,060)	(8,538)	(8,148)	(8,702)	(8,323)	(11,730)	(16,561)	(14,935)	(12,504)	(15,129)	(11,992)	(13,910)	(21,343)	(29,275)	(40,631)
Accrued Benefit Obligation (50%)	*formula*	18,424	19,504	20,917	23,235	24,318	25,173	27,544	32,185	33,660	35,505	37,045	40,186	41,560	44,178	46,011	48,304	49,559	51,847	52,977	54,762	56,901	58,184
Market Related Value of Assets (50%)	*formula*	17,121	19,046	21,507	24,451	27,191	30,520	34,390	36,215	37,929	39,579	41,396	44,347	47,425	52,459	53,479	54,556	57,123	57,843	59,932	65,434	71,538	78,499
(Asset)/Liability or (Surplus)/Deficit (50%)	*formula*	1,303	458	(590)	(1,216)	(2,874)	(5,347)	(6,847)	(4,030)	(4,269)	(4,074)	(4,351)	(4,162)	(5,865)	(8,281)	(7,468)	(6,252)	(7,565)	(5,996)	(6,955)	(10,672)	(14,638)	(20,316)
Province's 50% Share																							
Unamortized gains/(losses) on **Market Related Value of Assets (MRVA)**	"liability" sheet	747	1,618	2,252	2,676	3,727	5,476	6,066	2,750	2,646	2,112	2,028	1,493	2,888	4,560	2,617	277	772	(1,648)	(1,237)	1,851	4,816	9,001
Add: Difference between MVA vs. MRVA	*formula*	126	1,023	2,208	2,789	2,394	3,632	2,171	(1,487)	(4,822)	(1,740)	768	3,717	5,582	1,815	(9,762)	(6,352)	(3,328)	707	4,830	4,949	5,700	7,221
Unamortized gains/(losses) determined by Market Value of Assets (MVA)	*formula*	**873**	**2,641**	**4,460**	**5,465**	**6,121**	**9,108**	**8,236**	**1,264**	**(2,176)**	**372**	**2,795**	**5,210**	**8,470**	**6,375**	**(7,145)**	**(6,075)**	**(2,556)**	**(941)**	**3,593**	**6,800**	**10,516**	**16,222**
Accrued Benefit Liability (Asset) before any valuation allowance (50% share)	"Liability" Sheet	4,758	4,569	4,018	3,130	2,147	1,322	282	(336)	(791)	(1,233)	(1,691)	(2,126)	(2,562)	(3,016)	(4,027)	(5,005)	(5,799)	(6,623)	(7,124)	(7,711)	(8,667)	(10,147)
Less: Unamortized losses of MVA if any	*above*	-	-	-	-	-	-	-	-	(2,176)	-	-	-	-	-	(7,145)	(6,075)	(2,556)	(941)	-	-	-	-
Adjusted Accrued Benefit Liability (Asset)		4,758	4,569	4,018	3,130	2,147	1,322	282	(336)	1,385	(1,233)	(1,691)	(2,126)	(2,562)	(3,016)	3,118	1,070	(3,243)	(5,682)	(7,124)	(7,711)	(8,667)	(10,147)
Expected Future Benefit	if assumed zero								-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation Allowance		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**336**	**-**	**1,233**	**1,691**	**2,126**	**2,562**	**3,016**	**-**	**-**	**3,243**	**5,682**	**7,124**	**7,711**	**8,667**	**10,147**
Expense as result of Increase (reduction) in valuation Allowance		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**336**	**(336)**	**1,233**	**458**	**435**	**436**	**454**	**(3,016)**	**-**	**3,243**	**2,439**	**1,442**	**587**	**956**	**1,480**
Accrued Benefit Liability (Asset) before any valuation allowance (50% share)		4,758	4,569	4,018	3,130	2,147	1,322	282	(336)	(791)	(1,233)	(1,691)	(2,126)	(2,562)	(3,016)	(4,027)	(5,005)	(5,799)	(6,623)	(7,124)	(7,711)	(8,667)	(10,147)
Less: Valuation Allowance		-	-	-	-	-	-	-	336	-	1,233	1,691	2,126	2,562	3,016	-	-	3,243	5,682	7,124	7,711	8,667	10,147
Accrued Benefit (Asset) Liability after valuation Allowance		**4,758**	**4,569**	**4,018**	**3,130**	**2,147**	**1,322**	**282**	**-**	**(791)**	**-**	**-**	**-**	**-**	**-**	**(4,027)**	**(5,005)**	**(2,556)**	**(941)**	**-**	**-**	**-**	**-**
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

-

From: Pomykacz, Rob (MOF) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: RE: Restoring Index Inflation
Date: Monday, September 19, 2016 11:13:47
Attachment 1: image001.jpg

We're going to have a quick chat with Nadine. Will let you know what we find out about these two paragraphs. Our main concern is that we don't know what message they are trying to convey.

From: Duffy, Paul (EDU)
Sent: September 19, 2016 11:10 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF); Roberto, Nicole (EDU)
Subject: RE: Restoring Index Inflation

Alex, we're making some changes directly to the Word doc provided via OPCD, but on a high-level, I think we need a conversation to clarify two points:

· As you mentioned, the accounting versus funding issue is mixed throughout the note – does the accrued benefit obligation refer to the accounting valuation?

· Secondly, Deloitte seems to think that share the pain is a payment by the government for 50% of the inflation foregone by members, as opposed the government making payments which match the foregone benefits (so, 100% of foregone inflation) for inflation protection at 50% or above.

Comments on the note will arrive before lunch.

Paul

From: Killoch, Alex (MOF)
Sent: September-19-16 10:54 AM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: Re: Restoring Index Inflation

Question is whether accrued benefit obligation refers to accounting valuation.

Despite the fact that the inflation protection was reduced, the cost of this protection has been fully reflected in the measurement of the accrued benefit obligation associated with the plan on the grounds that either the benefits would be restored and provided to pensioners or the “share the pain” payments would continue

From: Duffy, Paul (EDU)

Sent: Monday, September 19, 2016 10:50 AM

To: Pomykacz, Rob (MOF); Killoch, Alex (MOF); Roberto, Nicole (EDU)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)

Subject: RE: Restoring Index Inflation

Okay – this response seems to be mixing apples and oranges then, as the next paragraph uses the funding costs of restoring inflation, not the accounting costs, correct?

From: Pomykacz, Rob (MOF)
Sent: September-19-16 10:49 AM
To: Killoch, Alex (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: RE: Restoring Index Inflation

Yes, the accounting valuation assumes 100% inflation protection.

From: Killoch, Alex (MOF)
Sent: September 19, 2016 10:48 AM
To: Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: Re: Restoring Index Inflation

I think that might be a reference to the accounting which assumes 100 percent indexation.

Need to check with Nadine. I think they assume 100 for costing rather than funding.

From: Roberto, Nicole (EDU)

Sent: Monday, September 19, 2016 10:28 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)

Subject: FW: Restoring Index Inflation

Alex and Rob – we aren't sure that the last sentence in the first paragraph accurately reflects the measurement of the CIP (see comment below). Do you have any other comments to consolidate and share with Nadine?

Thanks,

Nicole

As noted above, a preliminary $12.7 billion plan shortfall in 2008 was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agreed to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation. In other words, employers and members shared in the outcome since the members would forego some benefits and the employers would also bear the cost to the extent of 50% of the missed inflation. These additional payments are often referred to as the "share the pain" payments. Despite the fact that the inflation protection was reduced, the cost of this protection has been fully reflected in the measurement of the accrued benefit obligation associated with the plan on the grounds that either the benefits would be restored and provided to pensioners or the "share the pain" payments would continue.

We don't think we can say that the cost of this protection has been **fully reflected.** The preliminary funding valuation was costed based on 70% inflation protection and the revised funding valuation that will be filed has been updated to reflect 90% inflation protection.

As also noted in the table above, plan surpluses arising in 2014-2016 are being used to restore some of the inflation protection that was reduced in 2008. This restoration of inflation protection is fully contemplated in the FMP under Section 3 describing the Restoration Zone. The direct impact of this action is that a portion of the "share the pain" payments that would otherwise be required have been eliminated. The estimated value of this reduction in contributions is $4.3 billion related to the 2016 action ($1.85 billion for 2015, and $1.95 billion for 2014).

From: Paul, Joshua (EDU)

Sent: September-19-16 9:38 AM
To: Duffy, Paul (EDU); Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: Fw: Restoring Index Inflation
Importance: High

Please review asap and consolidate comments.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Monday, September 19, 2016 9:25 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:18 AM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Subject: Restoring Index Inflation

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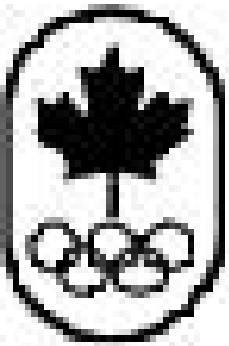

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NATIONAL
PARTNER

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: RE: Restoring Index Inflation
Date: Monday, September 19, 2016 11:10:21
Attachment 1: image001.jpg

Alex, we're making some changes directly to the Word doc provided via OPCD, but on a high-level, I think we need a conversation to clarify two points:

· As you mentioned, the accounting versus funding issue is mixed throughout the note – does the accrued benefit obligation refer to the accounting valuation?

· Secondly, Deloitte seems to think that share the pain is a payment by the government for 50% of the inflation foregone by members, as opposed the government making payments which match the foregone benefits (so, 100% of foregone inflation) for inflation protection at 50% or above.

Comments on the note will arrive before lunch.

Paul

From: Killoch, Alex (MOF)
Sent: September-19-16 10:54 AM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
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To: Duffy, Paul (EDU); Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: Fw: Restoring Index Inflation
Importance: High

Please review asap and consolidate comments.

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From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Monday, September 19, 2016 9:25 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

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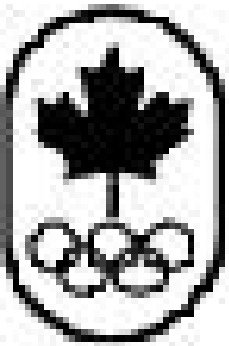

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From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Restoring Index Inflation
Date: Monday, September 19, 2016 11:06:56
Attachment 1: image001.jpg

Allan knew nothing about this. Just sent him the document.

Allan is not available until 12:30. Going to ask Nadine about timing for this.

From: Killoch, Alex (MOF)
Sent: September 19, 2016 11:02 AM
To: Pomykacz, Rob (MOF)
Subject: Re: Restoring Index Inflation

Please let Nadine know

From: Pomykacz, Rob (MOF)

Sent: Monday, September 19, 2016 10:57 AM

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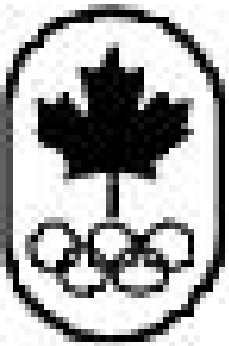

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Matthew Colley

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Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

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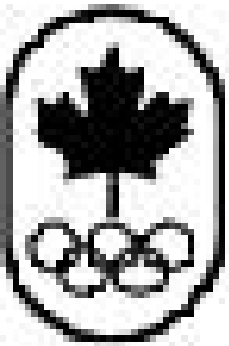

Deloitte.

NATIONAL
PARTNER

From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Restoring Index Inflation
Date: Monday, September 19, 2016 10:53:34
Attachment 1: image001.jpg

I think that makes sense – I'm also not sure that the table on the top of page 2 of the document they just sent is an accurate reflection of where we are (don't think we can say that $78.5 billion of the Plan's assets are related to share the pain, need to be clear on funding versus accounting, etc)

From: Killoch, Alex (MOF)
Sent: September-19-16 10:52 AM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: Re: Restoring Index Inflation

I think that might be the issue.

Perhaps a call with Nadine to understand the point?

From: Duffy, Paul (EDU)

Sent: Monday, September 19, 2016 10:50 AM

To: Pomykacz, Rob (MOF); Killoch, Alex (MOF); Roberto, Nicole (EDU)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)

Subject: RE: Restoring Index Inflation

Okay – this response seems to be mixing apples and oranges then, as the next paragraph uses the funding costs of restoring inflation, not the accounting costs, correct?

From: Pomykacz, Rob (MOF)
Sent: September-19-16 10:49 AM
To: Killoch, Alex (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: RE: Restoring Index Inflation

Yes, the accounting valuation assumes 100% inflation protection.

From: Killoch, Alex (MOF)
Sent: September 19, 2016 10:48 AM
To: Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: Re: Restoring Index Inflation

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Need to check with Nadine. I think they assume 100 for costing rather than funding.

From: Roberto, Nicole (EDU)

Sent: Monday, September 19, 2016 10:28 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul

(EDU); Di Renzo, Stephen (EDU)

Subject: FW: Restoring Index Inflation

Alex and Rob – we aren't sure that the last sentence in the first paragraph accurately reflects the measurement of the CIP (see comment below). Do you have any other comments to consolidate and share with Nadine?

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Nicole

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From: Paul, Joshua (EDU)
Sent: September-19-16 9:38 AM
To: Duffy, Paul (EDU); Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: Fw: Restoring Index Inflation
Importance: High

Please review asap and consolidate comments.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Monday, September 19, 2016 9:25 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:18 AM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Subject: Restoring Index Inflation

Statement of facts are coming soon, however wondering if you could read and edit this paragraph now in the interest of time.

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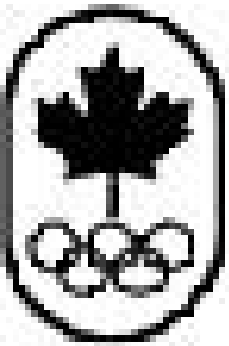

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NATIONAL
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From: Duffy, Paul (EDU) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Restoring Index Inflation
Date: Monday, September 19, 2016 10:50:05
Attachment 1: image001.jpg

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Sent: September-19-16 10:49 AM
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Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: RE: Restoring Index Inflation

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To: Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
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Subject: FW: Restoring Index Inflation

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To: Duffy, Paul (EDU); Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: Fw: Restoring Index Inflation
Importance: High

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Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Monday, September 19, 2016 9:25 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:18 AM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Subject: Restoring Index Inflation

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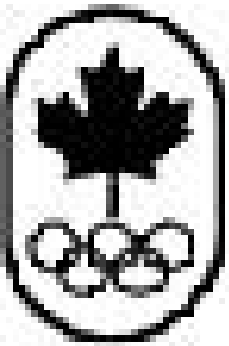

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NATIONAL
PARTNER

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: RE: Restoring Index Inflation
Date: Monday, September 19, 2016 10:48:46
Attachment 1: image001.jpg

Yes, the accounting valuation assumes 100% inflation protection.

From: Killoch, Alex (MOF)
Sent: September 19, 2016 10:48 AM
To: Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
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Subject: FW: Restoring Index Inflation

Alex and Rob – we aren't sure that the last sentence in the first paragraph accurately

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To: Duffy, Paul (EDU); Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)

Subject: Fw: Restoring Index Inflation
Importance: High

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Sent from my BlackBerry 10 smartphone on the Rogers network.

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Sent: Monday, September 19, 2016 9:25 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:18 AM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Subject: Restoring Index Inflation

Statement of facts are coming soon, however wondering if you could read and edit this paragraph now in the interest of time.

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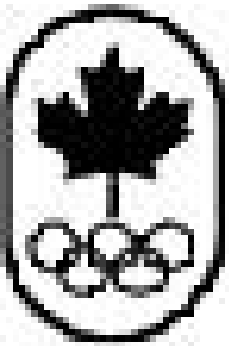

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NATIONAL
PARTNER

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Review: Valuation Allowance
Date: Thursday, September 22, 2016 17:02:16

I would think that I have to ask the OTPP if they have the analysis.

This would assume that the partners did not spend the surplus as it arose. Now that I have thought more about it, the partners are unlikely to leave enough surplus in the plan to get to the cap. They will want to spend it as it arrives. As you can see in the temporary funding zone deck, we are very unlikely to get to the permanent improvement zone due to the creation of the temporary zone.

Do you want me to pursue the question with OTPP?

From: Petsche, Nadine (TBS)
Sent: Thursday, September 22, 2016 4:49 PM
To: Killoch, Alex (MOF)
Subject: Fw: Review: Valuation Allowance

On meetings for the rest of the day. Are you able to belp? N

From: lucy.durocher@ca.pwc.com

Sent: Thursday, September 22, 2016 4:30 PM

To: Veinot, Cindy (TBS)

Cc: Petsche, Nadine (TBS)

Subject: Re: FW: Review: Valuation Allowance

Thanks for sending that through Cindy. I will take a look at it.

I forgot to ask on the call whether you and Nadine had given any consideration to the impact of scheduling out anticipated (funding) surplus growth assuming that current service cost remains the same in perpetuity and minimum funding requirements are greater than current service cost under the current Schedule 1 contributions. It might take a long time, but eventually there would be a significant build up of surplus such that the cap on contributions in Schedule 1 section 19 (2a) would kick in (i.e. when the income tax act would not cap contributions). As soon as the minimum contributions under the Schedule 1 drops below the current service cost then you can start to recognize a benefit under paragraph 056 (a) calculations. The only question is, depending on the expectations of surplus growth and when the ITA caps kick in, is when does this occur, and how big is the effect. You have until perpetuity to reach the caps, but obviously the further away the cap is reached, then the lower the benefit when discounted back.

I have reached out to find the right contact in the Netherlands. Given the time difference, I am not sure I will know by tomorrow morning, but I will keep you posted on that avenue.

Regards,
Lucy

Lucy Durocher
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T: +1 416 869 2311
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http://www.pwc.com/ca

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
Date: 09/22/2016 03:48 PM
Subject: FW: Review: Valuation Allowance

See line 41 of the first tab -- Cindy

From: Fong, Pauline (TBS)
Sent: September-21-16 4:37 PM
To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS)
Subject: FW: Review: Valuation Allowance

Thank you.

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-21-16 4:10 PM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: Review: Valuation Allowance

Pauline

I did look into your file and seems reasonable vs the previous illustrations that we have exchanged, just one adjustment
You will see in liability sheet I have a line 29 adjustment for other unamortized (this is the transitional asset amortization that goes back to the initial application which is to be included in the test of unamortized losses) this likely affects your 2002 / 2003 valuation allowance.

Also to note is the flaw of the PS3250 that I have highlighted in previous communication :

- In 2008 we did have very bad asset returns and this creates a significant income through reduction of valuation allowance
- In opposite, the years 2010 and 2011 had good returns but you have significant expense through increase of valuation allowance

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services
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De : Fong, Pauline (TBS) [mailto:Pauline.Fong@ontario.ca]
Envoyé : 21 septembre 2016 10:36
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Objet : Review: Valuation Allowance

Hi Martin,

I mocked up the annual valuation allowance based on our discussion yesterday. We went through it with Cindy this morning and she would like you to take a look at the mock-up to confirm that it is consistent to your understanding. In particular bringing the unamortized gain/loss from market related values to market values. Thank you in advance.

Regards,

Pauline Fong, CPA, CA
Senior Analyst, External Reporting
Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat
7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7
Phone: (416) 212-4007
Pauline.fong@ontario.ca

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Si vous ne voulez pas recevoir d'autres messages électroniques commerciaux de Deloitte à l'avenir, veuillez envoyer ce courriel à l'adresse unsubscribe@deloitte.ca[attachment "image002.png" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "image003.png" deleted by Lucy Durocher/CA/ABAS/PwC] [attachment "OTPP (incl RCA) Calculations 2015-16 PAv3 (Basis 3) with Valuation Allowance_check.xlsx" deleted by Lucy Durocher/CA/ABAS/PwC]

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From: Killoch, Alex (MOF) []
To: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Ryan, Kate (EDU) [Kate.Ryan@ontario.ca]
Subject: RE: Revised Pension Asset deck for discussion Dec. 15
Date: Wednesday, December 14, 2016 18:49:27
Attachment 1: OTPP Asset Options v7.pptx

Hi Nicole

This is still a work in progress but we have added additional material with more of a pension governance perspective. Our material is in purple.

We can discuss in the morning.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Roberto, Nicole (EDU)
Sent: Wednesday, December 14, 2016 5:21 PM
To: Killoch, Alex (MOF); Paul, Joshua (EDU); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Di Renzo, Stephen (EDU); Duffy, Paul (EDU); Franks, Sebastian (EDU); Ryan, Kate (EDU)
Subject: RE: Revised Pension Asset deck for discussion Dec. 15

Thanks Alex, that approach sounds reasonable. Josh has the deck for review this evening, so we may have a few more changes tomorrow morning as well.

Nicole

From: Killoch, Alex (MOF)
Sent: December-14-16 5:19 PM
To: Roberto, Nicole (EDU); Paul, Joshua (EDU); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Di Renzo, Stephen (EDU); Duffy, Paul (EDU); Franks, Sebastian (EDU); Ryan, Kate (EDU)
Subject: RE: Revised Pension Asset deck for discussion Dec. 15

Hi Nicole

This is a great start. We will have something back to you tonight with additional information.

What works for sharing with OPCD? I think a morning review and then sending back would be better than a walk-in at the meeting. The placeholders are very helpful.

Alex

From: Roberto, Nicole (EDU)
Sent: Wednesday, December 14, 2016 12:06 PM
To: Paul, Joshua (EDU); Killoch, Alex (MOF); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Di Renzo, Stephen (EDU); Duffy, Paul (EDU); Franks, Sebastian (EDU); Ryan, Kate (EDU)
Subject: Revised Pension Asset deck for discussion Dec. 15

Hi everyone,

Please find attached an updated pension asset deck based on our discussion yesterday afternoon. You'll note there are a number of placeholders for OPCD and a few for MOF.

Thanks,

Nicole

Nicole Roberto

Team Lead (A)

Funding Policy and Pensions Unit

Education Finance Branch | Ministry of Education

416.212.4384 | nicole.roberto@ontario.ca

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with regard to the Auditor General's (AG) interpretation of the Ontario Teachers' Pension Plan (OTPP) asset to determine whether the government should approach the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts. [OPCD to confirm that this is a part of the test]

Context

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel confirms the existing practice/ interpretation.
      - Limits the grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change. [in accounting treatment or to pension plan?]
      - [OPCD PLACEHOLDER]

Context

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation. The partners can only make decisions regarding the funding valuation.
   - Surplus or deficit exists when a funding valuation is filed.
   - Members can use surplus to reduce contributions and/or improve benefits. The government can only reduce contributions.
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Context

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would be required to be applied by the province.

[PLACEHOLDER OPCD]

- Any change to the plan governance should contemplate change to accounting standards.

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - Probability that option would satisfy AG's concerns [OPCD Placeholder]
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Considerations

- TPP is managed by the Partners' Committee
  - The Board members are appointed jointly by the partners.
  - Decision on funding of deficits and application of surplus is jointly made in accordance with the FMP.
  - Both Partners and the Board are required by the governance structure of the plan to work towards a common purpose, a fundamental reason why the plan is the best managed and best funded in the public sector.
    - For example, the partners must annually determine the extent of indexation that the plan will provide, based on its funded status.

Considerations contd…

- The AG has suggested that the government requires unilateral access to surplus before it can report an asset.
  - This fundamentally changes the existing governance where partners focus on the plan, as a whole, rather than an individual amount.
- It is likely the OTF will expect similar unilateral access to surplus and/or changes to the portion of CIP that is currently not matched by the government.
- This will not only change how the two Partners interact with each other as the potential interest in establishing its own share of surplus could affect each partner's decision making with respect to the plan overall
- If each sponsor is motivated by its own "unilateral rights", there is less incentive to consider their common purpose.

Considerations contd…

- Some major issues with respect to any decision or resulting consequence that would end the joint sponsorship arrangement (other than legal, constitutional or labour issues):
  - Amongst other PBA requirements, the government would be solely responsible for funding deficits, including any solvency deficit, which the plan is currently exempted from based on the current JSPP status. (And as a JSPP, members are sharing on going concern deficits.)

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.

- It is unlikely the government could either have an agreement with employee sponsors on "unilateral right" before March 31, 2017, or introduce legislation to that effect without, at a minimum, constitutional and / or legal challenge from employee sponsors or other stakeholders, such the Boards and other beneficiaries of the plan.
  - As such, the same accounting issue will likely repeat for the upcoming budget, based on the AG's opinion as stated in her September 13 letter.

From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 22:22:34

Cindy,

As an FYI, earlier today when you stopped by during my discussion with Alex and Rob, we were reviewing examples of the higher level summaries that are provided by the plan which disclose the summary results of the quantitative analysis.

N

From: Veinot, Cindy (TBS)
Sent: September-21-16 9:50 PM
To: Sekaly, Gabriel (EDU); Paul, Joshua (EDU)
Cc: Petsche, Nadine (TBS); Killoch, Alex (MOF); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

No intention to question the process. Just trying to get to the info that we will need to support the impact of the use of the surplus in the last 3 years.

Sounds like Allan may have that detail.

Thanks

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Sekaly, Gabriel (EDU)

Sent: Wednesday, September 21, 2016 21:22

To: Paul, Joshua (EDU)

Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Killoch, Alex (MOF); Duffy, Paul (EDU); Roberto, Nicole (EDU)

Subject: Re: Share the Pain

So to put it in a nutshell the "quantitative evidence" we utilize to make decisions on CIP and any other benefit changes is the process outlined below by Josh. I believe that our track record of joint decision making with our colleagues at Finance speaks for itself.

Sent from my iPad

On Sep 21, 2016, at 21:17, Paul, Joshua (EDU) <Joshua.Paul@ontario.ca> wrote:

> Both partners are advised by the Plan as to the results of the actuarial analyses required to consider various options.
>
> MOF keeps an actuary on contract that helps advise in these matters. I don't know if Allan Shapira has access to the detailed analysis hence i'll leave it to Rob and Alex to describe Allan's role and what he has access to.
>
> We do not have it and rely on the advice of the plan, the MOF actuary and the regulatory process whereby an independent actuary (Mercer) verifies the results.
>
> This is why i've been flagging for awhile now that to give the AG detailed analysis of the valuations will most likely require actuarial help, either from Allan or OTPP.
>
> Hope this helps,
>
> jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, September 21, 2016 7:41 PM

To: Paul, Joshua (EDU); Petsche, Nadine (TBS)

Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)

Subject: RE: Share the Pain

I would have thought that EDU would have the information in order to make the decision to agree to the change in the conditional indexation. What is the quantitative evidence on which those decisions are made?

Thanks,

From: Paul, Joshua (EDU)
Sent: September-21-16 7:31 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Folks can correct me if i'm wrong, but that stuff can only come from the Plan (we don't have it as far as I know) and pointing to where one finds the right numbers to answer the Q may take an actuary - either ours or the OTPP's presumably.

Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, September 21, 2016 7:17 PM

To: Petsche, Nadine (TBS); Paul, Joshua (EDU)

Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)

Subject: RE: Share the Pain

I can't say that I'm totally following the email below, but will read it again in the morning.

Is there a way to provide the funding valuations – preliminary and final for each of the years that a change in the indexation was made, provided that the difference in those valuations can isolate the impact on the reduction in payments that are due from the Province to the plan?

Cindy

From: Petsche, Nadine (TBS)
Sent: September-21-16 6:58 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

Understood. I defer to Cindy. I don't get the impression that she is going to consider the $4.3 B as an asset anyway given her position on 'unilateral' right to access and mandatory requirement for agreements to be in place as at year-end. Since it isn't our position that the $4.3B is what we would put forward as the asset value, there may not be much value in trying to push for the detailed calc, especially given the relationship implications.

Cindy will provide her perspective shortly.

Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 6:52 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Just to be clear, i'm not advocating for contacting the OTPP.

If we can deliver what she needs and we feel comfortable giving her without involving the plan, great.

But if you feel this is required, we'd facilitate and make sure people here at our DMO and MO know what is happening when.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 6:45 PM

To: Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU)

Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 4:52 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

So, as discussed, they want the actuarial analysis that is conducted or directed by the OTPP.

Presumably, she will need to go to OTPP to make sense of the actuarial stuff.

We need to let people know up the line here if we're going to support that direction for the AG's efforts.

Let us know,

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 4:43 PM

To: Killoch, Alex (MOF)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: Re: Share the Pain

I get the impression is is the details behind the specific amounts that have been communicated (add to 8.6?)

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:41 PM

To: Petsche, Nadine (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: RE: Share the Pain

You mean all the assumptions that the OTPP external actuary would use to calculate this PV or the underlying model that is used to calculate the value of conditional indexation out indefinitely?

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking for all of the numbers behind the numbers to understand how they were calculated. N

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:18 PM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)

Subject: Share the Pain

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the $4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use $8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

As requested and further to our conversation this afternoon, the purpose of this email is to outline the change in the present value of the future "share the pain" contributions from the January 1, 2016 preliminary valuation results of $6.6B to the January 1, 2016 filed results of $2.3B – i.e., a reduction of $4.3B.

Conditional Inflation Protection (CIP) is a key funding lever for the Ontario Teachers' Pension Plan (OTPP). When CIP is invoked, benefits earned subsequent to December 31, 2009 are subject to inflation protection levels below 100%. CIP levels are established when a funding valuation report is filed with the regulators. The level remains unchanged until a subsequent valuation is filed at which time the plan sponsors may decide to increase or decrease the percentage. This decision is informed by the funded status of the plan as at the valuation date.

In the January 1, 2016 preliminary valuation, CIP levels were 70% (in accordance with the most recently filed valuation report). The reduction in liabilities due to providing less than 100% inflation protection was $6.6B. The vast majority of this amount was in respect of active plan members. As a reminder, the OTPP utilizes an aggregate valuation funding method where the liabilities include future pension benefits in respect of both service accrued to date and service that is projected to be earned in the future. This valuation method recognizes the potential impact of reducing CIP levels below 100% on not just service from December 31, 2009 to the valuation date but also on service projected to be earned in the future for current plan members. As an example, the valuation results assume that a member who

joined the plan in 2015 will receive 70% inflation protection on the full pension entitlement they will eventually earn over their future career and that this reduction will apply each and every year for the remainder of their lifetime.

For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

The plan sponsors chose to file the January 1, 2016 valuation using some of the preliminary surplus to increase the level of inflation protection from 70% to 90%. As a result, the reduction in liabilities due to providing less than 100% inflation protection decreased to $2.3B as did the present value of future share the pain contributions. Overall, the effect was an increase in liabilities of $4.3B and a corresponding decrease in the present value of future projected share the pain contributions of $4.3B.

It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

Regards, Mary

Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk
mary_cover@otpp.com
Direct 416-730-2976

www.otpp.com
<image001.png>

Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada

<image002.png>

From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 19:42:37
Attachment 1: image001.png
Attachment 2: image002.png

Cindy,

Alex and Rob walked through higher level summary docs they receive from OTPP. Not sure that they have the details. We likely should get them, even if we don't share them with the AG as under her approach these would be revenues for next year which she'll have to audit for 16/17. n

From: Veinot, Cindy (TBS)
Sent: September 21, 2016 7:41 PM
To: Paul, Joshua (EDU); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

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Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

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Cindy will provide her perspective shortly.

Nadine

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Cc: Paul, Joshua (EDU)

Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

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Subject: Re: Share the Pain

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Subject: Share the Pain

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Please let me know if you have any questions.

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Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
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For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

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Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk
mary_cover@otpp.com
Direct 416-730-2976
www.otpp.com

Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada

http://www.otpp.com/

ONTARIO
TEACHERS'
PENSION PLAN

From: Veinot, Cindy (TBS) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 19:41:06
Attachment 1: image001.png
Attachment 2: image002.png

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Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 19:23:37
Attachment 1: image001.png
Attachment 2: image002.png

Hi Josh.

We'd like to see what info is available to provide through EDU, without approaching OTPP. Please advise on the best way to proceed from your perspective.

Thanks.

N

From: Paul, Joshua (EDU)
Sent: September 21, 2016 6:52 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
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Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 19:17:57
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Sent: September 21, 2016 4:52 PM

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Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

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Subject: Re: Share the Pain

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Sent: Wednesday, September 21, 2016 4:41 PM

To: Petsche, Nadine (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: RE: Share the Pain

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From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

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From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:18 PM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)

Subject: Share the Pain

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Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM

To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

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From: Petsche, Nadine (TBS) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 18:58:01
Attachment 1: image001.png
Attachment 2: image002.png

Understood. I defer to Cindy. I don't get the impression that she is going to consider the $4.3 B as an asset anyway given her position on 'unilateral' right to access and mandatory requirement for agreements to be in place as at year-end. Since it isn't our position that the $4.3B is what we would put forward as the asset value, there may not be much value in trying to push for the detailed calc, especially given the relationship implications.

Cindy will provide her perspective shortly.

Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 6:52 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Just to be clear, i'm not advocating for contacting the OTPP.

If we can deliver what she needs and we feel comfortable giving her without involving the plan, great.

But if you feel this is required, we'd facilitate and make sure people here at our DMO and MO know what is happening when.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 6:45 PM

To: Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU)

Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 4:52 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
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Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
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From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 16:50:40
Attachment 1: image001.png
Attachment 2: image002.png

That is going to take some time to get.

Perhaps we can park the request until after your meeting and compile all the questions that she will want answered, including work by OTPP

I would note that the plan has an actuary, and each partner has its own actuary to ensure that everything is appropriate.

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:43 PM
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Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)
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Subject: RE: Share the Pain

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Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 16:41:30
Attachment 1: image001.png
Attachment 2: image002.png

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From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: RE: Share the Pain
Date: Wednesday, September 21, 2016 16:36:42
Attachment 1: image001.png
Attachment 2: image002.png

I would assume every year is based on forever, the plan never winds up in any scenario, and the calculation assumes inflation protected at a certain level indefinitely. Ie, if 70% then all future inflation protection would be accrued at 70%.

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:35 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking how many years for the calcs, incl 2009 that the PVS are based on.

From: Killoch, Alex (MOF)

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From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Share the Pain
Date: Thursday, September 22, 2016 09:15:39
Attachment 1: 2016 preliminary valuation.pdf

Hi Cindy, Nadine

Attached is the 2016 preliminary report that is prepared by Mercer for the OTPP and presented to the partners so that they can consider how to manage the fund.

All the details and background on the assumptions are in the deck.

Page 4 of the deck (page 5 of the pdf) is of the most interest. The middle column sets out the $13.2 billion, including the PV of forgone inflation protection and PV of the "share the pain" payments, all based on 70% conditional indexation.

Materials prepared for the most recent meeting now reflect the decision to restore some inflation protection.

Alex

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 10:23 PM
To: Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel

(EDU); Paul, Joshua (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Cindy,

As an FYI, earlier today when you stopped by during my discussion with Alex and Rob, we were reviewing examples of the higher level summaries that are provided by the plan which disclose the summary results of the quantitative analysis.

N

From: Veinot, Cindy (TBS)
Sent: September-21-16 9:50 PM
To: Sekaly, Gabriel (EDU); Paul, Joshua (EDU)
Cc: Petsche, Nadine (TBS); Killoch, Alex (MOF); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

No intention to question the process. Just trying to get to the info that we will need to support the impact of the use of the surplus in the last 3 years.

Sounds like Allan may have that detail.

Thanks

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Sekaly, Gabriel (EDU)

Sent: Wednesday, September 21, 2016 21:22

To: Paul, Joshua (EDU)

Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Killoch, Alex (MOF); Duffy, Paul

(EDU); Roberto, Nicole (EDU)

Subject: Re: Share the Pain

So to put it in a nutshell the "quantitative evidence" we utilize to make decisions on CIP and any other benefit changes is the process outlined below by Josh. I believe that our track record of joint decision making with our colleagues at Finance speaks for itself.

Sent from my iPad

On Sep 21, 2016, at 21:17, Paul, Joshua (EDU) <Joshua.Paul@ontario.ca> wrote:

> Both partners are advised by the Plan as to the results of the actuarial analyses required to consider various options.
>
> MOF keeps an actuary on contract that helps advise in these matters. I don't know if Allan Shapira has access to the detailed analysis hence i'll leave it to Rob and Alex to describe Allan's role and what he has access to.
>
> We do not have it and rely on the advice of the plan, the MOF actuary and the regulatory process whereby an independent actuary (Mercer) verifies the results.
>
> This is why i've been flagging for awhile now that to give the AG detailed analysis of the valuations will most likely require actuarial help, either from Allan or OTPP.
>
> Hope this helps,
>
> jp
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, September 21, 2016 7:41 PM

To: Paul, Joshua (EDU); Petsche, Nadine (TBS)

Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)

Subject: RE: Share the Pain

I would have thought that EDU would have the information in order to make the decision to agree to the change in the conditional indexation. What is the quantitative evidence on which those decisions are made?

Thanks,

From: Paul, Joshua (EDU)
Sent: September-21-16 7:31 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Folks can correct me if i'm wrong, but that stuff can only come from the Plan (we don't have it as far as I know) and pointing to where one finds the right numbers to answer the Q may take an actuary - either ours or the OTPP's presumably.

Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, September 21, 2016 7:17 PM

To: Petsche, Nadine (TBS); Paul, Joshua (EDU)

Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)

Subject: RE: Share the Pain

I can't say that I'm totally following the email below, but will read it again in the morning.

Is there a way to provide the funding valuations – preliminary and final for each of the years that a change in the indexation was made, provided that the difference in those valuations can isolate the impact on the reduction in payments that are due from the Province to the plan?

Cindy

From: Petsche, Nadine (TBS)
Sent: September-21-16 6:58 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

Understood. I defer to Cindy. I don't get the impression that she is going to consider the $4.3 B as an asset anyway given her position on 'unilateral' right to access and mandatory requirement for agreements to be in place as at year-end. Since it isn't our position that the $4.3B is what we would put forward as the asset value, there may not be much value in trying to push for the detailed calc, especially given the relationship implications.

Cindy will provide her perspective shortly.

Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 6:52 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Just to be clear, i'm not advocating for contacting the OTPP.

If we can deliver what she needs and we feel comfortable giving her without involving the plan, great.

But if you feel this is required, we'd facilitate and make sure people here at our DMO and MO know what is happening when.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 6:45 PM

To: Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU)

Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 4:52 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

So, as discussed, they want the actuarial analysis that is conducted or directed by the OTPP.

Presumably, she will need to go to OTPP to make sense of the actuarial stuff.

We need to let people know up the line here if we're going to support that direction for the AG's efforts.

Let us know,

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 4:43 PM

To: Killoch, Alex (MOF)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: Re: Share the Pain

I get the impression is is the details behind the specific amounts that have been communicated (add to 8.6?)

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:41 PM

To: Petsche, Nadine (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: RE: Share the Pain

You mean all the assumptions that the OTPP external actuary would use to calculate this PV or the underlying model that is used to calculate the value of conditional indexation out indefinitely?

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking for all of the numbers behind the numbers to understand how they were calculated. N

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:18 PM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)

Subject: Share the Pain

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the $4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use $8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

As requested and further to our conversation this afternoon, the purpose of this email is to outline the change in the present value of the future "share the pain" contributions from the January 1, 2016 preliminary valuation results of $6.6B to the January 1, 2016 filed results of $2.3B – i.e., a reduction of $4.3B.

Conditional Inflation Protection (CIP) is a key funding lever for the Ontario Teachers' Pension Plan (OTPP). When CIP is invoked, benefits earned subsequent to December 31, 2009 are subject to inflation protection levels below 100%. CIP levels are established when a funding valuation report is filed with the regulators. The level remains unchanged until a subsequent valuation is filed at which time the plan sponsors may decide to increase or decrease the percentage. This decision is informed by the funded status of the plan as at the valuation date.

In the January 1, 2016 preliminary valuation, CIP levels were 70% (in accordance with the most recently filed valuation report). The reduction in liabilities due to providing less than 100% inflation protection was $6.6B. The vast majority of this amount was in respect of active plan members. As a reminder, the OTPP utilizes an aggregate valuation funding method where the liabilities include future pension benefits in respect of both service accrued to date and service that is projected to be earned in the future. This valuation method recognizes the potential impact of reducing CIP levels below 100% on not just service from December 31, 2009 to the valuation date but also on service projected to be earned in the future for current plan members. As an example, the valuation results assume that a member who joined the plan in 2015 will receive 70% inflation protection on the full pension entitlement they will eventually earn over their future career and that this reduction

will apply each and every year for the remainder of their lifetime.

For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

The plan sponsors chose to file the January 1, 2016 valuation using some of the preliminary surplus to increase the level of inflation protection from 70% to 90%. As a result, the reduction in liabilities due to providing less than 100% inflation protection decreased to $2.3B as did the present value of future share the pain contributions. Overall, the effect was an increase in liabilities of $4.3B and a corresponding decrease in the present value of future projected share the pain contributions of $4.3B.

It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

Regards, Mary

Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk
mary_cover@otpp.com
Direct 416-730-2976
www.otpp.com
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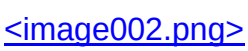
Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada



HEALTH WEALTH CAREER

ONTARIO TEACHERS' PENSION PLAN

Actuarial Funding Valuations

Preliminary Results as at January 1, 2016

Scott Clausen, FSA, FCIA
Partner

Lise Houle, FSA, FCIA
Principal

February 16, 2016

HIGHLIGHTS OF THE FUNDING VALUATION

- Preliminary valuation results are based on:
  - Preliminary December 31, 2015 asset values as provide by OTPP[(1)]
    - 2015 investment return (net of expenses) roughly 12.4% before smoothing and 11.3% with smoothing assuming mid-year cash-flows
    - Actual fund returns slightly higher based on actual cash flow timing
  - Membership data as at August 31, 2015 with liabilities projected to December 31, 2015
  - Current level of CIP invoked in the January 1, 2015 funding valuation
    - 70% of inflation for post-2009 service, and
    - Inflation restored to 100% for retirees receiving less than full inflation adjustment on January 1, 2015

- Changes from last valuation that impact the preliminary results include:
  - Adoption of updated retirement, termination and reinstatement rates along with experience-related salary increases based on Mercer's 2015 experience study
  - Recognition of the strike period ending May 26, 2015 for 3 school boards as credited service
  - Negotiations concerning wage increases resulting in the following agreement:
    - Sept 1, 2014 – 0% increase
    - Sept 1, 2015 – 1% increase as a lump sum payment and restoration of grid movement
    - Sept 1, 2016 – 1% increase plus a 0.5% increase on the 98th day of the 2016/2017 school year

- Based on a 2.75% real discount rate as provided by the Board, current level of contributions and CIP, the preliminary valuation results discloses a $13 billion funding excess

(1) Provided on January 19, 2016

KEY INSIGHTS FROM 2015 PLAN EXPERIENCE STUDY

- **Retirement experience** for the 2014/2015 school year was consistent with the prior three years
  - Fewer teachers with 84-86 points are retiring, more retiring at 87-88 points
  - Fewer teachers retiring with a reduced pension at 70-75 points
  - Modest changes to the assumed rates for the January 1, 2016 valuations
- **Termination and inactive re-instatement experience** was reviewed in 2015, reflecting data for teachers taking leaves of absences, resulting in a new approach
  - **Membership data** – segregation of inactive members as of the valuation date between members on LOAs and other inactive members
  - **Valuation of members on LOAs** – treated similar to active members
  - **Termination rates and re-instatement rates** – assumptions adjusted to reflect experience excluding members on approved LOAs
- Actual experience-related **salary increases** for long service teachers continues to remain flat whereas the assumed salary escalation rates decline at 23+ years of service
  - Adjustment made to the assumed rate at 23+years of service for the January 1, 2016 valuation

PRELIMINARY FUNDING VALUATION

THE PRELIMINARY ECONOMIC ASSUMPTIONS FOR FUNDING PURPOSES BASED ON RESTORATION BASIS UNDER FUNDING MANAGEMENT POLICY WILL BE...

	Jan. 1, 2016			Jan. 1, 2015		
	FMP Rates[1]			FMP Rates[1]		
	No Smoothing	With 36 month Smoothing	Discount Rate Review [5]	No Smoothing	With 36 month smoothing	Filed Valuation [4]
Nominal Valuation Rate	3.75%	4.15%	4.80%	3.90%	4.20%	4.85%
Real Valuation Rate	2.20%	2.25%	2.75%	2.20%	2.20%	2.85%
Inflation[2]	1.50%	1.85%	2.00%	1.70%	2.00%	2.00%
Salary and YMPE Growth[3]	2.50%	2.85%	3.00%	2.70%	3.00%	3.00%

(1) FMP Rates are based on the Long Canada Bond yield (CANSIM V39056) and the Real Return Canada Bond yield (Cansim V39057), annualized and rounded plus 1.55% (Restoration Basis)

(2) FMP Inflation rate equal to geometric difference between the nominal Long Canada Bond yield (CANSIM V39056) and the Real Return Canada Bond yield (CANSIM V39057), adjusted and rounded. Discount Rate Review Inflation rate equal to the long-term inflation rate assumption used for economic projections under the Discount Rate Review.

(3) Salary and YMPE Growth assumes 1% real wage growth in the long-term; experience-related salary increases are in addition to the rates shown in the table. Ratified wage agreement incorporated for periods up to and including 2016/2017 school year.

(4) Jan 1, 2015 Filed Valuation based on 36 month average plus a spread of 2.20%. Real valuation rates shown for January 1, 2015 based on the arithmetic difference between the nominal valuation rate and the inflation rate (e.g. 4.85%-2.00%).

(5) Jan 1, 2016 Discount Rate Review based on 36 month average plus a spread of 2.05%. Real valuation rates shown for January 1, 2016 based on the geometric difference between the nominal valuation rate and the inflation rate (e.g. 1.048/1.020-1).

PRELIMINARY FUNDING VALUATION

ESTIMATED VALUATION RESULTS – FUNDING BASIS (IN $MILLIONS)

Member contribution rate from 2014 (above YMPE):		13.1%	13.1%	13.1%
Conditional indexing post 2009 service:		70%	70%	70%
		Jan. 1, 2016 (2.25% real)	**Jan. 1, 2016 (2.75% real)**	**Jan. 1, 2015 Filed Valuation**
Actuarial value of assets	(A_1)	$160,533	$160,533	$146,348
Present value of accrued benefits[1] [3]	(A_2)	(158,414)	(145,490)	(142,569)
Surplus (deficit) with respect to past service	(A)	2,119	15,043	3,779
Present value of future Basic contributions[1]	(B_1)	$43,548	$41,543	$38,817
PV of previously scheduled contributions in excess of Basic [2]	(B_2)	3,187	3,102	3,406
Present value of benefits for future service[1] [3]	(B_3)	(70,649)	(59,815)	(54,774)
	(B)	(23,914)	(15,170)	(12,551)
Plus:				
Reduction in PV of benefits reflecting less than 100% indexing for post-2009 service (up to 50%)	(C)	$7,522	$6,648	$5,947
PV of special contributions from province to match reduction	(D)	7,522	6,648	5,947
Reduction in PV of benefits reflecting less than 50% indexing for post-2013 service	(E)	0	0	0
Total surplus (deficit) with asset and discount rate smoothing (=A+B+C+D+E)		($6,751)	$13,169	$3,122
Funded Status[4] (100% indexing / no special contributions)		89%	98%	94%
Funded Status[5] (invoked indexing / incl. special contributions)		97%	107%	102%

1. In respect of existing members at the valuation date only
2. In respect of existing and estimated future members under current schedule that continues to the end of 2026
3. Based on 100% indexing for all service
4. Determined as $(A_1 + B_1) / (A_2 + B_3)$
5. Determined as $(A_1 + B_1 + B_2 + D) / (A_2 + B_3 - C - E)$

PRELIMINARY FUNDING VALUATION

EXPLANATION OF CHANGES IN THE FUNDING POSITION (IN $MILLIONS)

Surplus (deficit) at 1/1/2015	**$3,122**
Interest on surplus (deficit)	151
Investment gain (before smoothing)	11,610
Gain (loss) from asset smoothing	(2,192)
Impact of changes to economic assumptions	(1,545)
Impact of demographic assumption changes	(1,950)
Impact of 2015 negotiated salary contracts	2,544
Other gains (losses), including all demographic impacts	1,429
Surplus (deficit) at 1/1/2016 @ 2.75% real	**$13,169**

PRELIMINARY FUNDING VALUATION
DEMOGRAPHIC ASSUMPTION CHANGES

- Retirement Assumptions:
  - Small adjustments to reflect fewer teachers around 85 points
  - Decreased net liabilities by $0.1 billion
- Salary Escalation Assumptions:
  - Increased experience related annual increase from 0.2% to 0.4% for teachers between 24 and 35 years of service
  - Increased net liabilities by $0.5 billion
- Termination/Reinstatement Assumptions:
  - Updated assumptions based on availability of new data that allows teachers on approved leaves to be excluded from the termination/reinstatement data
  - Increased net liabilities by $1.6 billion (including $0.3 billion for valuing teachers on approved leaves of absence as active plan members)
  - Note: The plan experienced termination/reinstatement experience losses totaling $1.0 billion over the 7 year valuation periods January 1, 2009 to January 1, 2016.

PRELIMINARY FUNDING VALUATION

THE ESTIMATED $10.7 BILLION OF UNRECOGNIZED GAINS ON ASSETS WILL BE RECOGNIZED AS FOLLOWS (IN $MILLIONS):

	Total Unrecognized Gains (Losses) at January 1, 2016	Annual Gain (Loss) To Be Recognized	
		2016	2017
Smoothing of Assets			
2014	2,974	2,974	
2015	7,740	3,870	3,870
	10,714	6,844	3,870

SOLVENCY/WIND-UP VALUATIONS

- For solvency and windup valuations assumptions are made regarding:
  - Portion of members whose benefit would be settled as a lump sum commuted value
  - Portion of members whose pension would be secured by means of an annuity purchase with an insurer
- Guidance from the Canadian Institute of Actuaries (CIA) on annuity proxy assumptions is updated periodically for changes in the underlying market price of buying annuities
  - Guidance is set as a spread relative to the Government of Canada bond yields while using standard industry mortality tables published by the CIA
- As insurers are increasingly considering occupational and demographic factors in establishing mortality assumptions for annuity pricing, the 2015 CIA Guidance proposes adjustments for super-standard/substandard mortality
  - For OTPP wind-up/solvency valuations, OTPP mortality tables will be used as a proxy for a super-standard mortality assumption

APPENDIX

BACKGROUND MATERIAL

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (NO CHANGES OVER PRIOR)

	Funding
Valuation Method	Modified Aggregate Method
Real and Nominal Discount rate/ Inflation	Tied to market rates Averaged over 36 months (real valuation rate = average RRB + 1.55%) Rate also subject to Discount Rate Review process
Assets	All gains/losses smoothed over 3 years
Non-economic assumptions	Best estimate based on plan experience

FUNDING MANAGEMENT POLICY

- No filing required at January 1, 2016
- Funding Management Policy (FMP) specifies three assumptions for the real valuation interest rate to consider for a funding valuation:
  - "Distribution basis" of Reference Rate + 0.5%
  - "Temporary basis" of Reference Rate + 1.25%
  - "Restoration basis" of Reference Rate + 1.55%
  - Reference Rate is chosen by the Board and has been based on RRB yields
- A 36 month average of nominal and real yields is applied for the Reference Rate
- Under current conditions, the restoration basis is used
- Levers available for adjusting funding valuation
  - **Contribution rates** up to 15% (on earnings above the YMPE) for members, matched by province (currently 13.1% effective January 1, 2014). However, we understand that the government's policy framework will not permit government contributions to exceed the planned 13.1%.
  - **Conditional indexing of 50% - 100%** of CPI for service between January 1, 2010 and December 31, 2013 – matched by province (currently 70% commencing January 1, 2016)
  - **Conditional indexing of 0% - 100%** of CPI for service from January 1, 2014 with first 50% matched by province (currently 70% commencing January 1, 2016)

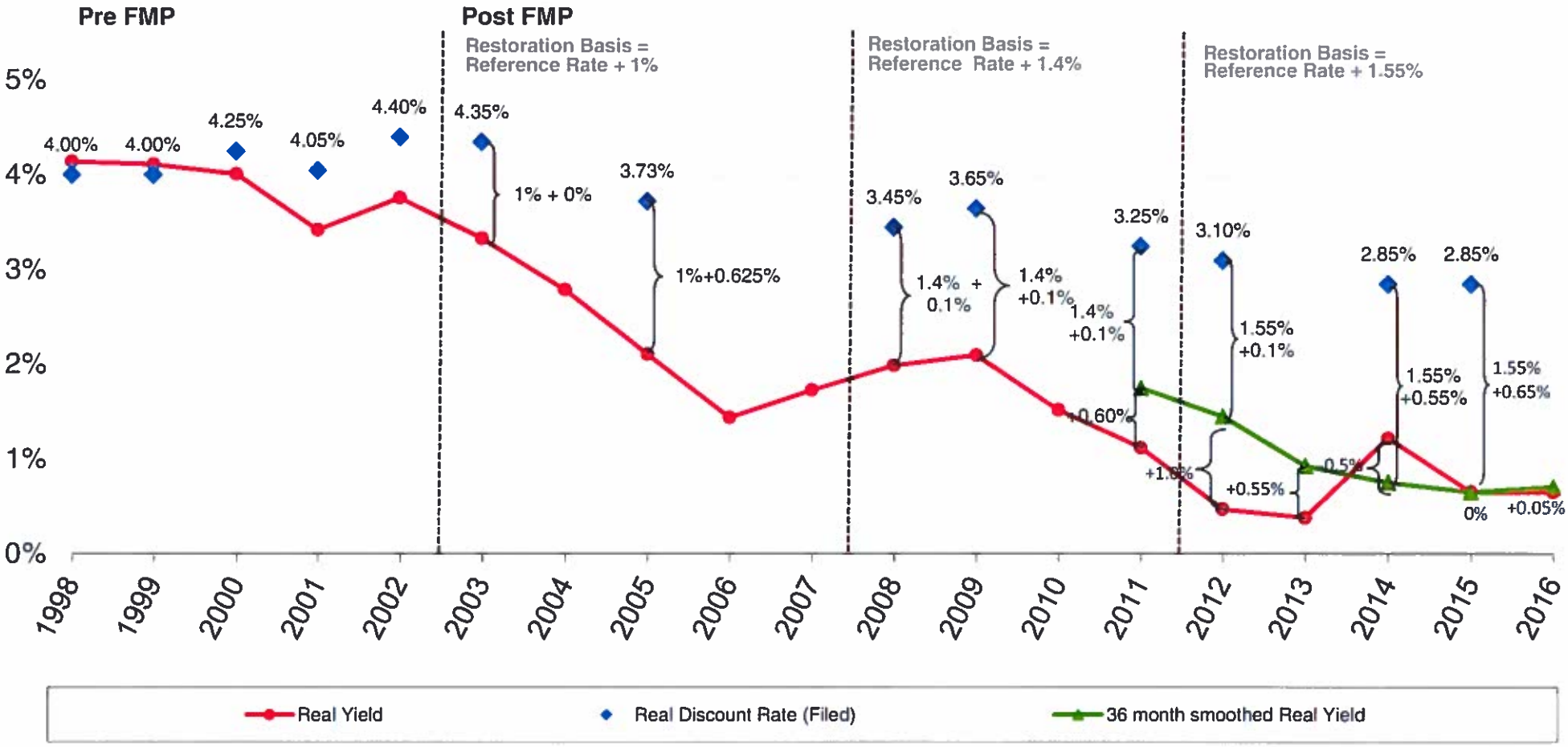
MONTHLY LONG TERM REAL RETURN BOND YIELDS
2008 TO 2015

	Long Canada Bond Yields (CANSIM Series V39057) Year							
	2008	2009	2010	2011	2012	2013	2014	2015
Month End:								
January	1.96%	2.27%	1.49%	1.38%	0.38%	0.54%	0.95%	0.11%
February	1.85%	2.32%	1.58%	1.22%	0.44%	0.53%	0.92%	0.05%
March	1.60%	1.81%	1.56%	1.15%	0.51%	0.49%	0.91%	0.19%
April	1.72%	2.05%	1.49%	1.00%	0.57%	0.41%	0.92%	0.37%
May	1.61%	2.00%	1.45%	0.98%	0.34%	0.65%	0.77%	0.50%
June	1.47%	1.86%	1.42%	1.03%	0.44%	1.05%	0.76%	0.55%
July	1.54%	1.73%	1.51%	0.79%	0.33%	1.02%	0.61%	0.44%
August	1.57%	1.81%	1.34%	0.88%	0.40%	1.10%	0.59%	0.73%
September	2.23%	1.74%	1.20%	0.82%	0.36%	1.13%	0.71%	0.69%
October	2.51%	1.60%	1.09%	0.67%	0.38%	1.02%	0.68%	0.82%
November	2.65%	1.58%	1.12%	0.61%	0.33%	1.18%	0.59%	0.74%
December	2.10%	1.53%	1.11%	0.45%	0.38%	1.25%	0.62%	0.65%
36 month average			**1.71%**	**1.38%**	**0.89%**	**0.73%**	**0.67%**	**0.70%**

Notes:
Rates shown are unadjusted semi-annual rates as published by Bank of Canada
Rates used are annualized and rounded

REAL DISCOUNT RATE ASSUMPTION

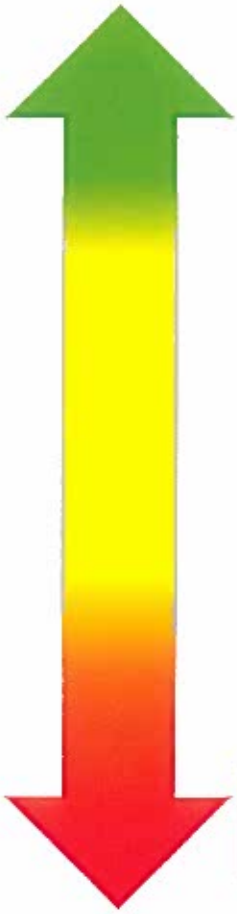
Market Yields on Real Return Bonds vs. Funding Valuation Real Rate of Return Assumption



SUMMARY OF POSSIBLE ASSUMPTION CHANGES
KEY NON-ECONOMIC ASSUMPTIONS

SUMMARY

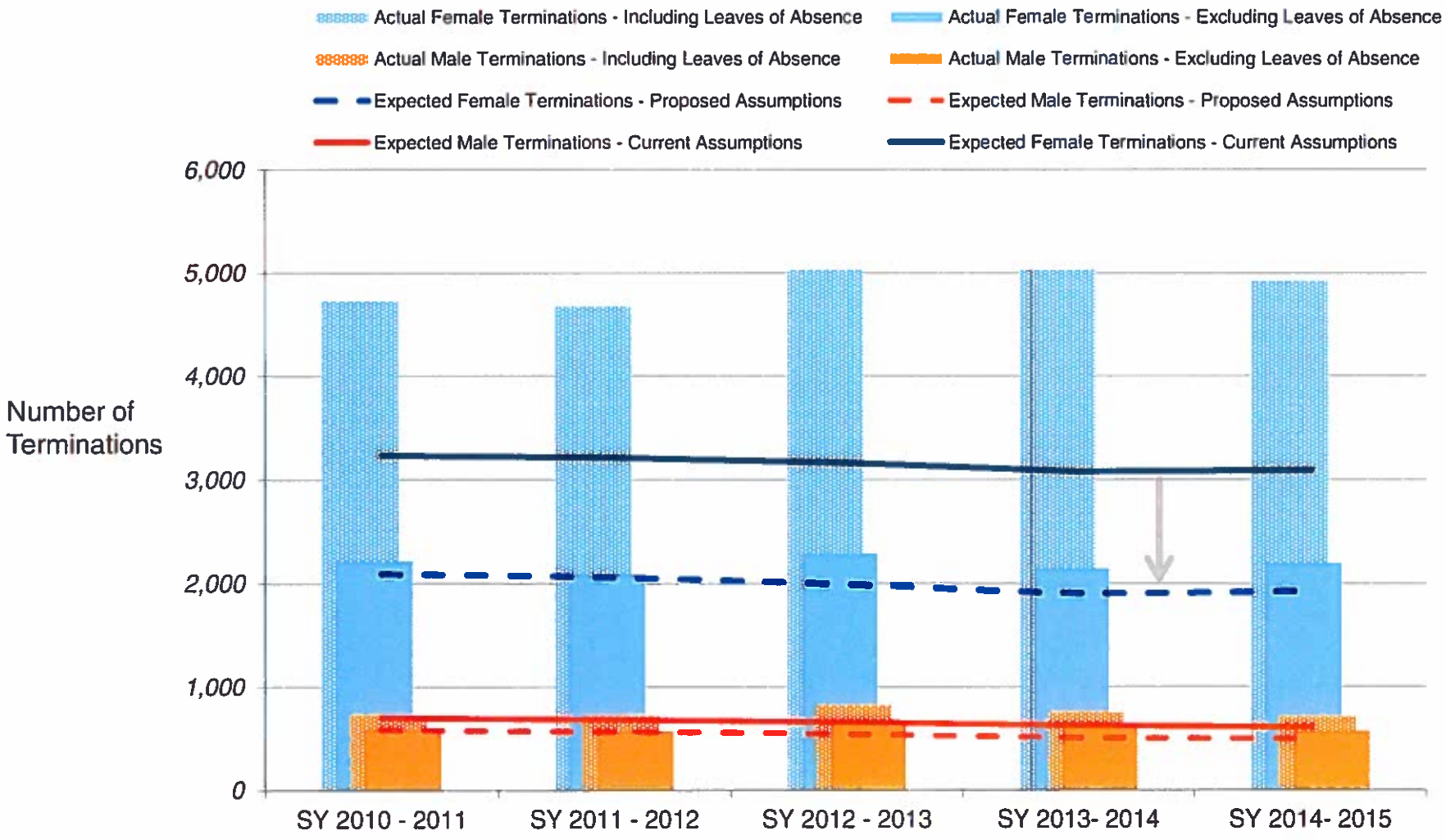
Changes required | Updates could be made | No changes required



PORTION MARRIED AT RETIREMENT	Assumption is reasonably aligned with data
MORTALITY	Assumption is reasonably aligned with data
PT/CASUAL TRANSITION TO FT	No change proposed but experience/approach should continue to be monitored/reviewed
RETIREMENT	Modest changes to retirement at 70-72 and 84-94 points are recommended
EXPERIENCE RELATED SALARY INCREASES	Adjustment to the rates at 23+ years of service is recommended
TERMINATION AND REINSTATEMENT	Adjustments to reflect new data on leaves of absences are recommended

TERMINATION EXPERIENCE
YEAR BY YEAR REVIEW OF ACTUAL VS. EXPECTED

Comparison of Actual Number of Terminations Versus Expected



RE-INSTATEMENT RATES
UPDATES SINCE LAST STUDY

- In the past few years, we observed that the number of annual re-instatements has increased, particularly in the last 4 years:

Valuation Period	Inactive Headcount at Beginning of Period	Inactive Members Re-instated in the Period	Percentage of Members Re-instated
2001-2004	91,563	5,625	2.0%
2004-2006	87,310	3,699	2.1%
2006-2007	78,045	1,678	2.2%
2007-2008	73,861	1,699	2.3%
2008-2009	70,707	1,779	2.5%
2009-2011	68,068	4,404	3.9%
2011-2012	70,241	3,686	5.2%
2012-2013	70,436	3,573	5.1%
2013-2014	71,292	3,927	5.5%
2014-2015	71,795	4,029	5.6%

As 2015 study is based on last 4 years (where data on LOAs is available), need to consider if current trends will continue

RE-INSTATEMENT RATES
PLAN EXPERIENCE – FULL TIME TEACHERS

Re-Instatement of Inactive Members												
	Full-time											
Number of Complete School Years of Inactivity	Current Assumption	Actual Including Members on Leaves of Absences					Actual Excluding Members on Leaves of Absences					Proposed Assumption Range
		2014/ 2015	2013/ 2014	2012/ 2013	2011/ 2012	4-Year Average	2014/ 2015	2013/ 2014	2012/ 2013	2011/ 2012	4-Year Average	
0 - 1	16.0%	70.4%	69.7%	69.0%	67.3%	69.1%	38.5%	32.1%	36.7%	36.0%	36.0%	25% - 35%
2	5.0%	33.5%	29.4%	28.9%	22.6%	28.5%	27.9%	24.8%	24.4%	20.3%	24.2%	15% - 23%
3	4.0%	15.2%	12.6%	10.1%	11.3%	12.1%	15.2%	12.6%	10.1%	11.3%	12.1%	8% - 10%
4	2.5%	9.9%	8.2%	5.5%	5.9%	7.2%	9.9%	8.2%	5.5%	5.9%	7.2%	5% - 6%
5-9	2.0%	3.0%	3.6%	3.1%	3.0%	3.2%	3.0%	3.6%	3.1%	3.0%	3.2%	2.0%
10 or more	0.0%	0.2%	0.4%	0.4%	0.4%	0.4%	0.2%	0.4%	0.4%	0.4%	0.4%	0.0%

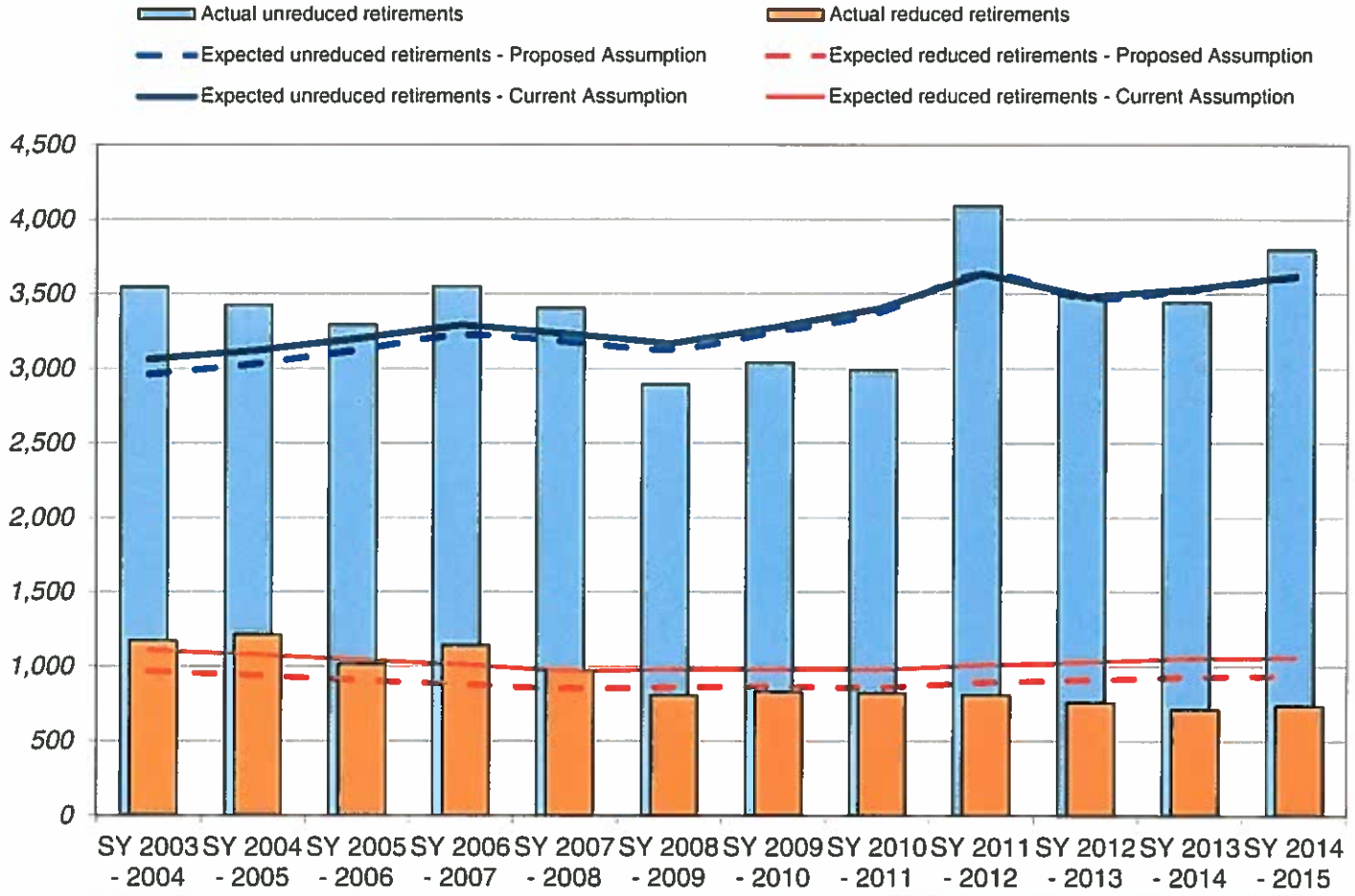
Experience relating to members on LOAs prior to 2010/2011 school year is unavailable at this time.

Proposed assumptions for the Jan 1, 2016 valuation are based on the lower end of the range

RETIREMENT RATES

PLAN EXPERIENCE VS CURRENT AND PROPOSED ASSUMPTION

Comparison of Actual Number of Retirements Versus Expected



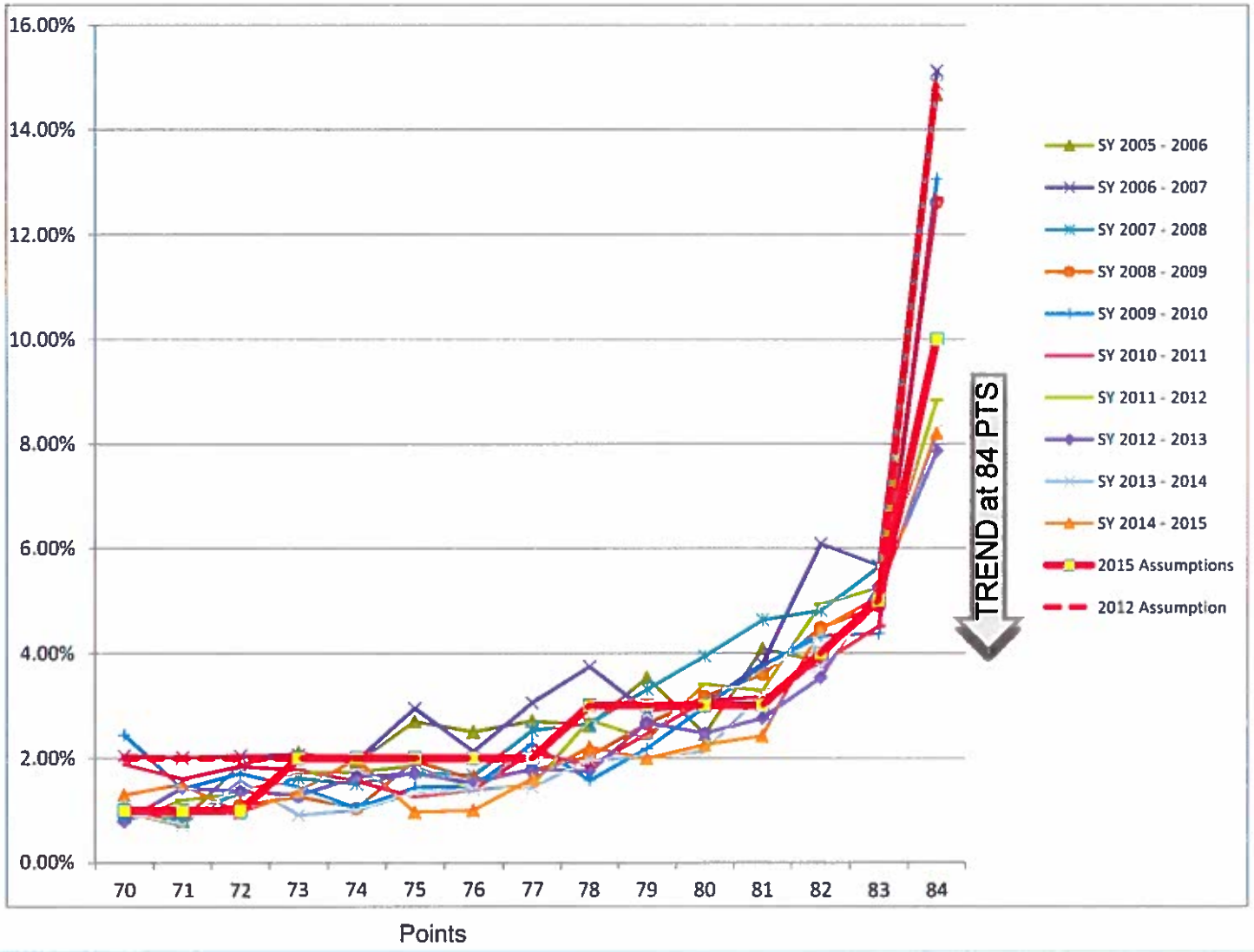
Number of Retirements

Historical data was regrouped into school year periods

For the group overall, actual number of retirements is roughly 97% of expected (using proposed assumption) based on a 3 year average and 98% of expected (using proposed assumption) based on a 5 year average.

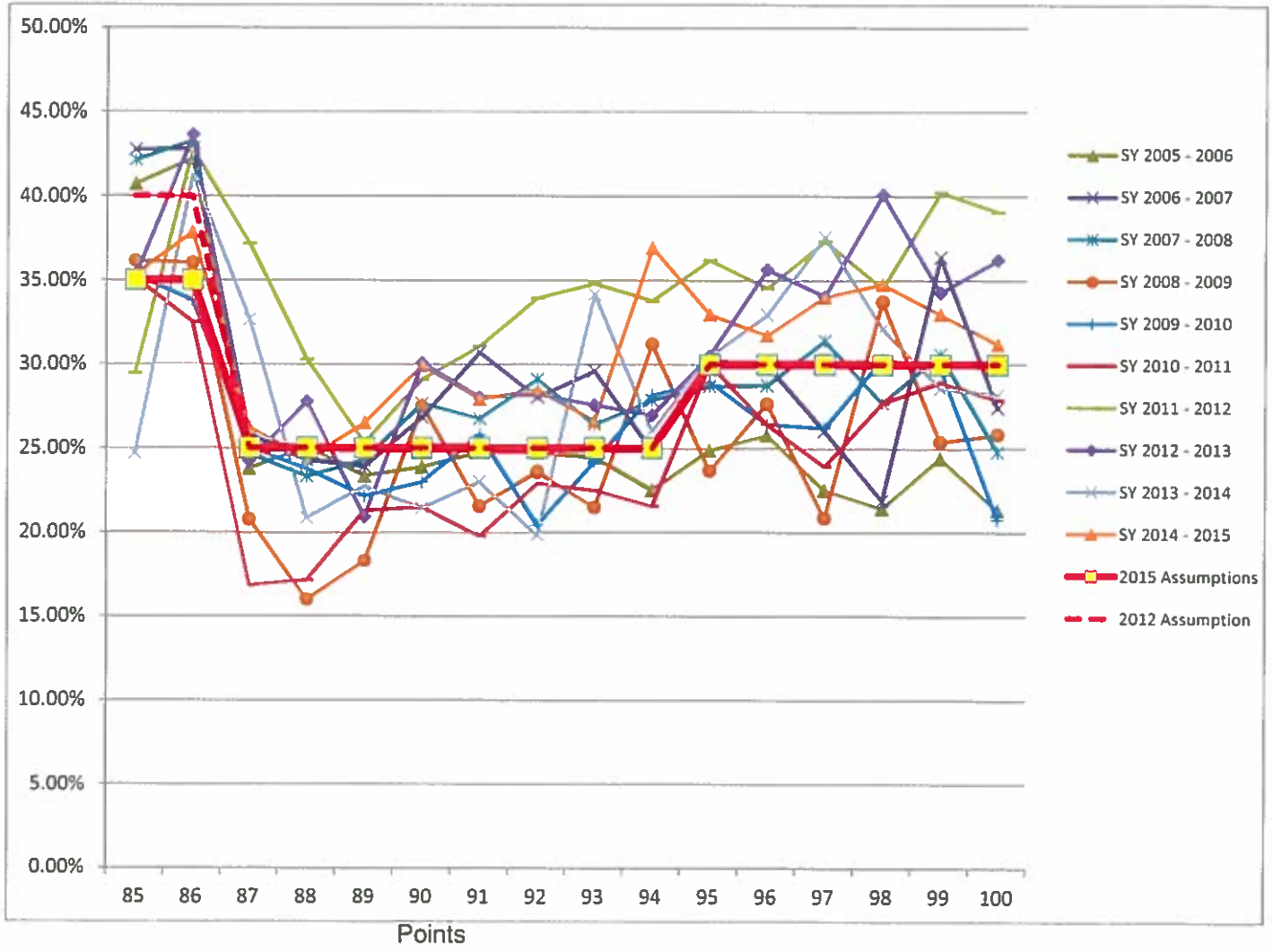
RETIREMENT EXPERIENCE FOR MEMBERS WITH REDUCED PENSIONS

Comparison of Actual Retirements to Exposures



RETIREMENT EXPERIENCE FOR MEMBERS WITH UNREDUCED PENSIONS (OVER 30 YEARS OF SERVICE)

Comparison of Actual Retirements to Exposures



RETIREMENT EXPERIENCE FOR MEMBERS WITH UNREDUCED PENSIONS (UNDER 30 YEARS OF SERVICE)

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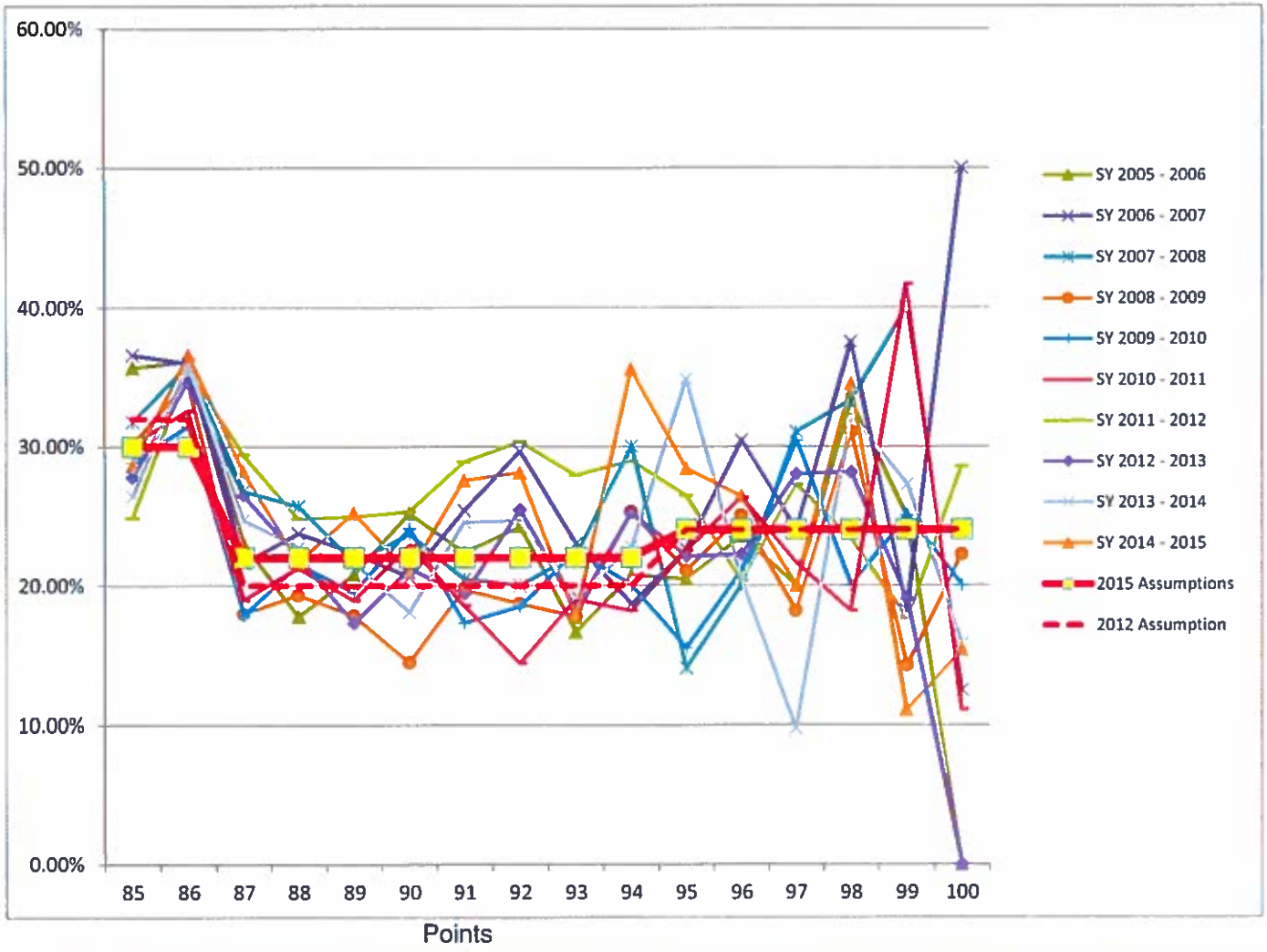
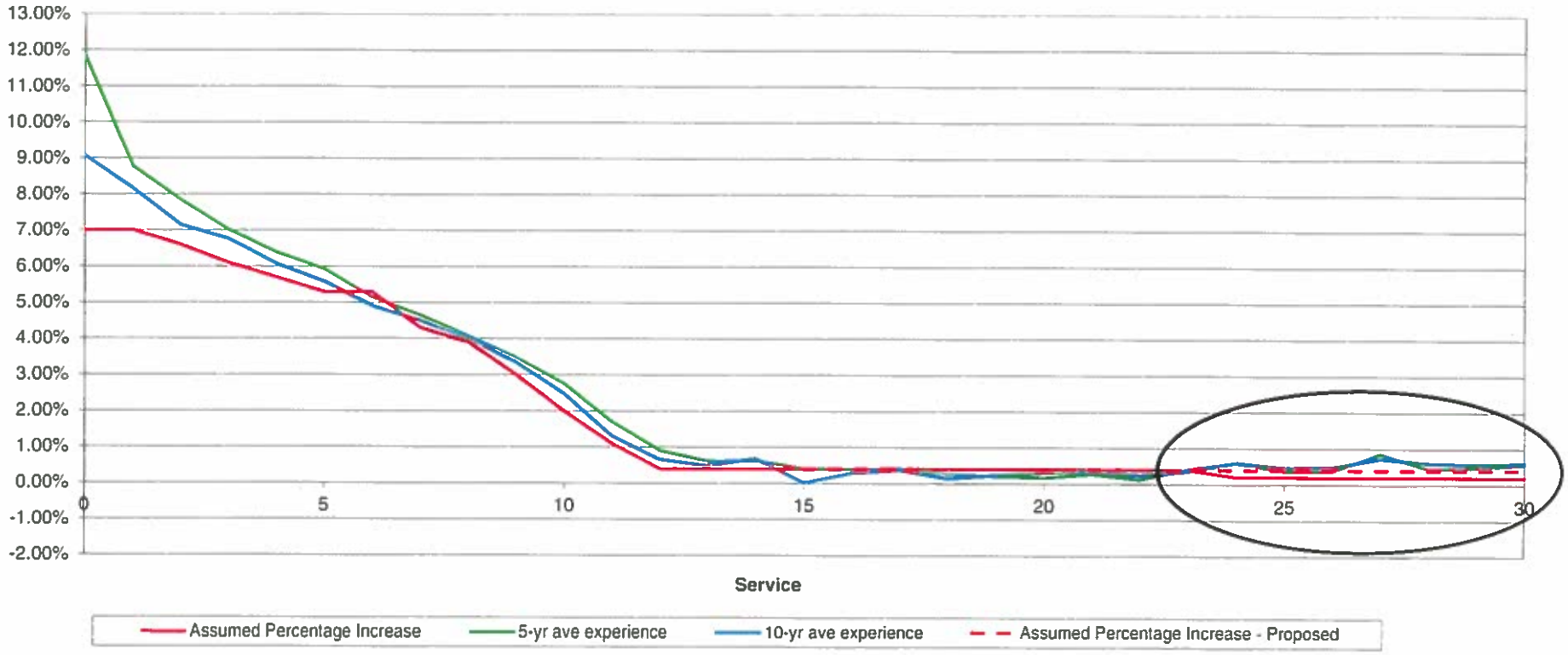
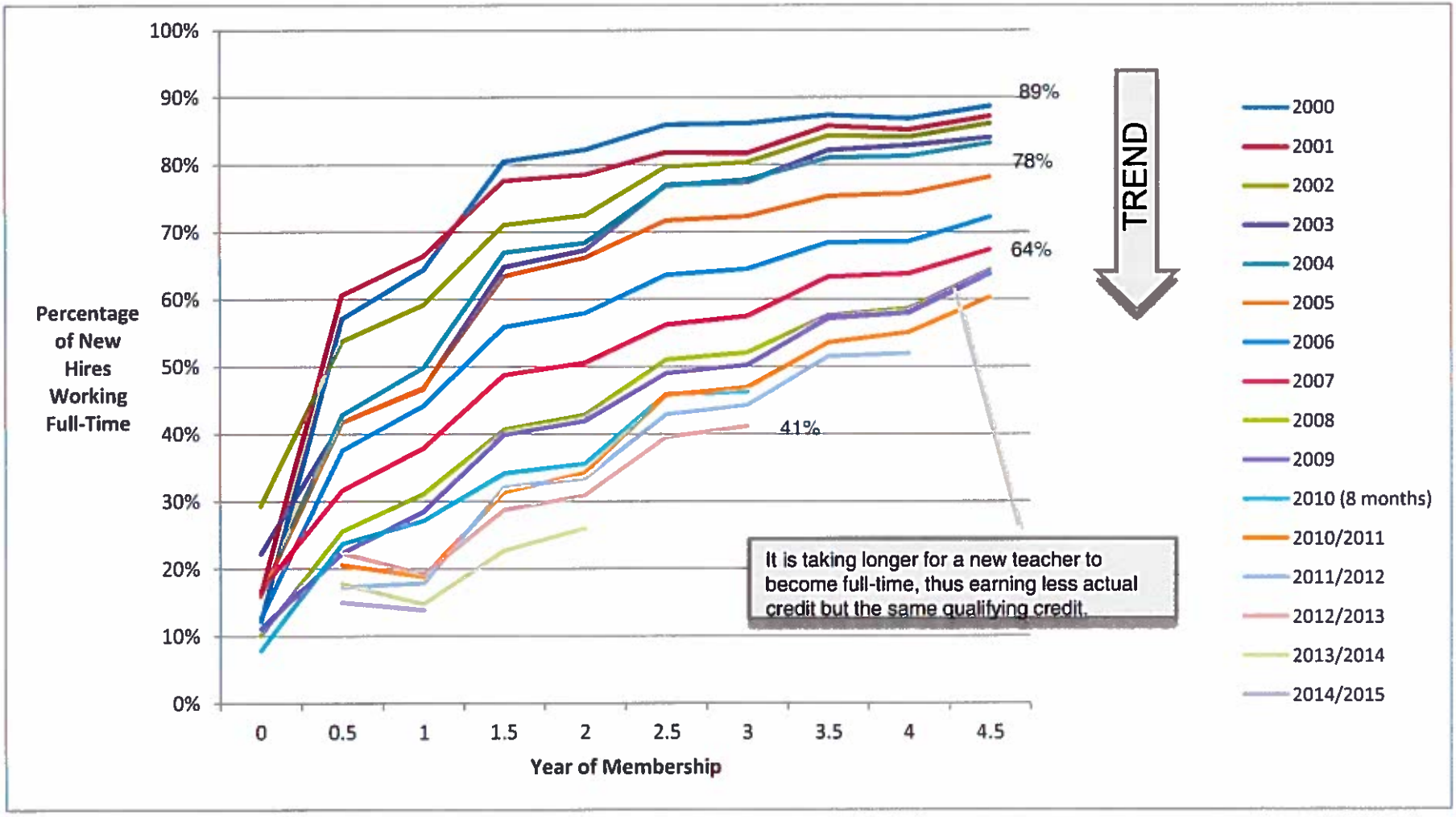


ASSUMED ANNUAL SALARY: EXPERIENCE-RELATED INCREASES



TRANSITION OF NEW TEACHERS TO FULL-TIME STATUS

RECENT TREND FOR NEW HIRE

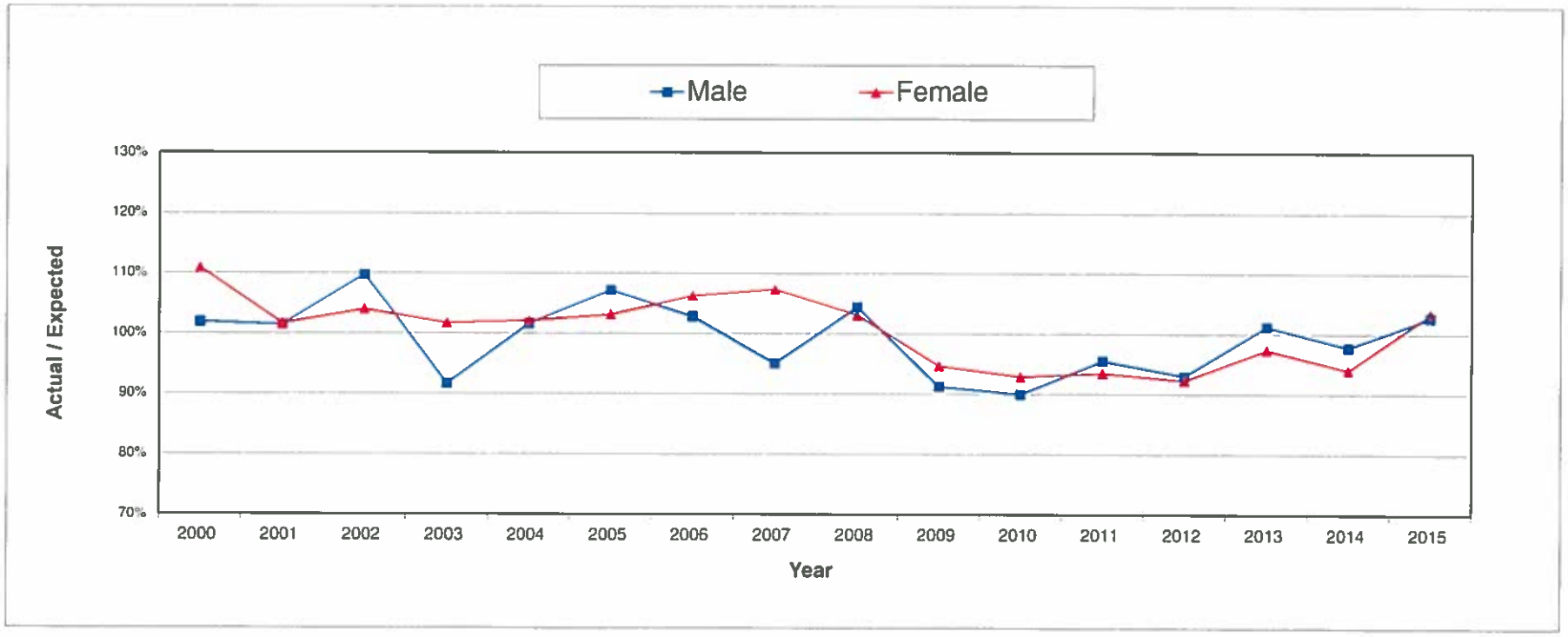


Source of data: OTPP board staff

LONGEVITY – 2014 MORTALITY TABLES
PLAN EXPERIENCE (REGULAR PENSIONERS ONLY)

Comparison of Actual Number of Deaths Versus Expected

(Based on 2014 Assumed Mortality Rates)



2000 to 2009 refers to calendar years; 2010 covers the 8 months from 12.31.2009 to 9.1.2010 (annualized); 2011 onwards covers school years (ie 2011 refers to 2010/2011 school year)

MORTALITY DEVELOPMENTS – OTPP MORTALITY VS CIA TABLES

Life Expectancy for a 60 year old	In 2015	In 2035
CIA Tables and projection scales (CPMR2014, projected using scale CPM-B(1))	Male: 26.8 Female: 29.3	Male: 27.9 Female: 30.3
CIA Tables and projection scales (CPMR2014Publ, projected using scale CPM-B(1))	Male: 27.3 Female: 29.3	Male: 28.4 Female: 30.3
2014 OTPP Tables and projection scales (2 dimensional)	Male: 29.2 Female: 31.4	Male: 30.5 Female: 32.5

1) Excluding any adjustment factors reflecting experience variation by pension size

PRELIMINARY MEMBERSHIP RECONCILIATION AS AT AUGUST 31, 2015

	Active	Inactive	Pensioner & Survivor	Total
Number @ 31/08/2014	**175,460**	**71,795**	**132,909**	**380,164**
New Entrants	7,410	35	893[1]	8,338
Retired	(4,537)	(336)	4,873	
Paid Out	(211)	(1,012)		(1,223)
Death With Survivor	(14)	(11)	(850)	(875)
Death Without Survivor	(63)	(77)	(1,642)	(1,782)
Death Pending Payment	(55)	55		
Stopped Teaching	(5,409)	5,409		
Re-activated	4,029	(4,029)		
Pension Benefit Stopped			(36)	(36)
Data Correction	1	(1)	8	8
IRN Merge/Pension Split	(14)		4	(10)
Number @ 31/08/2015	**176,597**	**71,828**	**136,159**	**384,584**

(1) Includes active deaths where more than one beneficiary record was created upon the member's death as well as new beneficiaries from deaths prior to August 31, 2014 but not in payment until after August 31, 2014

FULL TIME ACTIVE MEMBERSHIP SUMMARY

	Aug. 31/2015	Aug. 31/2014
– Number	136,215	135,687
– Average salary[(1)]	$87,623	$86,509
– Average age	43.9	43.7
– Average credited service	14.0	13.8

(1) Estimated salary for the school year starting in the calendar year

PENSIONER AND SURVIVOR SUMMARY

	Aug. 31/2015	Aug. 31/2014
Pensioners		
– Number	123,994	121,123
– Average age	70.3	69.9
– Average lifetime pension	$40,200	$39,500
– Average bridge pension	$5,800	$5,700
Survivors		
– Number	12,165	11,786
– Average age	76.1	75.6
– Average lifetime pension	$22,500	$21,900

DETAILS OF SIMPLIFIED RATE OF RETURN CALCULATION FOR 2015

	Actuarial Value ($millions)	Market Value ($millions)
A) Value at beginning of year	146,348	154,476
B) Total contributions to plan in year	3,261	3,261
C) Total of benefits paid in year	(5,537)	(5,537)
D) Total investment return in year (net of expenses)	16,461	19,047
E) Value at end of year	160,533	171,247
Mid-year cash flow rate of return:	11.3%	12.4%
Simplified rate of return assuming mid-year cash flows	= 2 x D/(A + E – D)	

Important Notices

Mercer has prepared this report exclusively for OTPPB and the Sponsors of the Plan to present preliminary results for the January 1, 2016 valuations. This report is intended to facilitate decision making relating to these valuations. This report may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any such other use. Its content may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission.

All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used or relied upon without reference to the report as a whole.

The results presented herein are preliminary and subject to change. This report is not a substitute for a formal valuation report.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made solely on the basis of this preliminary valuation, but only after careful consideration of alternative economic, financial, demographic and societal factors, including financial scenarios that assume future sustained investment losses.

OTPPB is responsible for selecting the plan's funding policy (including margins, if any, for adverse deviations in the going concern valuation), and the actuarial and asset valuation methods in the going concern valuation. The actuarial assumptions used in the going concern valuation reflect the actuary's best estimate, except for the discount rate which has been selected by OTPPB. We believe the discount rates being considered are within accepted actuarial practice and include a margin for adverse deviation. OTPPB is responsible for reviewing the going concern valuation assumptions referenced and advising Mercer as to any information it deems worthy of consideration in the determination of such assumptions.

Important Notices

To prepare the results in this report, actuarial assumptions are used to model a single scenario from a range of possibilities for each valuation basis. The results based on that single scenario are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. Different assumptions or scenarios within the range of possibilities may also be reasonable, and results based on those assumptions would be different. Furthermore, actuarial assumptions may be changed from one valuation to the next because of changes in regulatory and professional requirements, developments in case law, plan experience, changes in expectations about the future and other factors. The key economic and demographic assumptions used for the valuation are described in this presentation.

Mercer has used and relied on the membership data as at August 31, 2015 supplied by OTPP. If the data supplied are not sufficient and reliable for its intended purpose, the results of our calculation may differ significantly from the results that would be obtained with such data. Although Mercer has reviewed the suitability of the data for its intended use in accordance with accepted actuarial practice in Canada, Mercer has not verified or audited any of the data or information provided. Statistics on, reconciliation of and distribution of the membership data are provided in this presentation.

Mercer has used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by OTPP. If any plan provisions supplied are not accurate and complete, the results of any calculation may differ significantly from the results that would be obtained with accurate and complete information. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and the results of estimates under each of the different interpretations could vary.

We used financial data submitted by OTPP as of December 31, 2015 without further audit. Customarily, this information would not be verified by a plan's actuary. We have reviewed the information for internal consistency and general reasonableness.

Funding calculations reflect our understanding of the requirements of Ontario's legislation, the Income Tax Act and related regulations that are effective as of the valuation date. Mercer is not engaged in the practice of law or tax advice. This report does not constitute and is not a substitute for legal or tax advice. The plan administrator is solely responsible for selecting the plan's investment policies, asset allocations and individual investments.

MAKE TOMORROW, TODAY

From: Tsang, Ingrid (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Slide Deck
Date: Thursday, December 08, 2016 17:57:30

I had a chat with Allan. There are some very good comments that I will try to incorporate. The following are some main points.

1) First of all, he think this will be a major undertaking by the government if we were going to go with any of the options. Therefore, he thinks before we proceed (such as talking to OTF or start legislative process), it would be advisable to get a reading from the AG whether that they will be satisfied with the intended outcome.

2) In his opinion, all of these options will fundamentally change the governance structure of the plan. And in some cases, the operation and administration of the plan. The consequence should be adequately considered and weighted.

3) When we say surplus, we need to be clear about what surplus we are talking about. Under the FMP, there are different levels of surplus. However, if we want to build this into the TPA or other document, we need to be clear which surplus we are talking about, likely surplus from the funding valuation report. If that is the case, and if the government wants to claim a ownership of the valuation surplus, both OTF and the TPP Board will have major issue with it. For example, the most recently filed report showed a surplus of $4.5 billion. That is not a “usable” surplus and it does not belong to anyone. If it is not valuation surplus, how do you define a surplus that is technically correct and fit in all other documents! Could be very messy.

4) Another important issue to consider is that, if we seek agreement from OTF, it is very likely they will ask the government to match the other 50% that is not currently matched. The amount could be significant as more and more service will be subject to the provision.

5) The PSAB is reviewing the rules. There is no certainty that what we do will comply with the new requirement as we don’t know the rules yet.

Comments specifically on option of amending FMP:

1) If the objective is to amend section 4.06 and 5.05, what are we propose to say and will that satisfy AG (let alone the what will come out from PSAB).

2) It may be possible to negotiate with OTF and the Board for a unilateral right to the surplus, because of the accounting issue the government is facing. Unilateral right does not imply surplus ownership. And unilateral right does not imply the government will exercise the right either. Therefore, this language may provide some comfort to OTF and the Board. However, will this satisfy AG. Language stronger than unilateral right may not fly at all.

We did not have much time to talk about the legislative option. Below are some thoughts briefly discussed:

1) This option will definitely change the governance structure of the plan, a model the government is trying to promote.

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3) Change to a sole sponsorship does not guaranteed government's access to the surplus. There are many issues surrounding the surplus ownership. Again, we need to be clear what surplus we are talking about here. FMP surplus (there are many level of it) or valuation surplus (which may not be a true usable surplus, as the $4.5 Billion in the most recently filed report).

Let me know what you would like me to do about the note. Could this replace the note? They sound like legitimate issues and concerns that need to be considered but may not easily fit into the note.

The timing is just not perfect. While I am writing this note, Pauline sent a link to the PSAB consultation paper… It is coming..

Ingrid

From: Killoch, Alex (MOF)
Sent: December 8, 2016 3:06 PM
To: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF); Killoch, Alex (MOF)
Subject: Re: Slide Deck

Can we add our material

From: Pomykacz, Rob (MOF)

Sent: Thursday, December 8, 2016 3:04 PM

To: Tsang, Ingrid (MOF); Killoch, Alex (MOF)

Subject: Fw: Slide Deck

Fyi

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Di Renzo, Stephen (EDU) <Stephen.DiRenzo@ontario.ca>

Sent: Thursday, December 8, 2016 2:49 PM

To: Pomykacz, Rob (MOF)

Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)

Subject: RE: Slide Deck

Rob, attached is the approved deck with our information (it's based on the note I provided earlier).

From: Pomykacz, Rob (MOF)
Sent: December 8, 2016 11:51 AM
To: Di Renzo, Stephen (EDU)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Thanks Steve. We're hoping to give you comments by tomorrow.

Thanks for sharing the revised version!

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 8, 2016 11:38 AM
To: Pomykacz, Rob (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached an updated note reflecting Ross' comments. Please share with your group and provide edits/feedback to this document. We are still awaiting Josh's approval.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:23 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Sounds good!

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 10:16 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

I can populate the deck once its complete and approved.

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:07 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Thanks very much, Steve. We'll let you know of any comments.

Once the note has been approved, are you planning on inputting the information into the slide deck template that OPCD forwarded to us? I actually wouldn't want to leave it to them to do.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 9:48 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached draft note. It's based on direction from Josh but not yet approved by him. You will notice a few placeholders within the note that require input.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 6, 2016 2:03 PM
To: Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Hi Paul/Steve,

Just wondering how the note is going. Would you guys have anything to share with us at this point?

Thanks,

Rob

From: Duffy, Paul (EDU)
Sent: December 5, 2016 9:33 AM
To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Rob, we're meeting with Josh today to go over our note (which I think OPCD will put into a deck). We'll let you know how that goes, and how much time we'll need before we meet.

From: Pomykacz, Rob (MOF)
Sent: December 2, 2016 4:58 PM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Subject: Slide Deck

Hi guys,

Alex asked if we could get together early next week to discuss the OPCD deck you're working on. Let me know when might be a good time.

Thanks and have a great weekend!

Rob

From: Killoch, Alex (MOF) []
To: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: Slide Deck
Date: Thursday, December 08, 2016 18:32:07

This needs to fit in to the same deck along with EDU comments, and I think given the complexity, we will want this done asap

From: Tsang, Ingrid (MOF)
Sent: Thursday, December 08, 2016 4:58 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: Slide Deck

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1) First of all, he think this will be a major undertaking by the government if we were going to go with any of the options. Therefore, he thinks before we proceed (such as talking to OTF or start legislative process), it would be advisable to get a reading from the AG whether that they will be satisfied with the intended outcome. Agreed, need to be sure that we will resolve issue. Purpose of deck is not to amend the FMP, but to determine if should engage in the conversation

2) In his opinion, all of these options will fundamentally change the governance structure of the plan. And in some cases, the operation and administration of the plan. The consequence should be adequately considered and weighted. We will need to have a reason why this is a change

3) When we say surplus, we need to be clear about what surplus we are talking about. Under the FMP, there are different levels of surplus. However, if we want to build this into the TPA or other document, we need to be clear which surplus we are talking about, likely surplus from the funding valuation report. If that is the case, and if the government wants to claim a ownership of the valuation surplus, both OTF and the TPP Board will have major issue with it. For example, the most recently filed report showed a surplus of $4.5 billion. That is not a “usable” surplus and it does not belong to anyone. If it is not valuation surplus, how do you define a surplus that is technically

correct and fit in all other documents! Could be very messy. We will need to explain why that is not a surplus, it is not under the FMP, and Marshall thinks that is his surplus, which it is, until indexation is restored.

4) Another important issue to consider is that, if we seek agreement from OTF, it is very likely they will ask the government to match the other 50% that is not currently matched. The amount could be significant as more and more service will be subject to the provision. Agree, but need to think about this vs pension policy issues, is the EDU issue?

5) The PSAB is reviewing the rules. There is no certainty that what we do will comply with the new requirement as we don't know the rules yet. This seems like a point for us to ask OPCD to make

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Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
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Sent: December 7, 2016 10:23 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

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From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 10:16 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

I can populate the deck once its complete and approved.

From: Pomykacz, Rob (MOF)
Sent: December 7, 2016 10:07 AM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
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Once the note has been approved, are you planning on inputting the information into the slide deck template that OPCD forwarded to us? I actually wouldn't want to leave it to them to do.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 7, 2016 9:48 AM
To: Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Cc: Roberto, Nicole (EDU)
Subject: RE: Slide Deck

Rob,

Please find attached draft note. It's based on direction from Josh but not yet approved by him. You will notice a few placeholders within the note that require input.

Happy to chat if you have any questions.

Steve

From: Pomykacz, Rob (MOF)
Sent: December 6, 2016 2:03 PM
To: Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Hi Paul/Steve,

Just wondering how the note is going. Would you guys have anything to share with us at this point?

Thanks,

Rob

From: Duffy, Paul (EDU)
Sent: December 5, 2016 9:33 AM
To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU)
Subject: RE: Slide Deck

Rob, we're meeting with Josh today to go over our note (which I think OPCD will put into a deck). We'll let you know how that goes, and how much time we'll need before we

meet.

From: Pomykacz, Rob (MOF)
Sent: December 2, 2016 4:58 PM
To: Di Renzo, Stephen (EDU); Duffy, Paul (EDU)
Subject: Slide Deck

Hi guys,

Alex asked if we could get together early next week to discuss the OPCD deck you're working on. Let me know when might be a good time.

Thanks and have a great weekend!

Rob

From: Petsche, Nadine (TBS) []
To: Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: Steve's Q
Date: Thursday, September 22, 2016 19:15:27

Thanks Gabe. The survey results would be intended to demonstrate that teachers have expressed some interest in contribution holidays/reductions. The intergenerational equity piece, as I understand it, is that younger employees might also express opposition to continuing to fund at inflated contribution rates when the fund is in a surplus position.

N

From: Sekaly, Gabriel (EDU)
Sent: September 22, 2016 7:08 PM
To: Killoch, Alex (MOF); Petsche, Nadine (TBS); Paul, Joshua (EDU)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: Re: Steve's Q

OTPP does surveys of their members from time to time. Not sure if they asked this question. We will check tomorrow if we have anything.

What is Steve looking for on intergenerational equity?

Can you also let me know how these pieces of info assist our position wrt the accounting treatment on the provincial books.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Thursday, September 22, 2016 18:40

To: Petsche, Nadine (TBS); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)

Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)

Subject: Re: Steve's Q

I don't

Did otpp do a survey?

From: Petsche, Nadine (TBS)

Sent: Thursday, September 22, 2016 5:59 PM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU)

Cc: Veinot, Cindy (TBS); Killoch, Alex (MOF)

Subject: Steve's Q

Steve is asking about the survey that was done previously about the amount of contributions that teachers would be willing to pay when the surplus grows.

Comments are also being made wrt intergenerational equity.

Do you have any info on this?

N

From: Killoch, Alex (MOF) []
To: Patel, Lesley (MOF) [Lesley.Patel@ontario.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]; Wynberg, Lynsey (OFA) [Lynsey.Wynberg@ofina.on.ca]
Subject: RE: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Date: Tuesday, February 07, 2017 15:13:02
Attachment 1: PAEAP Report NR_v11_csb.doc

Hi Lesley

I have made a comment in the press release and altered the quote slightly as the Release seems to suggest that the panel is looking at the accounting treatment of the assets of the plan, rather than the accounting treatment of the plan, as an asset. They are slightly different, but the government has no access to the assets of the pension plan itself.

Alex

From: Patel, Lesley (MOF)
Sent: February 7, 2017 1:32 PM
To: Birks, Ryan (MOF); Buckland Foster, Jamie (MOF); Wynberg, Lynsey (OFA)
Cc: Killoch, Alex (MOF)
Subject: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Importance: High

Hi all,

Please find attached a news release with regards to the Pension Asset Expert Advisory Panel report for fact check.

Please send any edits back before 3pm.

Thanks,

Lesley

p.s. Also please let me know the status of the Q&A document if you have not send your edits as yet.

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February XX, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans. The government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The panel's report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized in Ontario's financial statements.

Commented [KA(1]: This seems to imply that we are recognizing the assets of the pension plan on our financial statements. We are recognizing that these plans, as a whole, are assets to the government, rather than that we have some access to the specific financial assets of the plans. OPCD could rephrase slightly.

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly-sponsored pension plans.

The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets. The panel members have expertise in the areas of jointly-sponsored pension plan~~s~~ governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

The Province remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow the economy and help people in their everyday lives.

QUOTES

"I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how to account for ~~current~~ these jointly-sponsored pension plans as assets. This advice will help us continue to present the province's finances fairly and accurately, as we work toward balancing the budget in 2017-18."
— Charles Sousa, Minister of Finance (TBC MOF)

Commented [KA(2]: See above comment regarding plans as assets.

QUICK FACTS

DRAFT

- By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.
- For 2015-16, this means the province's deficit has been lowered by $1.5 billion.
- For 2016-17, the province's fiscal position will improve by $2.2 billion.
- In its report, the panel supports the accounting treatment that Ontario has used consistently since 2001.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [EKO3]: MOF Fact check

Commented [LT4]: Language on these will need to be refined

Field Code Changed

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

ontario.ca/news
Disponible en français

From: Birks, Ryan (MOF) []
To: Patel, Lesley (MOF) [Lesley.Patel@ontario.ca]; Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]; Wynberg, Lynsey (OFA) [Lynsey.Wynberg@ofina.on.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Date: Tuesday, February 07, 2017 16:37:48
Attachment 1: PAEAP Report NR_v11_csb (OB Edit).doc

Hi Lesley,

As discussed, I'm attaching OB's edit (i.e. removal of the 3 bullet on the province's 2016-17 fiscal position in the Quick Facts section).

Thanks,

Ryan

From: Patel, Lesley (MOF)
Sent: February-07-17 1:32 PM
To: Birks, Ryan (MOF); Buckland Foster, Jamie (MOF); Wynberg, Lynsey (OFA)
Cc: Killoch, Alex (MOF)
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Commented [LT2]: Language on these will need to be refined

Field Code Changed

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

From: McLean, David (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Clarke-Darshanand, Jamille (MOF) [Jamille.Clarke-Darshanand@ontario.ca]
Subject: RE: Update letter coming out of our call
Date: Monday, September 26, 2016 11:33:07
Attachment 1: image001.png

I'll run it by the DM. Is it vital that they see it? I know we were trying to keep this whole issue contained within the "need to know" crowd in MOF and TBS.

From: Killoch, Alex (MOF)
Sent: September 26, 2016 11:22 AM
To: McLean, David (MOF)
Cc: Clarke-Darshanand, Jamille (MOF)
Subject: RE: Update letter coming out of our call

Is it ok to share this with EDU?

They are going to need to start internal discussions about how to engage with the Ontario Teachers Federation once we acknowledge an accounting issue around TPP. Most of the letter discussing pension standards is not so important to them, but the discussion of contribution holidays, access to surplus and when those surpluses will arise will be important.

Alex

From: McLean, David (MOF)
Sent: Monday, September 26, 2016 9:44 AM
To: Killoch, Alex (MOF)
Cc: Clarke-Darshanand, Jamille (MOF)
Subject: FW: Update letter coming out of our call

FYI

From: Orencsak, Greg (TBS)
Sent: September 25, 2016 1:54 PM
To: Bevan, Andrew (OPO); Orsini, Steve (CAB); Bromm, William (CAB); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Kearney, Sean (TBS); Hatzis, Len (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Hughes, Karen (TBS); Davidson, Steven (CAB); Thompson, Scott (MOF); Mayman, Gadi (OFA); Angus, Helen (MIT); Kwamena, Boafoa (CAB); DiMuzio, Sofie (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Betzner, Lynn (CAB)
Subject: Re: Update letter coming out of our call

Thanks, the letter has been sent. Copy attached for reference.

Will keep you posted on what we hear back.

Greg

From: "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>
Date: Sunday, September 25, 2016 at 1:32 PM
To: Steve Orsini <Steve.Orsini@ontario.ca>, "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, Sean Kearney <Sean.Kearney@ontario.ca>, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>, Steven Davidson <Steven.Davidson@ontario.ca>, Scott Thompson <Scott.Thompson@ontario.ca>, Gadi Mayman <Gadi.Mayman@ofina.on.ca>, "Angus, Helen (MIT)" <Helen.Angus@ontario.ca>, "Kwamena, Boafoa (CAB)" <Boafoa.Kwamena@ontario.ca>, Sofie Di Muzio <sofie.dimuzio@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>,

"McLean, David (MOF)" <David.McLean@ontario.ca>, Lynn Betzner <Lynn.Betzner@ontario.ca>
Subject: Re: Update letter coming out of our call

Thank you. Agree it needs to go asap

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Orsini, Steve (CAB)

Sent: Sunday, September 25, 2016 1:16 PM

To: Orencsak, Greg (TBS); Bromm, William (CAB); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Bevan, Andrew (OPO); Kearney, Sean (TBS); Hatzis, Len (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Hughes, Karen (TBS); Davidson, Steven (CAB); Thompson, Scott (MOF); Mayman, Gadi (OFA); Angus, Helen (MIT); Kwamena, Boafoa (CAB); DiMuzio, Sofie (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Betzner, Lynn (CAB)

Subject: RE: Update letter coming out of our call

I'm OK with the letter (small font issue on page 3). Thanks for the quick turnaround.

We need to engage the AG immediately.

Thanks again.

Steve

From: Orencsak, Greg (TBS)
Sent: September-25-16 1:04 PM
To: Bromm, William (CAB); Orsini, Steve (CAB); Jancik, Mike (TBS); Ghiassi, Ali

(MOF); Bevan, Andrew (OPO); Kearney, Sean (TBS); Hatzis, Len (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Hughes, Karen (TBS); Davidson, Steven (CAB); Thompson, Scott (MOF); Mayman, Gadi (OFA); Angus, Helen (MIT); Kwamena, Boafoa (CAB); DiMuzio, Sofie (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Betzner, Lynn (CAB)
Subject: Update letter coming out of our call

Here is the updated letter with the changes we discussed.

Let us know if any concerns. As discussed, would like to send by 2.

Greg

From: "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>
Date: Sunday, September 25, 2016 at 11:15 AM
To: "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, Steve Orsini <Steve.Orsini@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>, Sean Kearney <Sean.Kearney@ontario.ca>, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>, Steven Davidson <Steven.Davidson@ontario.ca>, Scott Thompson <Scott.Thompson@ontario.ca>, Gadi Mayman <Gadi.Mayman@ofina.on.ca>, "Angus, Helen (MIT)" <Helen.Angus@ontario.ca>, "Kwamena, Boafoa (CAB)" <Boafoa.Kwamena@ontario.ca>, Sofie Di Muzio <sofie.dimuzio@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>
Subject: Re: Confirming call at noon today

Thanks William. Here is a draft letter we just finalized for your advance reading. We can discuss at the call.

Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

The contents of this email may be confidential and/or commercially sensitive. If received in error or you are not the intended recipient, please notify sender and delete any copies immediately.

From: "Bromm, William (CAB)" <William.Bromm2@ontario.ca>
Date: Sunday, September 25, 2016 at 11:00 AM
To: Steve Orsini <Steve.Orsini@ontario.ca>, "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>, Sean Kearney <Sean.Kearney@ontario.ca>, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>, Steven Davidson <Steven.Davidson@ontario.ca>, Scott Thompson <Scott.Thompson@ontario.ca>, Gadi Mayman <Gadi.Mayman@ofina.on.ca>, "Angus, Helen (MIT)" <Helen.Angus@ontario.ca>, "Kwamena, Boafoa (CAB)" <Boafoa.Kwamena@ontario.ca>, Sofie Di Muzio <sofie.dimuzio@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>
Subject: Confirming call at noon today

?416-212-8013

1183683#

Sent from my BlackBerry 10 smartphone on the Rogers network.

TBS

From: Killoch, Alex (MOF) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
CC: Clarke-Darshanand, Jamille (MOF) [Jamille.Clarke-Darshanand@ontario.ca]
Subject: RE: Update letter coming out of our call
Date: Monday, September 26, 2016 11:22:24
Attachment 1: image001.png

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Sent: Sunday, September 25, 2016 1:16 PM

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Treasury Board Secretariat

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From: "Bromm, William (CAB)" <William.Bromm2@ontario.ca>
Date: Sunday, September 25, 2016 at 11:00 AM
To: Steve Orsini <Steve.Orsini@ontario.ca>, "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>, Sean Kearney <Sean.Kearney@ontario.ca>, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>, Steven Davidson <Steven.Davidson@ontario.ca>, Scott Thompson <Scott.Thompson@ontario.ca>, Gadi Mayman <Gadi.Mayman@ofina.on.ca>, "Angus, Helen (MIT)" <Helen.Angus@ontario.ca>, "Kwamena, Boafoa (CAB)" <Boafoa.Kwamena@ontario.ca>, Sofie Di Muzio <sofie.dimuzio@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>
Subject: Confirming call at noon today

?416-212-8013

1183683#

Sent from my BlackBerry 10 smartphone on the Rogers network.

TBS

From: Killoch, Alex (MOF) []
To: Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 15:43:35

It is a bit confusing.

It is not that the plan has assets, but that the plan itself, in total, is an asset, quite apart for the assets it holds. I don't think that the management plan is an asset, although its assets on the balance sheet.

-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: Monday, September 26, 2016 3:40 PM
To: Killoch, Alex (MOF)
Cc: McLean, David (MOF); Talwar, Garima (MOF); Myers, Leah (MOF); Mayman, Gadi (OFA); Thompson, Scott (MOF)
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

Hi Alex

One comment; first para, last sentence: " These plans are the only pension plans for which a pension asset is recorded." What about the management plan or am simply not understanding the term "Pension Asset" and its application.

Thanks

Ken K

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From: Gadi Mayman
Sent: Monday, September 26, 2016 3:13 PM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Alex Killoch (MOF) <Alex.Killoch@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Garima Talwar (TCU) <Garima.Talwar@ontario.ca>; Leah Myers (MOF) <Leah.Myers@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

I'm fine with the wording. I'm not sure that I understand the point that you're making on net debt and accumulated deficit, Alex, as I read them as both going up by $1.5 billion in the rationale from Cindy, which is how we would also interpret it.

Gadi

-----Original Message-----
From: Thompson, Scott (MOF) [mailto:Scott.Thompson@ontario.ca]
Sent: Monday, September 26, 2016 2:03 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

Should have included you in this
Thanks
Scott

Sent from my iPad

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From: "Killoch, Alex (MOF)" <Alex.Killoch@ontario.ca<mailto:Alex.Killoch@ontario.ca>>
Date: September 26, 2016 at 1:48:18 PM EDT
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Cc: McLean, David (MOF)
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

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From: Ken Kandeepan [Ken.Kandeepan@ofina.on.ca]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Myers, Leah (MOF) [Leah.Myers@ontario.ca]; Mayman, Gadi (OFA) [Gadi.Mayman@ofina.on.ca]; Thompson, Scott (MOF) [SOM.9Scott.Thompson@ontario.ca]
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 15:39:40

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Ken K

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To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Alex Killoch (MOF) <Alex.Killoch@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Garima Talwar (TCU) <Garima.Talwar@ontario.ca>; Leah Myers (MOF) <Leah.Myers@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
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From: Killoch, Alex (MOF) []
To: Mayman, Gadi (OFA) [Gadi.Mayman@ofina.on.ca]; Thompson, Scott (MOF) [SOM.9Scott.Thompson@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Myers, Leah (MOF) [Leah.Myers@ontario.ca]; Kandeepan, Ken (OFA) [Ken.Kandeepan@ofina.on.ca]
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 15:22:19

Sounds good.

I am not an expert at how accumulated deficit works, so I just wanted to ensure that it is correct.

There is one more change in the line: " A pension asset arises when the total of the Province's contributions to the plan as well as the ~~interest~~ income earned on the assets in the plan is greater than the retirement benefit expense recognized from since the inception of the plan."

The word "interest" is not required. It is just all income earned on the plan assets.

Alex

-----Original Message-----
From: Gadi Mayman [mailto:Gadi.Mayman@ofina.on.ca]
Sent: Monday, September 26, 2016 3:13 PM
To: Thompson, Scott (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF); Talwar, Garima (MOF); Myers, Leah (MOF); Kandeepan, Ken (OFA)
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

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From: Thompson, Scott (MOF) [mailto:Scott.Thompson@ontario.ca]

Sent: Monday, September 26, 2016 2:03 PM

To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>

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

Should have included you in this

Thanks

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Sent from my iPad

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Cc: "McLean, David (MOF)"

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Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 15:13:25

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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 the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.

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From: Myers, Leah (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 13:41:12

Notwithstanding the DM including me on this, you should go ahead and respond, cc me. In other words, don't wait on my input. Given the issues, I'd prefer to watch this but not get involved.

From: Killoch, Alex (MOF)
Sent: September-26-16 1:26 PM
To: Myers, Leah (MOF)
Cc: Talwar, Garima (MOF)
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

Hi Leah

A lot of this is accounting terminology but I have a few initial corrections for terminology with additions in yellow. In addition, I think the third paragraph reads a bit better if the points are reversed.

The last line states:

"Recording a valuation allowance of $1.5 Billion in fiscal 2015-16 resulted in an increase in the annual deficit and net debt that would have otherwise been reported by $1.5 Billion."

I am not sure how net debt is impacted but no accumulated deficit. However, I think that Gadi should be reviewing.

Alex

From: Thompson, Scott (MOF)
Sent: Monday, September 26, 2016 1:13 PM
To: Myers, Leah (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF)
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

Can you look at this and let me know if you have any issues? This would be the rationale if we took on the 1.5 billion for 15-16 deficit, but not put the whole current value of the pension asset onto our accumulated deficit.

Thanks

Scott

Sent from my iPad

Begin forwarded message:

> **From:** "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
> **Date:** September 26, 2016 at 1:00:16 PM EDT
> **To:** "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>
> **Cc:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
> **Subject: FW: Wording for note to f/s re: hybrid model (NPP suggested edits)**

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 jointly sponsored 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.

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From: Killoch, Alex (MOF) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 13:25:31

Hi Leah

A lot of this is accounting terminology but I have a few initial corrections for terminology with additions in yellow. In addition, I think the third paragraph reads a bit better if the points are reversed.

The last line states:

"Recording a valuation allowance of $1.5 Billion in fiscal 2015-16 resulted in an increase in the annual deficit and net debt that would have otherwise been reported by $1.5 Billion."

I am not sure how net debt is impacted but no accumulated deficit. However, I think that Gadi should be reviewing.

Alex

From: Thompson, Scott (MOF)
Sent: Monday, September 26, 2016 1:13 PM
To: Myers, Leah (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF)
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

Can you look at this and let me know if you have any issues? This would be the rationale if we took on the 1.5 billion for 15-16 deficit, but not put the whole current value of the pension asset onto our accumulated deficit.

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Scott

Sent from my iPad

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From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
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To: "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>
Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
Subject: FW: Wording for note to f/s re: hybrid model (NPP suggested edits)

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From: Ken Kandeepan [Ken.Kandeepan@ofina.on.ca]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)
Date: Monday, September 26, 2016 15:49:26

Well if you are comfortable that the sentence in question is accurate even with no reference to the management plan then I am ok, thanks for getting back to me.

Ken k

-----Original Message-----
From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: Monday, September 26, 2016 3:44 PM
To: Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

It is a bit confusing.

It is not that the plan has assets, but that the plan itself, in total, is an asset, quite apart for the assets it holds. I don't think that the management plan is an asset, although its assets on the balance sheet.

-----Original Message-----
From: Ken Kandeepan [mailto:Ken.Kandeepan@ofina.on.ca]
Sent: Monday, September 26, 2016 3:40 PM
To: Killoch, Alex (MOF)
Cc: McLean, David (MOF); Talwar, Garima (MOF); Myers, Leah (MOF); Mayman, Gadi (OFA); Thompson, Scott (MOF)
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

Hi Alex

One comment; first para, last sentence: " These plans are the only pension plans for which a pension asset is recorded." What about the management plan or am simply not understanding the term "Pension Asset" and its application.

Thanks

Ken K

-----Original Message-----
From: Gadi Mayman
Sent: Monday, September 26, 2016 3:13 PM
To: Scott Thompson (CAB) <Scott.Thompson@ontario.ca>; Alex Killoch (MOF) <Alex.Killoch@ontario.ca>
Cc: David McLean (MOF) <David.McLean@ontario.ca>; Garima Talwar (TCU) <Garima.Talwar@ontario.ca>; Leah Myers (MOF) <Leah.Myers@ontario.ca>; Ken Kandeepan <Ken.Kandeepan@ofina.on.ca>
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

I'm fine with the wording. I'm not sure that I understand the point that you're making on net debt and accumulated deficit, Alex, as I read them as both going up by $1.5 billion in the rationale from Cindy, which is how we would also interpret it.

Gadi

-----Original Message-----
From: Thompson, Scott (MOF) [mailto:Scott.Thompson@ontario.ca]
Sent: Monday, September 26, 2016 2:03 PM
To: Gadi Mayman <Gadi.Mayman@ofina.on.ca>
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

Should have included you in this
Thanks
Scott

Sent from my iPad

Begin forwarded message:

From: "Killoch, Alex (MOF)" <Alex.Killoch@ontario.ca<mailto:Alex.Killoch@ontario.ca>>
Date: September 26, 2016 at 1:48:18 PM EDT
To: "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca<mailto:Scott.Thompson@ontario.ca>>
Cc: "McLean, David (MOF)" <David.McLean@ontario.ca<mailto:David.McLean@ontario.ca>>, "Talwar, Garima (MOF)" <Garima.Talwar@ontario.ca<mailto:Garima.Talwar@ontario.ca>>, "Myers, Leah (MOF)" <Leah.Myers@ontario.ca<mailto:Leah.Myers@ontario.ca>>
Subject: Fw: Wording for note to f/s re: hybrid model (NPP suggested edits)

Hi Scott

A lot of this is accounting terminology but I have a few initial corrections for terminology with my changes in strikeout and in yellow.

In addition, I think the third paragraph reads a bit better if the points are reversed.

I am not sure how net debt is impacted but not accumulated deficit. However, I assume that Gadi is reviewing.

Greg's changes are for OPCD to consider but seem reasonable.

Alex

From: Thompson, Scott (MOF)
Sent: Monday, September 26, 2016 1:13 PM
To: Myers, Leah (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF)
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

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Date: September 26, 2016 at 1:00:16 PM EDT
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(TBS)" <Greg.Orencsak@ontario.ca<mailto:Greg.Orencsak@ontario.ca>>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca<mailto:Scott.Thompson@ontario.ca>>
Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca<mailto:Kyle.MacIntyre@ontario.ca>>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca>>
Subject: FW: Wording for note to f/s re: hybrid model (NPP suggested edits)

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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: do you know?I
Date: Sunday, September 25, 2016 15:29:58

I'm sooooo thirsty….enjoy!!! n

From: Killoch, Alex (MOF)
Sent: September 25, 2016 3:29 PM
To: Petsche, Nadine (TBS)
Subject: Re: do you know?I

From: Petsche, Nadine (TBS)

Sent: Sunday, September 25, 2016 3:08 PM

To: Killoch, Alex (MOF)

Subject: RE: do you know?I

Sure, rub it in! Have a pint for me! n

From: Killoch, Alex (MOF)
Sent: September 25, 2016 3:06 PM
To: Petsche, Nadine (TBS)
Subject: Re: do you know?I

I feel for you. Just off the course.

From: Petsche, Nadine (TBS)

Sent: Sunday, September 25, 2016 3:05 PM

To: Killoch, Alex (MOF)

Subject: RE: do you know?I

It’s all good. It seems his choice was influenced by the periods during which additional (indexation?) payments need to be made. Hope you’re enjoying the glorious weather! You can guess where I amL

N

From: Killoch, Alex (MOF)
Sent: September 25, 2016 3:04 PM
To: Petsche, Nadine (TBS)
Subject: Re: do you know?I

I don't know why he chose those periods.

From: Petsche, Nadine (TBS)

Sent: Sunday, September 25, 2016 11:32 AM

To: Killoch, Alex (MOF)

Subject: do you know?

Hi Alex. Happy Sunday! I’m in the officeL

Just wondering if you can advise w.r.t. the rational for the periods selected in Martin’s models (10 years for otpp and 17 years? For opseupp)?

I think that OTPP was tied to the government’s payments in connection with forgone inflation adjustments and the additional contributions related to the 2008 filing agreement (1.1%) (Section 5 (8)).

Please advise ASAP. Thx. n

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: draft as discussed
Date: Tuesday, October 04, 2016 10:43:36

Any issues coming up with OTF or OTPP?

There has been a bit of media coverage with some reference to surplus.

From: Paul, Joshua (EDU)
Sent: Monday, October 03, 2016 7:48 PM
To: Killoch, Alex (MOF)
Subject: Fw: draft as discussed

Fumble on the goal line.....

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Paul, Joshua (EDU) <Joshua.Paul@ontario.ca>

Sent: Monday, October 3, 2016 7:46 PM

To: Petsche, Nadine (TBS)

Cc: MacIntyre, Kyle (TBS)

Subject: Re: draft as discussed

Ok, so I will call tomorrow to touch base.

Nadine, are the speaking notes you provided still relevant re the discount rate?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Sunday, October 2, 2016 10:58 PM

To: Paul, Joshua (EDU)

Subject: RE: draft as discussed

Not sure. I think you might want to give Kyle or Greg a call directly. N

From: Paul, Joshua (EDU)
Sent: October-02-16 10:06 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Subject: Re: draft as discussed

Great. Who has reached out to the OTPP?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Sunday, October 2, 2016 9:56 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Subject: Re: draft as discussed

Hi Alex and Josh.

Yes there has been activity. As I understand it, there is a desire to release results no later than this week. Minister Sandals herself has reached out to the OTF (Shanon?).

Ministers Sandals and Sousa may be meeting with the AG tomorrow morning and we'll have more insights into next steps after that discussion. N

From: Killoch, Alex (MOF)

Sent: Sunday, October 2, 2016 8:53 PM

To: Petsche, Nadine (TBS); Paul, Joshua (EDU)

Subject: Re: draft as discussed

Hi Nadine

Any update? I hear that there has been further activity on the file.

Has the AG landed on a position?

From: Petsche, Nadine (TBS)

Sent: Friday, September 30, 2016 8:33 PM

To: Paul, Joshua (EDU)

Cc: Killoch, Alex (MOF)

Subject: RE: draft as discussed

Hi there. Kyle advises that he heard that the Minister spoke with them (I assume that means both OTPP and OTF as that is what I enquired about). I've asked for clarification. I'll let you know if I hear anything more .

N

From: Paul, Joshua (EDU)
Sent: September 30, 2016 6:49 PM
To: Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF)
Subject: Re: draft as discussed

I'm still holding, right?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Friday, September 30, 2016 3:28 PM

To: Paul, Joshua (EDU)

Subject: draft as discussed

From: Killoch, Alex (MOF) []
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: RE: otpp
Date: Thursday, September 15, 2016 14:42:13

I believe there has always been agreement on the FMP.

We have not been in a surplus position while I have been involved with the file, in the sense that we have always been in the restoring benefits zone of the FMP rather than spending any surplus. I don't know what the conversation would be like if we were in the benefit improvement zone, and Josh may correct me, but as we don't need to file a valuation annually, I would think failure to agree on what to do with a surplus would just postpone any filing for a while.

The issue of the discount rate that is used by the TPP Board has been referred to a third party, who has endorsed their rate.

From: Hatzis, Len (TBS)
Sent: Thursday, September 15, 2016 2:36 PM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS)
Subject: otpp

On phone with deloittes and outside lawyers - Has there even been mediation/arbitration over the funding management policy – ie have we just ended up always agreeing with teachers….

Len Hatzis

Deputy Director

Legal Services Branch | Treasury Board Secretariat

77 Wellesley Street West, 9th Floor, Toronto ON M7A 1N3

416.327.6393

This communication, including any attachments, is directed in confidence solely to the addressees listed herein, and may not otherwise be distributed, copied or used. This communication may also be subject to solicitor-client privilege, and all rights to that privilege are expressly claimed and not waived. If you have received this communication in error, please notify us by reply e-mail or by calling the telephone number above, and delete this communication, including any attachments, without making a copy. Thank you.

From: Fong, Pauline (TBS) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: rate comparison format
Date: Friday, September 23, 2016 10:16:11

Hi Nadine,

Can you clarify your request?

Pauline

From: Pomykacz, Rob (MOF)
Sent: September-23-16 10:06 AM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF); Killoch, Alex (MOF)
Subject: RE: rate comparison format

Hi Pauline,

We would need a better understanding of the purpose of this request. Are you looking for funding or accounting rates?

Notwithstanding which basis you're looking for, the information (aside from the three plans that the government sponsors or co-sponsors) is not available to us.

In terms of the sole sponsor table, (and again aside from the PSPP, which has a separate administrative board), there is no distinction between the sponsor and the plan (i.e., the administrator), as it is the same entity (i.e., the employer is the administrator and the sponsor).

Please let us know if you have any questions.

Rob

From: Fong, Pauline (TBS)
Sent: September 23, 2016 9:15 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF)
Subject: RE: rate comparison format

Hi Rob,

Nadine has asked the following below. Would your shop have this information for the respective plans?

Pauline

From: Petsche, Nadine (TBS)
Sent: September-22-16 7:35 PM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS)
Subject: rate comparison format

Hi Pauline.

Cindy has asked for a specific presentation format for our rate analysis that would help to segregate the rates between sole sponsored and jointly sponsored pension plans and compare them with the respective rates of the plans themselves.

My understanding is that she envisions a page summarizing the rates as follows:

Sole Sponsored PP

Jointly Sponsored PP

Sponsor Rate

Plan Rate

Sponsor Rate

Plan Rate

Can you please provide the details to Cindy when they are available. If you need any assistance due to workload, perhaps Ian can ask one of his team to help out.

Thanks.

Nadine

From: Pomykacz, Rob (MOF) []
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: RE: rate comparison format
Date: Friday, September 23, 2016 10:06:12

Hi Pauline,

We would need a better understanding of the purpose of this request. Are you looking for funding or accounting rates?

Notwithstanding which basis you're looking for, the information (aside from the three plans that the government sponsors or co-sponsors) is not available to us.

In terms of the sole sponsor table, (and again aside from the PSPP, which has a separate administrative board), there is no distinction between the sponsor and the plan (i.e., the administrator), as it is the same entity (i.e., the employer is the administrator and the sponsor).

Please let us know if you have any questions.

Rob

From: Fong, Pauline (TBS)
Sent: September 23, 2016 9:15 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF)
Subject: RE: rate comparison format

Hi Rob,

Nadine has asked the following below. Would your shop have this information for the respective plans?

Pauline

From: Petsche, Nadine (TBS)
Sent: September-22-16 7:35 PM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS)
Subject: rate comparison format

Hi Pauline.

Cindy has asked for a specific presentation format for our rate analysis that would help to segregate the rates between sole sponsored and jointly sponsored pension plans and compare them with the respective rates of the plans themselves.

My understanding is that she envisions a page summarizing the rates as follows:

Sole Sponsored PP

Jointly Sponsored PP

Sponsor Rate

Plan Rate

Sponsor Rate

Plan Rate

Can you please provide the details to Cindy when they are available. If you need any assistance due to workload, perhaps Ian can ask one of his team to help out.

Thanks.

Nadine

From: Manji, Shemin (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 13:38:19

Okay – I will wait for you to get back to me before I send the proposed changes to TBS counsel

From: Killoch, Alex (MOF)
Sent: Thursday, September 15, 2016 1:19 PM
To: Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: Re: regulation re: accounting treatment of pension surplussses in JSPPs

Will need to talk to OPCD then we can respond

From: Manji, Shemin (MOF)

Sent: Thursday, September 15, 2016 12:49 PM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs

Will you get back to me on this issue? or should I send my proposed changes to TBS counsel and suggest that “surplus” be defined. Since there is ambiguity as to what is meant by “surplus”?

From: Killoch, Alex (MOF)
Sent: Thursday, September 15, 2016 12:46 PM
To: Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: Re: regulation re: accounting treatment of pension surplussses in JSPPs

I am not sure we can say that the surplus has the same meaning as in PBA. It is an accounting surplusn not a funding surplus. Different assumptions for different purposes

so different surpluses.

We will consider further.

From: Manji, Shemin (MOF)

Sent: Thursday, September 15, 2016 12:39 PM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Alex and Rob,

See e-mail from Paul Kaufman (counsel at TBS) below. I have reviewed the proposed text and am not comfortable with all the wording proposed. I have suggested different wording. See my proposed changes below (and reasons for them). I don't think it is necessary to say that the Province is a joint sponsor (as well as a participating employer).

Please let me know if you are okay with my proposed changes ASAP.

Thank you

Shemin

Hi Paul,

I suggest amending the proposed text as follows:

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit where the Province is a participating employer in relation to a jointly sponsored pension plan that has a surplus. ~~in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.~~

"jointly sponsored pension plan" and "surplus" have ~~has~~ the same meaning as in the *Pension Benefits Act*.

The PBA does not use the word "co-sponsor" or "joint-sponsor" to describe an employer participating in a jointly sponsored pension plan. The PBA defines a "participating employer" in relation to a jointly sponsored pension plan as meaning "an employer required to make contributions to the pension fund". The only way the Province would be entitled to surplus in the first place is if the Province is a participating employer in a JSPP. My proposed changes reflect this.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Kaufman, Paul (TBS)
Sent: Thursday, September 15, 2016 10:56 AM
To: Manji, Shemin (MOF)
Subject: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Shemin,

As discussed, I would appreciate it if you could review the highlighted text below and let

me know if you have any concerns. The TBS clients have reviewed this text with Alex Killloch and Rob Pomykacz, fyi. Also, the unhighlighted text is likely going to be expanded upon to provide more detail. We'll share the complete text of the reg with you once we have a draft from leg counsel.

Thanks,

Paul

****

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"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Manji, Shemin (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 12:49:24

Will you get back to me on this issue? or should I send my proposed changes to TBS counsel and suggest that "surplus" be defined. Since there is ambiguity as to what is meant by "surplus"?

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Sent: Thursday, September 15, 2016 12:46 PM
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Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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Paul Kaufman

Counsel

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From: Manji, Shemin (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 12:39:32

Hi Alex and Rob,

See e-mail from Paul Kaufman (counsel at TBS) below. I have reviewed the proposed text and am not comfortable with all the wording proposed. I have suggested different wording. See my proposed changes below (and reasons for them). I don't think it is necessary to say that the Province is a joint sponsor (as well as a participating employer).

Please let me know if you are okay with my proposed changes ASAP.

Thank you

Shemin

Hi Paul,

I suggest amending the proposed text as follows:

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The PBA does not use the word "co-sponsor" or "joint-sponsor" to describe an employer participating in a jointly sponsored pension plan. The PBA defines a "participating employer" in relation to a jointly sponsored pension plan as meaning "an employer required to make contributions to the pension fund". The only way the Province would be entitled to surplus in the first place is if the Province is a participating employer in a JSPP. My proposed changes reflect this.

Shemin

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Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Kaufman, Paul (TBS)
Sent: Thursday, September 15, 2016 10:56 AM
To: Manji, Shemin (MOF)
Subject: regulation re: accounting treatment of pension surplussses in JSPPs

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As discussed, I would appreciate it if you could review the highlighted text below and let me know if you have any concerns. The TBS clients have reviewed this text with Alex Killloch and Rob Pomykacz, fyi. Also, the unhighlighted text is likely going to be expanded upon to provide more detail. We'll share the complete text of the reg with you once we have a draft from leg counsel.

Thanks,

Paul

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"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Paul Kaufman

Counsel

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To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Smook, Nick (TBS) [Nick.Smook@ontario.ca]
Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 14:46:19

Hi Shemin – thanks very much for this (and thanks Alex and Rob as well).

Paul

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

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From: Manji, Shemin (MOF)
Sent: September-15-16 2:43 PM
To: Kaufman, Paul (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Paul,

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"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Reason my proposed changes:

The PBA does not use the word "co-sponsor" or "joint-sponsor" to describe an employer participating in a jointly sponsored pension plan. The PBA defines a "participating employer" in relation to a jointly sponsored pension plan as meaning "an employer required to make contributions to the pension fund" (see ss. 1(1)). The only way the Province would be entitled to its share of the surplus in a jointly sponsored pension plan is if the Province is a participating employer in a JSPP. My proposed changes reflect this.

I would suggest that you define what you mean by "surplus" so the intended meaning is clear. I assume, because you have not defined "surplus" as being "surplus within the meaning of the PBA", that the intent is the PBA definition does not apply (i.e., the definition of surplus for plan funding purposes does not apply). However, if the definition in the PBA is not applicable what does "surplus" mean in this context?

Alex Killoch has had an opportunity to review my suggested changes and is okay with them.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

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Phone #: 416-326-0964

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To: Manji, Shemin (MOF)
Subject: regulation re: accounting treatment of pension surplussses in JSPPs

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From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: Actuary for expert panel
Date: Friday, October 07, 2016 12:30:58

No

I have asked to get his address. I did not have it as part of the golf, unfortunately. Will move it along asap

Have good weekend.

From: Veinot, Cindy (TBS)
Sent: Friday, October 7, 2016 12:21 PM
To: Killoch, Alex (MOF)
Subject: RE: Actuary for expert panel

Hi Alex,

We have a meeting with Greg and Helen re: moving this panel ahead on Tuesday. Would you be able to connect with the actuary you mention below before then to see if he is interested in having a conversation with me?

Thanks,

From: Veinot, Cindy (TBS)
Sent: October-06-16 5:20 PM
To: Killoch, Alex (MOF)
Subject: RE: Actuary for expert panel

That would be great – thanks,

Cindy

From: Killoch, Alex (MOF)
Sent: October-06-16 5:06 PM
To: Veinot, Cindy (TBS)
Subject: RE: Actuary for expert panel

I think I could get his email from the foursome we played in. It was a fundraiser scramble.

Would you like me to contact him to see if he would be interested in speaking to you?

From: Veinot, Cindy (TBS)
Sent: Thursday, October 06, 2016 5:00 PM
To: Killoch, Alex (MOF)
Subject: RE: Actuary for expert panel

Ok – how do we connect with him?

From: Killoch, Alex (MOF)
Sent: October-06-16 3:48 PM
To: Veinot, Cindy (TBS)
Subject: RE: Actuary for expert panel

Well, one name comes to mind.

The actuary who worked on the Teachers' Pension Plan on behalf of the OTF retired this summer. He would know the plan very well and might be suitable. I have no idea of his interest, although I did see him on the golf course this summer.

From: Veinot, Cindy (TBS)
Sent: Thursday, October 06, 2016 3:39 PM
To: Killoch, Alex (MOF)
Subject: Actuary for expert panel

Hi Alex,

In connection with setting up the expert panel, I'm looking for an actuary who has a high level of expertise in JSPPs. Ideally, it would be someone from one of the actuarial firms (could be retired). I've attached the terms of reference.

Would you be able to reach out to your actuarial contacts for suggestions. I don't think we'll be able to appoint someone who does work for the Province (e.g. Allan Shapira who has the skill set we would need), but thought he or your other contacts may have someone in their network with the required skills.

There is a report back date by the end of this calendar year, so we need to get moving on this.

Thanks,

Cindy

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Re: Additional Documentation
Date: Sunday, September 18, 2016 16:01:07
Attachment 1: image001.jpg

Excellent

From: Paul, Joshua (EDU)
Sent: Sunday, September 18, 2016 3:32 PM
To: Killoch, Alex (MOF)
Subject: Fw: Additional Documentation

Consistent?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Paul, Joshua (EDU) <Joshua.Paul@ontario.ca>
Sent: Sunday, September 18, 2016 3:24 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Additional Documentation

Ok, are they looking for a public document or will an email suffice?

When CIP was introduced, the government agreed to make 'share the pain' contributions above its normal contributions equivalent to the 'pain' felt by teachers related to reduced inflation protection (as long as that stayed within the 100 to 50 percent range).

When the partners started to restore inflation protection, the 'share the pain' extra contributions from govt go down proportionally.

So that's why 13.2B in surplus was reduced by 8.6 because 4.3 is the estimated future value of extra indexation (70 to 90) and 4.3 is the estimated future value of the extra govt contributions now foregone.

Does this work?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS)
Sent: Sunday, September 18, 2016 3:09 PM
To: Paul, Joshua (EDU); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: RE: Additional Documentation

Yesterday

From: Paul, Joshua (EDU)
Sent: September-18-16 3:09 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Additional Documentation

We'll see what we can up.

Timing?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Sunday, September 18, 2016 2:55 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Cc: Petsche, Nadine (TBS)

Subject: FW: Additional Documentation

Alex and Josh – see below re: Deloitte's question that is highlighted. Are you aware of a good summary of how the indexation of inflation works.

Thanks,

Thanks,

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September-18-16 2:48 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Additional Documentation

Hi Nadine,

After our call with the lawyers there are a couple of items that we were wondering if we could see:

1. The announcement that was made this week on the indexation of inflation to 90% is a tough concept to understand in how this reduces future funding requirements (I think the share the pain payment was specifically mentioned). Could someone on your team do a write up on what this means? Additionally, I believe that this indexation was increased in the past – would the write up be able to talk how future contributions were reduced in those instances as well.

2. Osler's has made reference to a 2012 term sheet. Could you get us a copy of this?

3. There was a memo from Lise Houlse (at Mercer's) to Mary Cover (Ontario Teachers' Pension Plan) dated June 17, 2016. Could we obtain this as well?

Kind regards,

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

D: 416-643-8428

mcolley@deloitte.ca | deloitte.ca

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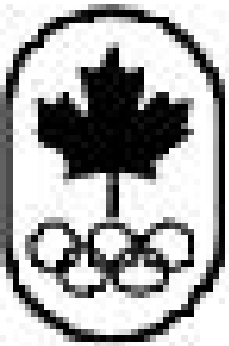

Deloitte.

NATIONAL
PARTNER

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
Subject: Re: Additional Documentation
Date: Sunday, September 18, 2016 16:07:25
Attachment 1: image001.jpg

It is hard to find the share the pain because our contributions are based on 100 indexation.

$13.2 billion preliminary funding valuation was as of January 1, 2016. The partners decided to use $8.6 billion of this amount to restore inflation protection.

The $8.6 billion cost of moving to 90% conditional inflation protection is made up primarily of two parts:

1. Approximately $4.3 billion increase in future payments to members, to provide inflation protection at 90% instead of 70%

2. Approximately $4.3 billion reduction in future “share the pain” payments by the Province to the Plan

That would leave $4.6 billion in the plan for contingencies. That would be split 50/50 with the OTF, so the value that could be attributed to government is $2.3 billion.

Hope that helps

Alex

From: Paul, Joshua (EDU)
Sent: Sunday, September 18, 2016 3:24 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Additional Documentation

Ok, are they looking for a public document or will an email suffice?

When CIP was introduced, the government agreed to make 'share the pain' contributions above its normal contributions equivalent to the 'pain' felt by teachers

related to reduced inflation protection (as long as that stayed within the 100 to 50 percent range).

When the partners started to restore inflation protection, the 'share the pain' extra contributions from govt go down proportionally.

So that's why 13.2B in surplus was reduced by 8.6 because 4.3 is the estimated future value of extra indexation (70 to 90) and 4.3 is the estimated future value of the extra govt contributions now foregone.

Does this work?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS)
Sent: Sunday, September 18, 2016 3:09 PM
To: Paul, Joshua (EDU); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: RE: Additional Documentation

Yesterday

From: Paul, Joshua (EDU)
Sent: September-18-16 3:09 PM
To: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Duffy, Paul (EDU); Roberto, Nicole (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Additional Documentation

We'll see what we can up.

Timing?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Sunday, September 18, 2016 2:55 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Cc: Petsche, Nadine (TBS)

Subject: FW: Additional Documentation

Alex and Josh – see below re: Deloitte's question that is highlighted. Are you aware of a good summary of how the indexation of inflation works.

Thanks,

Thanks,

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September-18-16 2:48 PM
To: Petsche, Nadine (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Additional Documentation

Hi Nadine,

After our call with the lawyers there are a couple of items that we were wondering if we could see:

1. The announcement that was made this week on the indexation of inflation to 90% is a tough concept to understand in how this reduces future funding requirements (I

think the share the pain payment was specifically mentioned). Could someone on your team do a write up on what this means? Additionally, I believe that this indexation was increased in the past – would the write up be able to talk how future contributions were reduced in those instances as well.

2. Osler's has made reference to a 2012 term sheet. Could you get us a copy of this?

3. There was a memo from Lise Houlse (at Mercer's) to Mary Cover (Ontario Teachers' Pension Plan) dated June 17, 2016. Could we obtain this as well?

Kind regards,

Matt

Matthew Colley

Sr. Manager | Audit Advisory

Deloitte LLP

22 Adelaide Street West,

Toronto, Ontario,

M5H 4E3

D: 416-643-8428

mcolley@deloitte.ca | deloitte.ca

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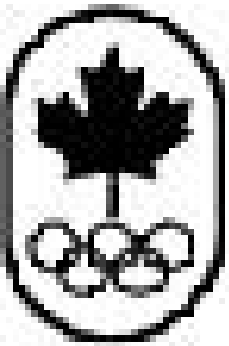

Deloitte.

NATIONAL
PARTNER

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Cabinet_Binder_Note_ OTPP Asset in the Public Accounts v.01 19-09-2016
Date: Monday, September 19, 2016 18:08:39

Odd that they are doing a note

From: Pomykacz, Rob (MOF)
Sent: Monday, September 19, 2016 4:55 PM
To: Killoch, Alex (MOF)
Subject: FW: Cabinet_Binder_Note_ OTPP Asset in the Public Accounts v.01 19-09-2016

We have issues with this note. We're going to call Nicole to discuss.

From: Roberto, Nicole (EDU)
Sent: September 19, 2016 4:39 PM
To: Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Duffy, Paul (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: Cabinet_Binder_Note_ OTPP Asset in the Public Accounts v.01 19-09-2016
Importance: High

Hi Rob,

Further to our chat please find attached our draft cabinet note for our Minister. We've included a reference to the potential financial impact for EDU's plan at the beginning of the EDU implications section. Can you please review let us know if you have any additional feedback we should include?

Thanks,

Nicole

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Can you help?
Date: Friday, September 23, 2016 12:04:07

Completely agree.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Friday, September 23, 2016 12:03 PM
To: Paul, Joshua (EDU)
Subject: RE: Can you help?

Agreed, my push back on searching for old surveys was met with a Karen Hughes email. So, amazingly, we found it in a file room in the basement. How Steve remembers this stuff is beyond me, he was adm of OBT in 2007 so his file, but I don't remember August.

Rob assures me it will take time for the OTF to agree to provide a letter that we will likely want to waive around in some public fashion once the AG has opined.

From: Paul, Joshua (EDU)
Sent: Friday, September 23, 2016 11:58 AM
To: Killoch, Alex (MOF)
Subject: Re: Can you help?

I agree. But I can't distinguish whether this is off hand thought or urgent request from top.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Friday, September 23, 2016 11:50 AM

To: Paul, Joshua (EDU)

Subject: FW: Can you help?

Seems ineffective to rush off to request that the OTF confirm something that our external legal advisors have already reviewed.

I would think that we should be provided a better understanding of how this helps move an AG who seems set in her views. If we don't move her, then there will be lots to discuss with the OTF once the PA are released.

From: Di Renzo, Stephen (EDU)
Sent: Friday, September 23, 2016 11:46 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Duffy, Paul (EDU)
Subject: RE: Can you help?

Also from the FMP Article IV - Funding Zone – Temporary Improvements:

Section 4.05

Conditions on Application of Excess: Subject to Article VI and Section 4.06, the partners may apply all or part of the commitment value to change temporarily current contributions, provide surplus distributions on a temporary basis, or provide a temporary

benefit improvement, provided that no amendment shall be made unless, after such amendment, the excess of assets over revised liabilities is equal to or greater than zero. (Last amended May 27, 2015 – Effective March 6, 2015)

From: Di Renzo, Stephen (EDU)
Sent: September 23, 2016 11:01 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Duffy, Paul (EDU)
Subject: FW: Can you help?

Alex/Rob,

Our understanding is the FMP does allow for the contributions to be decreased only when (a) the plan is in a surplus position and (b) the contribution rate is higher than the basic contribution levels set out in Schedule 1. Based on the current funded status of the plan, the contribution rates could be changed as they exceed the basic contribution levels by 1.1% (see below). I spoke to Ross briefly and he is under the same impression – I am currently looking through the JSPP to make sure our understanding is correct and will report back with any new findings.

Current contribution levels for 2016:

11.5% of your annual salary up to the CPP limit, plus

13.1% of any salary above the CPP limit.

Basic contribution levels in Schedule 1:

10.4% of your annual salary up to the CPP limit, plus

12.0% of any salary above the CPP limit.

Here is the section in the FMP (keep I mind there are other options depending on the current plan status):

Section 1.05 of the This Funding Management Policy states the following shall be applied as follows:

(a) *If there is a restoration basis excess when current contributions exceed basic contributions and/or current benefits are less than run-rate benefits, the excess can be used to reduce contributions and/or increase benefits*

Steve

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Friday, September 23, 2016 10:34 AM

To: Paul, Joshua (EDU); Petsche, Nadine (TBS)

Cc: Sekaly, Gabriel (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)

Subject: RE: Can you help?

I think that whether it is a renegotiation or an interpretation is somewhat in the hands of the OTF.

Ideally, it is just an interpretation, but they have already agreed to the FMP which contemplates a contribution holiday, so are we just asking OTF to confirm our interpretation?

From: Paul, Joshua (EDU)
Sent: Friday, September 23, 2016 10:28 AM

To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Sekaly, Gabriel (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: Re: Can you help?
Importance: High

Three points:

1. Are you simply looking for a statement like "without prejudice to future agreements between the partners, OTF confirms that under the framework set out in the FMP it is possible for contributions to be reduced or raised."?

Alex/Rob, would you consider that a renegotiation or rather a simplistic interpretation? The former would be near impossible to do quickly, the latter may be possible subject to 2 and 3 below.

2. If that is possible (and therefore not a renegotiation of FMP rather a simple interpretation of it), we would stil need to get green light at highest level to request such a letter.

3. As the turnaround would depend on OTF's reaction it is not possible to predict how long it would take.

We will also sound Ross out on this issue.

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Friday, September 23, 2016 10:03 AM

To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Cc: Sekaly, Gabriel (EDU); Pomykacz, Rob (MOF)

Subject: Re: Can you help?

No, it's just to help to make sure that the substance of the arrangement can be taken into account. Otherwise, when one looks at the agreement in place as noted in schedule 1 under the standard it would require calcs assuming. The current payments identified are minimum required payments to be made in perpetuity, regardless of a surplus position.

Does this seem like a problematic request?

N

From: Killoch, Alex (MOF)

Sent: Friday, September 23, 2016 9:57 AM

To: Petsche, Nadine (TBS); Paul, Joshua (EDU)

Cc: Sekaly, Gabriel (EDU); Pomykacz, Rob (MOF)

Subject: RE: Can you help?

Aren’t they basically asking EDU to renegotiate the FMP?

From: Petsche, Nadine (TBS)
Sent: Friday, September 23, 2016 9:54 AM
To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Cc: Sekaly, Gabriel (EDU); Pomykacz, Rob (MOF)
Subject: Can you help?
Importance: High

Just got off the phone with PwC. They think it would be VERY helpful to get a statement from OTF reflecting that the contributions that are currently laid out schedule 1 are not minimum contributions agreed to in perpetuity but at best they are the min contributions until they are renegotiated (must occur when there is a funding surplus).

Do you think we can get such a statement, and if so, then how soon?

Thanks!

Nadine

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Derivation of the $4.3B Reduction
Date: Saturday, September 24, 2016 08:32:46

Sorry

My BlackBerry randomly pastes in messages when I use the letter "v" so when I type "valuation" it pastes from something else. It is a known glitch.

Here is message again:

Both were more complicated than 2016. In 2014 indexation was below 50 percent so the valuation does not reflect dollar for dollar matching for share all the pain . Remember that we only match down to 50 percent.

In 2015 there was also a change to the discount rate after the preliminary discount rate was established. That makes it hard to compare the preliminary valuation against what we decided.

From: Petsche, Nadine (TBS)
Sent: Friday, September 23, 2016 10:00 PM
To: Killoch, Alex (MOF)
Subject: Re: Derivation of the $4.3B Reduction

Thanks Alex. Not sure about some of the terminology used in the first para. Can you please confirm the message is as intended (i.e. Gol golfed).
In terms of where we are at, we're expecting an opinion from Deloitte sometime this weekend. In the meantime., Cindy and I will be drafting a position paper with our recommended accounting position. Materials will be provided to the AG over the weekend as they come due, and hopefully we hear back from the AG on Monday if she's willing to be flexible. Keeping our fingers crossed. Based on discussion s with the accountnts today, seems like we're in a better place, but still no certainty wrt what DT will say and how the AG will react. N

From: Killoch, Alex (MOF)
Sent: Friday, September 23, 2016 9:37 PM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Derivation of the $4.3B Reduction

Hi Nadine

We worked up the attached explanation for the splits in 2014 and 2015.

Hopefully this helps.

Where are we at?

Alex

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Derivation of the $4.3B Reduction
Date: Friday, September 23, 2016 11:11:35

Hi Alex.
The support for the indexing decisions can follow the teacher's survey results. The former is for OAG support, and the latter is for our external accounting advisors (bigger priority). N

From: Killoch, Alex (MOF)
Sent: Friday, September 23, 2016 10:57 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Subject: RE: Derivation of the $4.3B Reduction
(

We have not yet located the 2014 preliminary funding, which we will need for this.

Rob is in the basement filing room looking for a survey from 2007, so I need to understand what is the ordering for requests?

From: Petsche, Nadine (TBS)
Sent: Friday, September 23, 2016 10:51 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: Derivation of the $4.3B Reduction

Alex/Rob,

Please see Cindy's note below. How soon can we get the similar analysis for all three years of indexation improvements? Nadine

From: Veinot, Cindy (TBS)
Sent: September 23, 2016 9:38 AM
To: Petsche, Nadine (TBS)
Subject: RE: Derivation of the $4.3B Reduction

We need this for all three years

I agree let's share this with the AG

Cindy

From: Petsche, Nadine (TBS)
Sent: September-22-16 7:37 PM
To: Veinot, Cindy (TBS)
Subject: FW: Derivation of the $4.3B Reduction

I think that the firms might already have this info. Do we want to share with the OAG?
N

From: Pomykacz, Rob (MOF)
Sent: September 22, 2016 4:58 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU); Roberto, Nicole (EDU); Tsang, Ingrid (MOF)
Subject: Derivation of the $4.3B Reduction

As requested, please find attached an explanation of the derivation of the $4.3B reduction in the present value of the government's share the pain payments. Also attached are the two supporting OTPP slide decks.

We do not have any material from the OTPP confirming the $8.6B.

Josh/Nicole, would you have any documents from the OTPP showing this amount?

Rob

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Derivation of the $4.3B Reduction
Date: Saturday, September 24, 2016 08:58:03

Apparently the cure is to open new message and paste the clipboard again. Then delete that message. Something of a glitch

From: Petsche, Nadine (TBS)
Sent: Saturday, September 24, 2016 8:43 AM
To: Killoch, Alex (MOF)
Subject: RE: Derivation of the $4.3B Reduction

Thought so (because it has happened to me beforeJ). Thx. n

From: Killoch, Alex (MOF)
Sent: September-24-16 8:33 AM
To: Petsche, Nadine (TBS)
Subject: Re: Derivation of the $4.3B Reduction

Sorry

My BlackBerry randomly pastes in messages when I use the letter "v" so when I type "valuation" it pastes from something else. It is a known glitch.

Here is message again:

Both were more complicated than 2016. In 2014 indexation was below 50 percent so the valuation does not reflect dollar for dollar matching for share all the pain . Remember that we only match down to 50 percent.

In 2015 there was also a change to the discount rate after the preliminary discount rate was established. That makes it hard to compare the preliminary valuation against what

we decided.

From: Petsche, Nadine (TBS)

Sent: Friday, September 23, 2016 10:00 PM

To: Killoch, Alex (MOF)

Subject: Re: Derivation of the $4.3B Reduction

Thanks Alex. Not sure about some of the terminology used in the first para. Can you please confirm the message is as intended (i.e. GoI golfed).

In terms of where we are at, we're expecting an opinion from Deloitte sometime this weekend. In the meantime., Cindy and I will be drafting a position paper with our recommended accounting position. Materials will be provided to the AG over the weekend as they come due, and hopefully we hear back from the AG on Monday if she's willing to be flexible. Keeping our fingers crossed. Based on discussion s with the accountnts today, seems like we're in a better place, but still no certainty wrt what DT will say and how the AG will react. N

From: Killoch, Alex (MOF)

Sent: Friday, September 23, 2016 9:37 PM

To: Petsche, Nadine (TBS)

Cc: Pomykacz, Rob (MOF)

Subject: Derivation of the $4.3B Reduction

Hi Nadine

We worked up the attached explanation for the splits in 2014 and 2015.

Hopefully this helps.

Where are we at?

Alex

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Re: Draft FSD&A
Date: Tuesday, September 27, 2016 10:47:30

Drafts are paper copy only. Edits only accepted by paper at this point.

From: Talwar, Garima (MOF)
Sent: Tuesday, September 27, 2016 10:15 AM
To: Killoch, Alex (MOF)
Subject: RE: Draft FSD&A

Yes please – with a copy to Leah.

From: Killoch, Alex (MOF)
Sent: September 27, 2016 10:14 AM
To: Talwar, Garima (MOF)
Subject: Fw: Draft FSD&A

We are reviewing now

Comments can go straight to Nadine I assume.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Tuesday, September 27, 2016 10:04 AM

To: Killoch, Alex (MOF); Myers, Leah (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Draft FSD&A

Alex/Leah,

Just letting you know that copies of the draft FSD&A are being delivered to you shortly. Two alternative versions have been prepared at this time:
1) Status Quo – reflecting consistent treatment with the Pension Assets for OTPP and OPSEUPP as used in the past

2) Legislated Accounting version which reflects the AG's view that the Pension Assets for OTPP and OPSEUPP are impaired under PSAB (write-off of $10.6B of assets, $1.5B increase in 2015-16 deficit).

Discussions with the AG continue. Many thanks to Alex and team for their ongoing support and patience as we work to finalize the numbers for this year's Public Accounts.

Regards,

Nadine

From: Killoch, Alex (MOF) []
To: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Expert Panel - HOOPP Trust Agreement
Date: Monday, December 19, 2016 17:19:38

Hi Nelson

I don't think we would have it. We are not involved in HOOPP or its governance.

From: Tam, Nelson (TBS)
Sent: Monday, December 19, 2016 4:18 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: Expert Panel - HOOPP Trust Agreement

Alex, Rob

The Panel requested the HOOPP Trust Agreement. We are trying to get the document and no response yet.

Do you have a copy of the HOOPP Trust Agreement? If yes, please share so I can send to the Panel.

Thanks

Nelson

X20514

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: Re: Expert Panel
Date: Thursday, January 26, 2017 11:12:53

Well that's good news.

I agree that it will not generate a lot of buzz in OTF.

But of course, if we can extend to them a courtesy heads up that will be appreciated. Not extending the courtesy will be noticed.

Sent from my iPhone

On Jan 26, 2017, at 9:45 AM, Killoch, Alex (MOF) <Alex.Killoch@ontario.ca> wrote:

> Hi Josh
>
> I have been asked about whether there will be any stakeholder reaction to the release of the expert report. I have not read it but I understand it will confirm OPCD's opinion.
>
> The OTF has not had much to say about this so I am assuming no stakeholder reaction to a report confirming our historic treatment.
>
> Make sense?
>
> I have asked to see the comms material for the release.
>
> Alex

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: Re: Extracts from Pension Asset Position Paper
Date: Tuesday, November 15, 2016 10:57:57

I believe Paul is attending w Ross as i'm acting for Gabe this week/month.

Is there something you wanted us to focus on?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Tuesday, November 15, 2016 9:52 AM
To: Paul, Joshua (EDU)
Subject: RE: Extracts from Pension Asset Position Paper

Hi Josh

I have an invite to a meeting today to review your presentation to the Expert Panel on the OTPP.

Do you have anything you can share in advance?

From: Paul, Joshua (EDU)
Sent: Monday, November 14, 2016 11:32 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

See below for comments from Paul and his team.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Duffy, Paul (EDU) <Paul.Duffy@ontario.ca>

Sent: Monday, November 14, 2016 9:09 PM

To: Paul, Joshua (EDU)

Subject: FW: Extracts from Pension Asset Position Paper

Only one small comment on page 4 where they outline the special contributions, wondering if it would be helpful to add the avg special contribution made by government since 2011 – roughly $1.5B per year. We'll add in the morning and share again. Other than that, no comments. Rob was pretty thorough.

From: Duffy, Paul (EDU)
Sent: November 14, 2016 1:44 PM
To: Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: FW: Extracts from Pension Asset Position Paper

Steve and Nicole, I'd like you to both review the attached (and the extract). Ideally for end of day.

Paul

From: Paul, Joshua (EDU)
Sent: November 14, 2016 1:40 PM
To: Duffy, Paul (EDU)
Subject: Fw: Extracts from Pension Asset Position Paper

Comments?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>

Sent: Monday, November 14, 2016 1:38 PM

To: Petsche, Nadine (TBS)

Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)

Subject: RE: Extracts from Pension Asset Position Paper

Hi Josh

Attached are our comments on the extracts

Alex

From: Petsche, Nadine (TBS)
Sent: Monday, November 14, 2016 1:23 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Keates, James (TBS); Paul, Joshua (EDU)
Subject: RE: Extracts from Pension Asset Position Paper

Hi Alex. Thanks for getting back to me. I had not shared the email with EDU, so I am copying Josh on this response. I'll look forward to hearing back from both of you on any comments/edits (if possible by end of day today, that would be much appreciated).

Thanks.

Nadine

From: Killoch, Alex (MOF)
Sent: November 14, 2016 9:35 AM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: Re: Extracts from Pension Asset Position Paper

Hi Nadine

Has this gone to EDU? They should see it as they are the signatory to the FMP.

We will look at it asap

From: Petsche, Nadine (TBS)

Sent: Sunday, November 13, 2016 5:18 AM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: Extracts from Pension Asset Position Paper

Hi Alex.

Sorry to bother you (again), but we`re hoping to finalize the position paper for the Panel early this week. Cindy will be back in the office tomorrow and will want to review any updates.

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Nadine

Extracts from November 13th version of Position Paper:

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with so that the funding valuation becomes actuarially balanced*. In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus*. This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase[KJ(1)] in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) to exceed the amount of contributions paid by or on behalf of active members in respect of credited service for the year[1] (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the

regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.

3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right[KJ(2] [2])[3], and the requirement to negotiate and agree (or in the absence of agreement, arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.

4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of “good faith” negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, a decrease in benefits by the employees were offset by an increase in payments by the Province. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this increase in benefits resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of $7.8 billion ($4.3B for the 2016 change,$1.98B for the 2015 change, and $1.68B for the 2014 change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province’s contributions, even when there are decreases or increases to benefits for employees.

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- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated[KJ(3)] . This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.

- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.

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Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

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The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plans to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

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[NP6]Check if anything more recent?

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Extracts from Pension Asset Position Paper
Date: Monday, November 14, 2016 10:35:04

Hi Nadine

Has this gone to EDU? They should see it as they are the signatory to the FMP.

We will look at it asap

From: Petsche, Nadine (TBS)
Sent: Sunday, November 13, 2016 5:18 AM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: Extracts from Pension Asset Position Paper

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From: Manji, Shemin (MOF) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Hanslep, Malle (MOF) [Malle.Hanslep@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: FAA Reg re: 15/16 accounting practices
Date: Sunday, September 18, 2016 09:17:46

Paul,

I would recommend not saying anything about the Province contributing on behalf of the employer.

Shemin

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Kaufman, Paul (TBS)
Sent: Sunday, September 18, 2016 8:16 AM
To: Manji, Shemin (MOF)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: RE: FAA Reg re: 15/16 accounting practices

Shemin, thanks a lot for this. in light of your last sentence, do you think it would work to say "under which the province is a participating employer or to which the province contributes on behalf of an employer"?

if you think there is a problem with that construction, i'll just go with your other suggestion of removing references to the province as a participating employer altogether, assuming OPCD can confirm that we aren't recognizing an asset in connection with any other JSPP.

From: Manji, Shemin (MOF)
Sent: Sunday, September 18, 2016 7:38 AM
To: Kaufman, Paul (TBS)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS); Killoch, Alex (MOF)
Subject: Re: FAA Reg re: 15/16 accounting practices

Paul,

Under the ITA the Province cannot make contributions unless it is a participating employer, which is defined in the PBA in relation to a jointly sponsored pension plan as "as a employer required to make contributions to the pension fund". If Province makes

contributions otherwise (not as an employer) it would not be authorized under the ITA and my concern is that it would put the registration of such plans at risk.

I suggest leaving the words "or to which the Province makes contributions" out or alternatively leave out the words "under which the Province is a participating employer". If the Province is not contributing as employer it must be contributing on behalf of an employer.

Shemin

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Kaufman, Paul (TBS)
Sent: Saturday, September 17, 2016 11:36 AM
To: Manji, Shemin (MOF)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS)
Subject: FAA Reg re: 15/16 accounting practices

Hi Shemin - we are still working on an FAA reg re: accounting practices for 15/16 as one possible way of resolving the public accounts issues we are dealing with. in the course of drafting it occurred to me that for the OTPP the Province does not contribute to the plan as an employer, so I've added some wording to the draft reg to account for this - could you have a look at the highlighted text below and let me know if you think it is problematic (I'm thinking "in respect of" might be better than "to" in that wording)? also you'll note that we're avoiding the use of the word "surplus" so the concern about how that term is used under the PBA vs by the accountants is hopefully moot. if you are able to have a quick look today i'd appreciate it but if not we'll incorporate any feedback you have in a subsequent draft.

Thanks.

Paul

Change in accounting policies and practices for the 2015/2016 fiscal year

3. (1) The consolidated financial statements of the Province set out in the Public Accounts for the fiscal year ending March 31, 2016, including comparative financial results for the fiscal year ending March 31, 2015, shall be prepared on a basis that:

(a) in respect of any jointly sponsored pension plan under which the Province is a participating employer or to which the Province makes contributions, deems a carrying value of zero in instances where the Province would have otherwise recorded an asset before any valuation allowance; and

(b) reflects the change required under clause (a) in all related liability, expense and accumulated deficit balances as if it had been implemented effective April 1, 2014.

(2) For greater certainty, any change to the comparative financial results for the fiscal year ending March 31, 2015 required under subsection (1) does not constitute a restatement of the consolidated financial statements of the Province for that fiscal year.

(3) In this section,

"jointly sponsored pension plan" has the same meaning as in the Pension Benefits Act. ("French");

From: Manji, Shemin (MOF) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Hanslep, Malle (MOF) [Malle.Hanslep@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: FAA Reg re: 15/16 accounting practices
Date: Sunday, September 18, 2016 07:38:49

Paul,

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I suggest leaving the words "or to which the Province makes contributions" out or alternatively leave out the words "under which the Province is a participating employer". If the Province is not contributing as employer it must be contributing on behalf of an employer.

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Sent: Saturday, September 17, 2016 11:36 AM
To: Manji, Shemin (MOF)
Cc: Hanslep, Malle (MOF); Hatzis, Len (TBS)
Subject: FAA Reg re: 15/16 accounting practices

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“jointly sponsored pension plan” has the same meaning as in the Pension Benefits Act. (“French”);

From: Provis, Ian (TBS) []
To: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
Subject: Re: FAA Reg re: 15/16 accounting practices
Date: Saturday, September 17, 2016 12:54:19

Looks really good. I wonder where or to which the Province makes contributions came from. I will check with Alex on what this might capture.

At first I was a little concerned about the talk on 14-15. But reading it carefully it seems ok using change 14-15 and with the clarification of not restating the original.

With nadines suggestion on asset we might as well include revenue as well to be fully inclusive

Thanks Ian

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Kaufman, Paul (TBS)
Sent: Saturday, September 17, 2016 11:22
To: Provis, Ian (TBS)
Cc: Petsche, Nadine (TBS); Veinot, Cindy (TBS); Hatzis, Len (TBS)
Subject: FAA Reg re: 15/16 accounting practices

Hi Ian - we're trying to keep moving the reg forward - sorry for bothering you over the weekend but your views on this today would be appreciated. A revised version of the reg text is attached (and set out below in case you are on black berry) - this reflects your most recent input and some thoughts Nick had as well. Leg counsel might fiddle with some wording and we are going to seek input from MOF legal on the pension terminology, but can you let me know if this accurately reflects the accounting treatment, as that is obviously the key issue?

Change in accounting policies and practices for the 2015/2016 fiscal year

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(3) In this section,

"jointly sponsored pension plan" has the same meaning as in the Pension Benefits Act. ("French");

Commencement

2. This Regulation comes into force on the day it is filed.

From: Patel, Lesley (MOF) []
To: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Wynberg, Lynsey (OFA) [Lynsey.Wynberg@ofina.on.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: Re: Fact check - PAEAP report Q&A - Tuesday EOD
Date: Tuesday, February 07, 2017 08:52:01

Hi all - there's a story out. See below.

Could those areas that have still not provided edits to QA please provide as soon as possible given these new circumstances.

Thanks,
Lesley

Auditor's battle of the books may prove costly

- **Star Touch**
- **Tue Feb 7 2017**
- **Section:** NEWS
- **Byline:** Martin Regg Cohn
- **Source:** Star Touch

There are political overtones and economic consequences. Billions of dollars are at stake. Reputations, too.

Billions of dollars are at stake in a simmering dispute pittingOntario‘s auditor general against the provincial government. With the spring budget looming, neither side is backing down.

Now, an outside panel of top accounting and pension experts has determined that auditor general Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets, according to multiple sources.

But the auditor tells me she won’t climb down, setting the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone.

The independent pension asset expert panel met her Friday to reveal their findings - explaining why they concluded the pension surplus is a legitimate asset on the

government’s books. Their report will be made public later this month, giving Lysyk more breathing room to reconsider her position before the budget deadline.

The government - and all Ontarians - may pay a price for this seemingly arcane accounting dispute if the auditor’scontroversial stance constrains its fiscal margin of manoeuvre, notably Liberal plans to reallocate funds forhydro relief or other spending. Fearing another creditdowngrade from outside rating agencies, or an electoraldowngrade from the official opposition, Premier KathleenWynne has turned a balanced budget into an article of faith.

But Wynne never accounted for an accounting dispute, which made her deficit elimination goal more complicated.

Lysyk announced last year that she was overturning the rules that allowed governments to book billions of dollars in surpluses for jointly-run pensions deemed provincial assets. First implemented under a PC government, and carried over by the Liberals, the traditional auditor’s approach enhancedOntario‘s fiscal picture.

Now Lysyk has changed her mind. Yet she seems to be having it both ways.

On the one hand, the auditor says (naturally) that any deficits in joint pension funds must be counted as government liabilities. That’s standard practice.

But with a pension surplus, Lysyk now says not a penny can be counted as an asset. Neither a liability nor a surplus, these billions of dollars are being treated as trans-assets, transmogrified by the auditor into phantom money - a virtual disappearing act.

It’s tempting to cast this as a political dispute between Liberal partisans and a politicized auditor. But that would be a misreading of the battle lines.

The most vociferous opposition to Lysyk’s position comes from the civil servants who count up the money in the provincial treasury. The auditor, in turn, is as mistrustful of the public servants as she is of their political masters.

Lysyk challenged the controller in the government’s treasury board - senior civil servant Cindy Veinot - to provide her with additional evidence that the pension money should continue to be treated as an accounting surplus. But when outside accounting consultant Deloitte LLP corroborated that position, the auditor balked. According to multiple sources, Lysyk dismissed the Deloitte submission as being biased - claiming a conflict of interest because Veinot had previously been a partner at Deloitte, and because the firm was paid a fee.

Lysyk acknowledged such fees are standard practice.

But she would not comment on whether Deloitte was biased because a former partner

was now a public servant.

Deadlocked, the government announced an independent panel on Public Service Accounting Standards, headed by a former chair of the Canadian Actuarial Standards Oversight Council. The expert panel reached its own conclusions:

Like a deficit, a surplus belongs to employers provided theycomply with basic rules. Jointly-held pensions aren't that much more complicated - as with a joint bank account or jointly held GIC, both parties hold a proportionate share of the asset.

Lysyk wouldn't discuss Friday's meeting with the independent panel of experts, or its findings to date. Asked about the panel's credentials, she countered, "we did our homework, and we did a lot of work."

The auditor told me her mind is made up, and nothing she has heard so far has changed her view. Which leaves her on a limb, and the government in the lurch.

If both sides harden their positions, the auditor may refuse to fully endorse the treasury's public accounts, and the government may opt to go its own way - providing detailed explanations to credit rating agencies to disprove the auditor's stance.

There are political overtones to this dispute, and economic consequences. The opposition will side with the godly auditor against a big bad Liberal government. But the financial and accounting community will make up its own mind when they look at the books, and the detailed explanations.

Billions of dollars are at stake, to be sure. Reputations, too.

Martin Regg Cohn's column appears Tuesday, Thursday and Saturday.

- **Length:** 794 words

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Birks, Ryan (MOF)
Sent: Monday, February 6, 2017 1:31 PM
To: Patel, Lesley (MOF); Wynberg, Lynsey (OFA)
Cc: Tarin, Ghufran (MOF); Buckland Foster, Jamie (MOF)
Subject: RE: Fact check - PAEAP report Q&A - Tuesday EOD

Hi Lesley,

OB will be reviewing the relevant Qs & As.

Lynsey, will you area be reviewing Q4?

Thanks,

Mina *for Ryan*

From: Tarin, Ghufran (MOF)
Sent: February-06-17 1:29 PM
To: Patel, Lesley (MOF); Birks, Ryan (MOF); Wynberg, Lynsey (OFA); Buckland Foster, Jamie (MOF)
Subject: RE: Fact check - PAEAP report Q&A - Tuesday EOD

Hi Lesley,

There is nothing for us (OEP) in here.

Thanks,

Ghufran

From: Patel, Lesley (MOF)
Sent: February-06-17 1:08 PM
To: Birks, Ryan (MOF); Wynberg, Lynsey (OFA); Buckland Foster, Jamie (MOF); Tarin, Ghufran (MOF)
Subject: Fact check - PAEAP report Q&A - Tuesday EOD
Importance: High

Hi all,

Please find attached a draft Q&A from TBS on the release of the Pension Asset Expert Advisory Panel's Report for review. I've looped in a few policy areas to make sure we are covered off but could you please let me know if your area will be reviewing.

Please also track your changes in the attached document to return to me by EOD Tuesday.

This TBS announcement is still up in the air but as of this moment, we are still tracking for February 13. I will share with you as I get information about what the details will look like.

If you have any questions, please let me know.

Thanks,

Lesley Patel
Senior Communications Advisor
Strategic Communications
Communications Services Branch
Ontario Ministry of Finance
lesley.patel@ontario.ca

416-212-1439

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Keates, James (TBS) [James.Keates@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Re: Funding Valuation Discount Rates
Date: Monday, November 14, 2016 12:02:25
Attachment 1: image001.jpg

Hi Alex.
We were hoping you might be able to help populate the table. Any ideas how to get the details? N

From: Killoch, Alex (MOF)
Sent: Monday, November 14, 2016 10:54 AM
To: Keates, James (TBS)
Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)
Subject: RE: Funding Valuation Discount Rates

Hi James

We don't track these plans and don't have discount rate information available. Are they available publicly somewhere?

From: Keates, James (TBS)
Sent: Monday, November 14, 2016 10:40 AM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF); Petsche, Nadine (TBS)
Subject: Funding Valuation Discount Rates

Alex, could you help us with completing the below table. We would like to compare the most recent discount rates used by certain pension plans across the country, comparing the discount rate for financial statement purposes with the discount rate used for funding valuation purposes. Would you be able to provide the most recent discount rates used for funding valuation purposes for the following pension plans?

Thanks,

Jim

Pension Plan

Discount rate for Funding Purposes

Discount rate for financial statement purposes

Ontario

Ontario Teachers’ Pension Plan

4.85%

3.25%

Alberta

Teachers’ Post-1992 Pension Plan

7.00%

Saskatchewan

Saskatchewan Healthcare Employees' Pension Plan

6.50%

British Columbia

Teachers’ Pension Plan

6.50%

Quebec

Commission administrative des regimes de retraite et d'assurances

6.40%

Nfld

Memorial University of Newfoundland Pension Plan

5.80%

Nova Scotia

Nova Scotia Teachers' Pension Plan

6.25%

Manitoba

Teachers Pension Plan

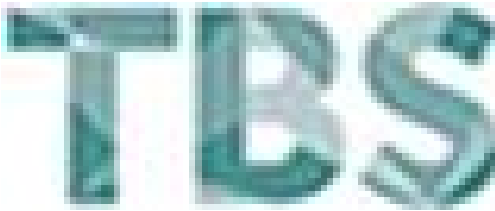
6.00%

Jim Keates, MBA, CPA, CA

Office of the Provincial Controller Division | Treasury Board Secretariat

2nd Floor Frost South, Toronto

james.keates@ontario.ca | 416 327-2721


TBS

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: ITC
Date: Monday, March 19, 2018 09:50:00
Attachment 1: image001.png

Yeah, bit hard to understand the context

From: Pomykacz, Rob (MOF)
Sent: Monday, March 19, 2018 9:44 AM
To: Killoch, Alex (MOF)
Subject: RE: ITC

Reading the ITC to see what risks they're talking about…

From: Killoch, Alex (MOF)
Sent: March 19, 2018 9:37 AM
To: Pomykacz, Rob (MOF)
Subject: Fw: ITC

Can you take a stab at this.

Note the short timeline

Alex

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>

Sent: Monday, March 19, 2018 9:19 AM

To: Killoch, Alex (MOF)

Subject: RE: ITC

Hi Alex,

I have back to back meeting until 12 today and our meeting to discuss Cindy's points is scheduled for 11:45.

Question below is based on question #9 of the ITC.

9. If you support a discount rate basis that includes adjustments for risks, which risks should be included in determining the discount rate (paragraphs .040-.046 and .080-.082)?

Ontario supports using the expected return on plan assets as the discount rate for funded plans and the government's cost of borrowing for unfunded plans.

That's the answer provided. Can we expand on this answer to include a discussion on what risks (if any) we consider for the discount rates used?

Thanks

Khal

From: Killoch, Alex (MOF)
Sent: March 19, 2018 9:12 AM
To: Noor, Khalida (TBS)
Subject: RE: ITC

Can we discuss a bit later this morning? Any time after 10:30

At little context might be helpful for me.

From: Noor, Khalida (TBS)
Sent: March 19, 2018 9:07 AM
To: Killoch, Alex (MOF)
Subject: ITC

Hi Alex,

Hope you had a good weekend. Cindy has reviewed the document and she had some follow-up questions. Can you please help me address below?

What risks do we / should we consider in determining the following discount rates?

- Expected return on plan assets for funded plans; and
- Government's cost of borrowing for unfunded plans

Thanks

Khal

Khalida Noor, CPA, CA

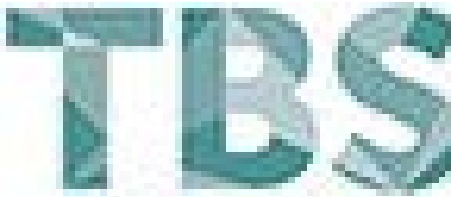
Director, Controllership Policy & Accounting Consultation

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 325-2631

Khalida.noor@ontario.ca


TBS

From: Veinot, Cindy (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Invite for meeting tomorrow
Date: Thursday, October 20, 2016 09:18:49

Yes Friday. All the days are blending together. I guess. It wasn't so short notice after all!

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Thursday, October 20, 2016 09:01
To: Veinot, Cindy (TBS)
Subject: Re: Invite for meeting tomorrow

Hi Cindy

I received an invite for Friday afternoon but not one for today. Just confirming I have correct invite.

Alex

From: Veinot, Cindy (TBS)
Sent: Wednesday, October 19, 2016 6:44 PM
To: Killoch, Alex (MOF)
Subject: Invite for meeting tomorrow

Hi Alex – there is a 30 minute call tomorrow to start the conversation about whether there should be a discussions with OTF re: OTPP re: future contributions, etc. Participants include EDU, CAB, OPCD + Karen Hughes I just sent it to you. Sorry for the late notice.

Cindy

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
Date: Tuesday, October 11, 2016 18:26:30

Hi Cindy

I heard back from Scott and he would be interested in working on the accounting issue. He would be well placed I think to work on the issue as he was actuary for the OTF and understands the plan.

What are next steps? Should I connect him with you?

From: Veinot, Cindy (TBS)
Sent: Tuesday, October 11, 2016 2:23 PM
To: Killoch, Alex (MOF)
Cc: Talwar, Garima (MOF)
Subject: RE: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

Thanks Alex – I appreciate the follow up.

I have a meeting with Nancy Naylor tomorrow morning on an unrelated issue, so I'll raise this one with her.

Cindy

From: Killoch, Alex (MOF)
Sent: October-11-16 2:01 PM
To: Veinot, Cindy (TBS)
Cc: Talwar, Garima (MOF)
Subject: RE: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions

Hi Cindy

FYI, I have written to Scott Simpson, formerly the actuary for the OTF, to ask about his interest in this work. I will let you know when I hear from him.

Also, I had a meeting on Friday with the Ministry of Health on another unrelated pension issue and they raised the issue of the potential impact of changing HOOPP consolidation. The ADM is Nancy Naylor. It might be worth bringing them in early. I don't fully appreciate how the Ministry of Health funds pension expense, but I expect it would be quite indirect, via hospital funding for procedures. They are certainly aware that a change in the accounting would be a significant impact on the Ministry.

Alex

-----Original Appointment-----
From: Veinot, Cindy (TBS)
Sent: Tuesday, October 11, 2016 1:15 PM
To: Killoch, Alex (MOF); Tsang, Ingrid (MOF); Pomykacz, Rob (MOF); Jozefacki, Janette (TBS); Paul, Joshua (EDU); Smithies, Roger (TBS); Fong, Pauline (TBS); Petsche, Nadine (TBS)
Cc: Talwar, Garima (MOF); MacPherson, Michael (TBS)
Subject: Kick off - Next Steps on Pension Asset Issue/Expert Panel/Economic Assumptions
When: Thursday, October 13, 2016 10:30 AM-11:30 AM (UTC-05:00) Eastern Time (US & Canada).
Where: 7 Queen's Park Cres., Frost Building South 2nd Floor - ADM Boardroom - teleconference available - details below

<< File: Agenda.docx >> << File: Letter to Len Hatzis re Surplus Rights in regards to Ontario and BC Plan....pdf >>

Teleconference:

(416) 212-8013

Access Code: 4950903

Chair Passcode: 1705 (Cindy moderator)

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Leech
Date: Wednesday, October 19, 2016 15:54:05

So his treatment would likely have reduced expense

From: Pomykacz, Rob (MOF)
Sent: Wednesday, October 19, 2016 3:47 PM
To: Killoch, Alex (MOF)
Subject: RE: Leech

He did not agree that we did not reflect conditional inflation protection in our books (since we continue to reflect 100% in our books). He thought that was wrong. AG told him we were doing it correctly.

Was a few years ago. Could ask Pauline if it's important.

From: Killoch, Alex (MOF)
Sent: October 19, 2016 3:45 PM
To: Pomykacz, Rob (MOF)
Subject: Leech

Did he agree with our pension accounting?

When did he go to ag?

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Leech
Date: Wednesday, October 19, 2016 15:48:58

Don't

Keep it tight

From: Pomykacz, Rob (MOF)
Sent: Wednesday, October 19, 2016 3:47 PM
To: Killoch, Alex (MOF)
Subject: RE: Leech

He did not agree that we did not reflect conditional inflation protection in our books (since we continue to reflect 100% in our books). He thought that was wrong. AG told him we were doing it correctly.

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Sent: October 19, 2016 3:45 PM
To: Pomykacz, Rob (MOF)
Subject: Leech

Did he agree with our pension accounting?

When did he go to ag?

From: Killoch, Alex (MOF) []
To: Sawosch, Mercedes (TBS) [Mercedes.Sawosch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: NB
Date: Friday, September 30, 2016 17:45:08

I am not comfortable with that analysis based on a paragraph in the financial statements.

The reference is to the fact that access to the assets of the plans is restricted. Access to the assets of the plan is different from the plan as an asset. The PBA in Ontario also restricts our right to the assets of the plan.

Nor am I familiar with the ability of government or members to take a contribution holiday in the NB shared risk model.

I think best to await the analysis of external lawyers who are familiar with the nature of the NB plans.

From: Sawosch, Mercedes (TBS)
Sent: Friday, September 30, 2016 5:33 PM
To: Pomykacz, Rob (MOF)
Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: RE: NB

Ian confirmed with NB. I verbally updated on my side, but it would be good to close the loop with a response to Kyle and David. If you don't mind, I will modify your response below for circulation and ensure our DMO gets an answer.

Mercedes

From: Pomykacz, Rob (MOF)
Sent: September-30-16 3:17 PM
To: Sawosch, Mercedes (TBS)
Cc: Killoch, Alex (MOF); Provis, Ian (TBS); Petsche, Nadine (TBS)
Subject: RE: NB

According to what's written in the notes to their consolidated financial statements (p. 28 of Volume 1),

"Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets."

So on this basis, it appears that they do not have a claim to the assets. (This is not the case in Ontario for the TPP and the OPSEU Pension Plan, as there is no such agreement.) That's all the information we have. I understand Ian is attempting to get more information from NB. Perhaps they will confirm this.

Rob

From: Sawosch, Mercedes (TBS)
Sent: September 30, 2016 2:47 PM
To: Pomykacz, Rob (MOF)
Subject: FW: NB

Can your folks clarify for David McLean that NB specifically doesn't have a claim to the assets? My peeps are a bit swamped today. I will close the loop here after you do that.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 2:05 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Fong, Pauline (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

?

Begin forwarded message:

From: "McLean, David (MOF)" <David.McLean@ontario.ca>
Date: September 30, 2016 at 2:01:21 PM EDT
To: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
Subject: FW: NB

FYI

From: Killoch, Alex (MOF)
Sent: September 30, 2016 2:00 PM
To: McLean, David (MOF); Schuurman, Tim (MOF); Pomykacz, Rob (MOF)
Subject: RE: NB

Not sure that is entirely accurate. As the 2016 public accounts noted, they have deemed the asset to be nil for shared risk plans (which are not unlike jspp). It is true that NB was using DC accounting, but they seem to agree with AG now.

http://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html

Target Benefit Pension Plans are accounted for similar to the above plans except they are governed by an Agreement and Declaration of Trust which restricts access to the plan assets. On this basis, the Province records the value of the plan net assets as nil when these plans are in a net asset position. When these plans are in a net obligation position, the Province records a liability for its share. The plans accounted for using this method are: the Public Service Shared Risk Pension Plan, the New Brunswick Teachers' Pension Plan, the Shared Risk Plan for CUPE Employees of New Brunswick Hospitals, and the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals.

From: McLean, David (MOF)
Sent: Friday, September 30, 2016 1:55 PM
To: Schuurman, Tim (MOF); Killoch, Alex (MOF)
Cc: Pearce, Christopher (MOF); Clarke-Darshanand, Jamille (MOF)
Subject: FW: NB

OPCD's response below. Short answer – different issue.

From: MacIntyre, Kyle (TBS)
Sent: September 30, 2016 1:48 PM
To: McLean, David (MOF)
Subject: Fwd: NB

Begin forwarded message:

> **From:** "Fong, Pauline (TBS)" <Pauline.Fong@ontario.ca>
> **Date:** September 30, 2016 at 1:46:57 PM EDT
> **To:** "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Sawosch, Mercedes (TBS)" <Mercedes.Sawosch@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>
> **Cc:** "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
> **Subject: RE: NB**
>
> Cindy is correct. Previously NB reported their shared risk plan as defined contribution plan and this year they have accounted for their shared risk plans as a defined benefit plan. This issue is not similar to what Ontario is facing.
>
> **From:** Veinot, Cindy (TBS)
> **Sent:** September-30-16 1:37 PM
> **To:** Sawosch, Mercedes (TBS); MacIntyre, Kyle (TBS); Petsche, Nadine (TBS)

Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

My understanding is that NB changed their plan into a shared risk plan. Government accounted for it as a defined contribution plan and the auditor said it should be accounted for as a defined benefit plan. Looks like NB now agreed to account for the plan as a defined benefit plan.

Cindy

From: Sawosch, Mercedes (TBS)
Sent: September-30-16 1:36 PM
To: MacIntyre, Kyle (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Fong, Pauline (TBS)
Subject: RE: NB

Pauline is on it.

From: MacIntyre, Kyle (TBS)
Sent: September-30-16 1:35 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Laughton, Patrick (TBS); Sawosch, Mercedes (TBS)
Subject: Fwd: NB

Can folks pls review ASAP?

Begin forwarded message:

> **From:** "McLean, David (MOF)" <David.McLean@ontario.ca>
> **Date:** September 30, 2016 at 1:33:05 PM EDT
> **To:** "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
> **Subject: FW: NB**

Hey Kyle - have you seen this? Wondering if OPCD should look into this? Our MO is looking for background on whether this is the same or similar situation we're in and what this could mean for us. Attached email has the tweet.

-----Original Message-----
From: Mendes, Elizabeth (MOF)
Sent: September 30, 2016 1:22 PM
To: McLean, David (MOF)
Subject: Fw: NB

Original Message
From: Ghiassi, Ali (MOF) <Ali.Ghiassi@ontario.ca>
Sent: Friday, September 30, 2016 1:20 PM
To: Ingram, Kelsey (MOF); Mendes, Elizabeth (MOF)
Subject: NB

On Twitter it says that the Auditor of New Brunswick has given their PA a clean audit based on pensions treatment. Eerily like us. Can we look into this asap? Want to know what media is saying. Liz need to know substance.

Ali Ghiassi
Chief of Staff
Minister of Finance
416.948.5409

From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Re: New Model Output
Date: Monday, September 26, 2016 18:09:53

I must admit I am not sure. We seem to be arguing that we will be forced to use surplus eventually.

Original Message
From: Allan Shapira
Sent: Monday, September 26, 2016 6:05 PM
To: Killoch, Alex (MOF)
Subject: Re: New Model Output

No. I dont understand this model. Math is fine it is just what we are trying to show.

Sent from my iPhone

> On Sep 26, 2016, at 6:02 PM, Killoch, Alex (MOF) <Alex.Killoch@ontario.ca> wrote:
>
> Did you get an answer to your question?
>
> From: Allan Shapira
> Sent: Monday, September 26, 2016 4:26 PM
> To: Killoch, Alex (MOF)
> Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
> Subject: RE: New Model Output
>
>
> Why are we looking at this model.
>
> From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
> Sent: September-26-16 4:09 PM
> To: Allan Shapira
> Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
> Subject: FW: New Model Output
>
> Allan
>
> Would you be able to take a look at the latest modelling results from Deloitte, assuming that we are using 50% of surplus on benefits.
>
> Thanks for your help
>
> Alex
>
>
> _ _____ _____
> Alex Killoch
> Director, Broader Public Sector Pensions Branch
> Ministry of Finance
> 416 325-5724
> Alex.Killoch@Ontario.ca<mailto:Alex.Killoch@Ontario.ca>
>

>
>
>
> From: Veinot, Cindy (TBS)
> Sent: Monday, September 26, 2016 3:58 PM
> To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
> Cc: Petsche, Nadine (TBS)
> Subject: FW: New Model Output
>
>
> Hi Alex,
>
> Deloitte completed some additional modelling described both in 2 below and in the word document. We asked what the results of the asset ceiling test would be if 50% of the surplus was used to improve benefits. Could you ask Allan to do a cold review of this scenario. The result Deloitte noted is that the asset ceiling would still exceed the asset == $12.xB vs. 10.1 B.
>
> Thanks very much,
>
> Cindy
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-26-16 3:18 PM
> To: Veinot, Cindy (TBS)
> Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
> Subject: RE: New Model Output
>
> Cindy and Nadine
>
> To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the ITA limit.
>
> Note the document is in bullet form mostly for ease of reading and really describes the step-by-step of the work performed.
> It also includes a short summary at the end that is just factual observations of the results obtained.
>
> There are also the 2 excel files that were used (same files as last time for 1- projection and 2- expected future benefit calculation by applying reduction % to Government contributions coming from the projection).
>
> There are 2 scenarios:
>
>
> 1- Similar to last time, no use of surplus before attainment of the ITA limit and then 50% / 50% share to the employees and Government contribution reduction. The % reduction in Government contribution may differ a little from the previous set of results due to some refinements in calculation but only minor difference if any
>
>
>
> 2- I was not sure about your scenario Cindy about benefit improvement. If your question was about using in scenario 1- above the 50% of employee to improve benefit instead of reducing their contribution, then the results are similar to 1- as only a small difference in interest on obligation (4.85%) vs return on asset (6.25%) would affect the results and really small impact. However, as it was not so clear if you were referring to the surplus above ITA, we also looked at what would happen if the surplus before reaching ITA limit was spent at 50% to improve employee benefits. The remaining 50% would be maintained

unused until reaching the ITA limit when the 50% / 50% contribution reduction would apply. This scenario is like saying that we always use the 50% share of the employees for their benefit and we leave the Government share in the plan not to be spent. Even in this scenario, we reach ITA limit in year 2041 and we do have expected future benefit that supports the accrued benefit asset, although much closer. So either your question is easy and only related to the surplus above ITA limit to be used for benefit improvement – answer is same or almost results as 1- or your question was also targeting surplus before ITA limit and the Scenario 2 covers this.
>
> Note that the Scenario 2 is found in excel calculation but also described in the word document on the approach. So if this was not the intended scenario, it can be taken out easily.
>
> Also note that the excel file on projection also includes the data input sheet from the Government accounting spreadsheet that was provided to us for calculation purposes. Just wanted you to know in case some information in it were not meant to be distributed afterward.
>
> Regards
>
>
>
> Martin Raymond, FSA, FCIA
> Partner – Audit – Actuarial services
> Deloitte
> 1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada
> Tel / Direct : 514-393-7367
> Fax : 514-390-4104
> maraymond@deloitte.ca<mailto:maraymond@deloitte.ca> | www.deloitte.ca<http://www.deloitte.ca/>
>
> Please consider the environment before printing.
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>
> [COC_Emblem_lockup2011.png]
>
>
> De : Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
> Envoyé : 25 septembre 2016 09:50
> À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca<mailto:maraymond@deloitte.ca>>
> Cc : Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca>>
> Objet : RE: New Model Output
>
> Re: the additional modelling, I will try to explain in a bit more detail We have an internal call at 10 am (so in 10 minutes) and then another at noon so maybe we can connect live between those or after the noon update.
>
> As I understand it, both the initial model from August and the ITA model from Friday both assume that benefits will not increase (other than the cost of the benefits that are currently being provided). In other words there will not be a decision by the sponsors to improve the benefits provided
>
> We have been asked to determine the outcome of the pension ceiling test on the assumption that 50% of the surplus is used to improve benefits for the teachers. So instead of assuming that the level of benefits remains constant, we're assuming that for 50% of the surplus, instead of using the surplus to reduce contributions, the sponsors agree the benefits for the teachers will be improved.
>
> I'm not sure how this scenario is modeled, but I think the question would then be how many years

of contributions would be made before the asset ceiling would be reached.
>
> I'm testing my understanding of the actuarial model here, but would the service cost in the model increase (e.g. part 1 of 56(a)) as well as the level of contributions required to support the increased benefits (part 2 of 56(a)) ?
>
> Thanks all for your assistance,
>
> Cindy
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-25-16 9:28 AM
> To: Veinot, Cindy (TBS)
> Cc: Petsche, Nadine (TBS)
> Subject: Re: New Model Output
>
> Cindy
>
> Will work today but will need review by Matt on the wording
>
> For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%
> If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...
>
>
> Envoyé de mon iPhone
>
> Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>> a écrit :
> Hi Martin,
>
> Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.
>
> Two questions for you:
>
>
> 1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.
>
> 2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?
>
>
>
> Thanks again,
>
>
>
> Cindy
>
>
>
> From: Petsche, Nadine (TBS)
> Sent: September-24-16 8:30 AM

> To: Veinot, Cindy (TBS)
> Subject: FW: New Model Output
>
>
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-23-16 3:13 PM
> To: Petsche, Nadine (TBS)
> Cc: allan.shapira@aonhewitt.com<mailto:allan.shapira@aonhewitt.com>; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
> Subject: RE: New Model Output
>
> Here are the 2 files
>
> One for projection of plan situation
> One for the expected future benefit and asset ceiling test
>
>
>
> Martin Raymond, FSA, FCIA
> Partner – Audit – Actuarial services
> Deloitte
> 1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada
> Tel / Direct : 514-393-7367
> Fax : 514-390-4104
> maraymond@deloitte.ca<mailto:maraymond@deloitte.ca> | www.deloitte.ca<http://www.deloitte.ca/>
>
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> <image001.png>
>
>
> De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
> Envoyé : 23 septembre 2016 15:10
> À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca<mailto:maraymond@deloitte.ca>>
> Cc : allan.shapira@aonhewitt.com<mailto:allan.shapira@aonhewitt.com>; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca<mailto:Alex.Killoch@ontario.ca>>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca<mailto:Robert.Pomykacz@ontario.ca>>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>
> Objet : New Model Output
> Importance : Haute
>
> Martin,
> We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.
> Thanks.
> Nadine
>
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> <Valuation_allowance_projection.xlsx>
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>
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From: Allan Shapira [allan.shapira@aonhewitt.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: New Model Output
Date: Monday, September 26, 2016 18:03:38

No. I dont understand this model. Math is fine it is just what we are trying to show.

Sent from my iPhone

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> Alex Killoch
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>
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> Sent: September-26-16 3:18 PM
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> 2- I was not sure about your scenario Cindy about benefit improvement. If your question was about using in scenario 1- above the 50% of employee to improve benefit instead of reducing their contribution, then the results are similar to 1- as only a small difference in interest on obligation (4.85%) vs return on asset (6.25%) would affect the results and really small impact. However, as it was not so clear if you were referring to the surplus above ITA, we also looked at what would happen if the surplus before reaching ITA limit was spent at 50% to improve employee benefits. The remaining 50% would be maintained unused until reaching the ITA limit when the 50% / 50% contribution reduction would apply. This scenario is like saying that we always use the 50% share of the employees for their benefit and we leave the Government share in the plan not to be spent. Even in this scenario, we reach ITA limit in year 2041 and we do have expected future benefit that supports the accrued benefit asset, although much closer. So either your question is easy and only related to the surplus above ITA limit to be used for benefit improvement – answer is same or almost results as 1- or your question was also targeting surplus before ITA limit and the Scenario 2 covers this.
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> Also note that the excel file on projection also includes the data input sheet from the Government accounting spreadsheet that was provided to us for calculation purposes. Just wanted you to know in case some information in it were not meant to be distributed afterward.
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> Regards
>
>
>
> Martin Raymond, FSA, FCIA
> Partner – Audit – Actuarial services
> Deloitte
> 1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada
> Tel / Direct : 514-393-7367
> Fax : 514-390-4104
> maraymond@deloitte.ca<mailto:maraymond@deloitte.ca> | www.deloitte.ca<http://www.deloitte.ca/>
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>
> [COC_Emblem_lockup2011.png]
>
>
> De : Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
> Envoyé : 25 septembre 2016 09:50
> À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca<mailto:maraymond@deloitte.ca>>
> Cc : Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca>>
> Objet : RE: New Model Output
>
> Re: the additional modelling, I will try to explain in a bit more detail We have an internal call at 10 am (so in 10 minutes) and then another at noon so maybe we can connect live between those or after the noon update.
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>
> We have been asked to determine the outcome of the pension ceiling test on the assumption that 50% of the surplus is used to improve benefits for the teachers. So instead of assuming that the level of benefits remains constant, we're assuming that for 50% of the surplus, instead of using the surplus to reduce contributions, the sponsors agree the benefits for the teachers will be improved.
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> I� �m testing my understanding of the actuarial model here, but would the service cost in the model increase (e.g. part 1 of 56(a)) as well as the level of contributions required to support the increased benefits (part 2 of 56(a)) ?
>
> Thanks all for your assistance,
>
> Cindy
>

> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-25-16 9:28 AM
> To: Veinot, Cindy (TBS)
> Cc: Petsche, Nadine (TBS)
> Subject: Re: New Model Output
>
> Cindy
>
> Will work today but will need review by Matt on the wording
>
> For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%
> If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...
>
>
> Envoyé de mon iPhone
>
> Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>> a écrit :
> Hi Martin,
>
> Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.
>
> Two questions for you:
>
>
> 1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.
>
> 2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?
>
>
>
> Thanks again,
>
>
>
> Cindy
>
>
>
> From: Petsche, Nadine (TBS)
> Sent: September-24-16 8:30 AM
> To: Veinot, Cindy (TBS)
> Subject: FW: New Model Output
>
>
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-23-16 3:13 PM
> To: Petsche, Nadine (TBS)
> Cc: allan.shapira@aonhewitt.com<mailto:allan.shapira@aonhewitt.com>; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)

> Subject: RE: New Model Output
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> One for projection of plan situation
> One for the expected future benefit and asset ceiling test
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>
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> <image001.png>
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>
> De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
> Envoyé : 23 septembre 2016 15:10
> À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca<mailto:maraymond@deloitte.ca>>
> Cc : allan.shapira@aonhewitt.com<mailto:allan.shapira@aonhewitt.com>; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca<mailto:Alex.Killoch@ontario.ca>>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca<mailto:Robert.Pomykacz@ontario.ca>>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>
> Objet : New Model Output
> Importance : Haute
>
> Martin,
> We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.
> Thanks.
> Nadine
>
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> <Valuation_allowance_projection.xlsx>
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From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Re: New Model Output
Date: Monday, September 26, 2016 18:01:23
Attachment 1: image001.png

Did you get an answer to your question?

From: Allan Shapira
Sent: Monday, September 26, 2016 4:26 PM
To: Killoch, Alex (MOF)
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: RE: New Model Output

Why are we looking at this model.

From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: September-26-16 4:09 PM
To: Allan Shapira
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: FW: New Model Output

Allan

Would you be able to take a look at the latest modelling results from Deloitte, assuming that we are using 50% of surplus on benefits.

Thanks for your help

Alex

_ _____ _____

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Veinot, Cindy (TBS)
Sent: Monday, September 26, 2016 3:58 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Petsche, Nadine (TBS)
Subject: FW: New Model Output

Hi Alex,

Deloitte completed some additional modelling described both in 2 below and in the word document. We asked what the results of the asset ceiling test would be if 50% of the surplus was used to improve benefits. Could you ask Allan to do a cold review of this scenario. The result Deloitte noted is that the asset ceiling would still exceed the asset == $12.xB vs. 10.1 B.

Thanks very much,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-26-16 3:18 PM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: New Model Output

Cindy and Nadine

To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the ITA limit.

Note the document is in bullet form mostly for ease of reading and really describes the step-by-step of the work performed.

It also includes a short summary at the end that is just factual observations of the results obtained.

There are also the 2 excel files that were used (same files as last time for 1- projection and 2- expected future benefit calculation by applying reduction % to Government contributions coming from the projection).

There are 2 scenarios:

1- Similar to last time, no use of surplus before attainment of the ITA limit and then 50% / 50% share to the employees and Government contribution reduction. The % reduction in Government contribution may differ a little from the previous set of results due to some refinements in calculation but only minor difference if any

2- I was not sure about your scenario Cindy about benefit improvement. If your question was about using in scenario 1- above the 50% of employee to improve benefit instead of reducing their contribution, then the results are similar to 1- as only a small difference in interest on obligation (4.85%) vs return on asset (6.25%) would affect the results and really small impact. However, as it was not so clear if you were referring to the surplus above ITA, we also looked at what would happen if the surplus before reaching ITA limit was spent at 50% to improve employee benefits. The remaining 50% would be maintained unused until reaching the ITA limit when the 50% / 50% contribution reduction would apply. This scenario is like saying that we always use the 50% share of the employees for their benefit and we leave the Government share in the plan not to be spent. Even in this scenario, we reach ITA limit in year 2041 and we do have expected future benefit that supports the accrued benefit asset, although much closer. So either your question is easy and only related to the surplus above ITA limit to be used for benefit improvement – answer is same or almost results as 1- or your question was also targeting surplus before ITA limit and the Scenario 2 covers this.

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Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

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Fax : 514-390-4104

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De : Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
Envoyé : 25 septembre 2016 09:50
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Objet : RE: New Model Output

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Thanks all for your assistance,

Cindy

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-25-16 9:28 AM
To: Veinot, Cindy (TBS)
Cc: Petsche, Nadine (TBS)
Subject: Re: New Model Output

Cindy

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For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%

If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...

Envoyé de mon iPhone

Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> a écrit :

Hi Martin,

Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.

Two questions for you:

1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.

2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?

Thanks again,

Cindy

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:30 AM
To: Veinot, Cindy (TBS)

Subject: FW: New Model Output

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 3:13 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

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<image001.png>

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

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Thanks.

Nadine

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FOURNISSEUR OFFICIEL

From: Allan Shapira [allan.shapira@aonhewitt.com]
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: New Model Output
Date: Saturday, September 24, 2016 10:14:43
Attachment 1: image001.png

It would definitely be in the temporary zone and may even be in the permanent zone. I would have to take some time today to figure that out if that is important.

It seems like the AG is hung up on the fact that the government needs agreement of another party, the other joint sponsor to use surplus. That is the essence of a joint plan and it plays out in both increasing contributions when necessary and reducing then when there is an opportunity to do so. I should remind everyone that the temporary zone was introduced in response to the concerns of the member sponsor that with what they view as conservative funding the surplus would grow very large with only a permanent zone and they would not get access to it early enough. Clearly that reflects their desire to use the surplus and they can only do so if the government gets its 50% share.

Allan

Sent from my iPhone

On Sep 24, 2016, at 9:01 AM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

> Thanks everyone for looking at this so quickly.
>
> One question on #3 – does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued expected returns, one model suggests that the plan would be in the permanent zone in 15 years?
>
> **From:** Killoch, Alex (MOF)
> **Sent:** September-24-16 8:57 AM
> **To:** Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
> **Cc:** allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
> **Subject:** Re: New Model Output

I talked to Allan last night.

The answer to number 1 is that the rule applies to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The otf would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

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Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

Fax : 514-390-4104

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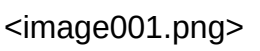

De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
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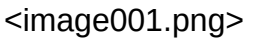

De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

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Thanks.

Nadine

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From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: allan.shapira@aonhewitt.com [allan.shapira@aonhewitt.com]
Subject: Re: New Model Output
Date: Saturday, September 24, 2016 09:50:38
Attachment 1: image001.png

I think that would be a question for Allan.

What I know is that the temp zone was introduced to avoid the plan getting to the permanent zone. It is still possible though that the plan would get there

From: Veinot, Cindy (TBS)
Sent: Saturday, September 24, 2016 9:00 AM
To: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com
Subject: RE: New Model Output

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From: Killoch, Alex (MOF)
Sent: September-24-16 8:57 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: Re: New Model Output

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From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

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From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: September-23-16 4:44 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: New Model Output
Date: Saturday, September 24, 2016 08:59:04
Attachment 1: image001.png

Just sent answers. Think Allan and I must have crossed signals on who was answering.

From: Petsche, Nadine (TBS)
Sent: Saturday, September 24, 2016 8:56 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: FW: New Model Output

DT will be finalizing their opinion today (which will be shared with the AG immediately after receipt by the gov't). If it's at all possible to get some feedback on the questions soon, that would be very helpful (just in case they are waiting for further details before having comfort to reference the results of their model in their opinion). Thanks. N

From: Petsche, Nadine (TBS)
Sent: September-24-16 8:36 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: RE: New Model Output
Importance: High

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To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
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Importance : Haute

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To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: allan.shapira@aonhewitt.com [allan.shapira@aonhewitt.com]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: New Model Output
Date: Saturday, September 24, 2016 08:56:58
Attachment 1: image001.png

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Sent: Saturday, September 24, 2016 8:35 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
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Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
Objet : New Model Output
Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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From: Duffy, Paul (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: New Model Output
Date: Friday, September 23, 2016 17:00:31
Attachment 1: image001.png

Alex, we're not clear on the distinction Deloitte seems to be making between surplus and excess surplus. Are they making a distinction between the surplus required for the temporary versus permanent improvement zone?

There are provisions for what happens in the permanent improvement zone in the fmp, but we can't cite them from memory. Can forward or review the fmp later tonight.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Friday, September 23, 2016 4:47 PM
To: Paul, Joshua (EDU); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Cc: Pomykacz, Rob (MOF)
Subject: Fw: New Model Output

Anyone know answer to #3?

I am assuming someone at Delloitte knows about the ITA questions in 1 and 2

From: Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
Sent: Friday, September 23, 2016 4:43 PM
To: Petsche, Nadine (TBS)
Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

2- Is the Income Tax Act only requiring the employer to reduce contribution even in a joint plan ? if so, our estimate of using 50% of the excess surplus would move to 100%. However, we have used 50% of the excess surplus as a benefit to the employer knowing that under the plan, the sharing principle would lead to employees and employer reducing both their contributions to meet the requirement of the Income Tax Act

3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

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De : Raymond, Martin (CA - Montreal)
Envoyé : 23 septembre 2016 15:13
À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>
Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>
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Envoyé : 23 septembre 2016 15:10
À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>
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Thanks.

Nadine

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From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Re: New Model Output
Date: Monday, September 26, 2016 18:41:09

What I don't understand is why this model matters for the $10 billion asset.

Don't see how I walk from one to other.

Original Message
From: Killoch, Alex (MOF)
Sent: Monday, September 26, 2016 6:09 PM
To: Allan Shapira
Subject: Re: New Model Output

I must admit I am not sure. We seem to be arguing that we will be forced to use surplus eventually.

Original Message
From: Allan Shapira
Sent: Monday, September 26, 2016 6:05 PM
To: Killoch, Alex (MOF)
Subject: Re: New Model Output

No. I dont understand this model. Math is fine it is just what we are trying to show.

Sent from my iPhone

> On Sep 26, 2016, at 6:02 PM, Killoch, Alex (MOF) <Alex.Killoch@ontario.ca> wrote:
>
> Did you get an answer to your question?
>
> From: Allan Shapira
> Sent: Monday, September 26, 2016 4:26 PM
> To: Killoch, Alex (MOF)
> Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
> Subject: RE: New Model Output
>
>
> Why are we looking at this model.
>
> From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
> Sent: September-26-16 4:09 PM
> To: Allan Shapira
> Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
> Subject: FW: New Model Output
>
> Allan
>
> Would you be able to take a look at the latest modelling results from Deloitte, assuming that we are using 50% of surplus on benefits.
>
> Thanks for your help

>
> Alex
>
>
> _ _____ _____
> Alex Killoch
> Director, Broader Public Sector Pensions Branch
> Ministry of Finance
> 416 325-5724
> Alex.Killoch@Ontario.ca<mailto:Alex.Killoch@Ontario.ca>
>
>
>
>
> From: Veinot, Cindy (TBS)
> Sent: Monday, September 26, 2016 3:58 PM
> To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
> Cc: Petsche, Nadine (TBS)
> Subject: FW: New Model Output
>
>
> Hi Alex,
>
> Deloitte completed some additional modelling described both in 2 below and in the word document. We asked what the results of the asset ceiling test would be if 50% of the surplus was used to improve benefits. Could you ask Allan to do a cold review of this scenario. The result Deloitte noted is that the asset ceiling would still exceed the asset == $12.xB vs. 10.1 B.
>
> Thanks very much,
>
> Cindy
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-26-16 3:18 PM
> To: Veinot, Cindy (TBS)
> Cc: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
> Subject: RE: New Model Output
>
> Cindy and Nadine
>
> To follow up on recent emails, we have prepared a summary word document that describes the approach used to make the extrapolation and determine the effect of the ITA limit.
>
> Note the document is in bullet form mostly for ease of reading and really describes the step-by-step of the work performed.
> It also includes a short summary at the end that is just factual observations of the results obtained.
>
> There are also the 2 excel files that were used (same files as last time for 1- projection and 2- expected future benefit calculation by applying reduction % to Government contributions coming from the projection).
>
> There are 2 scenarios:
>
>
> 1- Similar to last time, no use of surplus before attainment of the ITA limit and then 50% / 50% share to the employees and Government contribution reduction. The % reduction in Government contribution may

differ a little from the previous set of results due to some refinements in calculation but only minor difference if any
>
>
>
> 2- I was not sure about your scenario Cindy about benefit improvement. If your question was about using in scenario 1- above the 50% of employee to improve benefit instead of reducing their contribution, then the results are similar to 1- as only a small difference in interest on obligation (4.85%) vs return on asset (6.25%) would affect the results and really small impact. However, as it was not so clear if you were referring to the surplus above ITA, we also looked at what would happen if the surplus before reaching ITA limit was spent at 50% to improve employee benefits. The remaining 50% would be maintained unused until reaching the ITA limit when the 50% / 50% contribution reduction would apply. This scenario is like saying that we always use the 50% share of the employees for their benefit and we leave the Government share in the plan not to be spent. Even in this scenario, we reach ITA limit in year 2041 and we do have expected future benefit that supports the accrued benefit asset, although much closer. So either your question is easy and only related to the surplus above ITA limit to be used for benefit improvement – answer is same or almost results as 1- or your question was also targeting surplus before ITA limit and the Scenario 2 covers this.
>
> Note that the Scenario 2 is found in excel calculation but also described in the word document on the approach. So if this was not the intended scenario, it can be taken out easily.
>
> Also note that the excel file on projection also includes the data input sheet from the Government accounting spreadsheet that was provided to us for calculation purposes. Just wanted you to know in case some information in it were not meant to be distributed afterward.
>
> Regards
>
>
>
> Martin Raymond, FSA, FCIA
> Partner – Audit – Actuarial services
> Deloitte
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> Tel / Direct : 514-393-7367
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>
> [COC_Emblem_lockup2011.png]
>
>
> De : Veinot, Cindy (TBS) [mailto:Cindy.Veinot@ontario.ca]
> Envoyé : 25 septembre 2016 09:50
> À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca<mailto:maraymond@deloitte.ca>>
> Cc : Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca<mailto:Nadine.Petsche@ontario.ca>>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca<mailto:mcolley@deloitte.ca>>; Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca<mailto:kdanyluk@deloitte.ca>>
> Objet : RE: New Model Output
>
> Re: the additional modelling, I will try to explain in a bit more detail We have an internal call at 10 am (so in 10 minutes) and then another at noon so maybe we can connect live between those or after the noon update.

>
> As I understand it, both the initial model from August and the ITA model from Friday both assume that benefits will not increase (other than the cost of the benefits that are currently being provided). In other words there will not be a decision by the sponsors to improve the benefits provided
>
> We have been asked to determine the outcome of the pension ceiling test on the assumption that 50% of the surplus is used to improve benefits for the teachers. So instead of assuming that the level of benefits remains constant, we're assuming that for 50% of the surplus, instead of using the surplus to reduce contributions, the sponsors agree the benefits for the teachers will be improved.
>
> I'm not sure how this scenario is modeled, but I think the question would then be how many years of contributions would be made before the asset ceiling would be reached.
>
> I'm testing my understanding of the actuarial model here, but would the service cost in the model increase (e.g. part 1 of 56(a)) as well as the level of contributions required to support the increased benefits (part 2 of 56(a)) ?
>
> Thanks all for your assistance,
>
> Cindy
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-25-16 9:28 AM
> To: Veinot, Cindy (TBS)
> Cc: Petsche, Nadine (TBS)
> Subject: Re: New Model Output
>
> Cindy
>
> Will work today but will need review by Matt on the wording
>
> For question 2 - just to clarify your thought - are you saying that 50% of surplus is always used or if the government 50% share always remain unused until this government share reaches 125%
> If we always use 50% of the entire surplus you will end up that the 50% government share gets recycled to the employee benefits and you will likely never get to 125% ...
>
>
> Envoyé de mon iPhone
>
> Le 24 sept. 2016 à 16:51, Veinot, Cindy (TBS)
<Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca>> a écrit :
> Hi Martin,
>
> Thanks for continuing to think about this issue and putting together this analysis – it is extremely helpful.
>
> Two questions for you:
>
>
> 1) Could you or someone on your team draft a description of the models – not a Deloitte report – just a white paper that we would be able to share with the AG with the output of the model to consider.
>
> 2) We've been asked whether you could run one additional model that assumes that 50% of the surplus is used for benefit improvements during the period leading up to the meeting the ITA. Would that mean that the ITA is met years later?
>
>

>
> Thanks again,
>
>
>
> Cindy
>
>
>
> From: Petsche, Nadine (TBS)
> Sent: September-24-16 8:30 AM
> To: Veinot, Cindy (TBS)
> Subject: FW: New Model Output
>
>
>
> From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
> Sent: September-23-16 3:13 PM
> To: Petsche, Nadine (TBS)
> Cc: allan.shapira@aonhewitt.com<mailto:allan.shapira@aonhewitt.com>; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)
> Subject: RE: New Model Output
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> Envoyé : 23 septembre 2016 15:10
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> Objet : New Model Output
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> Martin,

> We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.
> Thanks.
> Nadine
>
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> <Valuation_allowance_projection.xlsx>
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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Re: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Date: Wednesday, October 19, 2016 13:05:27

What does the otf web page say? They put a press release out.

It is public to extent someone asks for it from fsco?

From: Pomykacz, Rob (MOF)
Sent: Wednesday, October 19, 2016 12:12 PM
To: Veinot, Cindy (TBS); Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

The OTPP and the OTF websites both make reference to the use of part of the $13.2 billion surplus to partially restore inflation protection, but neither seems to cite the $4.5 billion figure. So it doesn't appear to be in the public domain at the moment.

Rob

From: Veinot, Cindy (TBS)
Sent: October 19, 2016 11:50 AM
To: Fong, Pauline (TBS); Hosick, Sarah (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Is the $4.5 Billion public information – e.g. is it on the OTPP site? If not, I would prefer to keep the $13.2 and use the word preliminary – please confirm.

Cindy

From: Fong, Pauline (TBS)
Sent: October-19-16 10:31 AM
To: Hosick, Sarah (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

One more edit from me, I added the word “earned” over the employees’ working life.

From: Hosick, Sarah (TBS)
Sent: October-19-16 10:25 AM
To: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Cc: Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks – Cindy please let me know if you are ok with the answer as it currently stands.

From: Fong, Pauline (TBS)
Sent: October-19-16 10:22 AM
To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

In light of Rob’s comments, I added a bit more explanation below. Please review and provide any further comments.

From: Fong, Pauline (TBS)
Sent: October-19-16 9:43 AM

To: Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Cindy,

My edits are in green. If you have a chance please review and provide any further comments.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 9:07 AM
To: Fong, Pauline (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline,

Lots of interest on this one this morning…DMO has some questions/clarifications in red. Can we see what we can clarify for them by 10am? (sorry for the tight turnaround)

Let me know if any questions

Thanks

Sarah

The Provinces (all of them?) follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada. (who writes these standards, so we can reinforce legitimacy)

An accounting valuation is performed using the Province's management's (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered earned over the employees' working life. (what does this previous sentence mean, thinking of a public audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). (do the plans have websites or the pension organizations - what can we call them) The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why – the fact is mentioned in the two paragraphs above), the discount rates and the methodologies used for the valuations differ.

From: Fong, Pauline (TBS)
Sent: October-19-16 8:45 AM
To: Hosick, Sarah (TBS)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

The $13.2 billion and $8 million are using the discount rates of the plans itself and not the province's rates. The surplus for the plans are based on the plans funding valuation. We do not have the actuarial information to calculate the net pension assets for accounting purposes using the individual plan rates.

Pauline

From: Hosick, Sarah (TBS)
Sent: October-19-16 8:29 AM
To: Fong, Pauline (TBS)
Subject: Fw: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Pauline

Can you please take a quick look at the question below and confirm for me?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>

Sent: Wednesday, October 19, 2016 8:01 AM

To: Hosick, Sarah (TBS)

Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah,

One quick question. Sebastian had originally asked for what the assets would look like using the pension fund discount rates. Can you confirm if the $13.2 billion and $8 million below are using the pension discount rates and not the governments?

Many thanks,

Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie,

Please see below for the response prepared by OPCD:

Provinces follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. An accounting valuation is performed using management's best estimate of future events including expected inflation, salary escalation and investment

return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The OTPP and OSPEUPP discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans. The most recent funding valuation for OTPP (as of January 1, 2016) reported a funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

Thanks,

Sarah

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:22 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

I have confirmed with program area that TCSB is not able to answer any of these - this is an OPCD lead

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 11:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks Niki!

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 11:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie

Working with program area on getting you a response to the 6.25% discount rate

Thanks

From: Smith, Emilie (TBS)
Sent: October-18-16 10:34 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)

Cc: @TBS-L-Issues and Media
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Sarah and Niki,

Checking in on this request. I know there's a lot of requests this morning and on top of TB/MBC submission and the Deputy briefing this morning.

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 9:47 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Importance: High

Hi Sarah and Niki,

I've confirmed with the MO that the response to the questions below will come tomorrow morning. In the meantime, they've asked for one line on the justification of the governments use of the 6.25% discount rate for **10:30am**.

Apologies for the rush and multiple requests this morning.

-Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 9:19 AM
To: Smith, Emilie (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Same on our end – we don't have this information offhand. Program area here will see if this is something we can help calculate or shed light on today.

Thanks,

Sarah

From: Smith, Emilie (TBS)
Sent: October-18-16 9:16 AM
To: Makrigeorgos, Niki (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Thanks Niki! I'll let the MO know to expect the response tomorrow morning.

From: Makrigeorgos, Niki (TBS)
Sent: October-18-16 9:15 AM
To: Smith, Emilie (TBS); Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Emilie

We need more time with this. Program area is working on a TB/MBC submission and prepping for a DM briefing this morning

From: Smith, Emilie (TBS)
Sent: October-18-16 9:08 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline

Hi Sarah and Niki,

Checking in to see if it's possible to provide this information this morning to the MO?

Many thanks,

Emilie

From: Smith, Emilie (TBS)
Sent: October-18-16 8:11 AM
To: Hosick, Sarah (TBS); Makrigeorgos, Niki (TBS)
Cc: @TBS-L-Issues and Media
Subject: RE: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Looping Niki in for ERD.

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline

Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,

Emilie

They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.

If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.

Would we be able to find out what the assets look like using the pension fund discount

rates?

If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)

If the number isn't on hand, and it needs to be calculated, then tomorrow morning for 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record
Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam

The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.

It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.

The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.

We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad

shape and the Wynne government must develop a credible plan to repair them.

To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.

Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.

A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.

How can this be the case? Two reasons.

First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.

Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.

The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).

It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.

Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org). Distributed by Troy Media

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Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg (C.D. Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial

deficit. The provincial AG, Bonnie Lysyk, objects to that treatment.

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation.

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent. And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

Emilie Smith

Senior Corporate Issues Management Analyst

Communications Branch, Treasury Board Secretariat

(o) 416-327-2434

(c) 647-401-6732

(e) Emilie.Smith@ontario.ca

From: Killoch, Alex (MOF) []
To: Myers, Leah (MOF) [Leah.Myers@ontario.ca]
CC: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Re: New Release on Public Accounts
Date: Thursday, October 06, 2016 14:43:22
Attachment 1: image001.jpg

It is expected that I will provide some.

I think EDU will do a lot on the Teachers access to surplus and funding policy but we will have to do some work on our discount rate assumptions, which drive part of the issue.

Also, HOOPP is a larger issue. If the discussion remains one of access to surplus, we are going to need to explain a bit about our relationship with HOOPP. Allan has already flagged that we are unlikely to be able to argue that HOOPP or CAAT should be treated the same as TPP as we are not a sponsor and have no access to any surplus.

Nadine tells me they are thinking a report back by mid-december. They will need to be that quick to leave time for the 2017 budget process.

There is an open discussion at the moment regarding how to show this in FES and Budget.

A

From: Myers, Leah (MOF)
Sent: Thursday, October 6, 2016 2:37 PM
To: Killoch, Alex (MOF); Talwar, Garima (MOF)
Subject: RE: New Release on Public Accounts

Is it expected that you would have to provide any support/advice to the independent expert panel? Do you know the timeframe for its work? Just wondering…

From: Killoch, Alex (MOF)
Sent: October-06-16 2:25 PM

To: Myers, Leah (MOF); Talwar, Garima (MOF)
Subject: FW: New Release on Public Accounts

Progress, the AG has qualified her opinion, even though the government adopted her financial position.

This will allow the public accounts to be tabled with a $5 billion deficit.

News Release

Ontario Releases 2015-16 Public Accounts

Expert Panel to Review Accounting Standards

October 6, 2016 1:15 P.M.

Treasury Board Secretariat

Ontario's Annual Report and Consolidated Financial Statements for 2015-16 show Ontario's deficit is $3.5 billion lower than the $8.5 billion projected in the 2015 Budget, with the province's deficit for 2015-16 at $5 billion. This is $0.7 billion lower than the $5.7 billion in the 2016 Budget interim projection.

The government has received the Auditor General's opinion on the 2015-16 Public Accounts of Ontario, enabling it to release them. The results reported in the Public Accounts are identical to the unaudited financial statements released earlier this week. They confirm Ontario has beaten its annual deficit target for the seventh year in a row.

The Auditor General has provided her opinion, which says that the 2015-16 results are fairly stated but qualifies her opinion for lack of restatement of the 2014-15 results.

In preparing the Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of the Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.

A regulation was made to allow the public service to sign-off on the impact of the Auditor General's view on accounting for pension assets in Ontario's 2015-16 financial statements. The Province filed a time-limited regulation, which legislates the accounting for pension assets of two jointly-sponsored pension plans for 2015-16 in a manner that

is consistent with the fiscal outcome proposed by the Auditor General. The impact of the change resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the annual deficit of $1.5 billion.

The Auditor General's qualified opinion is based on the government's decision to report the accounting change in 2015-16 without restating the prior year's results. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt.

The Auditor General's qualification relates only to the presentation of the 2014-15 comparative financial information. There is no impact on the 2015-16 annual deficit, accumulated deficit or net debt as illustrated in the table below.

($ millions)

Annual Deficit

2014-15

Accumulated Deficit

2014-15

Net Debt

2014-15

Annual Deficit

2015-16

Accumulated Deficit

2015-16

Net Debt

2015-16

Province's 2015-16 financial statements

10,315

187,511

284,576

5,029

202,697

305,233

Auditor General's 2015-16 opinion

11,268

196,665

293,730

5,029

202,697

305,233

Auditor General's 2014-15 opinion

10,315

187,511

284,576

n/a

n/a

n/a

The government is forming an independent expert panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets.

Panel members will also provide advice on how to value pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors. The report is expected later this year.

Responsible financial management is part of our plan to create jobs, grow our economy and help people in their everyday lives.

Quick Facts

- Public Accounts are a retrospective report that compares Ontario's actual performance to what was planned in the Budget.
- Treasury Board Secretariat prepares Public Accounts in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board.

Additional Resources

- Read the 2015-16 Public Accounts and explore supplementary information available through new data visualization tools
- Watch a video explaining Public Accounts
- Learn about the government's fiscal cycle

Quotes

https://news.ontario.ca/profiles/en/liz-sandals

"I wish to thank the Auditor General for providing her audit opinion of the 2015-16 Public Accounts. The Public Accounts confirm this is the seventh year in a row that Ontario has beaten its annual deficit target. Ontario remains committed to balancing the budget in 2017-18 while remaining balanced in 2018-19."

Liz Sandals

President of the Treasury Board

Media Contacts

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: OTF Financial Statements
Date: Friday, September 16, 2016 11:23:07

Not even sure why he would ask the question. The OTF would have nothing to do with the plan from financial perspective. They represent members.

From: Pomykacz, Rob (MOF)
Sent: Friday, September 16, 2016 11:15 AM
To: Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF)
Subject: RE: OTF Financial Statements

Hi Nadine,

If I understand correctly what is being asked, the OTF would not have audited financial statements relating to the OTPP. The OTF is merely an umbrella organization whose mandate it is to represent all teachers in pension discussions/negotiations.

Please let me know if you have any questions.

Thanks,

Rob

From: Petsche, Nadine (TBS)
Sent: September 16, 2016 10:01 AM
To: Pomykacz, Rob (MOF)
Subject: FW: OTF Financial Statements

Hi Rob.

Just wondering if we might have these f/s? n

From: Colley, Matthew (CA - Toronto) [mailto:mcolley@deloitte.ca]
Sent: September 16, 2016 9:57 AM
To: Petsche, Nadine (TBS)
Subject: OTF Financial Statements

Does the Province have financial statements that are audited for OTF?

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: OTPP
Date: Wednesday, September 21, 2016 12:45:18

Try to keep edu on everything so that there is no daylight. So far, we have done well. It will help Josh at ag meeting if he sees everything

Original Message
From: Pomykacz, Rob (MOF)
Sent: Wednesday, September 21, 2016 11:57 AM
To: Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF)
Subject: FW: OTPP

Hi Nadine,

As requested, please find information below from Allan Shapira on the "Call Right" provision under the term sheet.

Thanks,
Rob

-----Original Message-----
From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: September 21, 2016 10:27 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

I am responding to the questions on the surplus credits under the term sheet.

It is important to understand the purpose of the term sheet. The OTF and the government entered into this agreement to freeze any increase in contribution rates for a specified period. That meant that if the plan funding deteriorated during this perIod such that an actuarial report identified a funding shortfall that had to be addressed by the sponsors, this shortfall would have to be addressed by benefit reductions for future service.

If there were benefit reductions, the term sheet created a corresponding surplus credit that could be used by the OTF if and when the plan was in surplus. There have been no material benefit reductions to date nor are any anticipated now that the next required filing is after the expiration of the term sheet. Any credit that exists would be a negligible amount.

Allan

Sent from my iPhone

****
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From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: OTPP
Date: Thursday, September 15, 2016 16:18:26

Is the P briefing still on?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Thursday, September 15, 2016 4:13 PM
To: Petsche, Nadine (TBS); Colley, Matthew (CA - Toronto) (mcolley@deloitte.ca)
Cc: Paul, Joshua (EDU)
Subject: OTPP

Hi Matt

As discussed, attached are excerpts from a few documents that might help with your analysis.

From the 2000 Financials – p. 17-18

Pursuant to the *Partners' Agreement* between the Ontario Teachers' Federation (OTF) and the Province, the Partners entered into negotiations to decide how to utilize the gain. Pursuant to the agreement reached on April 18, 1998, the Partners agreed to share the 1998 actuarial gain of $6.78 billion and future gains in the following sequence:

(i) $2.24 billion would be spent on improving benefits;

(ii) special payments on the pre-1990 unfunded liability would be eliminated at an estimated cost

of $8.45 billion; and

(iii) a further $8.45 billion less the $2.24 billion would be spent on improved benefits or member contribution rate reductions, subject to the Province's consent prior to April 1, 2001; or held in a contingency reserve as determined by the OTF.

As a result, $2.24 billion of the gain was used to improve benefits under the Plan, and the remaining $4.54 billion of the gain was used to eliminate the obligation of the Province to make special payments after November 30, 2008.

From this summary of Key funding Decisions

A preliminary $6.8 billion surplus was distributed: $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%;

$4.6 billion to reduce the value of special payments owed by the Ontario government.

OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion surplus would be available to OTF for benefit improvements.

From the Annual Report 2000 (pg. 6)

In 1998, the Ontario Teachers' Federation (OTF) and the Ontario government signed an agreement under which they improved benefits and allowed the government to use surplus to eliminate the special payments it was making to pay off the pre-1990 unfunded liability.

This occurred in 1998 and 1999. The OTF would then receive a similar amount, set at $6.2 billion, for use at its discretion. The plan started 2001 with a funding surplus of $6.8 billion. Effective April 1 2001, $6.2 billion of this surplus will be used by the OTF to improve benefits.

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: OTPP
Date: Tuesday, September 13, 2016 08:50:39

Oops. Actually I think she wanted me to respond even though it's sent to you.

I'll send you what I 'll respond to her before i send to her.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Paul, Joshua (EDU)
Sent: Tuesday, September 13, 2016 8:49 AM
To: Killoch, Alex (MOF)
Subject: Re: OTPP

Great. Want us to review your response to Cindy before you share?

My DM and MO have given green light to share those docs officially. My MO may have contacted yours and TBS's.

Go team!

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Tuesday, September 13, 2016 8:39 AM
To: Paul, Joshua (EDU)
Subject: FW: OTPP

I will look at what you are proposing to share now

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: Monday, September 12, 2016 9:52 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

The numbers do match. Here is part of the balance sheet from the actuarial report

Plus:

Reduction in present value of benefits to reflect less than 100% indexing for service after December 31, 2009 (up to 50% indexing): $5,947

Present value of special contributions receivable from province and other employers in respect of benefit reduction due to conditional indexing: $5,947

Reduction in present value of benefits to reflect less than 50% indexing for service after December 31, 2013: $0

Allan H. Shapira, FSA, FCIA | Managing Director
Aon Hewitt Canada
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
allan.shapira@aonhewitt.com | aonhewitt.com

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From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: OTPP
Date: Tuesday, September 13, 2016 08:49:11

Great. Want us to review your response to Cindy before you share?

My DM and MO have given green light to share those docs officially. My MO may have contacted yours and TBS's.

Go team!

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Tuesday, September 13, 2016 8:39 AM
To: Paul, Joshua (EDU)
Subject: FW: OTPP

I will look at what you are proposing to share now

From: Allan Shapira [mailto:allan.shapira@aonhewitt.com]
Sent: Monday, September 12, 2016 9:52 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: OTPP

The numbers do match. Here is part of the balance sheet from the actuarial report

Plus:

Reduction in present value of benefits to reflect less than 100% indexing for service after December 31, 2009 (up to 50% indexing): $5,947

Present value of special contributions receivable from province and other employers in respect of benefit reduction due to conditional indexing: $5,947

Reduction in present value of benefits to reflect less than 50% indexing for service after December 31, 2013: $0

Allan H. Shapira, FSA, FCIA | Managing Director
Aon Hewitt Canada
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Re: OTPP - Funding Update
Date: Thursday, September 22, 2016 16:15:15

Thanks!!

From: Killoch, Alex (MOF)
Sent: Thursday, September 22, 2016 4:14 PM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF); Veinot, Cindy (TBS)
Subject: FW: OTPP - Funding Update

Hi Nadine

Attached is the September funding position with all the pages this time. You can see that the value of the share the pain payments has been reduced by $4.3 billion. We will pull together something more formal explaining this.

I will also call EDU regarding the $8.6 billion

Alex

From: Bessiris, Mary (MOF)
Sent: Thursday, September 22, 2016 4:06 PM
To: Killoch, Alex (MOF)
Subject: OTPP - Funding Update

Alex,

Per your request.

Mary Bessiris

Ministry of Finance

Income Security And Pension Policy Division

BPS Pensions Branch

7 Queen's Park Cres., Frost Bldg. S., 1st Floor

Toronto, ON M7A 1Y7

Phone: 416.326.9847|email: mary.bessiris@ontario.ca

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 14:44:51

Yup.

From: Pomykacz, Rob (MOF)
Sent: Thursday, December 15, 2016 1:44 PM
To: Killoch, Alex (MOF)
Subject: RE: OTPP Asset Options (BPS Comments).pptx

Amazing how they've decided to do nothing to address their issue!

From: Killoch, Alex (MOF)
Sent: December 15, 2016 1:43 PM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Cc: Roberto, Nicole (EDU)
Subject: Re: OTPP Asset Options (BPS Comments).pptx

Will not read well!

From: Duffy, Paul (EDU)

Sent: Thursday, December 15, 2016 1:35 PM

To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)

Cc: Roberto, Nicole (EDU)

Subject: RE: OTPP Asset Options (BPS Comments).pptx

We've shared it with OPCD. They made the decision to remove any of the comments re: OPCD placeholder, as they have nothing to add at this point.

Paul

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 1:31 PM
To: Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: OTPP Asset Options (BPS Comments).pptx

Thanks Steve. Have you guys shared this with OPCD? Would be good for them to have it in advance of the meeting today.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 15, 2016 12:45 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: FW: OTPP Asset Options (BPS Comments).pptx

Thanks all for the edits. Attached is the clean version for the meeting today.

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 10:35 AM
To: Roberto, Nicole (EDU)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Moadel, Maryam (MOF); Tsang, Ingrid (MOF); Franks, Sebastian (EDU); Ryan, Kate (EDU);

Paul, Joshua (EDU)
Subject: OTPP Asset Options (BPS Comments).pptx

Hi Nicole,

Please find attached some additional edits to the version we sent you last night. Today's changes are indicated in blue font.

Please let us know if you have any questions.

Thanks,

Rob

From: Killoch, Alex (MOF) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: Re: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 14:42:47

Will not read well!

From: Duffy, Paul (EDU)
Sent: Thursday, December 15, 2016 1:35 PM
To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Cc: Roberto, Nicole (EDU)
Subject: RE: OTPP Asset Options (BPS Comments).pptx

We've shared it with OPCD. They made the decision to remove any of the comments re: OPCD placeholder, as they have nothing to add at this point.

Paul

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 1:31 PM
To: Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: OTPP Asset Options (BPS Comments).pptx

Thanks Steve. Have you guys shared this with OPCD? Would be good for them to have it in advance of the meeting today.

Rob

From: Di Renzo, Stephen (EDU)

Sent: December 15, 2016 12:45 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: FW: OTPP Asset Options (BPS Comments).pptx

Thanks all for the edits. Attached is the clean version for the meeting today.

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 10:35 AM
To: Roberto, Nicole (EDU)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Moadel, Maryam (MOF); Tsang, Ingrid (MOF); Franks, Sebastian (EDU); Ryan, Kate (EDU); Paul, Joshua (EDU)
Subject: OTPP Asset Options (BPS Comments).pptx

Hi Nicole,

Please find attached some additional edits to the version we sent you last night. Today's changes are indicated in blue font.

Please let us know if you have any questions.

Thanks,

Rob

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 14:35:54

Heard from Mary

Section 15 of partner's agreement requires that tpp does work for partners at tpp's cost. However section 15 says we must share it

So don't need to pay for it, or ask otp about doing work but do need to share it

From: Pomykacz, Rob (MOF)
Sent: Thursday, December 15, 2016 1:30 PM
To: Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: OTPP Asset Options (BPS Comments).pptx

Thanks Steve. Have you guys shared this with OPCD? Would be good for them to have it in advance of the meeting today.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 15, 2016 12:45 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: FW: OTPP Asset Options (BPS Comments).pptx

Thanks all for the edits. Attached is the clean version for the meeting today.

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 10:35 AM

To: Roberto, Nicole (EDU)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Moadel, Maryam (MOF); Tsang, Ingrid (MOF); Franks, Sebastian (EDU); Ryan, Kate (EDU); Paul, Joshua (EDU)
Subject: OTPP Asset Options (BPS Comments).pptx

Hi Nicole,

Please find attached some additional edits to the version we sent you last night. Today's changes are indicated in blue font.

Please let us know if you have any questions.

Thanks,

Rob

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Re: OTPP Asset Options (BPS Comments).pptx
Date: Thursday, December 15, 2016 14:56:00

I am at x Mas concert

Go Josh

From: Duffy, Paul (EDU)
Sent: Thursday, December 15, 2016 1:51 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Cc: Roberto, Nicole (EDU)
Subject: RE: OTPP Asset Options (BPS Comments).pptx

Josh will be prepared to speak to the differences in what we sent over versus what's presented.

From: Killoch, Alex (MOF)
Sent: December 15, 2016 1:43 PM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Cc: Roberto, Nicole (EDU)
Subject: Re: OTPP Asset Options (BPS Comments).pptx

Will not read well!

From: Duffy, Paul (EDU)

Sent: Thursday, December 15, 2016 1:35 PM

To: Pomykacz, Rob (MOF); Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)

Cc: Roberto, Nicole (EDU)

Subject: RE: OTPP Asset Options (BPS Comments).pptx

We've shared it with OPCD. They made the decision to remove any of the comments re: OPCD placeholder, as they have nothing to add at this point.

Paul

From: Pomykacz, Rob (MOF)
Sent: December 15, 2016 1:31 PM
To: Di Renzo, Stephen (EDU); Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: OTPP Asset Options (BPS Comments).pptx

Thanks Steve. Have you guys shared this with OPCD? Would be good for them to have it in advance of the meeting today.

Rob

From: Di Renzo, Stephen (EDU)
Sent: December 15, 2016 12:45 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Cc: Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: FW: OTPP Asset Options (BPS Comments).pptx

Thanks all for the edits. Attached is the clean version for the meeting today.

From: Pomykacz, Rob (MOF)

Sent: December 15, 2016 10:35 AM
To: Roberto, Nicole (EDU)
Cc: Killoch, Alex (MOF); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Moadel, Maryam (MOF); Tsang, Ingrid (MOF); Franks, Sebastian (EDU); Ryan, Kate (EDU); Paul, Joshua (EDU)
Subject: OTPP Asset Options (BPS Comments).pptx

Hi Nicole,

Please find attached some additional edits to the version we sent you last night. Today's changes are indicated in blue font.

Please let us know if you have any questions.

Thanks,

Rob

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Re: OTPP Asset Options
Date: Thursday, December 15, 2016 15:00:56

Bring me copy please

From: Pomykacz, Rob (MOF)
Sent: Thursday, December 15, 2016 1:56 PM
To: Killoch, Alex (MOF); Tsang, Ingrid (MOF)
Subject: FW: OTPP Asset Options

Fyi…OPCD's version

From: Duffy, Paul (EDU)
Sent: December 15, 2016 1:52 PM
To: Pomykacz, Rob (MOF)
Subject: FW: OTPP Asset Options

As requested.

From: Tam, Nelson (TBS)
Sent: December 15, 2016 12:24 PM
To: Duffy, Paul (EDU)
Subject: RE: OTPP Asset Options

Paul

Attached is the updated slide deck. We removed the OPCD placeholders as we don't have updates at this time. Also, there were a couple of comments embedded in the document that we removed.

We wanted you to have the updated version of the deck.

I will be bringing copies to the meeting.

Thanks

Nelson

X20514

From: Duffy, Paul (EDU)
Sent: December-15-16 11:42 AM
To: Tam, Nelson (TBS)
Subject: OTPP Asset Options

Nelson,

Please find attached the draft deck to inform the discussion today. We have populated the considerations, potential options and risks, as well as some placeholders for you, which we can discuss at today's meeting.

Happy to chat.

Thanks

Paul

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: OTPP documents
Date: Saturday, September 10, 2016 08:11:31

All good then.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Saturday, September 10, 2016 8:04 AM
To: Paul, Joshua (EDU)
Subject: Fw: OTPP documents

From: Morton, Sarah (EDU) <Sarah.Morton@ontario.ca>
Sent: Friday, September 9, 2016 10:15 PM
To: Hatzis, Len (TBS); Manji, Shemin (MOF); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS); Inselsbacher, Karen (MET); Petsche, Nadine (TBS)
Subject: OTPP documents

Confidential

Hi all,

Apologies for missing the call I was driving to the cottage. The documents that I am aware of that could be relevant to this analysis are:
-Schedule 1 to the Teachers' Pension Act which is the text of the pension plan, (plus the amendments made in 2015. I do not have a consolidated electronic version) (attached)
-The Partners' Agreement + one amendment (again no consolidated version) (attached)
-The Funding Management Plan which is an appendix to the Partners Agreement. I will send that by way of another email.

Sincerely,
Sarah Morton

From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Re: OTPP documents
Date: Saturday, September 10, 2016 10:21:50

Tthanks

Original Message
From: Allan Shapira
Sent: Saturday, September 10, 2016 10:06 AM
To: Killoch, Alex (MOF)
Subject: OTPP documents

OTPP FMP for your records.

-----Original Message-----
From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: September-09-16 11:06 PM
To: Allan Shapira
Subject: Fw: OTPP documents

Looks like EDU legal has provided the materials.

From: Morton, Sarah (EDU) <Sarah.Morton@ontario.ca>
Sent: Friday, September 9, 2016 10:15 PM
To: Hatzis, Len (TBS); Manji, Shemin (MOF); Killoch, Alex (MOF)
Cc: Kaufman, Paul (TBS); Inselsbacher, Karen (MET); Petsche, Nadine (TBS)
Subject: OTPP documents

Confidential

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-Schedule 1 to the Teachers' Pension Act which is the text of the pension plan, (plus the amendments made in 2015. I do not have a consolidated electronic version) (attached) -The Partners' Agreement + one amendment (again no consolidated version) (attached) -The Funding Management Plan which is an appendix to the Partners Agreement. I will send that by way of another email.

Sincerely,
Sarah Morton

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From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: OTPP question
Date: Friday, September 16, 2016 13:52:54

I have a conflict re MO debrief on CPP enhancement...

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Friday, September 16, 2016 1:48 PM
To: Talwar, Garima (MOF)
Subject: RE: OTPP question

Any chance you could squeeze call in at 2pm?

EDU is available

From: Talwar, Garima (MOF)
Sent: Friday, September 16, 2016 1:24 PM
To: Killoch, Alex (MOF)
Subject: Fw: OTPP question

I can't do 2pm but can debrief afterwards if that works

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Friday, September 16, 2016 1:18 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)

Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)

Subject: RE: OTPP question

Does 2 pm work?

From: Killoch, Alex (MOF)
Sent: September-16-16 1:17 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)
Subject: RE: OTPP question

Any update on this?

From: Paul, Joshua (EDU)
Sent: Friday, September 16, 2016 9:36 AM
To: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU)
Subject: Re: OTPP question

I agree w Alex that we should discuss and delegate together to make most use of time and get you what you need when you need it.

How is 11?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Friday, September 16, 2016 9:28 AM

To: Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)

Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF)

Subject: RE: OTPP question

Hi Cindy

Can we do a call today at some point and discuss this issue, along with the request from last night that we obtain a letter covering the partner's approach to surplus.

Rather than various one-offs, I think it would be helpful, especially for our EDU colleagues, to have a conversation about what we need and to what purpose various materials would be used.

I know that Josh is in negotiations at the moment, so perhaps we can start with EDU availability. I am headed into a meeting now, but the rest of the day has flex.

Alex

From: Veinot, Cindy (TBS)
Sent: Friday, September 16, 2016 8:54 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF); Paul, Joshua (EDU)

Cc: Petsche, Nadine (TBS)
Subject: OTPP question

Good morning – another question on OTPP:

– if the sponsors of the plan were to decide to increase the benefits under the OTPP (something other than conditional inflation indexation), how would that impact the Province's share of the surplus in the plan.

– With the change in conditional inflation indexation, the impact to the surplus in the plan is a reduction that is tied to (a) increased payment to the teachers and (b) reduced future payments from the province, but I think that is unique to the conditional inflation indexation

Thanks,

Cindy

From: Sekaly, Gabriel (EDU) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Chen, Raymond (TBS) [SOM.5Raymond.Chen@ontario.ca]
Subject: Re: OTPP question
Date: Friday, September 16, 2016 13:44:05

14h00 works for Josh and I.

What #?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Veinot, Cindy (TBS)
Sent: Friday, September 16, 2016 13:18
To: Killoch, Alex (MOF); Paul, Joshua (EDU); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)
Subject: RE: OTPP question

Does 2 pm work?

From: Killoch, Alex (MOF)
Sent: September-16-16 1:17 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Chen, Raymond (TBS)
Subject: RE: OTPP question

Any update on this?

From: Paul, Joshua (EDU)
Sent: Friday, September 16, 2016 9:36 AM
To: Killoch, Alex (MOF); Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF); Sekaly, Gabriel (EDU); Duffy, Paul

(EDU)
Subject: Re: OTPP question

I agree w Alex that we should discuss and delegate together to make most use of time and get you what you need when you need it.

How is 11?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Friday, September 16, 2016 9:28 AM

To: Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)

Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF)

Subject: RE: OTPP question

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Cindy

From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: Re: OTPP question
Date: Friday, September 16, 2016 09:36:20

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Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Friday, September 16, 2016 9:28 AM
To: Veinot, Cindy (TBS); Pomykacz, Rob (MOF); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)
Cc: Petsche, Nadine (TBS); Talwar, Garima (MOF)
Subject: RE: OTPP question

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Thanks,

Cindy

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: Re: OTPP surplus accounting issue - follow-up Q
Date: Saturday, September 17, 2016 12:50:50

I can join the call but I know nothing of this topic. I read the emails but am not familiar with the provisions that they are referring to. I was not at mof when that was signed.

I think EDU needs to participate too, as they are the party to the fmp agreement and I think Josh and Gabe were involved in the term sheet.

From: Petsche, Nadine (TBS)
Sent: Saturday, September 17, 2016 12:38 PM
To: Killoch, Alex (MOF)
Subject: FW: OTPP surplus accounting issue - follow-up Q

Alex,

Hoping you'll be able to join the call at 2 pm. It will be an important discussion to help inform the external legal opinion that the accounting opinion will rely upon. The email below will help shed some light on the nature of their areas of interest to which Alan already provided some feedback today.

Thanks.

Nadine

From: Marin, Jon <jomarin@osler.com>

Sent: Saturday, September 17, 2016 10:13 AM

To: Allan Shapira

Cc: Rienzo, Douglas; Hatzis, Len (TBS); Steele, Jana

Subject: Re: OTPP surplus accounting issue - follow-up Q

Allan,

Many thanks for getting back to us so quickly with your comments.

Have a great weekend.

Best regards,

Jon

Sent from my iPhone

On Sep 17, 2016, at 10:09 AM, Allan Shapira <allan.shapira@aonhewitt.com> wrote:

> The arbitration issue is a legal issue that I don't think is in my bailiwick.
>
> My reference was to the surplus credits from the term sheet. If there were benefit reductions arising from the application of the term sheet then the members would get a surplus credit from those reductions. I don't think there are any surplus credits so the term sheet provisions are a non-issue.
>
> If the surplus is used contribution reductions for both parties there is an easy symmetry. If the members want to use their surplus for a benefit improvement then the form of the corresponding value to the government has to be addressed in the side agreement. It is only about the form not whether they get a corresponding value.
>
> Allan
>
> Sent from my iPhone
>
> On Sep 16, 2016, at 1:32 PM, Rienzo, Douglas <DRienzo@osler.com> wrote:

Allan:

We have a few more questions about the technical application of the Funding Management Policy, and are hoping you can help us.

1. You mentioned some restrictions on the use of surplus to benefit members. Aside from the 2013 Term Sheet promises under 6.03 (which you said are not big ticket items, if they end up applying at all), are you referring to the "side agreement" provision in 4.06?

Section 4.06 *Side Agreement*: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

What does that section mean? It refers to an agreement to "offset any surplus distribution or temporary improvement in benefits" – does that mean that the government is supposed to get a contribution reduction of equivalent value if surplus is used for a distribution to members or for a temporary benefit improvement? Are there any other provisions in the FMP like this, that the government can point to as supporting its expectation to benefit from part of the surplus?

2. We understand that every time there is a valuation, the parties must sit down and consider what action to take under Article III, and go to mediation and perhaps to arbitration if they cannot agree (i.e. they follow the procedures set out in sections 74 to 100 of the Partners Agreement). If the plan is in Zone 4 or Zone 5, are the potential actions under Articles IV and V also folded into the mediation/arbitration process? The FMP is unclear on this point, and only seems to refer to that process applying to Article III decisions as set out below:

Section 8.01

Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

3. The Partners Agreement contains some guidelines for the arbitrator, in section 92:

92. The award made by the board of arbitration will,

(a) deal only with the contribution rate and/or benefits of the pension plan and otherwise maintain the plan as it is set out in Schedule 1,

(b) comply with the laws of Ontario,

(c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,

(d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,

(e) ensure that any increase in benefits is adequately funded,

(f) not impair the ability of the Board to fulfil its fiduciary responsibilities,

(g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). [emphasis added]

Do you have any idea what the reference to “subparagraph EE(2) means?

Could you perhaps reply by email or, if it’s easier, suggest a time when we might chat about this? We have been asked to provide our opinion asap, so if we could speak to you this afternoon that would be ideal. I apologize for the short

notice. Thanks, Allan.

Doug

<image001.gif>

Douglas Rienzo
Partner, Pensions & Benefits

Chair, Diversity Committee

416.862.5683

DIRECT

416.862.6666

FACSIMILE

drienzo@osler.com

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8

<image002.gif>

<image003.jpg>

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From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Re: OTPP
Date: Monday, October 24, 2016 07:32:10

Hi Allan

She did not. I believe she said hers was the only opinion she would release.

From: Allan Shapira
Sent: Sunday, October 23, 2016 9:26 PM
To: Killoch, Alex (MOF)
Subject: OTPP

Did the AG provide all the research she referred to in her release on the accounting issue.

Allan

Allan H. Shapira, FSA, FCIA | Managing Director
Aon Hewitt Canada
225 King Street West | Suite 1600 | Toronto, ON M5V 3M2
t 416.227.5800 | m 416.704.0225 | f 416.227.5750
allan.shapira@aonhewitt.com | aonhewitt.com

****
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From: Petsche, Nadine (TBS) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]
Subject: Re: OTTP -- history re: use of surplus
Date: Saturday, September 10, 2016 07:17:19

Great!

From: Veinot, Cindy (TBS)
Sent: Saturday, September 10, 2016 7:16 AM
To: Hatzis, Len (TBS); Kaufman, Paul (TBS); Petsche, Nadine (TBS); Killoch, Alex (MOF); Raymond, Martin (CA - Montreal)
Cc: Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: OTTP -- history re: use of surplus

I think may be a very useful document re: the past – summarizes use of surplus going back to 1990.

I found this document on a website www.mypensionhub.com

The description of the website is below and I think its legit.

“This website houses information to help affiliate pension representatives educate members on plan funding and other key pension matters.

This website is maintained by the Ontario Teachers’ Pension Plan on behalf of a communications working group (CWG) made up of representatives of: l’Association des enseignantes et des enseignants franco-ontariens (AEFO), Elementary Teachers’ Federation of Ontario (ETFO), Ontario English Catholic Teachers’ Association (OECTA), Ontario Secondary School Teachers’ Federation (OSSTF), Ontario Teachers’ Federation (OTF), Ontario Government and Ontario Teachers’ Pension Plan.

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Raymond, Martin (CA - Montreal) [maraymond@deloitte.ca]
CC: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Re: OTTP -- history re: use of surplus
Date: Saturday, September 10, 2016 08:42:10

That is very useful.

There is also information on the site regarding the discount rate and how the OTPP sets the rate. See mypensionhub.com/assets/documents/en/archives/Discount_Rate_Review_August_2012.pdf

From: Veinot, Cindy (TBS)
Sent: Saturday, September 10, 2016 7:16 AM
To: Hatzis, Len (TBS); Kaufman, Paul (TBS); Petsche, Nadine (TBS); Killoch, Alex (MOF); Raymond, Martin (CA - Montreal)
Cc: Fong, Pauline (TBS); Patel, Bharat (TBS)
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From: Killoch, Alex (MOF) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: Re: OTTP Asset options
Date: Tuesday, November 22, 2016 09:48:40

We have not worked up anything. The TPP model is certainly better than the OPSEU model. I think that is not a joint model.

We can discuss at meeting today. I am solid all day otherwise

From: Duffy, Paul (EDU)
Sent: Monday, November 21, 2016 6:57 PM
To: Killoch, Alex (MOF)
Subject: OTTP Asset options

Alex,

We're working through the potential range of options to explore the possible and access the OTPP surplus and wanted to touch base about some of the potential options that were raised at the last meeting with TBS. We're fleshing out some considerations around negotiating an agreement with the OTF, or going so far as legislating, but wondering if your team is working up the details around a shared asset model (along the lines of OMERS), or other potential JSPP structures that may exist that could be considered?

Cindy was at a session with Josh today and raised those two options in particular as things they expect to discuss at this Thursday's meeting with Karen.

I'm available in the morning if you want to discuss before meeting with Josh - otherwise, we can chat then.

Thanks,

Paul

From: Killoch, Alex (MOF) []
To: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]
Subject: Re: PAEAP Report QA_MOF_20170206
Date: Monday, February 06, 2017 20:30:16

She does not normally look at the accounting

From: Buckland Foster, Jamie (MOF)
Sent: Monday, February 6, 2017 6:35 PM
To: Killoch, Alex (MOF)
Subject: RE: PAEAP Report QA_MOF_20170206

Thanks Alex. Does Leah need to review?

From: Killoch, Alex (MOF)
Sent: February 6, 2017 3:59 PM
To: Buckland Foster, Jamie (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: PAEAP Report QA_MOF_20170206

Hi Jamie

I am not sure that one of the messages is correct. I have not read the panel report but I don't think it applies to all of the JSPPs, only the two we sponsor. I have adjusted the language. There were a couple of typo's that I expect have been caught

Alex

From: Killoch, Alex (MOF) []
To: Patel, Lesley (MOF) [Lesley.Patel@ontario.ca]
CC: Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: PAEAP info
Date: Tuesday, February 07, 2017 10:17:29

That would work as the other two non sponsored plans are not in an asset position, currently.

Alex

From: Patel, Lesley (MOF)
Sent: Tuesday, February 7, 2017 8:50 AM
To: Killoch, Alex (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: RE: PAEAP info

Morning Alex,

TBS has suggested using the word “current” to make it more clear– “current net pension assets for Ontario’s jointly sponsored plans should continue to be recognized in the province’s financial statements”

From: Killoch, Alex (MOF)
Sent: February-06-17 4:07 PM
To: Patel, Lesley (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: RE: PAEAP info

Having read the Q&A, I want to retract my earlier approval

To the best of my knowledge, the panel only reported on the two plans that the government co=-sponsored. I am not sure that the financial statements will have net

pension assets for the two jointly sponsored plans that are not sponsored by the government.

“With President of the Treasury Board Liz Sandals, we are accepting all of the panel’s recommendations, including recognizing the Province’s net pension assets for jointly-sponsored plans in its financial statements. This accounting approach will be used on any future provincial financial reports.”

That statement should be confirmed by OPCD staff.

Alex

==========

I don’t have any concerns with the announcement. I also have the Q&A’s and will look at them now

From: Patel, Lesley (MOF)
Sent: February 6, 2017 11:31 AM
To: Killoch, Alex (MOF)
Cc: Buckland Foster, Jamie (MOF)
Subject: RE: PAEAP info

Hi Alex,

Sharing a draft Minister statement on the potential release of the PAEAP as an **fyi only** at this point. It's with the MO, but as your team was planning to review the report, any input you have is welcome.

Please note that at this point there is no consensus around if this statement will be necessary or if another comms approach will happen as TBS is leading this announcement. I'm meeting with TBS at end of day and hopefully things will be firmed up by then. That means that the statement attached could potentially change as well.

Also, the release date is still up in the air, it might be moved up to this week which is why we are being proactive with the attached statement should TBS decide this is the way to go.

I will keep you posted on what the outcome of the meeting is and what MOF will be moving forward with in support of the announcement.

Thanks,

Lesley

From: Killoch, Alex (MOF)
Sent: January-26-17 10:07 AM
To: Patel, Lesley (MOF)

Subject: Re: PAEAP info

I don't see a negative reaction from the otf.

The report will confirm that the cost of the pension plan is less than the cash contributions made by the government.

I have asked edu about the OTF, as they will have better idea if any reaction. I will let you know what they say.

From: Patel, Lesley (MOF)

Sent: Thursday, January 26, 2017 9:56 AM

To: Killoch, Alex (MOF)

Subject: FW: PAEAP info

Hi Alex,

Catherine forwarded your response re: stakeholders reaction to the release of the PAEAP report. I understand that you're going to reach out to TBS to review the report and after that time, you'll have a better sense of what potential issues may be.

In the meantime, I’m connecting with TBS communications on products, as they are the lead, and was hoping you could explain a bit more about the potential negative reaction of the Teacher’s Federation.

Much appreciated,

Lesley

From: Mah, Catherine (MOF)
Sent: January-26-17 9:49 AM
To: Patel, Lesley (MOF)
Subject: FW: PAEAP info

FYI

From: Killoch, Alex (MOF)
Sent: January 26, 2017 9:00 AM
To: Mah, Catherine (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: Re: PAEAP info

I don't see there being any reaction from stakeholders (saying that, I have not seen the report to know if there is anything to be concerned about).

Only exception might be Teachers Federation, but that would not be a public reaction. Only discussion would be at the partner's table.

I will ask if I can see report.

Alex

From: Mah, Catherine (MOF)

Sent: Wednesday, January 25, 2017 5:57 PM

To: Killoch, Alex (MOF)

Cc: Pomykacz, Rob (MOF)

Subject: FW: PAEAP info

Hi you two,

TBS is looking for any insight into stakeholder reaction to the outcome of the forthcoming report. Can you help with this?

Thanks,

Catherine

From: Myers, Leah (MOF)
Sent: January 25, 2017 5:53 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Please follow up with Alex. Thanks.

From: Mah, Catherine (MOF)
Sent: January-25-17 5:26 PM
To: Myers, Leah (MOF)

Subject: FW: PAEAP info

Hi Leah,

I know this is a TBS lead – is this something we should be commenting on?

Thanks,

Catherine

From: Patel, Lesley (MOF)
Sent: January 25, 2017 4:43 PM
To: Mah, Catherine (MOF)
Subject: RE: PAEAP info

Hi Catherine,

As a follow up to our conversation. TBS is looking for any insight into stakeholder reaction to the outcome of the report — if they think they would be neutral? Any input/feedback you or your colleagues could provide would be helpful.

We can touch base tomorrow morning if you need a bit more context.

Talk soon,

Lesley

From: Patel, Lesley (MOF)
Sent: January-25-17 4:03 PM
To: Mah, Catherine (MOF)
Subject: PAEAP info

Hi Catherine,

Following up on the voicemail I left earlier today — looking to touch base on a few items, including the Pension Asset Expert Advisory Panel.

Could you please give me a call when you have a chance.

Much appreciated,

Lesley

From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aon.com]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: PSAB's ITC: Discount Rates
Date: Wednesday, March 14, 2018 12:25:30

Thanks for update

The OTF is not doing something but are good with OTPP doing so.

Hoopp has done one that speaks to the issue of sponsorship as well as discount rate. That is not surprising as they are not government sponsored but feel treated as such.

Original Message
From: Allan Shapira
Sent: Wednesday, March 14, 2018 12:05 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF)
Subject: RE: PSAB's ITC: Discount Rates

Working on it right now. Cindy likely knows I have been swamped on the Judges file.

Mary Cover called me late last week about the submission they decided to make. We went through some of the points they were going to make. The one issue I suggested they be careful of is creating the view that it would be better to account for these plans as DC plans (i.e. cash contributions). That would have a serious impact on the government's financial statements. That is an issue broader than the discount rate discussion.

I also met with Murray Gold on this. He was making a submission for one of the larger employee groups outside Ontario and we discussed a number of the points he wanted to raise. He wrote a very good letter. Not sure if he did something for the OTF.

Will send something out later today or tomorrow morning.

Thanks

Allan

-----Original Message-----
From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: March-14-18 11:35 AM
To: Allan Shapira
Cc: Pomykacz, Rob (MOF)
Subject: Fw: PSAB's ITC: Discount Rates

Hi Allan

OPCD is inquiring about our accounting submission. Do you have an update?

Alex

From: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca>
Sent: Wednesday, March 14, 2018 10:08 AM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: RE: PSAB's ITC: Discount Rates

Hi Alex,

Hope you are doing well. I have my 1/1 with Cindy later today, can you please confirm that we are still on track with below for tomorrow?

Thanks
Khal

From: Noor, Khalida (TBS)
Sent: March 1, 2018 10:13 PM
To: Killoch, Alex (MOF)
Cc: Pomykacz, Rob (MOF); Provis, Ian (TBS); Keates, James (TBS)
Subject: FW: PSAB's ITC: Discount Rates

Hi Alex

It was nice meeting you. In the attach please find the responses we have put together.

As discussed, can you please get Allan to:

1. Review and update the QA based on his experience with the plans

2. Develop an overall discussion on high-level differences between private vs public sectors and discount rate implications

I would appreciate to have something back from Allan by March 15, so that Cindy has sufficient review time. Please let me know if you foresee challenges with the date.

Thanks again for assisting us with this deliverable.

Thank you
Khal

Sent with BlackBerry Work
(www.blackberry.com<http://www.blackberry.com>)
From: Provis, Ian (TBS) <Ian.Provis@ontario.ca<mailto:Ian.Provis@ontario.ca>>
Date: Tuesday, Feb 27, 2018, 1:55 PM
To: Noor, Khalida (TBS) <Khalida.Noor@ontario.ca<mailto:Khalida.Noor@ontario.ca>>
Subject: FW: PSAB's ITC: Discount Rates

Ian Provis, OPCD
' 416.327.2722 | * ian.provis@ontario.ca<mailto:ian.provis@ontario.ca>

From: Keates, James (TBS)
Sent: Wednesday, February 21, 2018 10:22 AM
To: Provis, Ian (TBS)
Subject: PSAB's ITC: Discount Rates

Hi Ian, attached is the draft briefing note and response letter for your review.
The parts highlighted in yellow are the areas where we need someone more involved in the calculations to provide input.
Thanks
Jim

Jim Keates, MBA, CPA, CA
Office of the Provincial Controller Division | Treasury Board Secretariat 2nd Floor Frost South, Toronto
james.keates@ontario.ca<mailto:james.keates@ontario.ca> | 416 325-8082
[cid:image002.jpg@01D17B9A.BDC06E20]

****
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From: Sekaly, Gabriel (EDU) []
To: Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Re: Pension Asset note - risks
Date: Wednesday, September 14, 2016 13:18:10

Great. Thanks.

Are we moving in the direction we discussed last night?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hughes, Karen (TBS)
Sent: Wednesday, September 14, 2016 13:17
To: Sekaly, Gabriel (EDU); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: RE: Pension Asset note - risks

Thanks Gabe, we will absolutely need to work with you on how to engage OTPP on this going forward.

Will try and call you later today.

Karen

From: Sekaly, Gabriel (EDU)
Sent: September 14, 2016 9:15 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Pension Asset note - risks
Importance: High

Please find attached the note we discussed yesterday on stakeholder and reputational risks

At some point, once we land the plan of action, we need to discuss how to engage the

OTPP to provide them a head’s up

gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

From: Sekaly, Gabriel (EDU) []
To: Hughes, Karen (TBS) [Karen.Hughes@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Re: Pension Asset note - risks
Date: Wednesday, September 14, 2016 13:20:09

Ok. We shall chat later

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Hughes, Karen (TBS)
Sent: Wednesday, September 14, 2016 13:19
To: Sekaly, Gabriel (EDU); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: RE: Pension Asset note - risks

I wouldn't say we have a direction yet.

More work to do.

From: Sekaly, Gabriel (EDU)
Sent: September 14, 2016 1:18 PM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Re: Pension Asset note - risks

Great. Thanks.

Are we moving in the direction we discussed last night?

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Sent: September 14, 2016 9:15 AM
To: Hughes, Karen (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Paul, Joshua (EDU)
Subject: Pension Asset note - risks
Importance: High

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At some point, once we land the plan of action, we need to discuss how to engage the OTPP to provide them a head's up

gabriel

Gabriel F. Sékaly

Assistant Deputy Minister/Sous-ministre adjoint

Financial Policy and Business Division/ Division des politiques financières et des opérations

Ministry of Education/Ministère de l'Éducation

416-325-6127

gabriel.sekaly@ontario.ca

P Kindly consider the environment before printing this email.

From: Killoch, Alex (MOF) []
To: Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]
Subject: Re: Pension and Fiscal Planning.pptx
Date: Wednesday, September 28, 2016 18:15:10

Not exactly a simple story

Having dinner then TFC game. Got sister's tickets so cheap date night

From: Schuurman, Tim (MOF)
Sent: Wednesday, September 28, 2016 5:48 PM
To: Killoch, Alex (MOF)
Subject: Fw: Pension and Fiscal Planning.pptx

We also just got this from them.....

From: Provis, Ian (TBS) <Ian.Provis@ontario.ca>
Sent: Wednesday, September 28, 2016 5:11 PM
To: McGrath, Tara (MOF)
Cc: Schuurman, Tim (MOF); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Patel, Bharat (TBS); Fong, Pauline (TBS); Birks, Ryan (MOF)
Subject: Pension and Fiscal Planning.pptx

Here is a deck on the impact of the pension accounting

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Re: Pension information re: OTPP
Date: Tuesday, November 01, 2016 17:44:31

We've been working on the other items that were due, so we'll turn our attention to this tomorrow.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Tuesday, November 1, 2016 5:41 PM
To: Pomykacz, Rob (MOF); Tsang, Ingrid (MOF)
Subject: FW: Pension information re: OTPP

How is our table doing? It needs to go to Leah first

From: Veinot, Cindy (TBS)
Sent: Tuesday, November 01, 2016 5:40 PM
To: Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: RE: Pension information re: OTPP

Hi Alex – any update on this?

Thanks,

From: Killoch, Alex (MOF)
Sent: October-25-16 7:24 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: Re: Pension information re: OTPP

Hi Cindy

We have some of that work off the shelf, including work that was done as part of the Leech review of the electricity sector (which contains the most generous plans). We will need to ensure that it is still current.

If I recall, the comparisons get a bit tricky sometimes, such as whether 100 % conditional indexation is as good as 75 % guaranteed.

From: Veinot, Cindy (TBS)

Sent: Tuesday, October 25, 2016 7:14 PM

To: Killoch, Alex (MOF)

Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)

Subject: Pension information re: OTPP

Hi Alex,

A few weeks ago we had a hallway conversation re: the benefits provided under the OTPP – they issue being how those benefits compare to other plans, as we were trying to understand whether there would be a push to improve benefits in the future re: reducing contributions.

We need that analysis in connection with the pension work we are doing. Is that something you can take care of? I think a comparison to other plans offered in the OPS/BPS would be an appropriate starting point.

This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Myers, Leah (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Re: Pension information re: OTPP
Date: Tuesday, October 25, 2016 22:32:10

Cindy,

I would appreciate if you and your team could copy me on the requests you are making of Alex and my folks on pension matters.

Also, has the expert panel been appointed yet? Can you confirm for us who the members are? Thanks very much

Leah

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>
Sent: Tuesday, October 25, 2016 7:24 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS); Talwar, Garima (MOF); Pomykacz, Rob (MOF)
Subject: Re: Pension information re: OTPP

Hi Cindy

We have some of that work off the shelf, including work that was done as part of the Leech review of the electricity sector (which contains the most generous plans). We will need to ensure that it is still current.

If I recall, the comparisons get a bit tricky sometimes, such as whether 100 % conditional indexation is as good as 75 % guaranteed.

From: Veinot, Cindy (TBS)
Sent: Tuesday, October 25, 2016 7:14 PM
To: Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)
Subject: Pension information re: OTPP

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This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Tam, Nelson (TBS) [Nelson.Tam@ontario.ca]; Hosick, Sarah (TBS) [Sarah.Hosick@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Pension information re: OTPP
Date: Tuesday, October 25, 2016 19:24:15

Hi Cindy

We have some of that work off the shelf, including work that was done as part of the Leech review of the electricity sector (which contains the most generous plans). We will need to ensure that it is still current.

If I recall, the comparisons get a bit tricky sometimes, such as whether 100 % conditional indexation is as good as 75 % guaranteed.

From: Veinot, Cindy (TBS)
Sent: Tuesday, October 25, 2016 7:14 PM
To: Killoch, Alex (MOF)
Cc: Tam, Nelson (TBS); Hosick, Sarah (TBS); Petsche, Nadine (TBS)
Subject: Pension information re: OTPP

Hi Alex,

A few weeks ago we had a hallway conversation re: the benefits provided under the OTPP – they issue being how those benefits compare to other plans, as we were trying to understand whether there would be a push to improve benefits in the future re: reducing contributions.

We need that analysis in connection with the pension work we are doing. Is that something you can take care of? I think a comparison to other plans offered in the OPS/BPS would be an appropriate starting point.

This is an analysis that we may want to provide to the Expert Panel, so I'd like to get it done as soon as possible (e.g. by the end of next week).

Please let me know if you have any questions.

Thanks,

Cindy

PS – Nelson Tam has taken on the role of Project Manager for the Expert Panel.

From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Re: Pension issue
Date: Tuesday, September 06, 2016 15:36:15

I can try. It is a bit accounting policy oriented.

Thursday or Friday?

From: Paul, Joshua (EDU)
Sent: Tuesday, September 6, 2016 3:34 PM
To: Killoch, Alex (MOF)
Subject: RE: Pension issue

Things are great.

Can we get together and discuss what exactly is going here? I think I have the jist from Nadine, but would like to discuss with you.

jp

From: Killoch, Alex (MOF)
Sent: September 6, 2016 2:13 PM
To: Paul, Joshua (EDU)
Subject: RE: Pension issue

How are things?

We have been working with Nadine for a few months now on the issue, but we used Allan Shapira for most of the work around the asset ceiling

From: Paul, Joshua (EDU)
Sent: Tuesday, September 06, 2016 2:08 PM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS)
Subject: Pension issue

Alex,

Have you been involved in the pension discussions with the AG? Nadine may need some assistance in this regard.

It seems to us (Nadine and I) that articles IV and V of the FMP set out how surpluses can be 'extracted'.

Anyway, just thought i'd touch base on this as it seems urgent.

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF) []
To: Di Pasquale, Romina (EDU) [Romina.DiPasquale@ontario.ca]
Subject: Re: Pensions and AGO accounting debate - message for the minister EDU
Date: Wednesday, February 28, 2018 14:40:22
Attachment 1: image001.jpg

Sure.

That helps

From: Di Pasquale, Romina (EDU)
Sent: Wednesday, February 28, 2018 12:27 PM
To: Killoch, Alex (MOF)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

It's for the Public Accounts Standing Committee. The AG raised this as a concern that they want to talk about. We are perfectly fine ducking out of this conversation, as long as one of the ministers is prepared to answer it when it comes up. Do you want to relay this to TBS?

From: Killoch, Alex (MOF)
Sent: February-28-18 12:21 PM
To: Di Pasquale, Romina (EDU)
Subject: RE: Pensions and AGO accounting debate - message for the minister EDU

One question, what is the event that your minister is attending that they want to say something at? Just wondering what the audience is?

I forgot to ask the purpose of the request. That might also help Mark

From: Di Pasquale, Romina (EDU)
Sent: February 28, 2018 11:24 AM
To: Donaldson, Mark (TBS)
Cc: Killoch, Alex (MOF); Pomykacz, Rob (MOF); White, Emily (EDU)
Subject: Pensions and AGO accounting debate - message for the minister EDU
Importance: High

Hi Mark,

Our minister is looking for some for messaging for tomorrow with respect to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple as that".

We don't want to get pulled into the accounting debate as I believe this is TBS' area of expertise, however, we are still being tasked with providing language for the minister. Could you please assist us with this matter.

We have attempted to draft language below. Please let me know if you think different messaging is required and what you prefer the message to be. Thanks for your assistance on this matter.

The Ontario government and the Ontario Teachers' Federation (OTF) jointly sponsor the Ontario Teachers' Pension Plan. This co-sponsorship arrangement was established through a partnership agreement whereby both the government and OTF agreed to jointly design, administer and manage the OTPP.

This partnership agreement is based on the principle of reaching consensus between the sponsors as no individual sponsor can unilaterally make a decision with regards to the pension plan itself or its surplus.

Requesting a letter from the OTF that half of any pension surplus belongs to the Province would undermine the established relationship with the OTF.

The government and the OTF are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations and one of the means to measure long-term sustainability is current pension fund surpluses. Surplus funds exist to help facilitate stability in contribution and benefit levels should a future funding

valuation show a decline in assets or increase in pension costs and its related accounting treatment should be based on decisions made by the sponsors.

The government is not interested in potentially giving away rights associated with, nor stepping away from potential liabilities associated with the current surplus position.

The government remains committed to ongoing dialogue with our partner on how best to use pension plan surpluses in the best interest of its beneficiaries and the taxpayers of Ontario.

Romina.

Romina Di Pasquale, CPA, CA

A/Director, Labour, Finance and Implementation Branch

Ministry of Education

2 Carlton St. Suite 710

Toronto ON M5B 1J3

romina.dipasquale@ontario.ca

(416) 325-2057

From: Davis, Andrew (EDU)
Sent: February-27-18 11:22 AM
To: Di Pasquale, Romina (EDU); Lamarche, Doreen (EDU)
Cc: Ngira-Batware, Douglas (EDU)
Subject: FW: Pensions

Please see Chris' q's below. Basically, we're being pulled into the accounting debate. My thought is something along the lines of:

· Plan changes require agreement of the parties.

· An agreement could be to not use any of the surplus, half of it, or more than half of it. In the absence of an agreement, the plan stays as is.

· We believe the accounting should reflect the decisions regarding the surplus at the current time.

· Requesting a letter from the OTF that half of the surplus is the Province's would be a change in the established relationship which we are not considering at this point.

· We are not interested in unilaterally giving away half of the surplus without a discussion of all the parties.

That said, I am not sure who the audience is. Is it the AG or unions. If the latter, than the last bullet needs to be changed. Comments welcomed.

From: Martin, Chris (EDU)
Sent: February 27, 2018 9:51 AM
To: Davis, Andrew (EDU) <Andrew.Davis@ontario.ca>
Cc: Li, Sharon (EDU) <Sharon.Li@ontario.ca>
Subject: Pensions

Hey Andrew,

So for the AG Committee meeting on Thursday – if we wanted to respond to the AG's press conference line saying "All we need is a letter of agreement and the OTF saying that the province can presently use half of any pension surplus. Once we have that letter, this office could sign off and get a clean audit opinion on this issue. It's as simple as that"

What would your advice be on responding to this statement?

If we were to say that there is no authority for the province or OTF to bind the OTPP alone. That this requires agreement between the parties, and that such an agreement is in place (the partnership agreement, which speaks to how surpluses can be used depending on the position of the plan).

Also using the elimination of the special payments as a proof point for how savings can be realized based on plan surpluses, guided by the agreement, cab be used to illustrate how the government can, guided by the agreement, realize benefit from plan surpluses?

Chris Martin

Senior Policy Advisor

Office of the Hon. Indira Naidoo-Harris

Minister of Education & Minister Responsible for Early Years and Child Care

P: 416-212-3758 | C: 416-303 4878

https://www.ontario.ca/page/ontario150

https://www.ontario.ca/page/ontario150

ONTARIO
150

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Re: Please review
Date: Saturday, September 24, 2016 08:27:49

DM always signs the public accounts. There has been a spot on the cover for him to sign.

From: Talwar, Garima (MOF)
Sent: Friday, September 23, 2016 11:20 PM
To: Killoch, Alex (MOF)
Subject: Re: Please review

Just got home from rehearsal.

why is the letter going out? If Deputy is signing, I'd like to advise Leah of it as well.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Friday, September 23, 2016 9:40 PM
To: Talwar, Garima (MOF)
Subject: Fw: Please review

Fyi

I will have to read a few times

It is referring to our work on discount rates. I am not sure that we can say we consult actuaries, although actuaries do the calculations.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: Friday, September 23, 2016 8:57 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Fong, Pauline (TBS); Veinot, Cindy (TBS)
Subject: Please review

Alex/Rob,

We haven't bothered you in at least an hour, so thought we'd send a request on this beautiful Friday nightJ

Below is an extract from the draft Management Letter of Representation that Greg, Scott and I will have to sign off on and provide the AG, possibly as early as Monday.

Please advise by Monday am if you have any comments or concerns with the scope and wording.

Thanks in advance for your feedback.

Nadine

P.s. wondering if you had any luck finding the additional details on the earlier indexation increases?

Employee future benefit obligations, costs and assets are determined, accounted for and disclosed in accordance with the requirements of PS 3250, *Retirement Benefits* (PS 3250) and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits* (PS 3255).

In particular:

o The Province is applying PS 3250 and PS 3255 accurately and completely in the consolidated financial statements.

o Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

o The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.

o The discount rate used to determine the accrued benefit obligation was determined by reference to the expected rate of return on pension assets based on the Government's best estimate.

o The economic assumptions included in the actuarial valuation are those that management provided to the pension plan boards (i.e. Ontario Pension Board, OPSEU Pension Trust, Ontario Teachers' Pension Plan Board, Healthcare of Ontario Pension Plan and Colleges of Applied Arts & Technology Pension Plan) in a letter requesting

actuarial and financial information, to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3250.

o In arriving at these assumptions, management has obtained the advice of the actuaries, but has retained the final responsibility for them The data provided to the actuaries for non-pension post-retirement benefits, severance pay and other post-employment benefits was sufficient for the purpose of the valuation,

the actuarial assumptions were appropriate; and,

o the methods used were in accordance with sound actuarial principles.

o All significant changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuaries.

o The extrapolations are accurate and properly reflect the effects of significant changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.

o We agree with the findings of Mercer as management's expert in evaluating the valuation of employee future benefits and have adequately considered the qualifications of the expert in determining the amounts and disclosures used in the financial statements and underlying accounting records.

From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Please review
Date: Friday, September 23, 2016 23:20:36

Just got home from rehearsal.

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Sent: Friday, September 23, 2016 9:40 PM
To: Talwar, Garima (MOF)
Subject: Fw: Please review

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Please advise by Monday am if you have any comments or concerns with the scope and wording.

Thanks in advance for your feedback.

Nadine

P.s. wondering if you had any luck finding the additional details on the earlier indexation increases?

Employee future benefit obligations, costs and assets are determined, accounted for and disclosed in accordance with the requirements of PS 3250, *Retirement Benefits* (PS 3250) and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits* (PS 3255).

In particular:

o The Province is applying PS 3250 and PS 3255 accurately and completely in the consolidated financial statements.

o Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

o The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.

o The discount rate used to determine the accrued benefit obligation was determined by reference to the expected rate of return on pension assets based on the Government's best estimate.

o The economic assumptions included in the actuarial valuation are those that management provided to the pension plan boards (i.e. Ontario Pension Board, OPSEU Pension Trust, Ontario Teachers' Pension Plan Board, Healthcare of Ontario Pension Plan and Colleges of Applied Arts & Technology Pension Plan) in a letter requesting actuarial and financial information, to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with PS 3250.

o In arriving at these assumptions, management has obtained the advice of the actuaries, but has retained the final responsibility for them The data provided to the actuaries for non-pension post-retirement benefits, severance pay and other post-employment benefits was sufficient for the purpose of the valuation,

the actuarial assumptions were appropriate; and,

o the methods used were in accordance with sound actuarial principles.

o All significant changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuaries.

o The extrapolations are accurate and properly reflect the effects of significant changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.

o We agree with the findings of Mercer as management's expert in evaluating the valuation of employee future benefits and have adequately considered the qualifications of the expert in determining the amounts and disclosures used in the financial statements and underlying accounting records.

From: Killoch, Alex (MOF) []
To: Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]
Subject: Re: Preliminary pension and other retirement benefit expenses
Date: Wednesday, February 22, 2017 12:24:40

We have taken a look at the numbers and have asked OPCD for the sensitivity analysis.

We can't tell why the numbers are moving but I was surprised that the PSPP change is so large. We will need OPCD to tell us if the change is due to performance or discount rate change. It may be that the discount rate is not the most important factor.

The TPP change is actually quite small relative to the plan size.

It does suggest that Sask has the right approach, in that the fiscal plan should not swing on the asset performance of the pension plans.

From: Schuurman, Tim (MOF)
Sent: Wednesday, February 22, 2017 9:41 AM
To: Killoch, Alex (MOF)
Subject: Fw: Preliminary pension and other retirement benefit expenses

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Friday, February 17, 2017 4:45 PM
To: Hughes, Karen (TBS); Petsche, Nadine (TBS); Dutton, Andrea (TBS); Cook, Tim (TBS); Schuurman, Tim (MOF); Dodbiba, Teuta (TBS)
Cc: Hosick, Sarah (TBS); Laughton, Patrick (TBS); Fong, Pauline (TBS); Li, Wendy (TBS); Sun, Alicia (TBS); Ma, Patricia (TBS)
Subject: Preliminary pension and other retirement benefit expenses

Attached is a preliminary estimate of the pension expense for 2016-17 and beyond.

There are two tables of numbers – the first is the full expense/income for each plan, the second (shaded in blue) is the change from the numbers being tracked for MMMP that has no valuation allowance for OPSEUPP or OTPP and full valuation allowances for HOOPP and CAATPP. The current working assumption is a full valuation allowance for HOOPP and CAATPP, although the Panel has not completed its work on these plans and so that assumption is subject to change.

Also, in light of the spotlight that pensions are currently under, we engaged an advisor (EY) to review OPCD's work. The box at the bottom of this table includes a list of outstanding items that OPCD is working through with EY. Should there be changes resulting from these items, we'll let you know.

Have a good weekend,

Cindy

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Re: Public Accounts Related Q's
Date: Wednesday, July 05, 2017 14:40:24

Can we also mention no solvency funding requirement

From: Pomykacz, Rob (MOF)
Sent: Wednesday, July 5, 2017 2:38 PM
To: Killoch, Alex (MOF)
Cc: Tsang, Ingrid (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

Here's our draft reply to Shemin:

Hi Shemin,

Thanks for your message. We agree with your analysis from a legal prospective that there is a risk for the Crown.

However, from a financial and accounting perspective, the impact, if any, would be immaterial. As well, as a jointly sponsored pension plan, the government would account for only half any such liability. I should also note that if the plan is in a surplus position at the time of de-listing, the plan would retain the surplus or gain attributable to that school. Again, we are talking about an amount that is immaterial.

We should also note that, as an ongoing plan, the province's obligation is to match the

contributions from public school teachers. The government has no financial obligation with respect to the private schools.

From: Manji, Shemin (MOF)
Sent: July 5, 2017 9:06 AM
To: Killoch, Alex (MOF)
Subject: RE: Public Accounts Related Q's
Importance: High

Hi Alex,

This is in response to your e-mail below.

Re funding risks to the Crown:

I am sure you have good reasons for your view that there are no funding risks to the Crown. However, you do not say on what basis you have concluded that there are no risks. Based on your e-mail, I am not sure I agree with you. I have some questions/concerns. I have raised these concerns with TBS on a number of occasions relating to the participation of non-OPS employers in the PSPP and I have kept you informed of those concerns. These are not new questions/concerns.

Do OTPP and OPSEUPP enter into participation agreements with non-OPS employers before permitting those employers to join the pension plans to ensure that the Crown is protected or any risk to the Crown is mitigated when such employers do not meet their contribution requirements or if they become insolvent or stop participating in the pension

plan?

In the case of the OTPP, I am not sure that delisting a private school if it fails to meet its funding obligations is sufficient to eliminate any funding risk to the Crown. Who is responsible for the benefits that have accrued in the pension plan of employees of the private school that are participating or have participated in the OTPP (members, deferred vested members and retired members of the OTPP) prior to the delisting? The delisted employer? The Crown? If it is the delisted employer, on what basis? Depending on whether these pension plans have entered into participation agreements with non-OPS employers, unless the delisted employer continues making payments to the OTPP, wouldn't the Crown be responsible? Alternately, is it contemplated that the assets of plan that relate to the affected members would be transferred out of the plan (this would be the only way to eliminate funding risk to the Crown)? If so where would the assets be transferred? To another pension plan? To locked in retirement arrangements? On what basis?

What happens to the portion of the unfunded liability (assuming the plan has an unfunded liability) relating to the private school at the time the private school is delisted? Do the OTPP and OPSEUPP include a formula for apportioning liability between employers? If not and there is no participation agreement, wouldn't the Province be responsible under the TPA?

Unless these concerns are addressed, I would be reluctant to conclude that there is no risk to the Crown.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Killoch, Alex (MOF)
Sent: Tuesday, July 04, 2017 3:37 PM
To: Kaufman, Paul (TBS)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: RE: Public Accounts Related Q's

Hi Paul,

With respect to the OTPP, if the required contribution from a participating private school

is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan.

Therefore, we do not think there is any risk for the Crown in this situation. We have included this in the text below. We also suggest removing the last bullet point in the OTPP section, as we don't believe those statements are accurate.

Let me know if you have any quesitons

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Kaufman, Paul (TBS)

Sent: June 26, 2017 9:34 AM
To: Killoch, Alex (MOF)
Cc: Petsche, Nadine (TBS); Manji, Shemin (MOF)
Subject: FW: Public Accounts Related Q's

Hi Alex,

Nadine Petsche asked me to contact your team to see if they have any input on the below (very high level) opinion re: funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The below was prepared to support the preparation of Public Accounts and reflects input from EDU re: the OTPP and TBS legal/pension policy re: the OPSEUPP, but Nadine thought your team might have insights into how this works in practice re: the OTPP that might be relevant.

If you have any thoughts or questions, please let us know.

Thanks,

Paul

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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Nadine, here is an analysis of the potential funding risks for the Crown relating to the participation of non-OPS employers in the OTPP and OPSEUPP. The discussion of the OTPP reflects input from EDU legal and staff who are familiar with the OTPP.

I have kept this high level given the urgency but can elaborate on specific areas as necessary. I haven't included a discussion of the general obligations of employers and members to contribute to Jointly Sponsored Pension Plans under the *Pension Benefits Act* (PBA), or discussed the implications of the exemption from solvency funding requirements under the PBA that I understand both of these plans enjoy, as I understood the focus of your question to be specific to the relationship between the Crown and other employers.

If you require anything further please let us know.

Paul

OTPP:

· The OTPP is governed by the *Teachers' Pension Act* (TPA), the Plan text for the OTPP (the "Plan Text"), a Partners' Agreement between the Minister of Education and the Ontario Teachers' Federation, and a Funding Management Policy ("FMP") that is an appendix to the Partners' Agreement.

· The OTPP is also subject to the *Pension Benefits Act* ("PBA"), under which the OTPP is a Jointly Sponsored Pension Plan (JSPP)

· Under Section 24(1) of the Plan Text, the Minister of Education is required to pay employer contributions in respect of certain active employees. These types of active employees include teachers at school boards and teachers at provincial schools (run by the Ministry of Education and where teachers are the employees of the Provincial Schools Authority).

· However, the Minister is not required to make employer contributions under the Plan Text in respect of some other employers whose employees may participate in the OTPP, including participating private schools.

· Nothing in the Plan Text (or any other applicable OTPP document or statute) expressly requires the Minister of Education to make contributions in place of private schools and other 'excluded' employers who have failed to make their own required contributions to the OTPP.

· The partners review the status of participating private schools. The OTPP Board will bring forward schools that have arrears. If the required contribution from a participating private school is in arrears and the issue can't be resolved, the school will be delisted and teachers in that school will be terminated from the plan. MoF has participated in meetings to have schools delisted.

~~· However, the Crown could be exposed to a funding risk where a private school or similar employer fails to make their contributions in the following ways:~~

~~o Subsection 5(3) of the TPA requires the Province to make contributions to the OTPP fund if the assets in the fund are insufficient to make required payments in a particular year~~

~~o Private schools and other 'excluded employers' not making required payments could impact on the overall funded status of the plan, in turn affecting the ability of the Minister of Education and OTF to access surpluses in accordance with the FMP~~

OPSEUPP:

· The OPSEUPP is governed by a Sponsorship Agreement dated April 18, 1994, as amended, between Ontario and OPSEU ("Sponsorship Agreement"); a trust agreement dated October 25, 1994, as amended, the OPTrust Plan Text and the *Ontario Public Service Employees' Union Pension Act, 1994*.

· Like the OTPP, the OPSEUPP is also a JSPP under the PBA.

· A list of participating employers for the OPSEUPP is set out below (this information is derived from the OPSEUPP's most recent audited financial statements, but you may wish to verify it with the TBS Employee Relations Division). A number of the participating employers that are not part of the Province itself are nevertheless provincial agencies (AGCO, LCBO, OLGC, Public Health Ontario, etc.). The majority of the remaining employers are either public hospitals (that the Province funds) or public sector pension plan administrators. Therefore, the practical risk of a non-OPS employer failing to provide required contributions to the OPSEUPP seems quite low.

· However, in the event that such an employer did fail to make its contributions, and that failure resulted in a deficiency in the OPSEUPP fund, the Province (likely in conjunction with the other employers whose employees are members of the OPSEUPP), and the members would jointly be required to provide further contributions to the fund to address any such deficiency, pursuant to section 58 of the Sponsorship Agreement and section 6.3(5) of the OPTrust Plan Text.

• The Province of Ontario (civil servants and crown employees)

• Alcohol and Gaming Commission of Ontario

• Centre for Addiction and Mental Health

• Legislative Assembly of Ontario

• Liquor Control Board of Ontario

• Niagara Parks Commission

• North Bay Regional Health Centre (Northeast Mental Health Centre)

• Ontario Agency for Health Protection and Promotion

• Ontario Lottery and Gaming Corporation

• Ontario Pension Board

• Ontario College of Trades

• Ontario Public Service Employees Union (seconded or acting employees)

• Ontario Shores Centre for Mental Health Sciences

• Ontario Teachers' Pension Plan Board

• OPSEU Pension Plan Trust Fund (includes non-bargaining unit employees)

• Providence Continuing Care Centre

• St. Joseph's Care Group – Lakehead Psychiatric Hospital

• Waypoint Centre for Mental Health Care

• Workplace Safety and Insurance Appeals Tribunal

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Scott Simpson [wssimpson@rogers.com]
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Question
Date: Tuesday, October 11, 2016 18:08:29

Thanks for your note Alex and yes I have been taking advantage of the nice weather for a few October golf games - although yesterday we had a frost delay!

I would definitely be interested in assisting the OPCD with the pension accounting issues and I would be pleased if you put my name forward. Just let me know the next steps in the process.

Thanks again,
Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Tuesday, October 11, 2016 1:53 PM
To: wssimpson@rogers.com
Subject: Question

Hi Scott

It has been a great fall for getting out on the golf course. I played yesterday and it was glorious. It was lovely Thanksgiving conditions, I hope you enjoyed it.

As you may have seen in the media, the government is having some issues with our accounting for pension expense, especially Teachers'. The Public Accounts were issued last week, with an adjustment, and the government has announced that it is examining the issue. The work is being led out of the Office of the Provincial Controller (OPCD).

It is expected that the panel looking at the issue will require some actuarial help and I have been asked if I know anyone who might be interested. I thought of you, as you are quite familiar with the provisions of Teachers'. Would you be interested? The next step would be to put you in touch with OPCD.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Killoch, Alex (MOF) []
To: Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]
Subject: Re: Reg change
Date: Wednesday, September 28, 2016 13:50:35

Thanks

Original Message
From: Schuurman, Tim (MOF)
Sent: Wednesday, September 28, 2016 1:40 PM
To: Killoch, Alex (MOF)
Subject: Fw: Reg change

Original Message
From: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>
Sent: Wednesday, September 28, 2016 1:37 PM
To: Schuurman, Tim (MOF); McGrath, Tara (MOF); Tiburcio, Daniel (MOF); Laurent, Stephen (MOF)
Subject: FW: Reg change

FYI, attached is a deck and BN that outlines the propose regulatory change to the FAA treatment of pension surpluses in Public Accounts for 2015-16 in line with the AG's opinion.

Thanks,
Ryan

-----Original Message-----
From: Pearce, Christopher (MOF)
Sent: September-28-16 1:24 PM
To: Birks, Ryan (MOF)
Subject: FW: Reg change

FYI.

-----Original Message-----
From: Laughton, Patrick (TBS)
Sent: September-28-16 11:34 AM
To: Kaufman, Paul (TBS); Esmail, Selena (TBS); Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS)
Subject: RE: Reg change

See attached for revised submission and assessment note, verified through program area.

P.

-----Original Message-----
From: Kaufman, Paul (TBS)
Sent: September-28-16 11:31 AM
To: Esmail, Selena (TBS); Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS)
Subject: RE: Reg change

We won't have it that soon but will bring it there as soon as we can.

Paul Kaufman
Counsel
Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat 9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3
Phone: 416-327-7012 Fax: 416-325-9404

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-----Original Message-----
From: Esmail, Selena (TBS)
Sent: September-28-16 11:28 AM
To: Kaufman, Paul (TBS); Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS)
Subject: Re: Reg change

You can give it to me in chambers. I will be there for about 1145.

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Kaufman, Paul (TBS)
Sent: Wednesday, September 28, 2016 11:27 AM
To: Hatzis, Len (TBS); MacIntyre, Kyle (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS)
Subject: RE: Reg change

Once we get the revised reg and sign the back, who should we deliver it to to get it to Cabinet?

Paul Kaufman
Counsel
Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat 9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3
Phone: 416-327-7012 Fax: 416-325-9404

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-----Original Message-----
From: Hatzis, Len (TBS)
Sent: September-28-16 11:26 AM
To: MacIntyre, Kyle (TBS); Kaufman, Paul (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS); Petsche, Nadine (TBS)
Subject: Re: Reg change

Spoke again to Leg counsel - we are good on amendment to header

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: Hatzis, Len (TBS)
Sent: Wednesday, September 28, 2016 11:17 AM
To: MacIntyre, Kyle (TBS); Kaufman, Paul (TBS)
Cc: Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS); Petsche, Nadine (TBS)
Subject: Re: Reg change

Kyle
We just spoke to Leg counsel - can we call you

Sent from my BlackBerry 10 smartphone on the Rogers network.
Original Message
From: MacIntyre, Kyle (TBS)
Sent: Wednesday, September 28, 2016 11:09 AM
To: Kaufman, Paul (TBS)
Cc: Hatzis, Len (TBS); Kearney, Sean (TBS); Laughton, Patrick (TBS); Esmail, Selena (TBS); Petsche, Nadine (TBS)
Subject: Re: Reg change

It is superfluous given the language of the section. Also there is a concern that it could seen as offending an independent officer of the legislature.

> On Sep 28, 2016, at 11:05 AM, Kaufman, Paul (TBS) <Paul.Kaufman@ontario.ca> wrote:
>
> Legislative counsel's office has asked what the rationale for the change is - these headings are generally something they done in their editorial discretion and they are concerned that the change would make the heading less descriptive. Is there something inaccurate about "....for the 2015-2016 fiscal year" that we can point to?
>
>
> Paul Kaufman
> Counsel
> Ministry of the Attorney General | Legal Services Branch |Treasury
> Board Secretariat 9th Floor, 77 Wellesley Street West, Ferguson Block,
> Toronto, ON M7A 1N3
> Phone: 416-327-7012 Fax: 416-325-9404
>
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>
> -----Original Message-----
> From: MacIntyre, Kyle (TBS)
> Sent: September-28-16 10:58 AM
> To: Hatzis, Len (TBS); Kaufman, Paul (TBS); Kearney, Sean (TBS)
> Cc: Laughton, Patrick (TBS); Esmail, Selena (TBS)
> Subject: Reg change
>
> Hi - a slight change to the Reg, which will need to be made and then sealed:
>
> - heading: "Accounting policies and practices for the 2015 -2016 fiscal year" should be amended by

deleting "....for the 2015-2016 fiscal year".
>
> The item will track to cabinet today.
>
> Patrick, I'm not sure if the deck needs amending but can you do that ASAP if needed? I need to get Greg and the Ms signature.
>
> Thx!

From: Pomykacz, Rob (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: Re: Rescheduling of Government Matching Contributions to the TPP
Date: Friday, September 23, 2016 13:37:17

This message has been archived. View the original item
https://ctsbigdcapmvs02.cihs.ad.gov.on.ca/EnterpriseVault/ViewMessage.asp?VaultId=18465B89DB8BDC949939FA253735D5D121110000ctsbigdcapmvs01&SavesetId=201610257404571~201609231737170000~Z~9099A376D0C56E07D50F778C43995961View the original item

The only reason that was done at the time was because we were on a cash basis of accounting. So if the government's contributions were 1 billion dollars, rescheduling to 1993-94 would have taken that

From: Killoch, Alex (MOF) []
To: Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: Re: Restoring Index Inflation
Date: Monday, September 19, 2016 11:18:04
Attachment 1: image001.jpg

Agreed, we match all the inflation forgone down to 50 percent of inflation.

From: Duffy, Paul (EDU)
Sent: Monday, September 19, 2016 11:10 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF); Roberto, Nicole (EDU)
Subject: RE: Restoring Index Inflation

Alex, we're making some changes directly to the Word doc provided via OPCD, but on a high-level, I think we need a conversation to clarify two points:

· As you mentioned, the accounting versus funding issue is mixed throughout the note – does the accrued benefit obligation refer to the accounting valuation?

· Secondly, Deloitte seems to think that share the pain is a payment by the government for 50% of the inflation foregone by members, as opposed the government making payments which match the foregone benefits (so, 100% of foregone inflation) for inflation protection at 50% or above.

Comments on the note will arrive before lunch.

Paul

From: Killoch, Alex (MOF)
Sent: September-19-16 10:54 AM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Roberto, Nicole (EDU)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: Re: Restoring Index Inflation

Question is whether accrued benefit obligation refers to accounting valuation.

Despite the fact that the inflation protection was reduced, the cost of this protection has been fully reflected in the measurement of the accrued benefit obligation associated with the plan on the grounds that either the benefits would be restored and provided to pensioners or the “share the pain” payments would continue

From: Duffy, Paul (EDU)

Sent: Monday, September 19, 2016 10:50 AM

To: Pomykacz, Rob (MOF); Killoch, Alex (MOF); Roberto, Nicole (EDU)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)

Subject: RE: Restoring Index Inflation

Okay – this response seems to be mixing apples and oranges then, as the next paragraph uses the funding costs of restoring inflation, not the accounting costs, correct?

From: Pomykacz, Rob (MOF)
Sent: September-19-16 10:49 AM

To: Killoch, Alex (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: RE: Restoring Index Inflation

Yes, the accounting valuation assumes 100% inflation protection.

From: Killoch, Alex (MOF)
Sent: September 19, 2016 10:48 AM
To: Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: Re: Restoring Index Inflation

I think that might be a reference to the accounting which assumes 100 percent indexation.

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Sent: Monday, September 19, 2016 10:28 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)

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To: Duffy, Paul (EDU); Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: Fw: Restoring Index Inflation

Importance: High

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Sent: Monday, September 19, 2016 9:25 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:18 AM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Subject: Restoring Index Inflation

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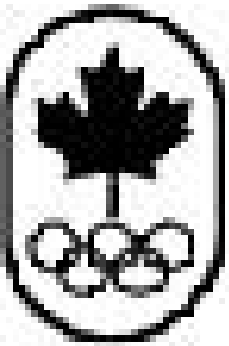

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PARTNER

From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Restoring Index Inflation
Date: Monday, September 19, 2016 11:02:04
Attachment 1: image001.jpg

Please let Nadine know

From: Pomykacz, Rob (MOF)
Sent: Monday, September 19, 2016 10:57 AM
To: Killoch, Alex (MOF)
Subject: RE: Restoring Index Inflation

Ingrid and I will try to contact Allan. The last two paragraphs are a disaster…very confusing.

From: Killoch, Alex (MOF)
Sent: September 19, 2016 10:54 AM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
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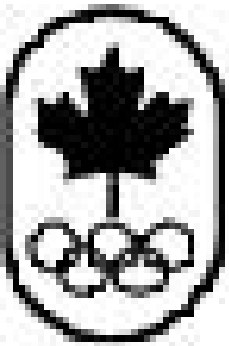

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Subject: Re: Restoring Index Inflation
Date: Monday, September 19, 2016 10:53:39
Attachment 1: image001.jpg

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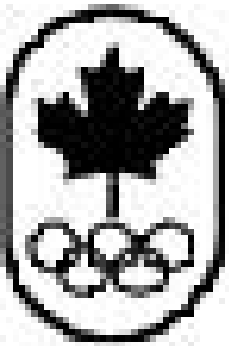

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Subject: Re: Restoring Index Inflation
Date: Monday, September 19, 2016 10:51:38
Attachment 1: image001.jpg

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Perhaps a call with Nadine to understand the point?

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Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:18 AM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Subject: Restoring Index Inflation

Statement of facts are coming soon, however wondering if you could read and edit this paragraph now in the interest of time.

As noted above, a preliminary $12.7 billion plan shortfall in 2008 was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agreed to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation. In other words, employers and members shared in the outcome since the members would forego some benefits and the employers would also bear the cost to the extent of 50% of the missed inflation. These additional payments are often referred to as the “share the pain” payments. Despite the fact that the inflation protection was reduced, the cost of this protection has been fully reflected in the measurement of the accrued benefit obligation associated with the plan on the grounds that either the benefits would be restored and provided to pensioners or the “share the pain” payments would continue.

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Matthew Colley

Sr. Manager | Audit Advisory

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22 Adelaide Street West,

Toronto, Ontario,

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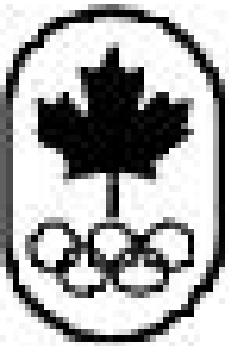

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PARTNER

From: Killoch, Alex (MOF) []
To: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: Re: Restoring Index Inflation
Date: Monday, September 19, 2016 10:47:31
Attachment 1: image001.jpg

I think that might be a reference to the accounting which assumes 100 percent indexation.
Need to check with Nadine. I think they assume 100 for costing rather than funding.

From: Roberto, Nicole (EDU)
Sent: Monday, September 19, 2016 10:28 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: FW: Restoring Index Inflation

Alex and Rob – we aren't sure that the last sentence in the first paragraph accurately reflects the measurement of the CIP (see comment below). Do you have any other comments to consolidate and share with Nadine?

Thanks,

Nicole

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We don’t think we can say that the cost of this protection has been **fully reflected.** The preliminary funding valuation was costed based on 70% inflation protection and the revised funding valuation that will be filed has been updated to reflect 90% inflation protection.

As also noted in the table above, plan surpluses arising in 2014-2016 are being used to restore some of the inflation protection that was reduced in 2008. This restoration of inflation protection is fully contemplated in the FMP under Section 3 describing the Restoration Zone. The direct impact of this action is that a portion of the “share the pain” payments that would otherwise be required have been eliminated. The estimated value of this reduction in contributions is $4.3 billion related to the 2016 action ($1.85 billion for 2015, and $1.95 billion for 2014).

From: Paul, Joshua (EDU)
Sent: September-19-16 9:38 AM
To: Duffy, Paul (EDU); Roberto, Nicole (EDU); Di Renzo, Stephen (EDU)
Subject: Fw: Restoring Index Inflation
Importance: High

Please review asap and consolidate comments.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Monday, September 19, 2016 9:25 AM

To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Killoch, Alex (MOF)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

Please advise. N

From: Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Sent: Monday, September 19, 2016 9:18 AM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Subject: Restoring Index Inflation

Statement of facts are coming soon, however wondering if you could read and edit this paragraph now in the interest of time.

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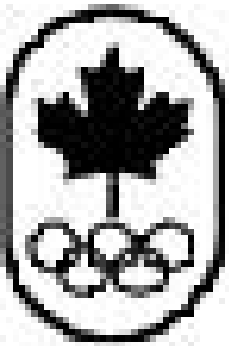

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From: Killoch, Alex (MOF) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Restoring Index Inflation
Date: Monday, September 19, 2016 11:19:33
Attachment 1: image001.jpg

See if you can include edu staff

From: Pomykacz, Rob (MOF)
Sent: Monday, September 19, 2016 11:13 AM
To: Duffy, Paul (EDU); Killoch, Alex (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF); Roberto, Nicole (EDU)
Subject: RE: Restoring Index Inflation

We're going to have a quick chat with Nadine. Will let you know what we find out about these two paragraphs. Our main concern is that we don't know what message they are trying to convey.

From: Duffy, Paul (EDU)
Sent: September 19, 2016 11:10 AM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF); Roberto, Nicole (EDU)
Subject: RE: Restoring Index Inflation

Alex, we're making some changes directly to the Word doc provided via OPCD, but on a high-level, I think we need a conversation to clarify two points:

· As you mentioned, the accounting versus funding issue is mixed throughout the note – does the accrued benefit obligation refer to the accounting valuation?

· Secondly, Deloitte seems to think that share the pain is a payment by the government for 50% of the inflation foregone by members, as opposed the government making payments which match the foregone benefits (so, 100% of foregone inflation) for inflation protection at 50% or above.

Comments on the note will arrive before lunch.

Paul

From: Killoch, Alex (MOF)
Sent: September-19-16 10:54 AM
To: Duffy, Paul (EDU); Pomykacz, Rob (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: Re: Restoring Index Inflation

Question is whether accrued benefit obligation refers to accounting valuation.

Despite the fact that the inflation protection was reduced, the cost of this protection has been fully reflected in the measurement of the accrued benefit obligation associated with the plan on the grounds that either the benefits would be restored and provided to pensioners or the “share the pain” payments would continue

From: Duffy, Paul (EDU)

Sent: Monday, September 19, 2016 10:50 AM

To: Pomykacz, Rob (MOF); Killoch, Alex (MOF); Roberto, Nicole (EDU)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)

Subject: RE: Restoring Index Inflation

Okay – this response seems to be mixing apples and oranges then, as the next paragraph uses the funding costs of restoring inflation, not the accounting costs, correct?

From: Pomykacz, Rob (MOF)
Sent: September-19-16 10:49 AM
To: Killoch, Alex (MOF); Roberto, Nicole (EDU)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU); Tsang, Ingrid (MOF)
Subject: RE: Restoring Index Inflation

Yes, the accounting valuation assumes 100% inflation protection.

From: Killoch, Alex (MOF)
Sent: September 19, 2016 10:48 AM
To: Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)
Subject: Re: Restoring Index Inflation

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Need to check with Nadine. I think they assume 100 for costing rather than funding.

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To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: Paul, Joshua (EDU); Sekaly, Gabriel (EDU); Franks, Sebastian (EDU); Duffy, Paul (EDU); Di Renzo, Stephen (EDU)

Subject: FW: Restoring Index Inflation

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Cc: Veinot, Cindy (TBS)

Subject: Fw: Restoring Index Inflation

Please advise. N

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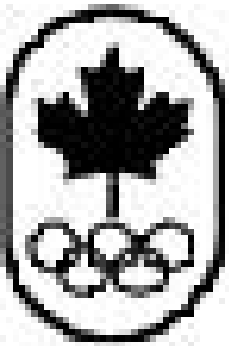

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PARTNER

From: Veinot, Cindy (TBS) []
To: Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 21:50:12

No intention to question the process. Just trying to get to the info that we will need to support the impact of the use of the surplus in the last 3 years.

Sounds like Allan may have that detail.

Thanks

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Sekaly, Gabriel (EDU)
Sent: Wednesday, September 21, 2016 21:22
To: Paul, Joshua (EDU)
Cc: Veinot, Cindy (TBS); Petsche, Nadine (TBS); Killoch, Alex (MOF); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

So to put it in a nutshell the "quantitative evidence" we utilize to make decisions on CIP and any other benefit changes is the process outlined below by Josh. I believe that our track record of joint decision making with our colleagues at Finance speaks for itself.

Sent from my iPad

On Sep 21, 2016, at 21:17, Paul, Joshua (EDU) <Joshua.Paul@ontario.ca> wrote:

> Both partners are advised by the Plan as to the results of the actuarial analyses required to consider various options.
>
> MOF keeps an actuary on contract that helps advise in these matters. I don't know if Allan Shapira has access to the detailed analysis hence i'll leave it to Rob and Alex to describe Allan's role and what he has access to.
>
> We do not have it and rely on the advice of the plan, the MOF actuary and the regulatory process whereby an independent actuary (Mercer) verifies the results.
>
> This is why i've been flagging for awhile now that to give the AG detailed analysis of the valuations will most likely require actuarial help, either from Allan or OTPP.
>
> Hope this helps,

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)
Sent: Wednesday, September 21, 2016 7:41 PM
To: Paul, Joshua (EDU); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

I would have thought that EDU would have the information in order to make the decision to agree to the change in the conditional indexation. What is the quantitative evidence on which those decisions are made?

Thanks,

From: Paul, Joshua (EDU)
Sent: September-21-16 7:31 PM
To: Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Folks can correct me if i'm wrong, but that stuff can only come from the Plan (we don't have it as far as I know) and pointing to where one finds the right numbers to answer the Q may take an actuary - either ours or the OTPP's presumably.

Thoughts?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS)

Sent: Wednesday, September 21, 2016 7:17 PM

To: Petsche, Nadine (TBS); Paul, Joshua (EDU)

Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)

Subject: RE: Share the Pain

I can't say that I'm totally following the email below, but will read it again in the morning.

Is there a way to provide the funding valuations – preliminary and final for each of the years that a change in the indexation was made, provided that the difference in those valuations can isolate the impact on the reduction in payments that are due from the Province to the plan?

Cindy

From: Petsche, Nadine (TBS)
Sent: September-21-16 6:58 PM
To: Paul, Joshua (EDU); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

Understood. I defer to Cindy. I don't get the impression that she is going to consider the $4.3 B as an asset anyway given her position on 'unilateral' right to access and mandatory requirement for agreements to be in place as at year-end. Since it isn't our position that the $4.3B is what we would put forward as the asset value, there may not be much value in trying to push for the detailed calc, especially given the relationship implications.

Cindy will provide her perspective shortly.

Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 6:52 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: Re: Share the Pain

Just to be clear, i'm not advocating for contacting the OTPP.

If we can deliver what she needs and we feel comfortable giving her without involving the plan, great.

But if you feel this is required, we'd facilitate and make sure people here at our DMO and MO know what is happening when.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 6:45 PM

To: Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU)

Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 4:52 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

So, as discussed, they want the actuarial analysis that is conducted or directed by the OTPP.

Presumably, she will need to go to OTPP to make sense of the actuarial stuff.

We need to let people know up the line here if we're going to support that direction for the AG's efforts.

Let us know,

jp

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Wednesday, September 21, 2016 4:43 PM

To: Killoch, Alex (MOF)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: Re: Share the Pain

I get the impression is is the details behind the specific amounts that have been communicated (add to 8.6?)

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:41 PM

To: Petsche, Nadine (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: RE: Share the Pain

You mean all the assumptions that the OTPP external actuary would use to calculate this PV or the underlying model that is used to calculate the value of conditional indexation out indefinitely?

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking for all of the numbers behind the numbers to understand how they were calculated. N

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:18 PM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)

Subject: Share the Pain

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the $4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use $8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

As requested and further to our conversation this afternoon, the purpose of this email is to outline the change in the present value of the future "share the pain" contributions from the January 1, 2016 preliminary valuation results of $6.6B to the January 1, 2016 filed results of $2.3B – i.e., a reduction of $4.3B.

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For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

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It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

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Direct 416-730-2976
www.otpp.com
<image001.png>

Ontario Teachers' Pension Plan

5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada

From: Sekaly, Gabriel (EDU) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 21:22:49
Attachment 1: image001.png
Attachment 2: image002.png

So to put it in a nutshell the "quantitative evidence" we utilize to make decisions on CIP and any other benefit changes is the process outlined below by Josh. I believe that our track record of joint decision making with our colleagues at Finance speaks for itself.

Sent from my iPad

On Sep 21, 2016, at 21:17, Paul, Joshua (EDU) <Joshua.Paul@ontario.ca> wrote:

> Both partners are advised by the Plan as to the results of the actuarial analyses required to consider various options.
>
> MOF keeps an actuary on contract that helps advise in these matters. I don't know if Allan Shapira has access to the detailed analysis hence i'll leave it to Rob and Alex to describe Allan's role and what he has access to.
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Cc: Killoch, Alex (MOF); Sekaly, Gabriel (EDU); Duffy, Paul (EDU); Roberto, Nicole (EDU)
Subject: RE: Share the Pain

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Subject: FW: Share the Pain

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Subject: RE: Share the Pain

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Subject: Re: Share the Pain

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<image001.png>

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<image002.png>

ONTARIO
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From: Paul, Joshua (EDU) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 21:17:32
Attachment 1: image001.png
Attachment 2: image002.png

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Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 19:30:40
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You mean all the assumptions that the OTPP external actuary would use to calculate this PV or the underlying model that is used to calculate the value of conditional indexation out indefinitely?

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:36 PM
To: Killoch, Alex (MOF)
Subject: Re: Share the Pain

Bonnie is asking for all of the numbers behind the numbers to understand how they were calculated. N

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:18 PM

To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)

Subject: Share the Pain

Hello Nadine

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Please let me know if you have any questions.

Alex

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Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
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From: Paul, Joshua (EDU) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 18:52:02
Attachment 1: image001.png
Attachment 2: image002.png

Just to be clear, i'm not advocating for contacting the OTPP.

If we can deliver what she needs and we feel comfortable giving her without involving the plan, great.

But if you feel this is required, we'd facilitate and make sure people here at our DMO and MO know what is happening when.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 6:45 PM
To: Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU)
Subject: FW: Share the Pain

Please let us know how to proceed. Nadine

From: Paul, Joshua (EDU)
Sent: September 21, 2016 4:52 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Cc: Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU); Sekaly, Gabriel (EDU)
Subject: Re: Share the Pain

So, as discussed, they want the actuarial analysis that is conducted or directed by the OTPP.

Presumably, she will need to go to OTPP to make sense of the actuarial stuff.

We need to let people know up the line here if we're going to support that direction for the AG's efforts.

Let us know,

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Sent: Wednesday, September 21, 2016 4:43 PM

To: Killoch, Alex (MOF)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: Re: Share the Pain

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From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 4:41 PM

To: Petsche, Nadine (TBS)

Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)

Subject: RE: Share the Pain

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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 16:52:50
Attachment 1: image001.png
Attachment 2: image002.png

I think it may be a good sign. Perhaps they might be willing to consider the restoration as an asset, but after year-end.

From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 4:50 PM
To: Petsche, Nadine (TBS)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Subject: RE: Share the Pain

That is going to take some time to get.

Perhaps we can park the request until after your meeting and compile all the questions that she will want answered, including work by OTPP

I would note that the plan has an actuary, and each partner has its own actuary to ensure that everything is appropriate.

From: Petsche, Nadine (TBS)
Sent: Wednesday, September 21, 2016 4:43 PM
To: Killoch, Alex (MOF)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF); Duffy, Paul (EDU)
Subject: Re: Share the Pain

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Sent: Wednesday, September 21, 2016 3:55 PM
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From: Paul, Joshua (EDU) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 16:51:34
Attachment 1: image001.png
Attachment 2: image002.png

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Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 16:43:20
Attachment 1: image001.png
Attachment 2: image002.png

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TEACHERS'
PENSION PLAN

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 16:36:27
Attachment 1: image001.png
Attachment 2: image003.png

Bonnie is asking for all of the numbers behind the numbers to understand how they were calculated. N

From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 4:18 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: Share the Pain

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the $4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use $8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

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below 100% on not just service from December 31, 2009 to the valuation date but also on service projected to be earned in the future for current plan members. As an example, the valuation results assume that a member who joined the plan in 2015 will receive 70% inflation protection on the full pension entitlement they will eventually earn over their future career and that this reduction will apply each and every year for the remainder of their lifetime.

For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

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It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

Regards, Mary

Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk

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www.otpp.com

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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 16:34:45
Attachment 1: image001.png
Attachment 2: image003.png

Bonnie is asking how many years for the calcs, incl 2009 that the PVS are based on.

From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 4:18 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: Share the Pain

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From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 16:29:27
Attachment 1: image001.png
Attachment 2: image003.png

FYI - Bill Pelow just remembered he had a meeting at 4:30 and cancelled his discussion with Gabe.

Stay tuned.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
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Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 16:23:16
Attachment 1: image001.png
Attachment 2: image003.png

Thanks!

From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 4:18 PM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
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From: Paul, Joshua (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Share the Pain
Date: Wednesday, September 21, 2016 11:30:34

Ok, good from my perspective. Send Allan in.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Wednesday, September 21, 2016 11:20 AM
To: Paul, Joshua (EDU)
Subject: FW: Share the Pain

Fyi

I talked to Nadine

She does not want the AG poking around the OTPP. She prefers that the plan just provide a note. There is concern that they will start asking more questions. She also does not think the $4.3 billion is relevant to the asset on our balance sheet.

Alex

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 11:17 AM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: Re: Share the Pain

Hi Alex. I'm offsite this morning at a conference. I'll give you a call this afternoon. Do you have a preferred time? Thx-m.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Killoch, Alex (MOF)

Sent: Wednesday, September 21, 2016 11:13 AM

To: Mary Cover

Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); robert.pomykacz@ontario.ca

Subject: Share the Pain

Hi Mary

We are looking for a note that describes the calculation for the $4.3 billion change in the pv of the share the pain payment owed by the government when inflation is less than 100%.

My understanding is that, basically, OTPP recalculates the contribution based on the level of indexation, so when it moved from 70% to 90%, the PV of the payments alters, and the difference is the $4.3 billion. For now, we are dealing with the January 1, 2016 values, but I expect that we could be asked for the explanation of last year's change.

Feel free to give me a call and I can clarify.

Once again, thanks for the help.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

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Alex.Killoch@Ontario.ca

CONFIDENTIALITY WARNING This e-mail message, including any attachment(s), is confidential. If we sent this communication to you in error, please do not disclose it to anyone else or use the information in it. Please notify the sender of the transmission error and then delete our communication from your system without printing, copying or forwarding it. Thank you for your co-operation. AVERTISSEMENT CONCERNANT LE CARACTERE CONFIDENTIEL DE L'INFORMATION Le present courriel, y compris toute piece qui y est jointe, est confidentiel. Si nous vous avons envoye cette communication par erreur, nous vous prions de ne la divulguer a personne ni a utiliser l'information qu'elle contient. Veuillez informer l'expediteur de l'erreur de transmission et effacer ensuite notre communication de votre systeme sans l'imprimer, ni la copier ni la retransmettre. Nous vous remercions de votre cooperation.

From: Sekaly, Gabriel (EDU) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Steve's Q
Date: Thursday, September 22, 2016 19:08:29

OTPP does surveys of their members from time to time. Not sure if they asked this question. We will check tomorrow if we have anything.

What is Steve looking for on intergenerational equity?

Can you also let me know how these pieces of info assist our position wrt the accounting treatment on the provincial books.

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Thursday, September 22, 2016 18:40
To: Petsche, Nadine (TBS); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: Re: Steve's Q

I don't

Did otpp do a survey?

From: Petsche, Nadine (TBS)
Sent: Thursday, September 22, 2016 5:59 PM
To: Paul, Joshua (EDU); Sekaly, Gabriel (EDU)
Cc: Veinot, Cindy (TBS); Killoch, Alex (MOF)
Subject: Steve's Q

Steve is asking about the survey that was done previously about the amount of contributions that teachers would be willing to pay when the surplus grows. Comments are also being made wrt intergenerational equity.

Do you have any info on this?
N

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Steve's Q
Date: Thursday, September 22, 2016 18:52:53

Maybe Josh or Gabe will know. N
From: Killoch, Alex (MOF)
Sent: Thursday, September 22, 2016 6:40 PM
To: Petsche, Nadine (TBS); Paul, Joshua (EDU); Sekaly, Gabriel (EDU)
Cc: Veinot, Cindy (TBS); Pomykacz, Rob (MOF)
Subject: Re: Steve's Q

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CC: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: Steve's Q
Date: Thursday, September 22, 2016 18:40:25

I don't

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Cc: Veinot, Cindy (TBS); Killoch, Alex (MOF)
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From: Talwar, Garima (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: Re: Tomorrow am
Date: Sunday, September 18, 2016 21:32:28

Thanks Alex. Who is coordinating the fact check?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Killoch, Alex (MOF)
Sent: Sunday, September 18, 2016 9:29 PM
To: Talwar, Garima (MOF)
Subject: Fw: Tomorrow am

Hi Garima

Just an update.

There was a call with PwC today that Josh and I did. Same questions that they have been asking for a over a week. Trying to understand share the pain and other examples of government getting a share of the plan.

Oddly asking same questions that OPCD already has answers to.

Looks like the accounting opinion will be done tomorrow. It is a fact check that they are requesting. We should be able to review easily enough.

It will primarily be edu since it seems that the issue has moved to access to the funding valuation surplus. The accounting surplus is sort of a pressure balloon that holds a notional surplus until it shows in the funding val. That is when government can spend it.

They are asking a lot of questions about the relationship with otf.

Alex

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>
Sent: Sunday, September 18, 2016 8:03 PM
To: Sekaly, Gabriel (EDU)
Cc: Kaufman, Paul (TBS); Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)
Subject: RE: Tomorrow am

Hi Gabe.

Sorry, I don't have any further details than in the 'am'. They are responding to a request to expedite. n

From: Sekaly, Gabriel (EDU)
Sent: September-18-16 8:01 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)
Cc: Kaufman, Paul (TBS); Veinot, Cindy (TBS)
Subject: Re: Tomorrow am

What time are we expecting the document?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Sunday, September 18, 2016 19:51

To: Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)

Cc: Sekaly, Gabriel (EDU); Kaufman, Paul (TBS); Veinot, Cindy (TBS)

Subject: Tomorrow am

Alex/Josh/Len,

I just wanted to give you a heads up that we're expecting to receive a draft 'statement of facts' from Deloitte tomorrow morning. We'll be under a tight timeline to share any comments, so just wanted to let you know in case we need your help. I'll mark any correspondence as 'URGENT' in the subject line to highlight it for your attention. Thanks in advance.

Nadine

From: Killoch, Alex (MOF) []
To: Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]
Subject: Re: Tomorrow am
Date: Sunday, September 18, 2016 21:35:46

Nadine will coordinate with Josh, Gabe Rob and I. Not sure that anyone else will need to see it. It is an accounting opinion so most if it will be PSAB. There will be some facts up front.

I don't know if Allan is reviewing but he has been quite involved directly with OPCD so I will ask about his involvement.

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To: Sekaly, Gabriel (EDU)
Cc: Kaufman, Paul (TBS); Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)
Subject: RE: Tomorrow am

Hi Gabe.

Sorry, I don't have any further details than in the 'am'. They are responding to a request to expedite. n

From: Sekaly, Gabriel (EDU)
Sent: September-18-16 8:01 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)
Cc: Kaufman, Paul (TBS); Veinot, Cindy (TBS)
Subject: Re: Tomorrow am

What time are we expecting the document?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Sunday, September 18, 2016 19:51

To: Killoch, Alex (MOF); Paul, Joshua (EDU); Hatzis, Len (TBS)

Cc: Sekaly, Gabriel (EDU); Kaufman, Paul (TBS); Veinot, Cindy (TBS)

Subject: Tomorrow am

Alex/Josh/Len,

I just wanted to give you a heads up that we're expecting to receive a draft 'statement of facts' from Deloitte tomorrow morning. We'll be under a tight timeline to share any comments, so just wanted to let you know in case we need your help. I'll mark any correspondence as 'URGENT' in the subject line to highlight it for your attention. Thanks in advance.

Nadine

From: Killoch, Alex (MOF) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
CC: Clarke-Darshanand, Jamille (MOF) [Jamille.Clarke-Darshanand@ontario.ca]
Subject: Re: Update letter coming out of our call
Date: Monday, September 26, 2016 11:42:41
Attachment 1: image001.png

Let me know.

It is not crucial but it is important that edu knows what we will be saying publicly about the PA and the plan funding.

From: McLean, David (MOF)
Sent: Monday, September 26, 2016 11:33 AM
To: Killoch, Alex (MOF)
Cc: Clarke-Darshanand, Jamille (MOF)
Subject: RE: Update letter coming out of our call

I'll run it by the DM. Is it vital that they see it? I know we were trying to keep this whole issue contained within the "need to know" crowd in MOF and TBS.

From: Killoch, Alex (MOF)
Sent: September 26, 2016 11:22 AM
To: McLean, David (MOF)
Cc: Clarke-Darshanand, Jamille (MOF)
Subject: RE: Update letter coming out of our call

Is it ok to share this with EDU?

They are going to need to start internal discussions about how to engage with the Ontario Teachers Federation once we acknowledge an accounting issue around TPP. Most of the letter discussing pension standards is not so important to them, but the discussion of contribution holidays, access to surplus and when those surpluses will arise will be important.

Alex

From: McLean, David (MOF)
Sent: Monday, September 26, 2016 9:44 AM
To: Killoch, Alex (MOF)
Cc: Clarke-Darshanand, Jamille (MOF)
Subject: FW: Update letter coming out of our call

FYI

From: Orencsak, Greg (TBS)
Sent: September 25, 2016 1:54 PM
To: Bevan, Andrew (OPO); Orsini, Steve (CAB); Bromm, William (CAB); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Kearney, Sean (TBS); Hatzis, Len (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Hughes, Karen (TBS); Davidson, Steven (CAB); Thompson, Scott (MOF); Mayman, Gadi (OFA); Angus, Helen (MIT); Kwamena, Boafoa (CAB); DiMuzio, Sofie (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Betzner, Lynn (CAB)
Subject: Re: Update letter coming out of our call

Thanks, the letter has been sent. Copy attached for reference.

Will keep you posted on what we hear back.

Greg

From: "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>

Date: Sunday, September 25, 2016 at 1:32 PM
To: Steve Orsini <Steve.Orsini@ontario.ca>, "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, Sean Kearney <Sean.Kearney@ontario.ca>, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>, Steven Davidson <Steven.Davidson@ontario.ca>, Scott Thompson <Scott.Thompson@ontario.ca>, Gadi Mayman <Gadi.Mayman@ofina.on.ca>, "Angus, Helen (MIT)" <Helen.Angus@ontario.ca>, "Kwamena, Boafoa (CAB)" <Boafoa.Kwamena@ontario.ca>, Sofie Di Muzio <sofie.dimuzio@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>, Lynn Betzner <Lynn.Betzner@ontario.ca>
Subject: Re: Update letter coming out of our call

Thank you. Agree it needs to go asap

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Orsini, Steve (CAB)

Sent: Sunday, September 25, 2016 1:16 PM

To: Orencsak, Greg (TBS); Bromm, William (CAB); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Bevan, Andrew (OPO); Kearney, Sean (TBS); Hatzis, Len (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Hughes, Karen (TBS); Davidson, Steven (CAB); Thompson, Scott (MOF); Mayman, Gadi (OFA); Angus, Helen (MIT); Kwamena, Boafoa (CAB); DiMuzio, Sofie (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Betzner, Lynn (CAB)

Subject: RE: Update letter coming out of our call

I'm OK with the letter (small font issue on page 3). Thanks for the quick turnaround.

We need to engage the AG immediately.

Thanks again.

Steve

From: Orencsak, Greg (TBS)
Sent: September-25-16 1:04 PM
To: Bromm, William (CAB); Orsini, Steve (CAB); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Bevan, Andrew (OPO); Kearney, Sean (TBS); Hatzis, Len (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Hughes, Karen (TBS); Davidson, Steven (CAB); Thompson, Scott (MOF); Mayman, Gadi (OFA); Angus, Helen (MIT); Kwamena, Boafoa (CAB); DiMuzio, Sofie (TBS); MacIntyre, Kyle (TBS); McLean, David (MOF); Betzner, Lynn (CAB)
Subject: Update letter coming out of our call

Here is the updated letter with the changes we discussed.

Let us know if any concerns. As discussed, would like to send by 2.

Greg

From: "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>
Date: Sunday, September 25, 2016 at 11:15 AM
To: "Bromm, William (CAB)" <William.Bromm2@ontario.ca>, Steve Orsini <Steve.Orsini@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Bevan, Andrew (OPO)" <Andrew.Bevan@ontario.ca>, Sean Kearney <Sean.Kearney@ontario.ca>, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>, Steven Davidson <Steven.Davidson@ontario.ca>, Scott Thompson <Scott.Thompson@ontario.ca>, Gadi Mayman <Gadi.Mayman@ofina.on.ca>, "Angus, Helen (MIT)"

<Helen.Angus@ontario.ca>, "Kwamena, Boafoa (CAB)" <Boafoa.Kwamena@ontario.ca>, Sofie Di Muzio <sofie.dimuzio@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>
Subject: Re: Confirming call at noon today

Thanks William. Here is a draft letter we just finalized for your advance reading. We can discuss at the call.

Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

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From: "Bromm, William (CAB)" <William.Bromm2@ontario.ca>
Date: Sunday, September 25, 2016 at 11:00 AM
To: Steve Orsini <Steve.Orsini@ontario.ca>, "Orencsak, Greg (TBS)" <greg.orencsak@ontario.ca>, "Jancik, Mike (TBS)" <Mike.Jancik@ontario.ca>, "Ghiassi, Ali (MOF)" <Ali.Ghiassi@ontario.ca>, "Bevan, Andrew (OPO)"

<Andrew.Bevan@ontario.ca>, Sean Kearney <Sean.Kearney@ontario.ca>, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca>, "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>, "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, Karen Hughes <Karen.Hughes@ontario.ca>, Steven Davidson <Steven.Davidson@ontario.ca>, Scott Thompson <Scott.Thompson@ontario.ca>, Gadi Mayman <Gadi.Mayman@ofina.on.ca>, "Angus, Helen (MIT)" <Helen.Angus@ontario.ca>, "Kwamena, Boafoa (CAB)" <Boafoa.Kwamena@ontario.ca>, Sofie Di Muzio <sofie.dimuzio@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "McLean, David (MOF)" <David.McLean@ontario.ca>
Subject: Confirming call at noon today

?416-212-8013

1183683#

Sent from my BlackBerry 10 smartphone on the Rogers network.

TBS

From: Killoch, Alex (MOF) []
To: Allan Shapira [allan.shapira@aonhewitt.com]
Subject: Re: auditor general and teachers' pensions
Date: Saturday, September 10, 2016 10:54:57

That helps me. I will forward to OPCD and TBS legal.

Thanks

Original Message
From: Allan Shapira
Sent: Saturday, September 10, 2016 10:36 AM
To: Killoch, Alex (MOF)
Subject: RE: auditor general and teachers' pensions

I am not sure why this access is an issue at all because it has actually happened in the past when the government got surplus in exchange for the 85-point rule.

Has Deloitte opined on the amount?

An accounting asset represents a future economic value that the government could get through either an actual refund of surplus or through a reduction in contributions. Both of those methods of access are available here.

One of the basic difference in the funding and account valuations is the discount rate. The funding valuation builds in a number of margins. The account valuation is the best-estimate assumption. So we have one valuation that assumes the pension fund will earn 4.80% per year and another one that assumes the pension fund will earn 6.25% per year. You can only have one result, likely neither of these, but let's assume that one result is 6.25%. The economic assets does not have to be used today. It just has to be able to be used at some point in the future. In a world where contributions are based on a 4.80% rate of return and the pension fund earns 6.25%, we are going to continue to build up surplus that will eventually result in some form of funding reduction through for example a reduction in the basic contribution rate or even a contribution holiday for the government in exchange for a temporary benefit improvement for the members.

In a world where the pension fund actually earns 4.80%, then over time, we are going to get investment losses on the accounting valuation that will lead to an accounting pension expense higher than the contributions, in which case the accounting asset will start to be reversed.

In the end there is going to only be one stream of benefit payments and one investment return on the pension fund so funding and accounting have to come together. But that happens over very long periods of time so in the short term we need all these adjustments like assets or liabilities on the government's balance sheet..

Hope that helps a little.

Thanks

Allan

-----Original Message-----
From: Killoch, Alex (MOF) [mailto:Alex.Killoch@ontario.ca]
Sent: September-09-16 9:06 PM

To: Allan Shapira
Subject: RE: auditor general and teachers' pensions

Hi Allan

I am off the call. Len and Paul Kaufman from TBS legal services are writing the opinion on our access to the asset. They might benefit from a conversation, as Josh and I don't fully understand how the FMP would allow us to access an accounting asset where the plan is in balance for valuation purposes. There would be nothing to discuss wrt to the FMP.

The Accountants don't seem to be worried about this, but I expect TBS Legal might be.

I will keep an eye on my bb. I expect there will be a call tomorrow or Sunday. TBS may also want to reach out directly.

Sorry about spoiling your dinner. I hope food is good.

_____

From: Allan Shapira [allan.shapira@aonhewitt.com]
Sent: September 9, 2016 9:03 PM
To: Killoch, Alex (MOF)
Subject: Re: auditor general and teachers' pensions

At a dinner. Should we talk tomorrow morning.

Sent from my iPhone

> On Sep 9, 2016, at 8:10 PM, Killoch, Alex (MOF) <Alex.Killoch@ontario.ca> wrote:
>
> On call now on issue. Wondering if you might be of value?
>
>
> Original Message
> From: Allan Shapira
> Sent: Friday, September 9, 2016 8:03 PM
> To: Killoch, Alex (MOF)
> Subject: Re: auditor general and teachers' pensions
>
>
> I will get it.
>
>
> Sent from my iPhone
>
>> On Sep 9, 2016, at 7:47 PM, Killoch, Alex (MOF) <Alex.Killoch@ontario.ca> wrote:
>>
>> Hi Allan
>>
>> This seems to have gone sideways
>>
>> I don't have the FMP or Partner's Agreement. Any chance you do?
>>
>> Would you be available to speak to Legal?

>>
>>
>> From: Hatzis, Len (TBS) <Len.Hatzis@ontario.ca>
>> Sent: Friday, September 9, 2016 6:18 PM
>> To: Killoch, Alex (MOF)
>> Subject: auditor general and teachers' pensions
>>
>>
>> Hi Alex
>> I've chatted with the Provincial Controller, Cindy Venoit and she has told me about this issue. Pursuant to a meeting with the DM of MOF and DM of TBS, the direction I've been given is to provide a MAG opinion by Monday on the issue of what authority supports the government's position that it can utilize the asset (related to the teachers pension plan). I think at first blush, the opinion would focus on the rights and responsibilities of the party's under the relevant teachers agreements. Can we chat or do you have some background info that you could flip me – much appreciated.
>>
>> Len Hatzis
>> Deputy Director
>> Legal Services Branch | Treasury Board Secretariat
>> 77 Wellesley Street West, 9th Floor, Toronto ON M7A 1N3
>> 416.327.6393
>>
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From: Killoch, Alex (MOF) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: Re: draft as discussed
Date: Monday, October 03, 2016 20:27:50

Yes, after weeks of warning

I sent Marc the press release today but he might appreciate more now that the media has tied the issue to a surplus in the otpp.

From: Paul, Joshua (EDU)
Sent: Monday, October 3, 2016 7:48 PM
To: Killoch, Alex (MOF)
Subject: Fw: draft as discussed

Fumble on the goal line.....

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Paul, Joshua (EDU) <Joshua.Paul@ontario.ca>
Sent: Monday, October 3, 2016 7:46 PM
To: Petsche, Nadine (TBS)
Cc: MacIntyre, Kyle (TBS)
Subject: Re: draft as discussed

Ok, so I will call tomorrow to touch base.

Nadine, are the speaking notes you provided still relevant re the discount rate?

Sent from my BlackBerry 10 smartphone on the Rogers network.
From: Petsche, Nadine (TBS)
Sent: Sunday, October 2, 2016 10:58 PM
To: Paul, Joshua (EDU)
Subject: RE: draft as discussed

Not sure. I think you might want to give Kyle or Greg a call directly. N

From: Paul, Joshua (EDU)
Sent: October-02-16 10:06 PM
To: Petsche, Nadine (TBS); Killoch, Alex (MOF)
Subject: Re: draft as discussed

Great. Who has reached out to the OTPP?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Sunday, October 2, 2016 9:56 PM

To: Killoch, Alex (MOF); Paul, Joshua (EDU)

Subject: Re: draft as discussed

Hi Alex and Josh.

Yes there has been activity. As I understand it, there is a desire to release results no later than this week. Minister Sandals herself has reached out to the OTF (Shanon?).

Ministers Sandals and Sousa may be meeting with the AG tomorrow morning and we'll have more insights into next steps after that discussion. N

From: Killoch, Alex (MOF)

Sent: Sunday, October 2, 2016 8:53 PM

To: Petsche, Nadine (TBS); Paul, Joshua (EDU)

Subject: Re: draft as discussed

Hi Nadine

Any update? I hear that there has been further activity on the file.

Has the AG landed on a position?

From: Petsche, Nadine (TBS)

Sent: Friday, September 30, 2016 8:33 PM

To: Paul, Joshua (EDU)

Cc: Killoch, Alex (MOF)

Subject: RE: draft as discussed

Hi there. Kyle advises that he heard that the Minister spoke with them (I assume that means both OTPP and OTF as that is what I enquired about). I've asked for clarification. I'll let you know if I hear anything more .

N

From: Paul, Joshua (EDU)
Sent: September 30, 2016 6:49 PM
To: Petsche, Nadine (TBS)
Cc: Killoch, Alex (MOF)
Subject: Re: draft as discussed

I'm still holding, right?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS)

Sent: Friday, September 30, 2016 3:28 PM

To: Paul, Joshua (EDU)

Subject: draft as discussed

From: Petsche, Nadine (TBS) []
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Provis, Ian (TBS) [Ian.Provis@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: rate comparison format
Date: Friday, September 23, 2016 10:24:49

Accounting vs. Acctg. Thx

From: Fong, Pauline (TBS)
Sent: Friday, September 23, 2016 10:16 AM
To: Petsche, Nadine (TBS)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Tsang, Ingrid (MOF); Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: rate comparison format

Hi Nadine,

Can you clarify your request?

Pauline

From: Pomykacz, Rob (MOF)
Sent: September-23-16 10:06 AM
To: Fong, Pauline (TBS)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF); Killoch, Alex (MOF)
Subject: RE: rate comparison format

Hi Pauline,

We would need a better understanding of the purpose of this request. Are you looking for funding or accounting rates?

Notwithstanding which basis you're looking for, the information (aside from the three plans that the government sponsors or co-sponsors) is not available to us.

In terms of the sole sponsor table, (and again aside from the PSPP, which has a separate administrative board), there is no distinction between the sponsor and the plan (i.e., the administrator), as it is the same entity (i.e., the employer is the administrator and the sponsor).

Please let us know if you have any questions.

Rob

From: Fong, Pauline (TBS)
Sent: September 23, 2016 9:15 AM
To: Pomykacz, Rob (MOF)
Cc: Patel, Bharat (TBS); Provis, Ian (TBS); Petsche, Nadine (TBS); Tsang, Ingrid (MOF)
Subject: RE: rate comparison format

Hi Rob,

Nadine has asked the following below. Would your shop have this information for the respective plans?

Pauline

From: Petsche, Nadine (TBS)
Sent: September-22-16 7:35 PM
To: Fong, Pauline (TBS)

Cc: Patel, Bharat (TBS); Provis, Ian (TBS)
Subject: rate comparison format

Hi Pauline.

Cindy has asked for a specific presentation format for our rate analysis that would help to segregate the rates between sole sponsored and jointly sponsored pension plans and compare them with the respective rates of the plans themselves.

My understanding is that she envisions a page summarizing the rates as follows:

Sole Sponsored PP

Jointly Sponsored PP

Sponsor Rate

Plan Rate

Sponsor Rate

Plan Rate

Can you please provide the details to Cindy when they are available. If you need any assistance due to workload, perhaps Ian can ask one of his team to help out.

Thanks.

Nadine

From: Killoch, Alex (MOF) []
To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 13:19:02

Will need to talk to OPCD then we can respond

From: Manji, Shemin (MOF)
Sent: Thursday, September 15, 2016 12:49 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs

Will you get back to me on this issue? or should I send my proposed changes to TBS counsel and suggest that “surplus” be defined. Since there is ambiguity as to what is meant by “surplus”?

From: Killoch, Alex (MOF)
Sent: Thursday, September 15, 2016 12:46 PM
To: Manji, Shemin (MOF); Pomykacz, Rob (MOF)
Subject: Re: regulation re: accounting treatment of pension surplussses in JSPPs

I am not sure we can say that the surplus has the same meaning as in PBA. It is an accounting surplusn not a funding surplus. Different assumptions for different purposes so different surpluses.

We will consider further.

From: Manji, Shemin (MOF)

Sent: Thursday, September 15, 2016 12:39 PM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Alex and Rob,

See e-mail from Paul Kaufman (counsel at TBS) below. I have reviewed the proposed text and am not comfortable with all the wording proposed. I have suggested different wording. See my proposed changes below (and reasons for them). I don't think it is necessary to say that the Province is a joint sponsor (as well as a participating employer).

Please let me know if you are okay with my proposed changes ASAP.

Thank you

Shemin

Hi Paul,

I suggest amending the proposed text as follows:

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit where the Province is a participating employer in relation to a jointly sponsored pension plan that has a surplus. ~~in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.~~

"jointly sponsored pension plan" and "surplus" have ~~has~~ the same meaning as in the

Pension Benefits Act.

The PBA does not use the word “co-sponsor” or “joint-sponsor” to describe an employer participating in a jointly sponsored pension plan. The PBA defines a “participating employer” in relation to a jointly sponsored pension plan as meaning “an employer required to make contributions to the pension fund”. The only way the Province would be entitled to surplus in the first place is if the Province is a participating employer in a JSPP. My proposed changes reflect this.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

777 Bay Street

Toronto, ON M5G 2C8

Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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any purpose; and (2) delete it and advise me by return e-mail or telephone of your doing so.

From: Kaufman, Paul (TBS)
Sent: Thursday, September 15, 2016 10:56 AM
To: Manji, Shemin (MOF)
Subject: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Shemin,

As discussed, I would appreciate it if you could review the highlighted text below and let me know if you have any concerns. The TBS clients have reviewed this text with Alex Killloch and Rob Pomykacz, fyi. Also, the unhighlighted text is likely going to be expanded upon to provide more detail. We'll share the complete text of the reg with you once we have a draft from leg counsel.

Thanks,

Paul

****

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Killoch, Alex (MOF) []
To: Manji, Shemin (MOF) [Shemin.Manji@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Re: regulation re: accounting treatment of pension surplussses in JSPPs
Date: Thursday, September 15, 2016 12:45:52

I am not sure we can say that the surplus has the same meaning as in PBA. It is an accounting surplusn not a funding surplus. Different assumptions for different purposes so different surpluses.

We will consider further.

From: Manji, Shemin (MOF)
Sent: Thursday, September 15, 2016 12:39 PM
To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)
Subject: RE: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Alex and Rob,

See e-mail from Paul Kaufman (counsel at TBS) below. I have reviewed the proposed text and am not comfortable with all the wording proposed. I have suggested different wording. See my proposed changes below (and reasons for them). I don't think it is necessary to say that the Province is a joint sponsor (as well as a participating employer).

Please let me know if you are okay with my proposed changes ASAP.

Thank you

Shemin

Hi Paul,

I suggest amending the proposed text as follows:

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit where the Province is a participating employer in relation to a jointly sponsored pension plan that has a surplus. ~~in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.~~

"jointly sponsored pension plan" and "surplus" have ~~has~~ the same meaning as in the *Pension Benefits Act*.

The PBA does not use the word "co-sponsor" or "joint-sponsor" to describe an employer participating in a jointly sponsored pension plan. The PBA defines a "participating employer" in relation to a jointly sponsored pension plan as meaning "an employer required to make contributions to the pension fund". The only way the Province would be entitled to surplus in the first place is if the Province is a participating employer in a JSPP. My proposed changes reflect this.

Shemin

Shemin Manji

Senior Legal Counsel

Ministry of the Attorney General

Ministry of Finance Legal Services Branch

11th Flr

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Phone #: 416-326-0964

e-mail: Shemin.Manji@ontario.ca

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From: Kaufman, Paul (TBS)
Sent: Thursday, September 15, 2016 10:56 AM
To: Manji, Shemin (MOF)
Subject: regulation re: accounting treatment of pension surplussses in JSPPs

Hi Shemin,

As discussed, I would appreciate it if you could review the highlighted text below and let

me know if you have any concerns. The TBS clients have reviewed this text with Alex Killloch and Rob Pomykacz, fyi. Also, the unhighlighted text is likely going to be expanded upon to provide more detail. We'll share the complete text of the reg with you once we have a draft from leg counsel.

Thanks,

Paul

****

In preparing the Province's consolidated financial statements for the 2015/16 fiscal year, the Province shall not assume an expected future benefit in connection with surpluses in jointly sponsored pension plans that are co-sponsored by the Province.

"jointly sponsored pension plan" has the same meaning as in the *Pension Benefits Act*.

Paul Kaufman

Counsel

Ministry of the Attorney General | Legal Services Branch |Treasury Board Secretariat

9th Floor, 77 Wellesley Street West, Ferguson Block, Toronto, ON M7A 1N3

Phone: 416-327-7012 Fax: 416-325-9404

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From: Fong, Pauline (TBS) []
To: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Patel, Bharat (TBS) [Bharat.Patel3@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Request: Review Valuation Allowance
Date: Wednesday, September 21, 2016 10:48:36
Attachment 1: image001.png

Hi Rob,

As discussed, I have modelled how to calculate the valuation allowance in the OTPP calculation sheet back to 2001, with the *assumption* of expected future benefit being zero. We would like AON Hewitt to review our model to see if is consistent to their understanding in how the valuation allowance and adjusted benefit asset is arrived. In particular bringing the unamortized gains/losses from market related values to unamortized gains/losses on a market value.

Please let me know if AON Hewitt is available to review. Thank you in advance.

Pauline Fong, CPA, CA

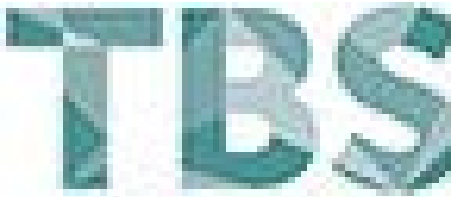
Senior Analyst, External Reporting

Office of the Provincial Controller Division |Office of the Treasury Board |Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 212-4007

Pauline.fong@ontario.ca


TBS

From: Pomykacz, Rob (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
Subject: Rescheduling of Government Contributions to the TPP
Date: Friday, September 23, 2016 12:12:52

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View the original item

Hi Alex,

OPCD staff are looking for details about what happened in the early 1990s that led the AG of the day to comment on the government's accounting practices vis-à-vis pension expenditures

From: Pomykacz, Rob (MOF) []
To: Fong, Pauline (TBS) [Pauline.Fong@ontario.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]
Subject: Rescheduling of Government Matching Contributions to the TPP
Date: Friday, September 23, 2016 12:40:25

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View the original item

Hi Pauline,

As requested, following is a summary of what happened in the early 1990s that led the AG of the day to comment on the government's accounting practices vis-à-vis pension expenditur

From: Roberto, Nicole (EDU) []
To: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]
CC: Di Renzo, Stephen (MEDJCT) [Stephen.DiRenzo@ontario.ca]; Duffy, Paul (EDU) [Paul.Duffy@ontario.ca]; Franks, Sebastian (EDU) [Sebastian.Franks@ontario.ca]; Ryan, Kate (EDU) [Kate.Ryan@ontario.ca]
Subject: Revised Pension Asset deck for discussion Dec. 15
Date: Wednesday, December 14, 2016 13:05:43
Attachment 1: OTPP Asset Options v6.pptx

Hi everyone,

Please find attached an updated pension asset deck based on our discussion yesterday afternoon. You'll note there are a number of placeholders for OPCD and a few for MOF.

Thanks,

Nicole

Nicole Roberto

Team Lead (A)

Funding Policy and Pensions Unit

Education Finance Branch | Ministry of Education

416.212.4384 | nicole.roberto@ontario.ca

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- Identify considerations with regard to the Auditor General's (AG) interpretation of the Ontario Teachers' Pension Plan (OTPP) asset to determine whether the government should approach the Ontario Teachers' Federation (OTF) to negotiate changes to the Plan's terms.

Overview of AG concerns

[OPCD Placeholder]

1) Unfettered access to a pension asset;

2) Access to the pension asset on March 31st of each year for inclusion in the Province's Public Accounts.

Considerations

1) The expert panel's advice could influence the next steps taken by the Province:
   a) The panel does not agree with the AG.
      - No grounds to approach OTF to negotiate changes.
      - Does not mean AG will reverse her position on the issue. [OPCD PLACEHOLDER]
   b) The panel agrees with the AG.
      - [OPCD PLACEHOLDER] what change(s) would need to be negotiated to satisfy the AG's concerns?
   c) The panel recommends a change.
      - [OPCD PLACEHOLDER]

Considerations

2) The pension surplus/deficit and corresponding asset determined by the accounting valuation does not align with the surplus/deficit determined by the funding valuation.
   - [MOF PLACEHOLDER] When does the funding surplus exist (timing issue)?
   - [MOF PLACEHOLDER] how would the gvt. access an surplus or asset based on a funding surplus?
   - The partners are responsible for determining how to use a surplus or address a deficit identified in a funding valuation based on the guidelines set out in the Funding Management Policy (FMP).

Considerations

3) The Public Sector Accounting Board (PSAB) has established a task force to review the standards on pension plans. Should its review result in changes to the standards, these new standards would be required to be applied by the province.

[PLACEHOLDER MOF]

Potential Options

If it is determined that the government should implement changes to the OTPP, this could be approached in two ways:

1) Negotiate a change to the existing language in the plan terms with the OTF (i.e. the FMP):
   - Probability that option would satisfy AG's concerns [OPCD Placeholder]
2) Legislative changes (unilateral action that does not require OTF support)
   - Probability that option would satisfy AG's concerns [OPCD Placeholder].

Note: Each option has considerable operational and implementation issues. In addition, these options would require internal legal advice before exploring any further to evaluate the risk and impact of any potential legislative change.

Risks

- Stakeholder risk
  - The Ministry of Education is currently engaged in negotiations with the teachers' federations on two fronts:
    1) Negotiating a 'remedy' in response to the Superior Court decision against the Crown related to the Putting Students First Act (PSFA), 2012 Charter challenge.
    2) Negotiating extensions to the current collective agreements.

- Negotiating or legislating change to the pension plan terms could adversely impact these on-going negotiations and compromise the ministry's ability to deliver on these key priorities for the government.

Risks

- Risk of negotiating pensions as part of labour negotiations.
  - Currently, pension issues are negotiated between the government and the OTF (with affiliate representation).
  - Recent negotiations have been very civil between government and the OTF and there is risk that if drastic changes are forced upon the OTF, conversations could become more adversarial and could also result in pension issues being negotiated as part of labour negotiations.

Risks

- Reputational risk
  - The OTPP attracts and retains high performing executives, staff and Board members with extensive experience in a wide range of disciplines required to oversee a complex pension plan.
  - Over the past ten years, the OTPP has had the highest total returns of the biggest 330 public and private pension funds in the world. The main factors behind the success and high performance of the Plan are strong governance and competitive salaries.
  - Depending on the scope of legislative changes being considered, there may be potential impacts on the Plan's existing governance structure and the long term sustainability of the Plan's recruitment and retention strategy.

Risks

- Timing risk
  - The most recent review of the FMP lasted almost three years (2012-2015).
  - If all parties agree that a review is required, a committee could be assembled by the sponsors to evaluate the impact of potential changes while ensuring the Plan's long-term sustainability.

From: Killoch, Alex (MOF) []
To: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Roberto, Nicole (EDU) [Nicole.Roberto@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: Share the Pain
Date: Wednesday, September 21, 2016 16:18:43
Attachment 1: image001.png
Attachment 2: image003.png

Hello Nadine

The Ontario Teachers' Pension Plan has provided the following explanation regarding the calculation of the $4.3 billion reduction in "share the pain" contributions that arose as a result of the Partner's decision to use $8.6 billion of the January 1, 2016 surplus.

Please let me know if you have any questions.

Alex

Alex Killoch

Director, Broader Public Sector Pensions Branch

Ministry of Finance

416 325-5724

Alex.Killoch@Ontario.ca

From: Mary Cover [mailto:Mary_Cover@otpp.com]
Sent: Wednesday, September 21, 2016 3:55 PM
To: Killoch, Alex (MOF)
Cc: Barbara Zvan; Paul, Joshua (EDU); Roberto, Nicole (EDU); Pomykacz, Rob (MOF)
Subject: RE: Share the Pain

Dear Alex,

As requested and further to our conversation this afternoon, the purpose of this email is to outline the change in the present value of the future "share the pain" contributions from the January 1, 2016 preliminary valuation results of $6.6B to the January 1, 2016 filed results of $2.3B – i.e., a reduction of $4.3B.

Conditional Inflation Protection (CIP) is a key funding lever for the Ontario Teachers' Pension Plan (OTPP). When CIP is invoked, benefits earned subsequent to December 31, 2009 are subject to inflation protection levels below 100%. CIP levels are established when a funding valuation report is filed with the regulators. The level remains unchanged until a subsequent valuation is filed at which time the plan sponsors may decide to increase or decrease the percentage. This decision is informed by the funded status of the plan as at the valuation date.

In the January 1, 2016 preliminary valuation, CIP levels were 70% (in accordance with the most recently filed valuation report). The reduction in liabilities due to providing less than 100% inflation protection was $6.6B. The vast majority of this amount was in respect of active plan members. As a reminder, the OTPP utilizes an aggregate valuation funding method where the liabilities include future pension benefits in respect of both service accrued to date and service that is projected to be earned in the future. This valuation method recognizes the potential impact of reducing CIP levels below 100% on not just service from December 31, 2009 to the valuation date but also on service projected to be earned in the future for current plan members. As an example, the valuation results assume that a member who joined the plan in 2015 will receive 70% inflation protection on the full pension entitlement they will eventually earn over their future career and that this reduction will apply each and every year for the remainder of their lifetime.

For every dollar that a member forgoes in inflation protection, the province and other employers contribute an extra dollar to the pension plan – i.e., their share the pain payment. Thus, for the 1.1.2016 preliminary valuation, given the present value of benefits to reflect less than 100% indexing for service earned after 2009 was $6.6B, the present value of future share the pain contributions was also $6.6B.

The plan sponsors chose to file the January 1, 2016 valuation using some of the preliminary surplus to increase the level of inflation protection from 70% to 90%. As a result, the reduction in liabilities due to providing less than 100% inflation protection decreased to $2.3B as did the present value of future share the pain contributions. Overall, the effect was an increase in liabilities of $4.3B and a corresponding decrease in the present value of future projected share the pain contributions of $4.3B.

It's worth noting that for benefits earned after 2013, share the pain payments are limited to the first 50% of forgone inflation protection. It's also worth noting that approximately 98% of the share the pain payments come from the Province – the remainder coming from other employers. Current annual share the pain contributions are significantly smaller as these contributions only apply to retirees that are in receipt of pensions and only in respect of the portion of their pension that was earned after December 31, 2009.

Please let me know if you have any questions or would like further elaboration.

Regards, Mary

Mary Cover, FSA, FCIA
Director, Pension Strategy & Enterprise Risk
mary_cover@otpp.com
Direct 416-730-2976
www.otpp.com

Ontario Teachers' Pension Plan
5650 Yonge Street, Toronto, Ontario M2M 4H5, Canada

http://www.otpp.com/

ONTARIO
TEACHERS'
PENSION PLAN

From: Patel, Lesley (MOF) []
To: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Buckland Foster, Jamie (MOF) [Jamie.Buckland.Foster@ontario.ca]; Wynberg, Lynsey (OFA) [Lynsey.Wynberg@ofina.on.ca]
CC: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: TBS FACT CHECK - PAEAP NR - 3PM DEADLINE
Date: Tuesday, February 07, 2017 14:32:23
Attachment 1: PAEAP Report NR_v11_csb.doc

Hi all,

Please find attached a news release with regards to the Pension Asset Expert Advisory Panel report for fact check.

Please send any edits back before 3pm.

Thanks,

Lesley

p.s. Also please let me know the status of the Q&A document if you have not send your edits as yet.

Ontario

NEWS

Treasury Board Secretariat

Pension Asset Expert Advisory Panel Submits Final Report

Government Accepts Independent Panel's Recommendations on Accounting for Pension Plans

NEWS February XX, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans. The government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The panel's report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) should be recognized in Ontario's financial statements.

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly-sponsored pension plans.

The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets. The panel members have expertise in the areas of jointly-sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

The Province remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow the economy and help people in their everyday lives.

QUOTES

"I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."
— Liz Sandals, President of the Treasury Board

"With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how to account for current jointly-sponsored pension assets. This advice will help us continue to present the province's finances fairly and accurately, as we work toward balancing the budget in 2017-18."
— Charles Sousa, Minister of Finance (TBC MOF)

QUICK FACTS

DRAFT

- By applying the panel's advice, the province would see a reduction in debt to now $10.7 billion.
- For 2015-16, this means the province's deficit has been lowered by $1.5 billion.
- For 2016-17, the province's fiscal position will improve by $2.2 billion.
- In its report, the panel supports the accounting treatment that Ontario has used consistently since 2001.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report*: [insert hyperlink]*

Pension Asset Expert Advisory Panel Members

Pension Asset Expert Advisory Panel Terms of Reference

Read the 2015-16 Public Accounts of Ontario

Learn about the government's fiscal cycle

Commented [EKO1]: MOF Fact check

Commented [LT2]: Language on these will need to be refined

Field Code Changed

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

From: Killoch, Alex (MOF) []
To: Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Sekaly, Gabriel (EDU) [Gabriel.Sekaly@ontario.ca]; Talwar, Garima (MOF) [Garima.Talwar@ontario.ca]; Chen, Raymond (TBS) [SOM.5Raymond.Chen@ontario.ca]; Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]
Subject: TPP Discount rates
Date: Friday, September 16, 2016 18:40:06
Attachment 1: MOF letter 2_appendix.pdf

Hi Cindy, Nadine

Attached is a letter from TPP explaining their discount rate methodology.

I think this addresses our question. I will also send yesterday's letter for completeness.

Let me know if there are any questions. Can you work though EDU to let TPP know if the letter is being shared outside OPCD.

Thanks.

Alex

ONTARIO TEACHERS' PENSION PLAN

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M2M 4H5

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fax: 416-730-5349
www.otpp.com

September 16, 2016

Alex Killoch, Director
BPS Pensions Branch
Ministry of Finance
1st Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Alex:

Re: Ontario Teachers' Pension Plan (Plan) Financial Statement Results

As requested - and further to our correspondence dated September 15, 2016 - we are providing information related to the financial statement valuation results as at December 31, 2015 published in our 2015 Annual Report.

The Plan is subject to several valuations which serve different purposes and produce results that vary due to actuarial cost methods and the underlying actuarial assumptions. First, the Plan's funding valuation assesses the long-term financial health of the Plan to facilitate determinations of future contribution rates and benefit levels. Second, the Plan's financial statement valuation is a mark-to-market, current snap shot view of the financial position of the plan at a point in time where assumptions and methodology are outlined by the Chartered Professional Accountants (CPA) Handbook. Lastly, on annual basis, we receive a request from the Ontario Ministry of Finance to produce results, based on their assumptions, used to prepare the Ontario Budget as outlined in the Chartered Professional Accountants of Canada Public Sector Accounting Board Handbook.

Financial Statement Reporting

The CPA Handbook allows two approaches for multi-employer pension plans in the creation of their financial statement reporting. They may use their funding valuation or valuation results prepared in accordance with Section 4600 of the CPA Handbook. Teachers' has chosen the latter approach for the following two reasons:

- An important feature of the Plan is Conditional Inflation Protection (CIP). To properly reflect the nature of CIP, the cost method used for funding purposes is the aggregate method which allows the Plan to address surpluses and deficits through future benefit changes. This cost method differs from that required by the accounting standards (i.e. the projected benefit cost method, prorated on services). So the funding valuation would not be appropriate for financial statement reporting.

- The funding valuation of the Plan employs an asset smoothing method to mitigate volatility in the market value of assets. Asset smoothing is no longer permitted under Section 4600 of the CPA Handbook.

Discount Rates

A key assumption in actuarial valuations is the discount rate. The methodology for determining the discount rate is different for each valuation. For the funding valuation, the rate is based on the expected return on assets with margins. The actuary must confirm that the assumptions used within a funding valuation are independently reasonable and are appropriate in aggregate in accordance with the Canadian Institute of Actuaries Standards of Practice. For the financial statement valuation, the rate is based on current market rates in accordance with the CPA Handbook. For the Ontario Budget, the best estimates are used in accordance with the Public Sector Accounting Board standards. In particular:

- The annual valuation performed for funding purposes determines the discount rate by reference to what the Plan's assets can reasonably be expected to earn over the long run less expenses and less provisions for adverse deviation (PFAD). For the January 1, 2016 funding valuation (which will be filed with the regulatory authorities by September 30th), the nominal discount rate is 4.8% with an underlying real return of 2.75%. This real return takes into account PFADs of approximately 1.5%.

- As described in Note 4. of the 2015 Annual Report, the discount rate used to determine liabilities on a financial statement valuation basis (3.25% nominal, 1.70% real) is based on market rates, as at the valuation date, of bonds issued by the Province of Ontario, which have characteristics similar to the Plan's liabilities. The discount rate was determined by applying a weighted average discount rate that reflects the estimated timing and amount of benefit payments. Please see further detail below on Section 4600 of the CPA Canada Handbook requirements related to discount rate determination.

- As noted in the December 11, 2015 correspondence from the Ontario Ministry of Finance, the Province uses best estimate assumptions as required by the Public Sector Accounting Standards (i.e. without PFADs). The December letter provided the specific assumptions to be used in the valuation (to be performed by the external Plan actuary – Mercer) including return on investment, inflation, real rate of return and anticipated salary growth. Public Sector Accounting Standards provide for determination of discount rates by reference to the expected return on the pension plan's assets.

Please do not hesitate to call if you have any questions or require further information.

Sincerely,

Barbara Zvan, FSA, FCIA, CERA
SVP, Strategy & Risk and Chief Investment Risk Officer
(416) 730-6364
Barbara_zvan@otpp.com

cc: Ross Peebles
Joshua Paul
Rob Pomykacz
Allan Shapira
David McGraw
Mary Cover

Appendix A

Discount Rate Determination under Section 4600 of the CPA Canada Handbook

Section 4600 of the CPA Canada Handbook specifies that defined benefit obligation guidance can be found in the Employee Future Benefits Section 3462 (Part II of the CPA Canada Handbook) and in IAS 19 Employee Benefits (Part I of the Handbook).

- Section 3462 indicates that the discount rate should be determined with reference to market interest rates on high-quality debt instruments.
- Both Section 3462 and IAS 19 provide that when rates on high-quality corporate bonds are available, they are used to determine the discount rate and that when the market for corporate bonds is not deep or they do not extend far enough into the future to match the cash flows inherent in the defined benefit obligation, the rates on government bonds may be used to determine the discount rate.
- Both Section 3462 and IAS 19 provide that the rates used should reflect the estimated timing of benefit payments.

From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: do you know?
Date: Sunday, September 25, 2016 11:32:57

Hi Alex. Happy Sunday! I'm in the officeL

Just wondering if you can advise w.r.t. the rational for the periods selected in Martin's models (10 years for otpp and 17 years? For opseupp)?

I think that OTPP was tied to the government's payments in connection with forgone inflation adjustments and the additional contributions related to the 2008 filing agreement (1.1%) (Section 5 (8)).

Please advise ASAP. Thx. n

From: Moadel, Maryam (MOF) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Tsang, Ingrid (MOF) [Ingrid.Tsang@ontario.ca]; Mah, Catherine (MOF) [Catherine.Mah@ontario.ca]; Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]
Subject: draft deck
Date: Wednesday, October 26, 2016 17:22:18
Attachment 1: Funding vs Accounting.pptx

Pension Funding vs. Accounting

Income Security and Pension Policy Division / BPS Pensions Branch
October 23, 2017

Purpose

- Explain the differences and similarities between the funding basis and accounting basis of pensions
- Explain the role of BPS pensions in the development of the pension expense estimates
- Provide recommendations for an alternative approach through more through consultation with the Office of the Provincial Controller (OPCD), the Office of Economic Policy (OEP) and Treasury Board Secretariat (TBS)
- Provide an overview of the Province's Economic Assumptions vs. those of the plans over the past ten years

Introduction

- Funding basis vs. accounting basis of pensions are used for different purposes
- All Budget numbers are presented on an accounting basis, but this wasn't always the case
  - Prior to 1993-94, the Budget was done on a cash basis
- In an accounting world, expense is determined by accounting valuations, as a result, expense does not necessarily equal cash contributions.
- Staff at the BPS Pensions Branch work with counterparts to determine economic assumptions to be used by the major plans consolidated in the Province's financial statements

Comparison of Funding vs. Accounting Basis

- The funding and accounting bases are two ways of determining the cost of providing pension benefits:
  - **Funding valuation**
    - Determines the required cash contributions
    - Governed by the PBA and actuarial standards
    - Purpose is to ensure benefit security
  - **Accounting valuation**
    - Determines the pension expense and the impact on the fiscal plan
    - Based on accounting principles as recommended by PSAB
    - Purpose is to allow for the comparability of distinct entities
    - Does not represent a cash payment of any kind
- Regardless of the method used, the cost estimate will converge over the long term.

Drivers of a pension plan's funded status

- Return on Plan Assets
  - When performing a valuation, expected return on assets is required.
    - If the actual return is higher than assumed, then the plan will have a surplus.
    - If the actual return is lower, then the plan will have a deficit.
    - If there is a deficit that results, the plan will have to amortize that deficit by special payments

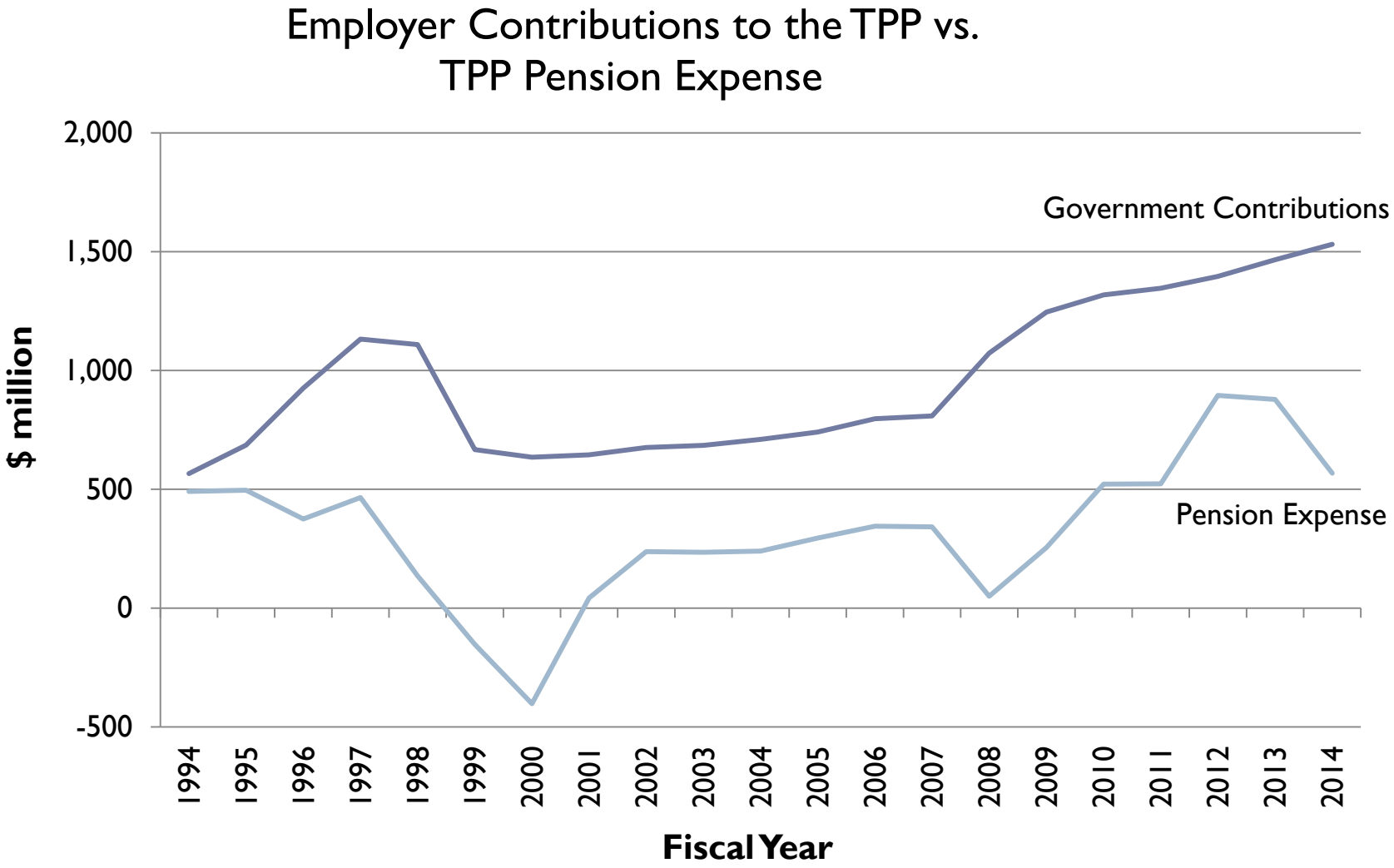
- Interest Rates
  - Long-term interest rates have also trended lower in recent years.
  - Lower interest rates increase the present value of future pension obligations on a going concern and solvency funding basis.

- Other Drivers
  - Benefit enhancements and salary growth (most pension benefits are based on final average earnings) are not expected to be major drivers of increased funding requirements in the short term, given the current economic environment.
  - Longevity is also a significant contributing factor to a plan's funded status.

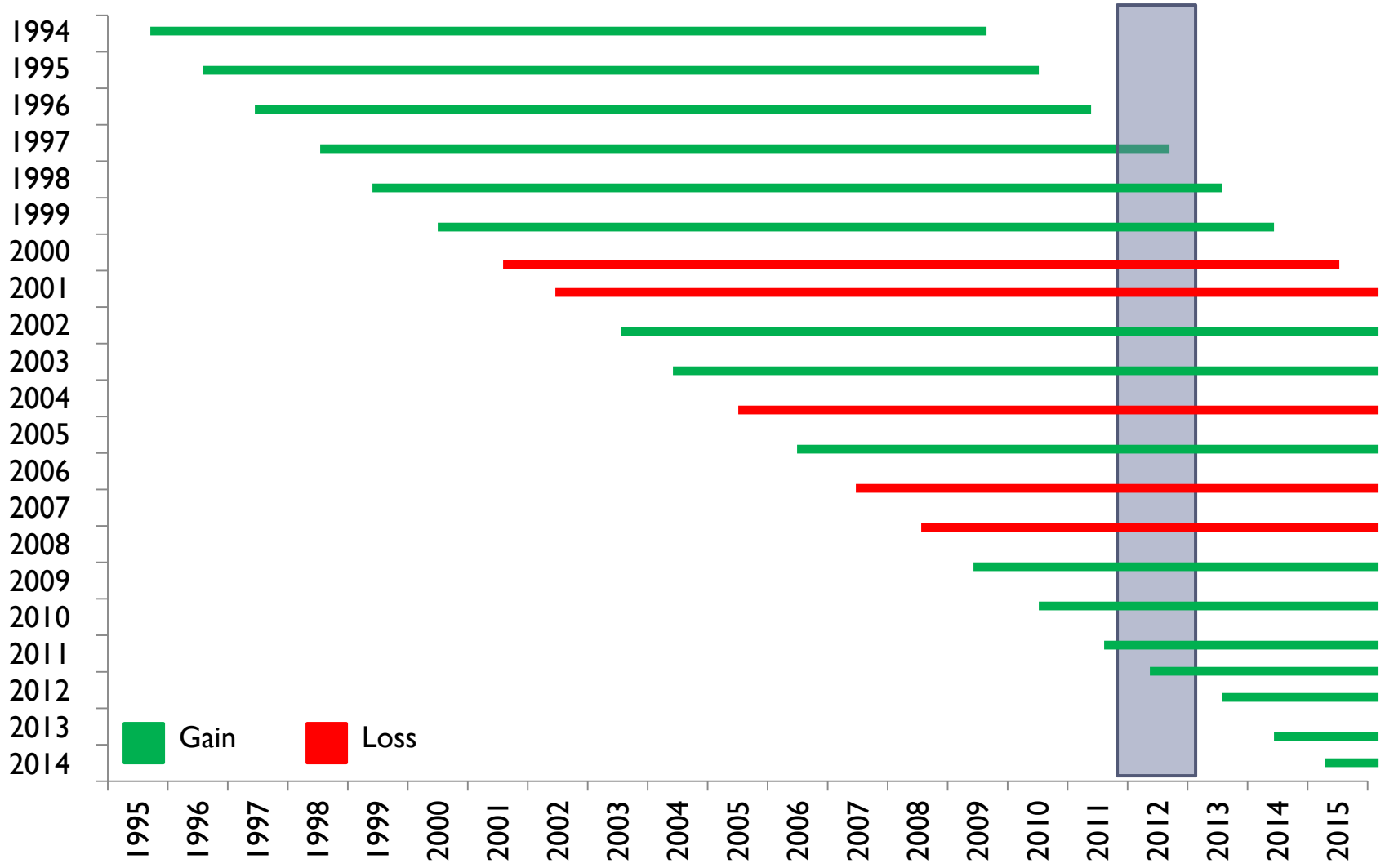
Drivers of the pension expense

- **Service cost** (PV of benefits earned in the current period by employees)
  - Growth in the number of employees
  - Salary increases
  - Benefit enhancements
- **Interest**
  - On the net plan surpluses or deficits
- **Amortization of Net Actuarial Gains/Losses**
  - Actual rate of return of fund investments, wage growth or inflation being different from what was expected (amortization period is over EARSL and is different for each plan)
  - Changes in actuarial assumptions on any of the three factors above
- **Cost of Plan Amendment**
  - Changes in benefits granted related to years of past service

How the funding and expense amounts differ



How investment returns impact the pension expense



MOF's involvement in the process

- There are five plans consolidated in the Province's financial statements that must prepare accounting valuations in order for us to determine the pension expense
  - - TPP, PSPP, OPSEUPP, HOOPP & CAATPP

- The Public Sector Accounting Board (PSAB) requires that key economic assumptions be management's best estimate of those future events that have an effect on pension liabilities.

- Following PSAB requirements, every fall, the Broader Public Sector (BPS) Pensions Branch completes a well-established process to evaluate past assumptions, which includes expected:
  - returns on plan assets (the discount rate),
  - inflation, and
  - salary escalation rates.

- As part of this process, MOF staff collect and review data from a number of independent sources that are available at the time the assumptions are set.
  - If a change in the long term trend in any of the assumptions is found, then assumptions are adjusted. Otherwise the assumption would remain unchanged.

MOF's involvement in the process

- Once assumptions are finalized, we send a letter to each plan administrator in December of every year so that they can prepare an accounting valuation and submit to us by the end of January.
- The accountants in OPCD take the results and calculate the pension expense for each plan based on PSAB requirements
- Following the Budget, we provide a rationale for the assumptions that were used to the Office of the Auditor General of Ontario
- Note they have retained an actuary on two occasions and we have received confirmation that our assumptions are sound.

Issues Raised by the Auditor General

- During the 2015-16 Public Accounts audit, the Auditor General raised concerns regarding Ontario's accounting practices related to pension expense for the OPSEUPP and OTPP plans.

- Despite efforts to resolve concerns, staff of the Office of the Provincial Controller Division (OPCD) and the Auditor General continue to have differences of interpretation of PSAB standards as they relate to accounting for pension assets.
- The issue is whether the Province has the ability to access surpluses arising in the plans when their investments outperform expectations.

- As a temporary solution, Ontario approved a time-limited regulation which legislates the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts. This is consistent with the fiscal outcome proposed by the Auditor General.

- OPCD is in the process of establishing an expert panel comprised of outside accounting and actuarial professionals to further study the issue.

- The expert panel will be asked to complete its work by the end of 2016.

Proposal for a Modified Approach by BPS Going Forward

- Liaise with OPCD, OEP, etc.

APPENDIX: Historical Assumptions on Consolidated Plans

- Salary, inflation, discount rate for the consolidated plans

APPENDIX: Salary Projections for Consolidated Plans

- Information from TBS on collective agreements

From: Petsche, Nadine (TBS) []
To: lucy.durocher@ca.pwc.com [lucy.durocher@ca.pwc.com]
CC: Paul, Joshua (EDU) [Joshua.Paul@ontario.ca]; Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
Subject: fyi
Date: Monday, September 19, 2016 12:38:22

Lucy,

In relation to some of your Q's on the call.

Contribution rates between the employee and employers are always equal, with one exception of 2008, when the OTF made a portion of the employee contribution. See table:

https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1-d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf

Note: the 1.1% was phased in over 3 years

Year

Up to CPP limit

Above CPP limit

Increase*

2011

10.4%

12.0%

N/A

2012

10.8%

12.4%

0.4%

2013

11.15%

12.75%

0.35%

2014

11.5%

13.1%

0.35%

Total increase

1.1%

* As a percentage of salary

From: Chan, Vanessa W. (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Pomykacz, Rob (MOF) [Robert.Pomykacz@ontario.ca]; Sun, Alicia (TBS) [Alicia.Sun@ontario.ca]; Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: input to 1st distribution of FSD&A on pension
Date: Monday, July 10, 2017 10:03:09

Hi Alex,

We are planning to have the 1st distribution of FSD&A tomorrow, below please find a draft write up on accounting change on pension plans. Please review and provide your edits by end of day if possible, so we can incorporate it into tomorrow's version. If you have any questions, please contact us.

Accounting for Pensions of Jointly-Sponsored Pension Plans

Consistent with the accounting policy the Province adopted in 2001 for jointly sponsored pension plans and the results of the Pension Asset Expert Advisory Panel,[1] the Province's 2016-17 Public Accounts report the net pension assets for jointly sponsored pension plans, OTPP and OPSEUPP, in accordance with PSAS.

In last year's Public Accounts, the government adopted a time-limited regulatory amendment to reflect the Auditor General's interpretation for the treatment of net pension assets for 2015-16 (the "Pension Adjustment"), and subsequently established an independent Pension Asset Expert Advisory Panel[2] to further analyse and confirm the appropriate accounting policy for the Province's jointly-sponsored pension plan.

Earlier this year, the Panel released its report[3] and recommendations related to the accounting for OTPP and OPSEUPP which concluded that the net assets for the jointly sponsored plans should be recognized on the Province's financial statements. The government accepted the Panel's advice which is reflected in the Province's consolidated financial statements for 2016-17.

Pension Asset Expert Advisory Panel's Advice

The panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized as an asset in Ontario's financial statements.[4]

The Panel subsequently reviewed the Province's accounting for Healthcare of Ontario Pension Plan (HOOPP)and Colleges and Applied Arts and Technology Pension Plan (CAATPP). The Panel concluded that based on the difference in the governance structure of these plans as compared to OTPP and OPSEUPP, a full valuation allowance should be applied to any net pension asset for CAATPP or HOOPP. To date, no net pension asset has been reported under either HOOPP or CAATPP; however, it is possible that a net asset may result in future years for one or both plans. Based on the Panel's recommendations, under the current governance structure for these plans, a full valuation adjustment would be reported against the net pension asset.[OPCD1]

Thanks,

Vanessa

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[1] https://news.ontario.ca/tbs/en/2016/11/pension-asset-expert-advisory-panel-members.html

[2] https://news.ontario.ca/tbs/en/2016/11/pension-asset-expert-advisory-panel-members.html

[3] https://www.ontario.ca/page/pension-asset-expert-advisory-panel-report

[4] https://news.ontario.ca/tbs/en/2017/02/pension-asset-expert-advisory-panel-submits-report.html

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[OPCD1]Wording should be reviewed by Alex Killoch prior to release

From: Hatzis, Len (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Petsche, Nadine (TBS) [Nadine.Petsche@ontario.ca]
Subject: otpp
Date: Thursday, September 15, 2016 14:36:21

On phone with deloittes and outside lawyers - Has there even been mediation/arbitration over the funding management policy – ie have we just ended up always agreeing with teachers….

Len Hatzis

Deputy Director

Legal Services Branch | Treasury Board Secretariat

77 Wellesley Street West, 9th Floor, Toronto ON M7A 1N3

416.327.6393

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From: Petsche, Nadine (TBS) []
To: Killoch, Alex (MOF) [Alex.Killoch@ontario.ca]
CC: Jim Keates (jimkeates@hotmail.com) [jimkeates@hotmail.com]
Subject: thanks for the comparison chart
Date: Friday, November 04, 2016 14:31:41

Alex,

Thanks for the comparison summary of OTPP to other plans. Can you please send the soft copy. Thanks. Nadine

Lise Houle
Principal

120 Bremner Boulevard, Suite 800
Toronto ON M5J 0A8
416 868 2039 Fax 416 868 7695
lise.houle@mercer.com
www.mercer.ca

MERCER
MAKE TOMORROW, TODAY

26 January 2018

Ms. Mary Cover
Managing Director, Pension Strategy & Enterprise Risk
Ontario Teachers' Pension Plan Board
5650 Yonge Street
Toronto, ON M2M 4H5

Private & Confidential

Subject: December 31, 2017 Valuation Results Using the Province's Assumptions

Dear Mary,

As requested, we have provided you with information for the Ontario Teachers' Pension Plan (OTPP) on points 1, 3, 6, 10, 11 and 12 in the December 5, 2017 letter from the Ministry of Finance to Mr. Ron Mock. As instructed in the Ministry letter, the following sets of assumptions have been used in calculating the liabilities as at December 31, 2017:

	Basis 1	Basis 2	Basis 3	Basis 4
Valuation discount rate	6.00%	5.75%	6.00%	5.75%
Inflation rate	2.00%	2.00%	2.00%	2.00%
Real valuation discount rate	4.00%	3.75%	4.00%	3.75%
Salary escalation rate	2.00% to 2019 and 2.75% thereafter	2.00% to 2019 and 2.75% thereafter	2.00% to 2019 and 2.50% thereafter	1.75% to 2019 and 2.50% thereafter

For each basis, all the other assumptions and the valuation methods are those used by the Ontario Teachers' Pension Plan Board in the December 31, 2017 valuation for financial statement purposes. This includes the proposed changes to the assumed retirement rates and future credited service accruals for part-time and casual members. Also, in accordance with the terms of the salary increases as ratified in 2017, we have assumed that the salary grid will increase by 1.5% for the 2017/2018 school year, 1.0% for the 2018/2019 school year plus another 1.0% on February 1, 2019, 0.50% on August 31, 2019 and using the salary increases noted in the table above commencing September 1, 2019 and in each subsequent school year. The remaining demographic assumptions are provided in our Report on the Actuarial Valuation for Financial Statement Purposes as at December 31, 2016. We expect that our report on the December 31, 2017 actuarial valuation will be finalized in March, 2018.

For the sake of clarity, we note that the assumed increases in the YMPE and maximum pension limits under the Income Tax Act are the same rates as the long-term salary growth rates noted for each of the four bases and that separate experience-related salary increases as described in our December 31, 2016 report have been applied in addition to the salary growth assumptions noted above.

The Province has requested that we prepare the results assuming that inflation protection for post 2009 service will be provided at 100% and at 50% of the assumed inflation rate. In this letter we have included results using both of these alternative inflation protection levels. We note that at the time of preparing this letter, the Plan provides for 100% of conditional inflation protection all periods of service.

At the Province's request, the liabilities have been calculated using the "projected benefit method, pro-rated on services". In the calculations presented in this letter, we have used the projected benefit method, pro-rated on service with three attribution periods to reflect the different indexing provisions for service accrued to December 31, 2009, service accrued from January 1, 2010 to December 31, 2013 and service accrued from January 1, 2014. However, we note that the same level of indexing was applied to all service for purposes of calculating the liabilities provided in this letter (whether the results are based on 100% or 50% conditional indexing).

We have included information regarding the impact on the December 31, 2017 liabilities due to changing the demographic assumptions. We have also shown the impact on the December 31, 2017 liabilities from changing the valuation discount rate or rate of salary growth assumption in Bases 2, 3 and 4 in our tables relative to the assumptions from Basis 1.

The results as at December 31, 2017 are summarized in the following tables.

Results using 100% indexation level for post 2009 service (results in $ millions)

	Basis 1	**Basis 2**	**Basis 3**	**Basis 4**
Valuation discount rate:	**6.00%**	**5.75%**	**6.00%**	**5.75%**
Inflation rate:	**2.00%**	**2.00%**	**2.00%**	**2.00%**
Salary escalation rate:	**2.00% to 2019, 2.75% thereafter**	**2.00% to 2019, 2.75% thereafter**	**2.00% to 2019, 2.50% thereafter**	**1.75% to 2019, 2.50% thereafter**
	($ million)	($ million)	($ million)	($ million)
1. Actuarial present value (APV) of accrued pension benefits at December 31, 2016 using **Last Year's Basis 3**	$123,772	$123,772	$123,772	$123,772
2. Increase in the APV of accrued pension benefits				
Interest on the APV of accrued pension benefits	$7,433	$7,433	$7,433	$7,433
Current Service Cost at January 1, 2017 (beginning of year)	$3,096	$3,096	$3,096	$3,096
Contributions for optional credit	$37	$37	$37	$37
Repayment of refunds	$0	$0	$0	$0
Transfers from other plans	$11	$11	$11	$11
Experience losses	$0	$0	$0	$0
Change in valuation Demographic assumptions	$26	$26	$26	$26
Change in interest rate from Basis 1	$0	$4,696	$0	$4,696
Change in other actuarial assumptions and methods	$0	$0	$0	$0
	$10,603	$15,299	$10,603	$15,299
3. Decrease in the APV of accrued pension benefits				
Impact at January 1, 2017 of new salary arrangement	$50	$50	$50	$50
Pensions paid	$5,741	$5,741	$5,741	$5,741
Refund of contributions	$0	$0	$0	$0
Lump sum payments and transfers	$186	$186	$186	$186
Experience gains	$91	$91	$91	$91
Change in inflation and salary grow th from Basis 1	$0	$0	$856	$919
Change in other actuarial assumptions and methods	$50	$50	$50	$50
	$6,118	$6,118	$6,974	$7,037
4. Net increase in the APV of accrued pension benefits	$4,485	$9,181	$3,629	$8,262
5. APV of accrued pension benefits at December 31, 2017	$128,257	$132,953	$127,401	$132,034
6. Annual current service cost at January 1, 2018 (beginning of year)	$3,256	$3,460	$3,176	$3,373
7. Present value of future accruals for service	$106,338	$122,109	$96,453	$110,054
8. Present value of future required employee contributions	$53,103	$57,456	$49,390	$53,125

Results using 50% indexation level for post 2009 service (results in $ millions)

	Basis 1	**Basis 2**	**Basis 3**	**Basis 4**
Valuation discount rate:	**6.00%**	**5.75%**	**6.00%**	**5.75%**
Inflation rate:	**2.00%**	**2.00%**	**2.00%**	**2.00%**
Salary escalation rate:	**2.00% to 2019, 2.75% thereafter**	**2.00% to 2019, 2.75% thereafter**	**2.00% to 2019, 2.50% thereafter**	**1.75% to 2019, 2.50% thereafter**
	($ million)	($ million)	($ million)	($ million)
1. Actuarial present value (APV) of accrued pension benefits at December 31, 2016 using **Last Year's Basis 3**	$121,194	$121,194	$121,194	$121,194
2. Increase in the APV of accrued pension benefits				
Interest on the APV of accrued pension benefits	$7,257	$7,257	$7,257	$7,257
Current Service Cost at January 1, 2017 (beginning of year)	$2,739	$2,739	$2,739	$2,739
Contributions for optional credit	$37	$37	$37	$37
Repayment of refunds	$0	$0	$0	$0
Transfers from other plans	$11	$11	$11	$11
Experience losses	$0	$0	$0	$0
Change in valuation Demographic assumptions	$22	$22	$22	$22
Change in interest rate from Basis 1	$0	$4,463	$0	$4,463
Change in other actuarial assumptions and methods	$0	$0	$0	$0
	$10,066	$14,529	$10,066	$14,529
3. Decrease in the APV of accrued pension benefits				
Impact at January 1, 2017 of new salary arrangement	$48	$48	$48	$48
Pensions paid	$5,741	$5,741	$5,741	$5,741
Refund of contributions	$0	$0	$0	$0
Lump sum payments and transfers	$186	$186	$186	$186
Experience gains	$76	$76	$76	$76
Change in inflation and salary growth from Basis 1	$0	$0	$795	$853
Change in other actuarial assumptions and methods	$38	$38	$38	$38
	$6,089	$6,089	$6,884	$6,942
4. Net increase in the APV of accrued pension benefits	$3,977	$8,440	$3,182	$7,587
5. APV of accrued pension benefits at December 31, 2017	$125,171	$129,634	$124,376	$128,781
6. Annual current service cost at January 1, 2018 (beginning of year)	$2,882	$3,054	$2,810	$2,977
7. Present value of future accruals for service	$94,101	$107,788	$85,361	$97,154
8. Present value of future required employee contributions	$53,103	$57,456	$49,390	$53,125

We have the following comments on the results:

- Similar to last year, the current service costs shown in the reconciliation of the actuarial present value of accrued benefits are as of January 1, 2017. The current service costs are then identical to the amounts provided under item 6 using Basis 3 in last year's letter dated January 26, 2017.

- Our valuation of the actuarial present value of the accrued pension benefits as at December 31, 2017 and the 2018 current service costs are based on membership data as at August 31, 2017. The actuarial present value of accrued pension benefits as at August 31, 2017 is then extrapolated forward to December 31, 2017, reflecting expected cashflows and the actual inflation adjustment as at January 1, 2018 of 1.60% for all periods of service. The current service at January 1, 2017 is based on membership data as at August 31, 2016. A summary of the membership data as at August 31, 2017 was included with our email of October 23rd, 2017 to Jill Milner-Yi.

- We understand that the Province adopted Last Year's Basis 3 in establishing the actuarial present value of accrued pension benefits as at December 31, 2016. This is the same as Basis 1 for the current year.

- We have assumed that any change in the Province's assumptions (i.e. nominal and real discount rates, inflation rate, and salary escalation rate would occur at December 31, 2017).

- Changes in other actuarial assumptions and methods, as included in the reconciliation of the actuarial present value of accrued benefits include the change to the assumed interest rate to value commuted values for members assumed to terminate in the future and the assumed rate for crediting interest on member contributions.

- The present value of future accruals for service has been calculated on an open group basis using a perpetuity approach, by projecting the current service cost with the assumed salary scale and discounting with interest. The present value of future required employee contributions was similarly determined based on an estimate of basic employee contributions for 2018.

The Expected Average Remaining Service Lifetime (EARSL) of active employees at August 31, 2017 and estimated for December 31, 2017, is 15.2 years.

The net experience gain incurred on the plan liability since the prior year of $91 million assuming 100% CIP (or $76 million at 50% CIP), includes a loss of $186 million relating to salary[1] experience (or $158 million at 50% CIP) and a gain of $309 million (or $277 million at

[1] Inclusive of experience on increases in the YMPE and ITA maximum pension limit

50% CIP) due to lower than expected level of inflation for the January 1, 2018 indexing. The remaining net loss of $32 million (or $43 million at 50% CIP) includes all other experience gains and losses which were relatively small.

The figures presented in this letter exclude the Ontario Teachers' Retirement Compensation Arrangement ("OTRCA"), which provides benefits to members that are in excess of those permitted to be provided from the registered pension plan. The Province has requested information on the OTRCA based on what will be reported in the OTRCA's 2017 financial statements, and does not require calculations on any other basis.

While the actuarial demographic assumptions used to estimate liabilities for the Plan represent the Ontario Teachers' Pension Plan Board's best estimate of future events and the economic assumptions are as provided by the Province, and while in our opinion the assumptions used for the valuation are appropriate provided the Province selected the economic assumptions in accordance with the Chartered Professional Accountants of Canada Public Sector Accounting Board Handbook ("PSAB Handbook"), the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time.

We have tested the data for reasonableness and consistency, and in my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation. In my opinion, the calculations have been made in accordance with my understanding of the reporting requirements under the PSAB Handbook and this report has been prepared, and, my opinions given, in accordance with accepted actuarial practice in Canada.

If you have any questions, please do not hesitate to call.

Sincerely,

Lise Houle

Copy:
Scott Clausen, Mercer
Jennifer Han, Mercer
I:\ontr-tch-x\2017\funding\programs\ministry\cover jan 26 2018 ministry info ltr.doc

July 27, 2016

Invoice Supplemental Detail for:	**Mr. Robert Pomykacz**
Invoice Reference No:	**MCN-0085313**
Client Name:	**Ontario Ministry of Finance**
Client ID:	**121711**

Work Detail

Work In June 2016 In Connection With Deliverables for Ontario Teachers' Pension Plan (Agreement No. OSS - 00185336) (Purchase Order Number: OSS 169267)

Discussions With R. Peebles; Preparation For and Attendance at Partners Consultative Meeting on June 21, 2016 Including Pre-Meeting Call With OTPP; Initial Conference Call to Review PSAB Accounting Issue, Review of Accounting Spreadsheets, Estimate of Asset Ceiling, and Follow-up Call to Determine Additional Information Required (actuarial staff – 8.25 hours)	$4,544.40
Subtotal	$4,544.40
Harmonized Sales Tax	$590.77
Total	$5,135.17

Disclaimer: The information provided within is supplemental to the Aon Hewitt Invoice. Please reference the Aon Hewitt invoice number with your payment remittance.

ORIGINAL INVOICE

Invoice Date: July 27, 2016
Due Date: August 26, 2016

Invoice Number: MCN-0085313

Mr. Rob Pomykacz
Ontario Ministry of Finance
Frost Building South
1st Floor, 7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

Purchase Order Number: ~~**OSS-169267**~~ WRONG #

Customer Number: 121711

Attachments Included

For Services in June 2016

VOIDED DUE TO THE INCORRECT PO #

		Total
Work In Connection With Deliverables for Ontario Teachers' Pen[illegible] – 00185336)		$ 4,544.40
	Subtotal	$ 4,544.40

Tax Detail

Harmonized Sales Tax		$ 590.77
	Subtotal	$ 590.77

Total Payable in CAD **$ 5,135.17**

Payment is due within 30 days of the invoice date.

Please indicate Customer # 121711, Invoice # MCN-0085313 and the amount paid on the electronic payment/cheque to ensure funds are applied to your account.

Electronic Payment:
Aon Hewitt Inc.
Bank of Montreal
100 King Street West
Toronto, ON M5X 1A3
Canada
Transit Number: 24892; Bank Code: 001
Account Number: 1043229

Cheque:
Aon Hewitt Inc.
P.O. Box 57465, Station A
Toronto, ON M5W 5M5

HST:
868923335 RT0001
Hewitt Associates Partnership

If you have questions regarding the charges on this invoice, please contact your Aon Hewitt Representative. If you need assistance with paying this invoice, please email Financial.Accounts.Receivable@aonhewitt.com.

ORIGINAL INVOICE

Invoice Date: September 16, 2016
Due Date: October 16, 2016

Invoice Number: MCN-0088155

Mr. Rob Pomykacz
Ontario Ministry of Finance
Frost Building South
1st Floor, 7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

Purchase Order Number: OSS 224638

Customer Number: 121711

Attachments Included

For Services in July and August 2016

Work Detail	**Total**
Work In Connection With Deliverables for Ontario Teachers' Pension Plan (OSS – 00185336)	$ 4,740.00
Subtotal	$ 4,740.00

Tax Detail

Harmonized Sales Tax	$ 616.20
Subtotal	$ 616.20

REVIEWED & APPROVED BY: ROB POMYKACZ, MANAGER

Total Payable in CAD **$ 5,356.20**

DATED: Sept. 21, 2016

Payment is due within 30 days of the invoice date.

Please indicate Customer # 121711, Invoice # MCN-0088155 and the amount paid on the electronic payment/cheque to ensure funds are applied to your account.

Electronic Payment:
Aon Hewitt Inc.
Bank of Montreal
100 King Street West
Toronto, ON M5X 1A3
Canada
Transit Number: 24892; Bank Code: 001
Account Number: 1043229

Cheque:
Aon Hewitt Inc.
P.O. Box 57465, Station A
Toronto, ON M5W 5M5

HST:
868923335 RT0001
Hewitt Associates Partnership

If you have questions regarding the charges on this invoice, please contact your Aon Hewitt Representative. If you need assistance with paying this invoice, please email Financial.Accounts.Receivable@aonhewitt.com.

AON Hewitt

Supplemental Detail

September 16, 2016

Invoice Supplemental Detail for:	**Mr. Robert Pomykacz**
Invoice Reference No:	**MCN-0088155**
Client Name:	**Ontario Ministry of Finance**
Client ID:	**121711**

Work Detail

Work In July and August 2016 In Connection With Deliverables for Ontario Teachers' Pension Plan (Agreement No. OSS - 00185336) (Purchase Order Number: OSS 224638)

Accounting Treatment for Ontario Teachers' Pension Plan on Government Financial Statements Including Discussions on Interpretation of PSAB Wording on Accrued Benefit Asset Limit, Preparation of Memo of August 3,2016 on Accrued Benefit Asset Limit, and Calls With Deloitte on August 4 and 7, 2016 (actuarial staff – 8.25 hours)	$4,740.00
Subtotal	$4,740.00
Harmonized Sales Tax	$616.20
Total	$5,356.20

REVIEWED & APPROVED BY: _____
ROB POMYKACZ, MANAGER

DATED: Sept. 21, 2016

RECEIVED:
SEPT. 20/2016

Disclaimer: The information provided within is supplemental to the Aon Hewitt Invoice. Please reference the Aon Hewitt invoice number with your payment remittance.

September 16, 2016

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Memorandum

To: Alex Killoch/Rob Pomykacz, Ministry of Finance

From: Allan Shapira, Aon Hewitt

Date: August 2, 2016

Re: Ontario Teachers' Pension Plan – Limit on Accrued Benefit Asset

This memo will address the limit on the accrued benefit asset held on the Ontario Government's financial statements in respect of the Ontario Teachers' Pension Plan ("OTPP").

We are addressing this issue in our role as the actuary to the Ontario Government in its role as a sponsor of the OTPP. We note, however, that we do not prepare any of the accounting information for the OTPP for purposes of the Ontario Government's financial statements, which is prepared under Section PS 3250 of the Public Sector Accounting Standards.

Based on the information provided to us, there is currently an accrued benefit asset on the Government's financial statements in respect of the OTPP. Under PS 3250.050, the intent is to limit a government's accrued benefit asset to the amount it can realize in the future. Under PS 3250.050; "A government may benefit from an accrued benefit asset by either withdrawing surplus or taking a contribution holiday or receiving a refund of contributions. The accrued benefit may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully."

The protocol for the use of surplus under the OTPP is detailed in the Funding Management Policy ("FMP") adopted by the Ontario Government and Ontario Teachers Federation as sponsors of the OTPP. The sharing of any surplus would be on a 50/50 basis between the Government and members, consistent with the funding of the OTPP.

The FMP has five funding zones:

- The middle zone is the Fully Funded zone under which base benefits and contributions are maintained. In this zone, the plan is adequately funded to provide base benefits (including indexation at 100% of CPI) supported by the base contributions. Given the volatility of market factors and the numerous assumptions in the funding valuation, "fully funded" is considered a range.

- There are two zones below the Fully Funded zone that address the treatment of deficits.

- There are two zones above the Fully Funded zone that address the treatment of surpluses. The first zone is the Temporary Plan Improvement zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost). If the surplus reaches a specified level, the next zone, the Permanent Plan Improvement zone, provides for permanent changes to contribution rates and/or benefits.

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Under the FMP, a surplus distribution or a benefit improvement can only be made if the partners have entered into a written agreement governing the manner in which contributions by the Minister will be adjusted to offset any surplus distribution or changes in benefits that are reflected in the liabilities.

Our interpretation of paragraph PS 3250.056 is the calculation of the expected future benefit on an open group basis. Based on the 50% methodology used to calculate the Government's obligations and pension expense under PS 3250, the expected future benefit would be calculated as 50% of the present value of future accruals for service. Based on the information provided to us, the total annual service accrual as of January 1, 2016 is $2,899 million, calculated using a discount rate of 6.25% and an ultimate salary increase assumption of 3% in the salary grid plus experience-related increases. Using the 6.25% discount rate and a 3% salary increase assumption (i.e. without the experience-related salary increases), the expected future benefit would be $44,600 million. We also requested the OTPP actuary to calculate this expected future benefit on a closed group basis for context and this resulted in an expected future benefit of $19,400 million. For further context, the present value of a decrease in the Government's contribution rate by 1% of salary calculated on an open group basis would be $4,300 million.

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