

0 - Email - February 6 2017 - technical briefing deck.pdf

From: [Veinot, Cindy \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#)
Cc: [Hosick, Sarah \(TBS\)](#); [Petsche, Nadine \(TBS\)](#)
Subject: technical briefing deck
Date: February-06-17 10:38:29 AM
Attachments: [Pension Asset Technical Briefing_Oct 2.v2.ppt](#)

Nelson – attached is the technical briefing deck that was used in the fall with the release of the unaudited f/s. We need a deck from the Panel for next Monday (assuming that date stands).

You can share the attached with the Panel Chair if you like (it was made public).

I expect the Panel's deck will be similar to what has been used to brief the various parties so far.

The primary audience is the media.

Thanks,

Pension Asset Technical Briefing_Oct 2.v2.pdf



2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing – DRAFT FOR DISCUSSION

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 the 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.

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 %
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

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, the Province and the Auditor General continue to have differences of opinion on how the pension assets for these plans would 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 their inception 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.

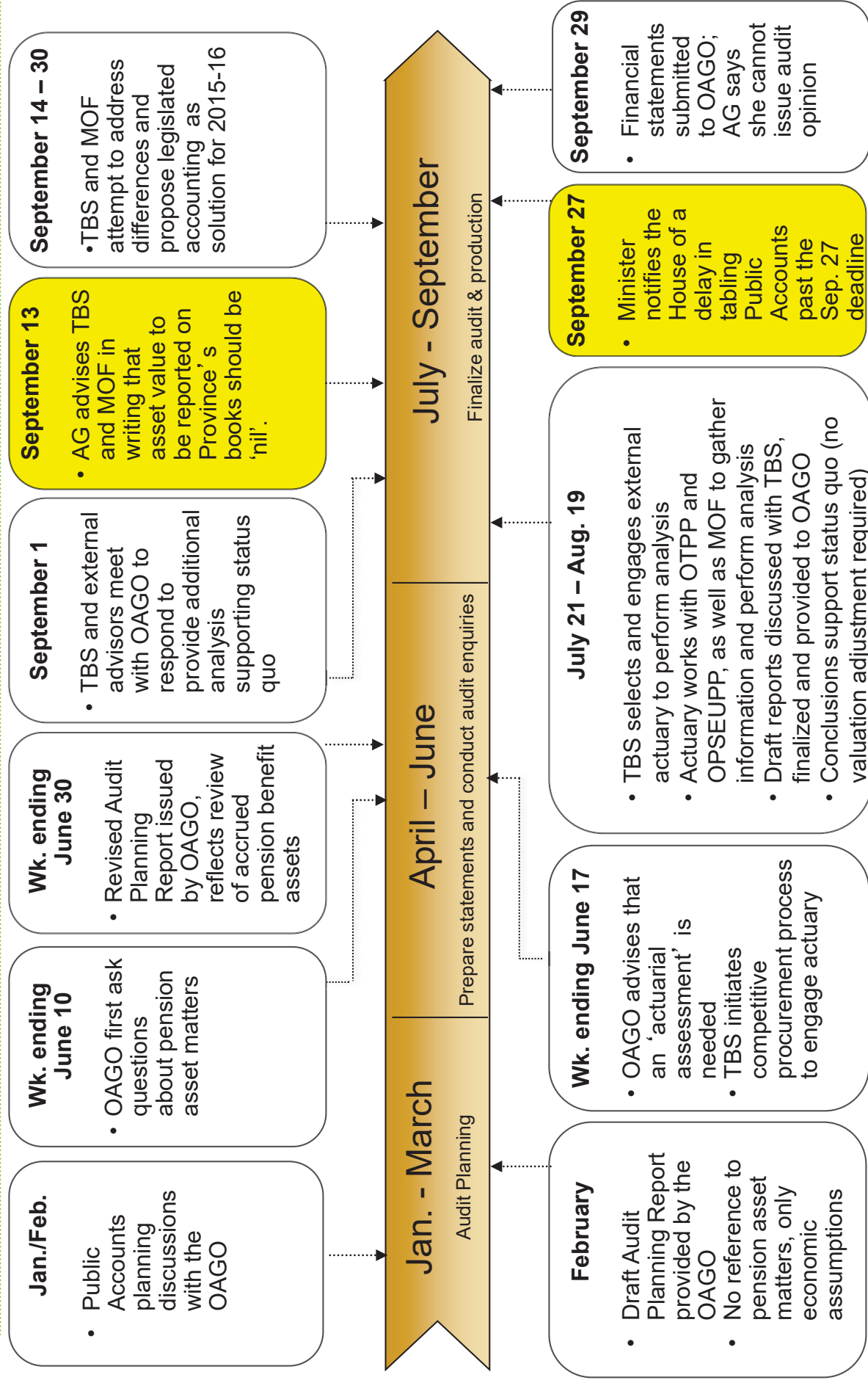
Auditor General's Position

- 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 OPSEUFP, which would eliminate these assets from the Province's consolidated financial statements.

Province's Position

- Based on the Province'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.
- The Province does 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.

Timeline



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.

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 (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
 - 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.

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)

CONFIDENTIAL - For Internal
Discussion Purposes Only



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.

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.

0 - Pension Asset Technical Briefing_Oct 2.v2.ppt



2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing – DRAFT FOR DISCUSSION

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 the 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.

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 %
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

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, the Province and the Auditor General continue to have differences of opinion on how the pension assets for these plans would 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 their inception 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.

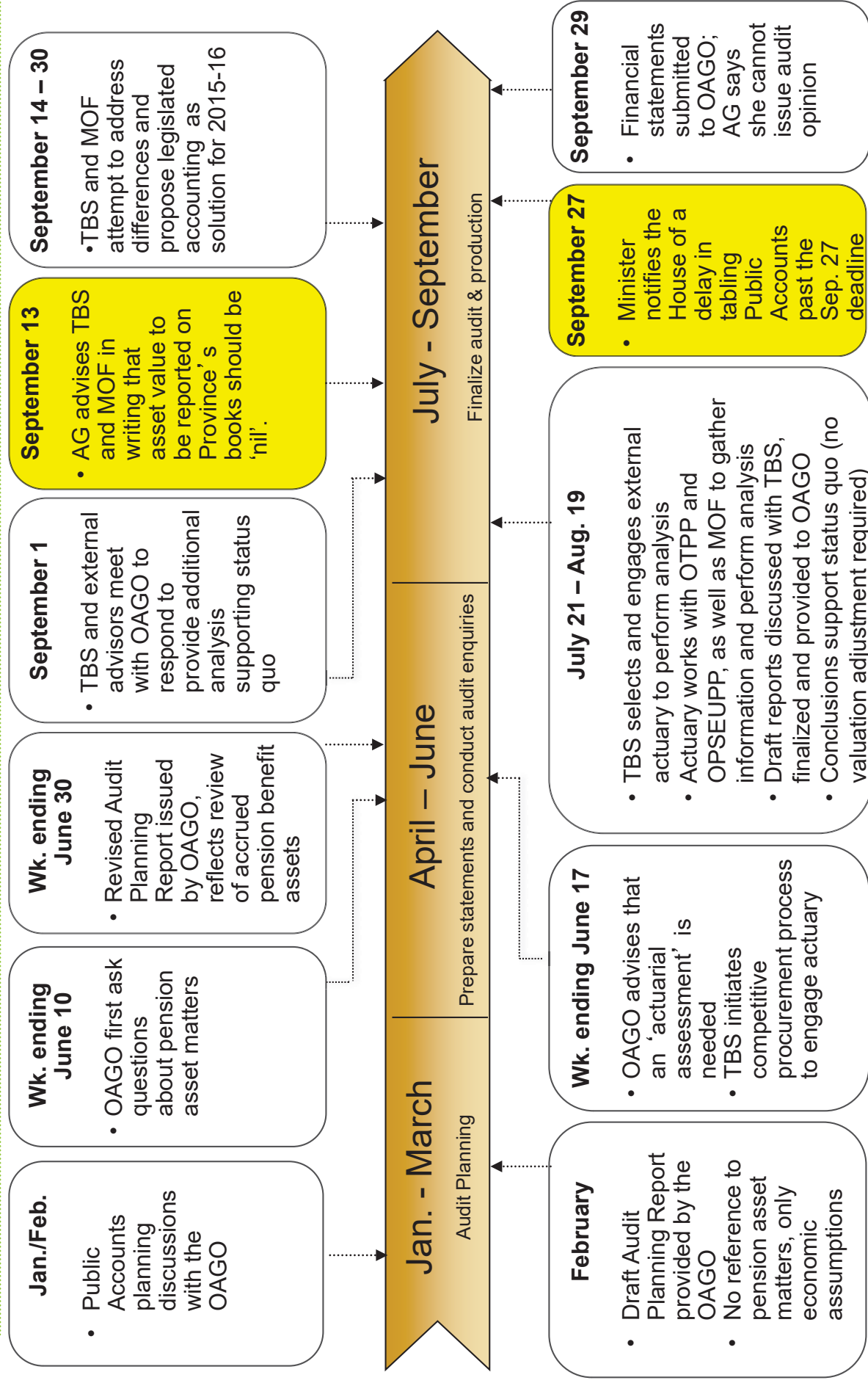
Auditor General's Position

- 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 OPSEUFP, which would eliminate these assets from the Province's consolidated financial statements.

Province's Position

- Based on the Province'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.
- The Province does 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.

Timeline



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.

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 (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
 - 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.

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)

CONFIDENTIAL - For Internal
Discussion Purposes Only



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.

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.

1 - 2 - MMP Briefing v2.pptx

Pension Asset Expert Advisory Panel

MMP Briefing

January 18, 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the ‘Panel’)'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions.

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear.
- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - it exists, and
 - future benefit is available to government as contribution reductions and to employee sponsors as either contribution reductions or benefit improvements under terms of plan.
- An expected future benefit under the standard can exist without a unilateral legally enforceable right to reduce future contributions:
 - legal requirements for surplus withdrawal and contribution reductions are very different, and
 - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes.

Recognition of asset

- Unilateral control not necessary for asset recognition:
 - in fact cannot exist in JDBPs,
 - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit – each sponsor essentially has a veto, and
 - each sponsor can recognize an asset relating to its portion of that jointly controlled asset.
- In fact, the sponsors jointly have unilateral control over the net pension asset
 - as long as in compliance with the Pension Benefits Act
 - no action is required other than agreement on their part and filing the plan amendment with FSCO

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.
- Expected future benefit is determined as difference between:
 - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - required minimum contributions regardless of surplus in planboth on a present value basis.

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions.
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions.

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions.
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts.

Recommendations to PSAB Task Force

- Report will note that in some areas, the necessary guidance was not found in the pension standard.
- The complete public sector standards provided a satisfactory basis for all of the Panel's conclusions.
- The Panel will identify for the Task Force those areas where additional guidance in the pension standard itself would be desirable.

Timelines and Next Steps

- Week of January 16th – Panel to review and finalize report and executive summary.
- Week of January 23rd – Final report and executive summary completed and approved by the Panel.
- Week of January 30th – send final report to Auditor General with offer to meet to discuss the findings.
- Early February – Completion of supplemental report on HOOPP and CAATPP.

Appendix A – Panel Members

- Patricia O'Malley (Chair) – Chair of the Canadian Actuarial Standards Oversight Council, member of the Canadian Accounting Standards Oversight Council, former Chair of the Canadian Accounting Standards Board and Chaired the International Forum of Accounting Standard Setters;
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP;
- Uros Karadzic – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting; and
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP.

Appendix B – Terms of Reference (Scope)

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan.
- 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 its review of the retirement and post-employment benefits standards.

1 - 7 - Final - Deputy Minister Pension Asset Update.pptx

Pension Asset Expert Advisory Panel Briefing

January 9 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the ‘Panel’)'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- The expert panel (See Appendix A) was established November 10 to review the PSAS accounting for pension assets in jointly sponsored plans and provide advice to the government. (See Appendix B for Terms of Reference)

General

- Panel held four all-day meetings.
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear
- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued
- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - it exists, and
 - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan
- Unilateral control not necessary for asset recognition:
 - in fact cannot exist in JDBPs
 - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit
 - Each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements
- Recognizing the asset will provide a faithful representation of the Province's financial position
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes
- Expected future benefit is determined as difference between:
 - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - required minimum contributions regardless of surplus in plan both on a present value basis

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Recommendations to PSAB Task Force

- Clarify guidance regarding sponsor's ability to access expected future benefits
 - Distinguish requirements for surplus withdrawals from contribution reductions
 - Specifically discuss control requirements in JDBPs
- More guidance needed on determining minimum contributions when future contributions are dependent on funded status of plan and are negotiable
- Deferral accounting can result in recognition of an asset when the plan is in fact in a deficit because of unamortized losses. Inclusion of item in balance sheet that does not represent an economic resource is not representationally faithful

Recommendations to PSAB Task Force

- Task Force should consider:
 - whether the method used to settle an obligation should affect how that obligation is measured, and
 - how the risks inherent in the obligation are best captured either in the discount rate or in other aspects of the measurement of the obligation, i.e., are deterministic single point best estimate assumptions with no provision for risk and a single discount rate providing a realistic measure of the liability?
- May be beneficial ask AcSB to consider including additional disclosures in public pension plan financial statements about how the objectives and assumptions in funding valuations differ from those used in the accounting valuation

Timelines and Next Steps

- January 11th – the Chair will begin drafting the Executive Summary and the Panel will meet to discuss the Health Care of Ontario Pension Plan (HOOPP) and College of Applied Arts and Technology Pension Plan (CAATPP).
- January 16th – Completion of final report and Executive Summary for the OPSEUPP and OTPP.
- January 23rd – Draft supplemental report, on HOOPP and CAATPP, submitted to the Panel by the report writer for comments.
- February 3rd – Completion of supplemental report on HOOPP and CAATPP.

Appendix A – Panel Members

- Patricia O'Malley (Chair) (accountant) – Chair of the Canadian Actuarial Standards Oversight Council, formerly Chair of the Canadian Accounting Standards Board, member of the International Accounting Standards Board and technical partner in KPMG Canada's national office
- Uros Karadzic (actuary) – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting
- Murray Gold (lawyer) – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Paul Martin (accountant) – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

Appendix B – Terms of Reference (Scope)

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan
- 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 its review of the retirement and post-employment benefits standards.

1 - Email - February 6 2017 - RE_ Briefing Deck for Media and Opposition briefing.pdf

From: [Patricia O'Malley](#)
To: [Tam, Nelson \(TBS\)](#)
Subject: RE: Briefing Deck for Media and Opposition briefing
Date: February-06-17 4:50:09 PM

Hi Nelson

Thanks for these. I want to re-do the slides to more closely follow the Exec Summary. Will do that tomorrow morning and send to you and Uros for review, as I want him to do part of the presentation.

I am sure we will want a briefing from communications, probably on Friday?

Also expect to get you my time to date and an estimate to the 13th tomorrow as well. Have also advised all the others that you want up to date time sheets ASAP.

Tricia

From: Tam, Nelson (TBS) [mailto:Nelson.Tam@ontario.ca]
Sent: 6-Feb-17 10:56
To: Patricia O'Malley (plomalley@outlook.com) <plomalley@outlook.com>
Subject: Briefing Deck for Media and Opposition briefing

Patricia

For Monday, assuming it hasn't changed, there is a deck required for the technical briefing with the media. Attached is a sample of the deck used in October. I suggest we use the DM briefing deck as a starting point. I don't know if you want to add/delete anything to this deck or you are okay with it as it stands. I will just change the title and copy the PSAB recommendations section from the MMP briefing over to the DM update.

Also, we don't have confirmation on the opposition briefing. I included the MMP briefing deck so you can decide whether to add/delete from this deck as well. If it is fine, I will change the title.

Once I get a confirmation from Communications regarding the release I will let you know. Also, will you and Uros want a quick teleconference call with Communications to provide you with some information as to what to expect?

Thanks

Nelson
416-212-0514

1 - Pension Asset Technical Briefing_Oct 2.v2.ppt



2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing – DRAFT FOR DISCUSSION

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 the 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.

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 %
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

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, the Province and the Auditor General continue to have differences of opinion on how the pension assets for these plans would 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 their inception 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.

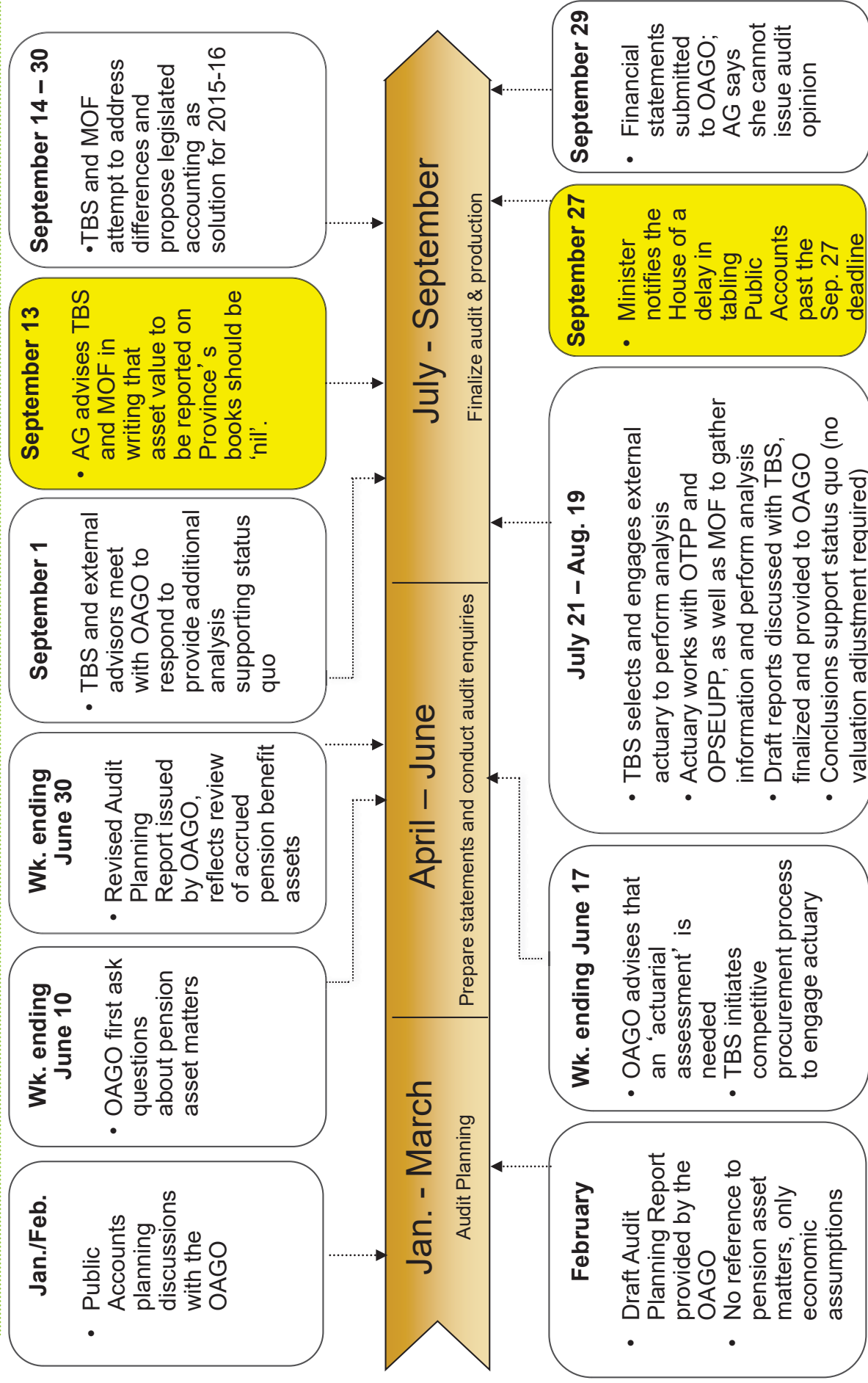
Auditor General's Position

- 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 OPSEUFP, which would eliminate these assets from the Province's consolidated financial statements.

Province's Position

- Based on the Province'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.
- The Province does 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.

Timeline



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.

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 (audited value of OTPP and OPSEUPP pension assets at March 31, 2015)
 - 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.

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)

CONFIDENTIAL - For Internal
Discussion Purposes Only



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.

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.

10 - Email - February 15 2017 - RE_ Copies of PAEAP Press Conference.pdf

From: [Ovenden, Erin \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#)
Subject: RE: Copies of PAEAP Press Conference
Date: February-15-17 9:40:48 AM

See you downstairs

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: Tam, Nelson (TBS)
Sent: February-15-17 9:39 AM
To: Ovenden, Erin (TBS)
Subject: RE: Copies of PAEAP Press Conference

Erin

Leaving now. Should be there in about 5 minutes.

Nelson

From: Tam, Nelson (TBS)
Sent: February-14-17 4:11 PM
To: Ovenden, Erin (TBS)
Subject: RE: Copies of PAEAP Press Conference

Erin

That would be great. I will send you a quick email when I head over.

Nelson

From: Ovenden, Erin (TBS)
Sent: February-14-17 4:09 PM
To: Tam, Nelson (TBS)
Subject: RE: Copies of PAEAP Press Conference

I will be here. If it's easier, I can meet you in Ferguson's lobby.

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: Tam, Nelson (TBS)
Sent: February-14-17 4:07 PM
To: Ovenden, Erin (TBS)
Subject: RE: Copies of PAEAP Press Conference

Erin

Are you in your office around 9:45? I will come by.

Thanks

Nelson
X20514

From: Ovenden, Erin (TBS)
Sent: February-14-17 3:56 PM
To: Tam, Nelson (TBS); Hosick, Sarah (TBS)
Subject: Copies of PAEAP Press Conference

Hi-

I have two USBs with video of yesterday's press conference. Are either of you in our neighbourhood tomorrow? If not, I could send walk them over and meet you in the tunnel entrance.

Erin Ovenden

Senior Communications Consultant

Communications Branch | Treasury Board Secretariat

77 Wellesley Street West, Ferguson Block

Toronto, ON M7A 1N3

Tel: 416-326-7727

1A - Email - February 7 2017 - FYI.pdf

From: [Patricia O'Malley](#)
To: [Tam, Nelson \(TBS\)](#)
Subject: FYI
Date: February-07-17 4:43:56 PM

Uros has commented on my first version of the slides. I have made changes and I think we are about ready to go. I will send as soon as he signs off.

Tricia O'Malley
Mobile +1(416) 570 1924

2 - Email - February 7 2017 - draft of slides for briefing.pdf

From: [Patricia O'Malley](#)
To: [Tam, Nelson \(TBS\)](#); [Uros Karadzic \(uros.karadzic@ca.ey.com\)](mailto:uros.karadzic@ca.ey.com); [Martin, Paul \(FIN\) \(Paul.Martin@gnb.ca\)](mailto:Paul.Martin@gnb.ca)
Subject: draft of slides for briefing
Date: February-07-17 11:14:08 AM
Attachments: [pension asset panel briefing v1.pptx](#)

All

Here is the first draft for your review. Based on previous briefings, modified to follow exec summary more closely. Have also added comments in a couple of places to allow us to speak to issues we know are of concern to AG without adding whole sections from the report itself.

Comments welcome as always!

Tricia

pension asset panel briefing v1.pdf

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.

General

- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued.
- In joint plans, risks and rewards are shared between Sponsors and Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- Retirement Benefits standard specifies it should be applied to the JDPB as a whole, then the Province should recognize (record) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the benefit
 - each sponsor can then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- An expected future benefit can exist without a current unilateral legally enforceable right to reduce future contributions:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on own level of required contributions in compliance with terms of Plan and Pension Benefits Act
- Standard defines expected future benefit as difference between:
 - present value of expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - present value of required minimum contributions regardless of surplus in plan

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions
- If no minimum contributions required, existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (anticipated ion Plan documents)
- Surplus assets have real economic value government can benefit from so should be recognized.

2 - pension asset panel briefing v1.pptx

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.

General

- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued.
- In joint plans, risks and rewards are shared between Sponsors and Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- Retirement Benefits standard specifies it should be applied to the JDPB as a whole, then the Province should recognize (record) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the benefit
 - each sponsor can then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- An expected future benefit can exist without a current unilateral legally enforceable right to reduce future contributions:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on own level of required contributions in compliance with terms of Plan and Pension Benefits Act
- Standard defines expected future benefit as difference between:
 - present value of expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - present value of required minimum contributions regardless of surplus in plan

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions
- If no minimum contributions required, existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (anticipated ion Plan documents)
- Surplus assets have real economic value government can benefit from so should be recognized.

2A - pension asset panel briefing v1 - UK edits.pptx

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, Partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's and OAG's accounting conclusions.

General

- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Asset exists because joint sponsors can use the surplus in the Plans to reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on own level of required contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations
 - Panel used the interpretation most commonly seen in practice
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (anticipated in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.

2A- Email - February 7 2017 - RE_ draft of slides for briefing.pdf

From: [Uros Karadzic](#)
To: [Patricia O'Malley](#); [Tam, Nelson \(TBS\)](#); [Martin, Paul \(FIN\) \(Paul.Martin@gnb.ca\)](#)
Subject: RE: draft of slides for briefing
Date: February-07-17 2:23:58 PM
Attachments: [pension asset panel briefing v1 - UK edits.pptx](#)

Hi Tricia,

Thank you for putting this together. I have attached a version with my edits. As you know, no "track changes" feature is available in PowerPoint, so I have made changes directly and have inserted comments to highlight/explain suggested changes.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Patricia O'Malley [mailto:plomalley@outlook.com]

Sent: Tuesday, February 07, 2017 11:14 AM

To: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>;
Martin, Paul (FIN) (Paul.Martin@gnb.ca) <Paul.Martin@gnb.ca>

Subject: draft of slides for briefing

All

Here is the first draft for your review. Based on previous briefings, modified to follow exec summary more closely. Have also added comments in a couple of places to allow us to speak to issues we know are of concern to AG without adding whole sections from the report itself.

Comments welcome as always!

Tricia

CONFIDENTIAL and/or PRIVILEGED. If received in error please notify the sender and permanently delete.
CONFIDENTIEL et/ou PRIVILÉGIÉ. Si ce courriel est reçu par erreur, veuillez nous en aviser et en effacer toute trace. EY, 222 Bay St, PO Box 251, Toronto, ON M5K 1J7. www.ey.com/ca To unsubscribe from commercial electronic messages / Pour vous désabonner des messages électroniques commerciaux : Unsubscribe@ca.ey.com

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.

pension asset panel briefing v1 - UK edits.pdf

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, Partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's and OAG's accounting conclusions.

General

- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Asset exists because joint sponsors can use the surplus in the Plans to reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on own level of required contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEU/OPP performed using various interpretations
 - Panel used the interpretation most commonly seen in practice
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (anticipated in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.

2B - Email - February 9 2017 - RE_ draft of slides for briefing.pdf

From: [Martin, Paul \(FIN\)](#)
To: ["Uros Karadzic"; Patricia O'Malley](#)
Cc: [Tam, Nelson \(TBS\)](#)
Subject: RE: draft of slides for briefing
Date: February-09-17 10:25:22 AM
Attachments: [pension asset panel briefing v1 - UK and PM edits.pptx](#)

Added a couple of comments for consideration.

Apologies for the delay in review and replying.

Sincerely,

Paul

From: Uros Karadzic [<mailto:uros.karadzic@ca.ey.com>]
Sent: Tuesday, February 07, 2017 3:24 PM
To: Patricia O'Malley; Tam, Nelson (TBS); Martin, Paul (FIN)
Subject: RE: draft of slides for briefing

Hi Tricia,

Thank you for putting this together. I have attached a version with my edits. As you know, no "track changes" feature is available in PowerPoint, so I have made changes directly and have inserted comments to highlight/explain suggested changes.

Uros

Uros Karadzic, FSA, FCIA | Partner | People Advisory Services

Ernst & Young LLP

Office: +1 416 943 2087 | Mobile: +1 416 970 2087 | uros.karadzic@ca.ey.com

Assistant: Sarah Anderton | Phone: +1 416 943 3143 | sarah.anderton@ca.ey.com

From: Patricia O'Malley [<mailto:plomalley@outlook.com>]
Sent: Tuesday, February 07, 2017 11:14 AM
To: Tam, Nelson (TBS) <Nelson.Tam@ontario.ca>; Uros Karadzic <uros.karadzic@ca.ey.com>;
Martin, Paul (FIN) (Paul.Martin@gnb.ca) <Paul.Martin@gnb.ca>
Subject: draft of slides for briefing

All

Here is the first draft for your review. Based on previous briefings, modified to follow exec summary more closely. Have also added comments in a couple of places to allow us to speak to issues we know are of concern to AG without adding whole sections from the report itself.

Comments welcome as always!

Tricia

CONFIDENTIAL and/or PRIVILEGED. If received in error please notify the sender and permanently delete.

CONFIDENTIEL et/ou PRIVILÉGIÉ. Si ce courriel est reçu par erreur, veuillez nous en aviser et en effacer toute trace. EY, 222 Bay St, PO Box 251, Toronto, ON M5K 1J7. www.ey.com/ca To unsubscribe from commercial electronic messages / Pour vous désabonner des messages électroniques commerciaux : Unsubscribe@ca.ey.com

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.

pension asset panel briefing v1 - UK and PM e.pdf

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, Partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's and OAG's accounting conclusions.

General

- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Asset exists because joint sponsors can use the surplus in the Plans to reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on own level of required contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEU/OPP performed using various interpretations
 - Panel used the interpretation most commonly seen in practice
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (anticipated in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.

2B - pension asset panel briefing v1 - UK and PM edits.pptx

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, Partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's and OAG's accounting conclusions.

General

- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Asset exists because joint sponsors can use the surplus in the Plans to reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on own level of required contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEU/OPP performed using various interpretations
 - Panel used the interpretation most commonly seen in practice
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (anticipated in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.

3 - Email - February 7 2017 - slide deck for briefing.pdf

From: [Patricia O'Malley](#)
To: [Tam, Nelson \(TBS\)](#)
Cc: [Uros Karadzic](#)
Subject: slide deck for briefing
Date: February-07-17 7:29:39 PM
Attachments: [pension asset panel briefing final.pptx](#)

Final is attached.

Please let us know as soon as you can when our presence will be required.

Thx
Tricia

pension asset panel briefing final.pdf

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.

General

- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Standard notes sponsor can benefit by taking assets out of plan or by reducing future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions

Measurement of asset

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations
 - Panel used the interpretation most commonly observed in practice
- If there is a contractual or legal requirement to continue to contribute to the plan despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then the existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either Plan's accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.

3 - pension asset panel briefing final.pptx

Pension Asset Expert Advisory Panel

Briefing

February XX, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.

General

- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Standard notes sponsor can benefit by taking assets out of plan or by reducing future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions

Measurement of asset

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations
 - Panel used the interpretation most commonly observed in practice
- If there is a contractual or legal requirement to continue to contribute to the plan despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then the existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either Plan's accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.

pension asset panel briefing final version.pptx

Pension Asset Expert Advisory Panel

Briefing

February 13, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

Background

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.

Background

- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Nature of Plans

- Panel agrees with the Province and the OAG on the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (e.g., 50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions

Measurement of asset

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan
 - less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” is not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations
 - Panel used the interpretation most commonly observed in practice
- Employer may have a contractual or legal requirement to continue to contribute to the plan even though the plan is in surplus
 - Such contributions could affect the measurement of the asset
 - If there is no requirement to additionally fund a plan already in surplus, then surplus can be used to pay for cost of benefits to be earned in the future or plan expenses
- No such onerous funding requirements exist for OTPP or OPSEUPP

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either Plan's accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

pension asset panel briefing final_1.pptx

Pension Asset Expert Advisory Panel

Briefing

February 13, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.

General

- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- Standard notes sponsor can benefit by taking assets out of plan or by reducing future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions

Measurement of asset

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- Standard defines expected future economic benefit as difference between:
 - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
 - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations
 - Panel used the interpretation most commonly observed in practice
- If there is a contractual or legal requirement to continue to contribute to the plan despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then the existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either Plan's accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.