1 - Email - March 22 2017 - FW_ Panel Background Memo.pdf

From: Patricia O"Malley
To: Tam, Nelson (TBS)
Subject: FW: Panel Background Memo
Date: March-22-17 5:04:17 PM
Attachments: Memo to Treasury Board Secretariat staff FINAL.docx
TBS Transmittal Letter background memo.docx

The final bit!

Thanks!

Tricia

From: Patricia O'Malley
Sent: 22-Mar-17 17:01
To: 'Veinot, Cindy (TBS)' <Cindy.Veinot@ontario.ca>
Subject: Panel Background Memo

Dear Cindy

On behalf of the Panel, I am attaching a cover letter and our Background Memo.

Sincerely

Tricia O'Malley

Memo to Treasury Board Secretariat staff FINA.pdf

Memo to Treasury Board Secretariat staff

Background to the Panel's discussions on CAATPP and HOOPP

March 22, 2017

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The panel believes the following observations should be considered as part of a fulsome analysis of these issues.

1. *Relationship to employer sponsors*

The employer sponsors are CEC (CAATPP) and OHA (HOOPP). The Province does not consolidate either of these organizations into the Public Accounts because it does not consider that it controls them.

CEC

- CEC, or the Council, is established in accordance with the Ontario Colleges of Applied Arts and Technology Act, 2002 as a corporation without share capital, with its own board of directors that manages the affairs of the Council. The object of the Council is to be responsible for certain functions relating to collective negotiations and establishment of terms and conditions of employment of persons employed by colleges. The president and the chair (or vice-chair) of the board of each college sit on the Board of Directors of CEC. The Province does not determine or otherwise appoint either the president or chair of the board of governors of each college. As members of the Council Board of Directors, the individual colleges obviously have input into the positions taken by the Council representatives on the Sponsor's Committee. However, no individual college can be considered a sponsor because no one college can control either the Council or the Council representatives on the Sponsors' Committee.
- Logically, an argument could be made that if the Province controls the colleges, and the colleges determine the members of the Council Board of Directors, there is indirect control over CEC and therefore the Sponsors' Committee of CAATPP. There may be the *ability* to control the appointments to the Sponsors' Committee, even if this indirect control is not exercised[1]. Conversely, if the Province controls the colleges solely by its ability to open, merge or close colleges and to issue directives, but such mechanisms of control cannot affect the members of the Council Board of Directors, then control of CEC would not exist.

[1] PS 1300.09 states that "A government may choose not to exercise its power; nevertheless, control exists by virtue of the government's ability to do so"; The Public Sector Accounting Discussion Group considered some issues surrounding indirect control in its meeting of November 18, 2016 (meeting notes not yet available publicly).

- The Province should consider a clear articulation of why they do or do not control CEC to support their consolidation determinations, and this analysis should be consistent with conclusions regarding decision-making and joint sponsorship of the Plans (see *Definition of a joint defined benefit plan under PS 3250 and identification of joint sponsors* below).

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2. *Definition of a joint defined benefit plan under PS 3250 and identification of joint sponsors*

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- A JDBP is a contractual arrangement between the government and another sponsor or sponsors representing plan participants. PSAS standards typically use “government” to mean the reporting entity.
- In a JDBP the government and employee sponsors share decision making.
- In a JDBP significant risks and rewards are shared on an equitable basis between the government and the plan members (represented by the employee sponsors).
- In CAATPP and HOOPP risks and rewards are shared between the hospitals/colleges (government entities) and the employees.
- In CAATPP and HOOPP there is shared decision making between the employer sponsor (CEC/OHA, not controlled by the Province) and the employee sponsors (unions).

PS 3250 is unclear as to whether government-controlled employers can be represented by an employer sponsor that the government does not control/consolidate, whereas it is explicit that plan members can be represented by one or more employee sponsors. Adopting the view that the standard requires the employer sponsor to be the government would mean that arrangements such as CAATPP and HOOPP cannot be joint defined benefit plans. An alternative view is that an employer sponsor that is an industry association or other non-consolidated entity can be authorized through the plan arrangements to make decisions in the interests of the public sector employers. Under this alternative view, decision-making is controlled by those entities that carry the risk and rewards, even if that decision-making is not directly controlled by the government.

A fundamental tenet of JDBPs is that the sharing of the risks and rewards of the pension plan on an equitable basis is a logical consequence of the sharing of control over those policies that influence the outcomes of the pension plan and the shared funding responsibilities. In determining who are the joint sponsors of a JDBP for accounting purposes, understanding how both the risks and rewards and decision making are shared between the Province and/or employer sponsor and the plan members is important. The Panel believes that for a plan to be a JDBP, the standard requires there to be both an equitable sharing of risks and rewards and corresponding shared decision making (joint control) within the plan. . However, other interpretations are possible.

The Panel notes that historically, the Province has accounted for both CAATPP and HOOPP by recognizing a liability that equates to the employers' share of the net pension obligation (based on contribution rates) and that in the case of HOOPP the province further pro-rates the liability for the proportion of active plan members that are employed by the hospitals consolidated in the Ontario Public Accounts. It was not clear to the panel why the Province takes a different approach to the two plans.

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3. Province as sponsor or with an obligation for retirement benefits

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TBS Transmittal Letter background memo.pdf

By email

210 Cambria Street
Stratford, Ontario
N5A 1J1

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

March 22, 2017

Re: Pension Asset Expert Advisory Panel Background Memo

Dear Cindy

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However, we believe it would be helpful in the future for them to be addressed in a position paper similar to the ones you prepared regarding the net plan assets. This is especially true considering the changes that have taken place in the PSAS since some the accounting was originally adopted. That memo is attached and we trust you will find it useful. We believe that with this document our mandate is completed.

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1 - TBS Transmittal Letter background memo.docx

By email

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Provincial Controller and Assistant Deputy Minister
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March 22, 2017

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From:	Tam, Nelson (TBS)
To:	Veinot, Cindy (TBS)
Subject:	Fw: Panel Background Memo
Date:	March-24-17 6:44:03 PM
Attachments:	Memo to Treasury Board Secretariat staff FINAL.docx TBS Transmittal Letter background memo.docx

Cindy

Patricia forwarded the email to me.

Nelson

Sent from my BlackBerry 10 smartphone on the Rogers network.

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