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October 2, 2016

Private and confidential

Ms. Karen Hughes
Associate Deputy Minister,
Treasury Board Secretariat,
7 Queen's Park Crescent
Toronto ON M7A 1Y7

Dear Ms. Hughes:

We have been engaged to report on the appropriate application of certain aspects of Canadian public sector accounting standards to the recognition of the accrued benefit asset (also referred to in this report as the Pension Asset or the Asset) related to the Ontario Teachers' Pension Plan (OTPP the Plan) in the Province of Ontario's (also referred to as the Province or the Government of Ontario in this report) accounts as at March 31, 2016. This report is being issued to the Associate Deputy Minister of the Treasury Board Secretariat of the Government of Ontario. Our engagement has been conducted in accordance with Canadian generally accepted standards for such engagements.

It should be noted that the responsibility for the proper accounting treatment rests with the preparers of the financial statements, who should consult with their incumbent auditor. Our judgment on the appropriate application of Canadian public sector accounting standards for the specific issue being discussed is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

Statement of facts and assumptions

It should be noted that the following background and facts represent a high level summary of the situation and represent those facts that we considered important in reaching our opinion. They do not purport to be a complete representation of all of the terms of the OTPP or the agreements between the government and the Ontario Teachers' Federation (OTF). Management has acknowledged their agreement with this summary. If these facts are incomplete or incorrect, then our conclusions may change.

"The (Ontario Teachers') pension plan is jointly sponsored by the Ontario government, through the Minister of Education, and the executive of the Ontario Teachers' Federation (OTF). The OTF represents teachers, while the government represents employers.

OTF and the government are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations. In addition, they appoint experienced, professional experts to the pension plan's Board.

Statement of facts and assumptions (continued)

Through a six-member Partners' Committee, the sponsors jointly:

- Set benefit levels
- Establish the contribution rate paid by working teachers (which is matched by the Ontario government and other designated employers)
- Decide how to address funding shortfalls or use surplus funds when they arise"

(Source: <https://www.otpp.com/corporate/plan-governance>)

The governing and other documents that are relevant to the accounting analysis are as follows:

- Teachers' Pension Act (TPA), including Schedule 1
- Partners' Agreement
- Funding Management Policy (FMP)
- Osler's letter dated September 20, 2016; we have not summarized this letter as it should be read in its entirety.

The assets of the pension plan are held by Ontario Teachers' in trust for the beneficiaries of the plan – teachers. The Government does not have unilateral access to the assets of the trust (including changing contribution amounts, taking contribution holidays, or withdrawals). Actions of this nature require negotiation and agreement between the two sponsors.

The following facts and assumptions have been accepted without further analysis or verification:

- As a jointly sponsored plan, the Plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes, before considering the appropriateness of the recognition of an asset or the need for a valuation allowance related to any asset, are appropriate and meet the requirements of PS 3250.
- The Plan's most recent preliminary funding valuation reported a preliminary funding surplus of \$13.2 billion as at January 1, 2016, as reported on the OTTP website. The OTTP's public financial statements showed a deficit for accounting purposes of \$1.8 billion in its financial statements as at December 31, 2015. These financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit.
- As at March 31, 2016, there were no written agreements in place to access the Plan surplus to reduce future minimum contributions or withdraw any amounts from the Plan.
- The OTTP is regulated by the Financial Services Commission of Ontario. Valuation reports must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.

Statement of facts and assumptions (continued)

- Management has received legal commentary about the role of the Superintendent. From this advice, management has concluded that despite this regulation the Province could utilize a surplus through contribution reductions as “Neither the PBA nor the regulations to the PBA (the “Regulations”) require the Superintendent’s consent for surplus to be *utilized* for a contribution holiday or to amend the contribution formula under the OTTP.” Further, although changes to the OTTP text would be required to be registered with the Superintendent, “The authority of the Superintendent to refuse to register an amendment under the PBA (in whole or in part) is limited to circumstances where the amendment is void or if the pension plan with the amendment would cease to comply with the PBA and the Regulations.” (Source: Osler memo dated September 26, 2016).
- The Auditor General’s Office provided a letter dated September 26, 2016 setting out their views. We have read and considered the contents of that letter.

Relevant Extracts from the TPA

Section 5 (1.1) of the TPA states that the total amount of contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year. There can be instances where contributions would not be equal between the sponsors, such as the government’s payments in connection with forgone inflation adjustments.

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

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

Relevant extracts from the Partners’ Agreement

The Partners’ Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTTP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the OTTP Board, and defining the role of the Board.

Paragraph 74 requires negotiation in good faith regarding changes to the Plan that flow from a valuation that is to be filed with the regulators.

Paragraph 75 of the Partners’ Agreement requires the Partners to advise the Board of OTTP of what changes affecting benefits and contribution rates they are proposing so that the Board can provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

¹ Partners’ Agreement, section 110.

Relevant extracts from the Partners' Agreement (continued)

If the partners cannot agree on the changes required to the Plan, a mediator is appointed to assist the Partners in coming up with an agreement. The mediator is responsible for submitting a report to the partners on his or her views on the positions of the partners and provide a recommendation to the Partners. If the partners do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented. Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

In addition to the clauses identified above, the Partners' Agreement has an appendix called the Funding Management Policy which sets out the Partners' responsibilities in making funding decisions and surplus allocation regarding the Plan.

Relevant extracts from the FMP

The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP.

The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:

- i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
- ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
- iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the Partners are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

Relevant extracts from the FMP (continued)

It is our understanding that the Plan is currently in the Restoration Zone. We understand that contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both partners, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

If the Plan gets to either the temporary improvement zone or the permanent improvement zone, section 4.06 and subsection 5.05(b) of the FMP provides that a benefit improvement can only occur if the partners (the Ontario government and the OTF) have entered into a written agreement governing the manner in which the contribution by the government and other employers may be adjusted to offset any surplus distribution or benefit improvement (temporary or permanent) to be granted.

Application of accounting principles

Specifically, our report addresses the following questions:

1. Is it necessary for a government to have a legally enforceable right to reduce future contributions in order to recognize a Pension Asset under PS 3250?
2. What is the role of legal uncertainty in assessing the government's expectation of future benefit from a Pension Asset?

Our views in this report are confined to these two questions and do not extend to any earlier reports provided by Deloitte or to any other analysis that may have been presented in draft or in any other manner.

Authoritative literature

In our analysis, we considered the pronouncements and guidance in Section 3250 of the CPA Public Sector Accounting Standards Handbook. What we considered to be the most relevant passages from PS 3250 are reproduced below:

The objectives of funding and accounting

.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.

.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. Accordingly, it is necessary to develop accounting estimates of liabilities for retirement benefits and expenses using an actuarial cost method and actuarial assumptions that ensure essential information required for fair presentation of financial condition and results of operations can be reported in government financial statements.

Authoritative literature (continued)

.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

Actuarial assumptions

.042 Actuarial assumptions should be based on the government's best estimates of expected long-term experience and short-term forecasts. [SEPT. 2001]

Joint defined benefit plans

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.081 *When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]

.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Disclosure

.083 The notes and schedules integral to the financial statements would disclose the methods and judgments applied in accounting for accrued benefit obligations and expenses. Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence.

Limit on the carrying amount of an accrued benefit asset

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]

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

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

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

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

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

.056 A government determines its expected future benefit as the sum of:

- a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

Limit on the carrying amount of an accrued benefit asset (continued)

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

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

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

We also considered the following definitions as set out in the glossary of PS 3250:

- An **accrued benefit asset** is the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).
- The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions. A government determines its expected future benefit as the sum of:
 - (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
 - (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

Limit on the carrying amount of an accrued benefit asset (continued)

- A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:
 - (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
 - (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
 - (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
 - (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

CONSIDERATION OF QUESTION 1

Application of PS 3250 to Joint Defined Benefit Plans

A joint defined benefit plan is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. We would note that paragraph .081 of PS 3250 clearly states that a government should account for its portion of the plan in accordance with the standards for defined benefit plans. As a result, the Province of Ontario accounts for its proportionate share of OTPP and has historically recorded its share as 50% of the plan.

The Province of Ontario's Public Accounts have included a Pension Asset related to OTPP since fiscal 2001/2002. We have been informed that this situation has arisen because, to this point in time, the government's share of the total contributions to the Plan plus the actual investment returns on the Plan's assets have exceeded the government's share of the accumulated retirement benefit expense. The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by S 3250. S 3250.51 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: "Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons."

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (3250.42) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (3250.41). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. 3250.57 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province of Ontario has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on Plan Assets, which is one of the acceptable references suggested on PS 3250.44. We express no view on the actual rates that were chosen.

Application of the limit on the carrying amount of an accrued benefit asset

PS 3250.50 requires that an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. This comparison between the adjusted benefit asset and the expected future benefit informs whether a valuation allowance is required and if so, how much of a valuation allowance should be recorded. (It should be noted that "accrued benefit asset" and "adjusted benefit asset" are defined terms used in S. 3250. As at March 31, 2016, in this particular case, management has represented to us that these two amounts are the same.)

PS 3250.52 contemplates that there are two ways in which a government can benefit from an accrued benefit asset. A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. As such, an expected future benefit would include the ability to either withdraw plan assets from the plan or reduce future contributions.

PS3250.52 also goes on to consider that an accrued benefit asset may become impaired when there is a plan surplus that the government is not entitled to benefit from fully. The paragraphs in the standard that follow determine how a government would go about considering the extent of any impairment, which would give rise to a valuation allowance. In order to make this determination, the government is required to consider the "expected future benefit", which would effectively create a ceiling for the asset. Here the guidance diverges between benefit expected to be realized through future reductions in contributions and those to be realized through withdrawal of surplus.

Specifically with respect to withdrawal of surplus, PS 3250.59 is very clear that expected future benefit can only be asserted where the government has a current legally enforceable right to withdraw assets from the Plan. We considered whether this guidance should be applied to cases where the expected future benefit related to the Pension Asset is expected to be realized through reduced contributions and concluded that the guidance does not apply in this situation; while PS 3250.59 does introduce the concept of a legally enforceable right, it does so solely in the context of a government's future withdrawal of a Plan surplus, and not in the context of a government's reduction of future contributions. We believe it reasonable to conclude that if the standard setters had intended legal enforceability to be the test, they would have included that notion throughout the guidance, instead of only raising it in the context of a withdrawal of surplus. In the situation at hand, the Province is not asserting an expected future benefit based on surplus withdrawal. Instead the Province's position is that the future benefit is expected to be realized through future contribution reductions. Therefore, we do not believe that 3250.59 applies in this case.

Additionally, in forming our view on the application of PS 3250 to Joint Defined Benefit Plans, we noted that there is specific guidance (PS 3250.81) that requires the Government to account for a portion of the Plan in accordance with the standards for defined benefit plans.

For the reasons stated above, we are of the view for Question 1, that legal enforceability of a government's right to access a pension plan surplus through future contribution reductions is not necessary to justify recognition of a Pension Asset. We believe that the guidance in PS 3250 is the primary source of GAAP on this topic and, since it is clear, there is no need to look at any other potential sources of GAAP.

CONSIDERATION OF QUESTION 2

Since we have concluded that legal enforceability is not a necessary requirement to support a government's right to access a pension plan surplus through future contribution reductions, we further considered what role legal considerations should play in the measurement of the Pension Asset. We note that PS 3250.52 requires one to consider "uncertainties as to a government's legal right to use a plan's accounting surplus." Our interpretation of this guidance is that it presents a lower threshold than legal enforceability. Specifically, the amount of Pension Asset that gets recorded needs to be subject to considerations around any legal uncertainties. This consideration will involve significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a Pension Asset.

PS 3250.53 to .58 lay out a mathematical calculation that determines the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in PS3250.055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where realization includes a reduction in future contributions. A valuation allowance is recorded against the Pension Asset to limit the asset value, if necessary, based on this analysis.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. This calculation is further described in PS 3250.56(a), which sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per PS 3250.81 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. The expected future benefit would operate as a ceiling on the Pension Asset value to be recorded in the accounts. For example, if the Pension Asset were \$150, but the expected future benefit calculated as described above were \$100, a valuation allowance of \$50 would be recorded against the Pension Asset and the asset recorded in the government's financial statements would be reduced to \$100.

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in the determination of future minimum contributions required to be made by the government regardless of any surplus. There is no further guidance in S 3250 as to how this calculation should be performed and what restrictions or parameters should be factored into this calculation.

Determining the number of years of contributions to include should involve consideration of legal uncertainty as set out in PS 3250.52. With respect to this uncertainty, we would observe that there are a number of considerations that may be relevant. As part of this analysis, we reviewed Osler's legal letter of September 20, 2016. That letter makes a number of observations about the Plan agreements and governing documents that we will not reiterate here. Osler's do note that legal enforceability does not exist. However, as noted above we do not believe that legal enforceability is required in this case.

Future reductions in contributions will need to be negotiated and agreed between both sponsors, who are required under the Plan governing documents to bargain in good faith. There are a number of factors to consider and it is possible for reasonable professionals to arrive at different conclusions, even when confronted with the same set of facts and circumstances. These considerations will be highly judgmental.

With respect to these judgments, we offer the following observations. We express no opinion on the completeness of this list of observations or the relative importance of each of these points.

- Plan documents and design contemplates the shared nature of the Plan.
- Section 10 of the Partners agreement require that the partners meet every 3 years to discuss changes to the Plan.
- As described to us by management, there was a long history of sharing surpluses through various mechanisms during the 1990's when funding surpluses were more common. The FMP also contemplates a sharing of surpluses.
- As described to us by management, in addition to the history of surplus utilization noted in the facts and assumptions, it is worth noting that the actions taken around inflation indexation and subsequent restoration of those benefits are a recent example of the sharing philosophy governing operation of the OTPP. Starting in 2011 in response to a deficit situation, it was determined that indexation would be reduced for teachers retiring after 2009. Consistent with the 50/50 approach inherent in the Plan operation, the government agreed to make payments (often referred to as "share the pain" payments) into the Plan that would effectively match the value of benefits foregone by teachers. In 2014, 2015 and 2016, surpluses were used to restore some of the lost indexation. This decision results in a decrease in the Province's "share the pain" payments.
- The FMP explicitly considers the possibility of contribution reductions at different funding levels, although both sponsors need to agree. The OTPP's investment performance has consistently outperformed expectations. If this situation continues the funding surplus can be expected to continue to grow. Modelling could be performed to help estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- We also note that Canada Revenue Agency establishes limits for pension surpluses. When these limits are breached, steps need to be taken to reduce the surplus. In such a situation, contribution reductions would be one way to reduce the surplus that would need to be negotiated by the parties within their overall framework for negotiation. Again, modelling could be done to develop expectations as to when these CRA limits could be expected to be reached.
- Contributions are generally borne equally by the Province and the teachers. It may be reasonable to presume that teachers will also want to see contribution reductions at some point. Admittedly, increases in benefits could also use any surplus; however, it may be reasonable to expect that the interests of taxpayers and teachers will need to be weighed in the "good faith" bargaining process such that unequal weighting towards increases in benefits may be unlikely.

- In determining the range of possible outcomes, it is noted that measurement uncertainty may exist (PS 2130.03). This paragraph also notes that many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. As noted in PS 2130.13, "As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements."

However, application and weighting of these and other considerations is a highly judgmental exercise and it is possible that there is a range of reasonable conclusions that may result in a range of reasonable estimates for the valuation allowance to be taken against the Pension Asset. We are unable to opine on whether a valuation allowance is needed, and if so, what a reasonable range of estimates would be.

Given the complexities and degree of judgment involved in these matters, appropriate disclosure is a matter of significance as is recognized in 3250.83 which states, in part, "*Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence*". This importance is also highlighted in the context of joint benefit plans in 3250.93 which requires that the unique nature and terms of any joint plans be disclosed.

We would also note that Deloitte prepared a report dated August 18, 2016 entitled "Asset Ceiling Calculations for the Ontario Teacher's Pension Plan" in conjunction with management that was used by management as part of their analysis to determine that no valuation allowance was required against their Pension Asset as at March 31, 2016. That report was prepared solely to assist management in preparing their own analysis. We were not engaged to and did not express an opinion on the amount of or need for any valuation allowance, nor do we express an opinion on this analysis at this point. Reference to the August 18, 2016 report in this report should in no way be construed to be an opinion on that earlier report.

The ultimate responsibility for the decision on the appropriate application of Canadian Public Sector Accounting Standards for the specific transaction described above rests with management as preparers of the financial statements, who should consult with the Auditor General of Ontario. Our judgment on the appropriate application of Canadian Public Sector Accounting Standards for the specific situation described above is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

This report is intended solely for the information and use of Ms. Karen Hughes and management of the Government of Ontario and is not intended to be and should not be used by anyone other than the above party and the Auditor General of Ontario or for any other purpose. For further clarity, this report should not be distributed to anyone outside those named in the previous sentence, nor should it be quoted from outside this group for any purpose. Please contact Kerry Danyluk, National Director of Accounting Services, regarding any questions about the content of this report (416 775-7183 or kdanyluk@deloitte.ca).

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

C1 - September 13 2016 AG Letter to DM.pdf



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

September 13, 2016

Mr. Greg Orencsak
Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet
Deputy Minister's Office
Whitney Block, Room 5320
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Mr. Scott Thompson
Deputy Minister
Ministry of Finance
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Dear Mr. Orencsak and Mr. Thompson:

**DEFINITION OF SURPLUS PENSION ASSETS AND EXPECTED FUTURE BENEFIT
AVAILABLE TO THE PROVINCE OF ONTARIO AS OF MARCH 31, 2016**

INTRODUCTORY COMMENTS

As at March 31, 2016, the Province of Ontario's ("the Province") Statement of Financial Position has included in it a Pension Asset totaling \$10.6 billion that has primarily resulted from the Province's use of different interest rate and salary escalation assumptions than those used by the Ontario Teachers' Pension Plan ("OTPP") and the Ontario Public Service Employees' Union Pension Plan ("OPSEUPP"). Contributions plus net returns within these pension plans have exceeded the accumulated pension expense, which has resulted in this asset being reported on the Provinces' statements. A key point here is that this asset is not unilaterally controlled or accessible by the Province until agreements are reached between the plans' sponsors/partners on the use of a surplus.

As a result of initiating a special project to further review the province's pension liabilities, we noted that this situation of reporting a significant Pension Asset on a provincial government's consolidated financial statements presented a significant anomaly that has required further extensive review. We identified and raised our concerns with the Provincial Controller's Office in early June of this year and received their assessment at the end of August, 2016.

From our review of information from the Provincial Controller's Office and our own work, we have reached the conclusion that the Province does not have the legally enforceable right to unilaterally access the assets of the Plans, and as such, with no agreement in place to the contrary, the Pension Asset as presented in the Province's consolidated financial statements should be removed. Particularly important in reaching this conclusion are Sections PS 3250.052 and PS3550.056 of the Public Sector Accounting Standards (see Appendix A). The overall adjustment would entail an increase in the pension liability (i.e. decrease of the Pension Asset) of \$10.6 billion, an increase to the opening accumulated deficit of \$9.2 billion, with an in year increase to pension expense of \$1.4 billion. As well, full note disclosure will be required in accordance with PS2120.34.

Regarding the province's legal opinion received on September 11, 2016, that cited *Schmidt v. Air Products Canada Ltd.*¹ and *Nolan v. Kerry (Canada) Inc.*², we note that PS3250.059 specifically excludes any expected future benefits in valuing a pension asset that would require the approval of employees, or an appropriate regulatory body or a court of law.

¹ *Schmidt v. Air Products Canada Ltd.*, [1994] 2 S.C.R. 611 at p. 638

² *Nolan v. Kerry (Canada) Inc.*, [2009] 2 SCR 678 at para 68.

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As well, we have reviewed and fully considered the two slides emailed last night. After further analysis and discussion, we are of the view that assessing the value based on funding would not be appropriate given that our audit focus is on the accounting for pensions versus the funding of pensions. A key point further discussed below, is the requirement for the Province to have an agreement in place at each year end with the plans' sponsor/partners that would inform the valuation of the Pension Asset.

REVIEW

We reviewed various agreements, statutes and financial reporting standards concerning the Province's arrangements with the Ontario Teacher's Federation ("OTF") and Ontario Public Service Employees' Union ("OPSEU") to provide pension benefits to employees of the OTF and OPSEU in the form of the OTTP and the OPSEUPP.

Our review was performed with the following objectives:

1. Determine the definition of "surplus" as outlined in the relevant agreements, statutes, and standards.
2. Determine whether the Province has a legally enforceable right to withdraw assets from a plan for other uses (see PS 3250.059).
3. Determine whether any of the Province's legal rights to surplus withdrawal are subject to restrictions in the form of approvals contemplated under PS 3250.059.
4. Determine whether the Province has a legally enforceable right to reduce its future "minimum contributions regardless of any surplus" (see PS 3250.056).
5. Determine whether the Province's legal rights to future reductions in minimum contribution are subject to restrictions in the form of approvals described under PS 3250.059.
6. Identify any legal rights the Province has to take unilateral actions that would affect overall Plan funding immediately or into the future, especially in a surplus position.
7. Identify any legal rights the co-sponsors have to take unilateral actions that would affect overall Plan funding immediately or into the future, especially in a surplus position.

Documents Reviewed

We reviewed the following documents:

1. The Pension Benefits Act, R.S.O 1990 including relevant regulations;
2. Plan text of the Ontario Public Service Employees' Union Pension Plan, as amended from time to time;
3. Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund;
4. Funding Policy of OPTrust;
5. Teachers' Pension Act, R.S.O 1990;
6. Funding Management Policy of the OTTP; and
7. Section PS 3250, *Retirement Benefits*, within Canadian Public Sector Accounting Standards ("PSAS").

We have included paragraphs 50 to 59 of PS250, which deal with the limit on the carrying amount of an accrued benefit asset, as Appendix A.

Discussion and Analysis

1. Determine the definition of "surplus" as outlined in the relevant agreements, statutes, and standards.

Before exploring the definition of surplus in the context of the arrangements with OTTP and OPSEUPP, the source and definition of a surplus from an actuarial funding and an accounting perspective should be defined.

In terms of the actuarial definition of surplus, this is defined by the Canadian Institute of Actuaries (“CIA”) based on accepted actuarial practice. The definition is further sub-divided depending on the nature of the valuation provided by the actuary, such as a funding, solvency, wind-up or accounting valuation.

Section 3000, *Pension Plans*, in the Standards of Practice issued by the CIA outlines accepted actuarial practice with regards to pension plans, but it does not include “surplus” in its glossary of defined terms in the accompanying Section 1000, *General Standards, Definitions* (sub-section 1110). Section 1110 states that terms not otherwise defined have their “ordinary meaning otherwise (e.g. external user)”. Merriam-Webster defines a surplus as “An amount (such as an amount of money) that is more than the amount that is needed.”

Therefore, in the context of the relevant pension standards, surplus could be interpreted to mean the amount by which assets of the plan exceed liabilities, both otherwise calculated based on the prescribed standards in Section 3000.

The accounting definition of a surplus is driven by Section PS 3250, *Retirement Benefits*. Section PS 3250 does not include “surplus” in its glossary of defined terms, however, the term is used frequently in the standard. In particular, Appendix A notes the following relationship between the accrued benefit asset recognized in the statement of financial position and the plan surplus:

$$\text{Accrued benefit asset} = \text{plan surplus} + \text{net unamortized losses}$$

Modifying the formula renders the definition of the plan surplus in the context of Section PS 3250 as being:

$$\text{Plan surplus} = \text{accrued benefit asset} - \text{net unamortized losses}$$

Therefore, in the context of PSAS, “surplus” refers to the excess of plan assets over liabilities, without the effects of unamortized actuarial gains or losses.

Paragraphs PS 3250.022-.032 then specify that the method used to determine the value of plan assets and plan liabilities should be in accordance with certain actuarial methods, namely the projected benefit method. This method is not only specifically named in Section 3000 of the CIA’s Standards of Practice, it is also broadly accepted that this method as outlined in Section PS 3250 is an acceptable method per Section 3000’s definition of “actuarial cost methods” (3000.15):

Actuarial cost methods include:

- Cost allocation methods, which allocate the actuarial present value of projected benefits among time periods, including attained age actuarial cost methods, entry age actuarial cost methods, aggregate actuarial cost methods, and individual level premium actuarial cost methods.

OTPP

The Teachers’ Pension Act does not include “surplus” in Section 1 “Definitions”, however, paragraph (2) states:

Expressions in this Act have the same meaning as under the Pension Benefits Act unless the context requires otherwise. 1998, c. 34, s. 98 (2).

Therefore, we referred to the definition of surplus in the Pension Benefits Act:

“Surplus” means the excess of the value of the assets of a pension fund related to a pension plan over the value of the liabilities under the pension plan, both calculated in the prescribed manner.

Regulation 909 to the Pension Benefits Act, 16.(1)(4.1) defines the methods under which actuarial reports complying with the Pension Benefits Act are prepared:

A person preparing a report under subsection (1) or (2) shall use actuarial cost methods and assumptions,
(a) that include a benefit allocation method or a cost allocation method; and
(b) that are consistent with section 3000 of the Canadian Institute of Actuaries Standards of Practice, available to the public from the Canadian Institute of Actuaries at Suite 800, 150 Metcalfe Street, Ottawa, Ontario K2P 1P1 or electronically on its website. O. Reg. 116/09, s. 2.

Therefore, the definition of surplus in the context of the OTPP should be interpreted in accordance with actuarial standards established by the CIA in the preparation of actuarial reports applicable in each relevant context (e.g. for funding, solvency, wind-up or accounting purposes). This definition is therefore consistent with both the actuarial funding and accounting definitions.

OPSEUPP

The OPSEUPP plan text and supporting documents do not define “surplus” as clearly as OTPP, however, Section 6.2 of the Plan Text states:

Subject to Section 18 of the OPSEU Pension Act regarding the application of actuarial gains and losses, from April 1, 1997 forward, the Plan shall be funded in accordance with the Pension Benefits Act, the Income Tax Act (Canada) and such other legislation as may be applicable to the Plan from time to time.

Therefore, the OPSEU plan text states that the plan is to be funded based on the requirements of the Pension Benefits Act, subject to the requirements of other legislation regarding specific actuarial gains and losses. As such, the definition of surplus in the OPSEUPP is similar to that of OTPP in that it is to be based on the definition as prescribed in the Pension Benefits Act, which defines surplus in the context of that which is calculated in accordance with standards accepted by the CIA. This definition is therefore consistent with both the actuarial funding and accounting definitions.

2. Determine whether the Province has a legally enforceable right to withdraw assets from a plan for other uses (see PS 3250.059).

PS 3250.059 states:

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

surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Therefore, the Province's ability to withdraw assets from a plan in the context of PSAS is dependent on that right being currently enforceable, with no law, agreement or regulatory approval presently preventing the withdrawal from occurring, regardless of past precedent.

OTPP

We reviewed the Teacher's Pension Act and noted that it does not specify the methodology for a potential withdrawal of surplus funds. Section 10(1), item 3 states:

10(1) The Minister of Education and the executive of The Ontario Teachers' Federation may enter into an agreement that provides for the following matters:

3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Therefore, the conditions under which a surplus may be withdrawn from the fund is outlined outside of the text of the Teacher's Pension Act itself, as OTF and the Province have reached mutual agreement on these terms in the form of the OTPP Funding Management Policy, as envisioned in Section 10(1).3 above.

Section 4.06 of the OTPP Funding Management Policy states:

Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

4.04(d) and 4.04(e) refer to actions that may be taken in the event that "...assets exceed current liabilities" (Section 4.04), meaning a surplus.

As Section 4.06 stipulates, a written agreement must be established between the partners (the Province and the OTF) to provide a surplus distribution, the Province does not have a legally enforceable right to withdraw assets from the plan until such an agreement is reached.

Therefore, the consent of the OTF would need to be obtained to be able to access surplus assets in the OTPP, therefore the Province's rights to surplus assets is contingent on such approval.

OPSEUPP

Section 6.4 of the plan text states:

No surplus shall be paid out of the Fund to any employer.

As the Province is an employer in the context of the plan text (Article 2, Definitions), the Province does not have the legally enforceable right to withdraw assets under the current provisions of the plan text as it is specifically prohibited.

3. Determine whether any of the Province's legal rights to surplus withdrawal are subject to restrictions in the form of approvals contemplated under PS 3250.059.

OTPP

Per the discussion in the previous section, the Province's ability to withdraw surplus assets is contingent on an agreement being reached with the OTF.

OPSEUPP

Per the discussion in the previous section, the Province is specifically prohibited from withdrawing surplus assets in the plan text. An amendment to the text would need to be made to nullify this provision, which would require the consent of the counterparty to the agreement. Article 18.1(1) of the plan text states:

The plan shall be amended only by agreement in writing between the sponsors.

The plan text defines "sponsors" as:

The Crown and OPSEU, and the singular refers to either.

Therefore, an amendment to the plan text removing the restriction on surpluses being distributed to the Province would require the consent of OPSEU.

4. Determine whether the Province has a legally enforceable right to reduce its future "minimum contributions regardless of any surplus" (see PS 3250.056).

In both the case of OTPP and OPSEUPP, the Province's contributions to the plan are based on the contributions made by the members of the plan, as the Province matches these contributions on a 1:1 basis. The portion of members' salaries that are contributed to the relevant plan is modified from time to time based on the management of the plan and/or modifications to legislation. As the Province's contribution to the plan is linked to employees' contributions, the ability of the Province to reduce its minimum contributions would be dependent on the utilization of surplus assets.

In addition to the guidance provided in Section 3250.056, we also note that paragraph .052 states:

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

This paragraph notes that an accrued benefit asset may be impaired if a government "is not entitled to benefit fully" and furthermore states that uncertainties relating to a government's legal rights to use a plan's surplus would also draw the valuation of an accrued benefit asset into question. As such, the Province's present legal rights to utilize a surplus to reduce future contributions must be analyzed, not those rights that are contingent on future events.

OTPP

Similar to the discussion in section 2 above, the Teacher's Pension Act itself does not specify conditions that may result in a reduction in contributions. Section 10(1) prevails in leaving the OTF and the Province to mutually agree to matters such as these. Therefore, we reviewed the Funding Management Policy, which has been mutually agreed to by the OTF and the Province.

Section 3.04 – 3.06 of the Funding Management Policy outlines the actions that may be taken in the case of a surplus, which is defined by the condition in Section 3.04(a) and 3.05(a):

If assets are greater than current liabilities.

Section 3.06 then stipulates an ordering of actions that may be taken in this situation, including the restoration of previously curtailed benefits, the enhancement of existing benefits and the potential for a reduction in contribution rates. A limiting condition on the exercising of any of these options is described in Section 3.06:

For purposes of clarity, excesses identified pursuant to Section 3.05 shall be applied in the following order, provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors.

This stipulation has the effect that partners have the ability to reconsider these uses of a surplus before any action is taken. Additionally, Section 3.06(e), the final option in the descending ordering of options states:

Provide Benefit Increases or Contribution Rate Reductions to provide the following:

- (i) An increase in benefits, where the present value of current benefits is less than the present value of run-rate benefits;
- (ii) A reduction in contribution rates, where the present value of current contributions exceeds the present value of basic contributions; or
- (iii) A combination of (i) and (ii).

Given that a possible reduction in contributions (item (ii)) is only one possibility in 3.06(e), the sponsors of the OTPP would need to decide on the course of action to take. The Province does not have a present legally enforceable right to reduce its future minimum contributions per 3.06(e)(ii) until OTF and the Province agree on the course of action to be taken with respect to a surplus position in the plan.

OPSEUPP

We reviewed the Agreement and Declaration of Trust of OPSEU Pension Plan Trust Fund (“the Agreement”), which identifies how policies and decisions of OPSEUPP are to be made. Section 5.01 outlines that OPSEUPP “shall be administered by a joint Board of Trustees having ten members”.

Section 5.02 states that five trustees each shall be selected by the Province and OPSEU. The governing text providing policies and procedures concerning the management of OPSEUPP is then specified in the Funding Policy of OPTrust, which is agreed to by the board of trustees of OPSEUPP. As the plan text of OPSEUPP and the Agreement do not specify conditions for the utilization of the surplus, we then reviewed the Funding Management Policy of OPTrust.

Section 5.1 of the Funding Policy of OPTrust outlines a number of options that may be chosen in the event of a surplus, including the payment of unfunded liabilities, restoring past benefits, creating stabilization reserves, temporary contribution reductions, etc. However, the same section begins by stating:

OPTrust recognizes that decisions on the use of surplus are reserved to the Sponsors.

Section 1.1 of the Funding Policy states that Sponsors are the Province of Ontario and OPSEU. Decisions concerning the use of a surplus is contingent on the agreement of both sponsors, therefore, the Province cannot use the surplus to reduce its future minimum contributions without the consent of OPSEU.

5. Determine whether the Province's legal rights to future reductions in minimum contribution are subject to restrictions in the form of approvals described under PS 3250.059.

OTPP

Per the discussion in the previous section, the Province's legal rights to future reductions in minimum contributions are dependent on the consent of OTF.

OPSEUPP

Per the discussion in the previous section, the Province's legal rights to future reductions in minimum contributions are dependent on the consent of OPSEU.

6. Identify any legal rights the Province has to take unilateral actions that would affect overall Plan funding immediately or into the future, especially in a surplus position.

OTPP

Unilateral actions would be those that the Province could take without the consent of the OTF, the other sponsors of the plan. The Province does not have unilateral rights to affect plan funding.

As noted earlier, the Province's contributions are linked to those made by the members of the plan on a 1:1 ratio, as set out in the plan text. Modifications to regular contribution rates or those arising from the utilization of surplus assets require the consent of the OTF, as outlined in section 4. The Province would need to obtain the consent of the OTF to modify its contributions to the plan.

OPSEUPP

The Province is similarly limited in terms of unilateral action as they are with the OTPP. Modifications to contribution levels are contingent on the approval of OPSEU, both in terms of regular contributions and those that would be reduced by the utilization of plan surpluses. Therefore, the Province does not presently have the ability to take unilateral action that may affect plan funding.

7. Identify any legal rights the co-sponsors have to take unilateral actions that would affect overall Plan funding immediately or into the future, especially in a surplus position.

OTPP

The co-sponsor of the OTPP is OTF, and they face similar constraints as the Province. Actions that may affect plan funding, including the modification of contribution rates and the utilization of surpluses are contingent on the consent of the Province, as discussed in section 4. As such, OTF does not have the ability to take unilateral action at this time that would affect plan funding.

OPSEUPP

The co-sponsor of OPSEUPP is OPSEU, and they are similarly limited as OTF in terms of being able to take unilateral action to affect plan funding. Such changes require the consent of the Province.

CONCLUSION

As outlined in the discussion above, as at March 31, 2016 the Province did not have an enforceable right to the future expected benefits associated with plan surpluses in OTPP and OPSEUPP. Section PS 3250 requires these rights to be enforceable as at the balance sheet date, and since the use of any surplus to the benefit of the Province in the plan is either entirely prohibited or subject to the approval of OTF or OPSEU, this condition is not met. To reflect an accrued benefit asset, the Province would have to demonstrate that it has the consent of the relevant parties as of the balance sheet date, in line with the stipulations as provided in the relevant documents as to the manner in which a surplus can be utilized.

The receipt of consent from co-sponsors to utilize surplus assets in a way that may benefit the Province would need to be obtained in a legally enforceable way (e.g. contract, legislation, etc. as applicable) as at the balance sheet date to reflect the benefit of the surplus. Obtaining the right to access economic benefit in the form of accrued benefit asset would only be reflected in the financial statements of the Province in the period such right is obtained.

Sincerely,



Bonnie Lysyk
Auditor General

- c. Ms. Cindy Veinot, Assistant Deputy Minister & Provincial Controller
Ms. Nadine Petsche, Director, Accounting Policy and Financial Reporting Branch

Appendix A

Excerpts from PS 3250, *Retirement Benefits*

Limit on the carrying amount of an accrued benefit asset

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]

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

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

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

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

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

.056 A government determines its expected future benefit as the sum of:

- (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

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

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

C3 - September 26 2016 AG Letter to DM.pdf



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

September 26, 2016

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Dear Mr. Orencsak and Mr. Thompson:

Re: Finalizing 2015-2016 Public Accounts and the Pension Asset Issue

Thank you for your letter received yesterday afternoon. I too am glad that the other issues raised during this year's audit have been addressed and I value the effective working relationship my staff and yours have had in past years. It is unfortunate that the subject issue is outstanding so near to the statutory deadline for the tabling of the Public Accounts. Our concern regarding the pension asset was raised in June of this year after I requested my audit team to perform further work on pensions as part of the Public Accounts audit and in relation to a special section we were planning to dedicate to pensions in Chapter 2 of this year's Annual Report.

I was informed a few weeks ago that Deloitte LLP ("Deloitte"), the firm at which the new Provincial Controller was formerly a partner, was providing advice to the Ontario Provincial Controller's Division (OPCD). Reference to their opinion was made in the province's legal letter dated September 11, 2016 that we received earlier this month. It states: "*The Deloitte Report sets out an accounting analysis supporting the recognition of the surplus as an asset for the purposes of reporting the Province's financial position, as assessed in accordance with Public Sector Accounting Standards..... While the Deloitte analysis speaks to Ontario benefitting from surplus withdrawal, the Office of the Provincial Controller Division (OPCD) in Treasury Board Secretariat has advised that the analysis under Public Sector Accounting Standards completed by Deloitte demonstrates that no surplus withdrawal is necessary to support the asset recorded in Ontario's Public Accounts*". Given that OPCD was representing that they had a strong accounting position supported by Deloitte at that point in time, we were definitely interested in obtaining a copy to understand the basis of OPCD's position on the Pension Asset. At your request, we met with five representatives from Deloitte at your Office in the Whitney Block on September 14, 2016. I was under the impression at that time that Deloitte was already under contract to provide an accounting opinion to OPCD and requested to obtain a copy.

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Our expectation was, because you believed that Deloitte's opinion was strong, that Deloitte would confirm that as at March 31, 2016, the province's recorded pension asset of \$10.6 billion is an asset and one that is properly valued and therefore recognized in accordance with all sections of PS3250 – Retirement Benefits, PS3210 – Assets and PS3320 – Contingent Assets.

This is the same level of assurance that I must provide to the readers of the Province's consolidated financial statements when I sign an unqualified audit opinion of the Province's Consolidated Financial Statements. To date no such opinion has been received by my Office to review and assess. Anything less from Deloitte LLP would be a clear indication that they are not fully convinced that the Province's accounting position for the Pension Asset is defensible in accordance with all sections of PS3250, PS3210 and PS3320.

I was definitely surprised when on September 19, 2016 I received an email of a "Statement of Facts" from a Senior Manager of Deloitte requesting that we confirm whether the facts provided to them by the OPCD were accurate. Given that they were hired by OPCD, it seemed unusual, but we provided feedback on September 20, 2016. It was not until a meeting on September 21, 2016 with the Controller and a Partner and Senior Manager from Deloitte that I learned that Deloitte had been engaged on September 19, 2016 to conduct a Section 7600 review. At that point, I requested copies of their engagement letters to understand what they would be doing so that we would know how to respond to their more formal request for confirmation on facts in an amended document. On Friday, September 23, 2016 we received the last of copies of their engagement agreements. On Sunday morning, September 25, 2016, I provided additional email feedback to the Partner at Deloitte on an email received around 11:00 pm on September 21, 2016 and an updated Statement of Facts received on September 23, 2016. Our feedback indicated that their facts were not complete and I suggested they consider a few additional points. The documents we obtained also confirmed that the OPCD has also retained PricewaterhouseCoopers LLP ("PwC") to potentially provide an opinion. I have not yet been contacted by PwC.

As you've indicated, both my team and I have had several discussions with you and the OPCD, particularly the Controller and her Director on this matter. For further clarity, I will outline several other items (previously verbally communicated) that must be taken into account when reaching a conclusion on the accounting issue at hand. Our position is not based solely on the points you note in your letter.

We note that the OPCD position outlined in your letter of September 25th is based on the following assumptions:

OPCD Position	OAG Response	OAG Reason
The decrease in the amount of future contributions, pertaining to “share the pain” payments, in the amount of \$7.8 billion (\$4.3B in 2016, \$1.9B in 2016, and \$1.6B in 2014) supports the currently recorded value of the pension asset.	Disagree	Although the elimination of the “share the pain” payments are reductions from a funding perspective, their discontinuance does not have a material impact on the discussion of the value of the pension asset on an accounting basis.
That PS3250.052 does not require that there be no uncertainty in order to recognize an asset.	Disagree	PS3320.03 notes that contingent assets arise from conditions or situations involving uncertainty. Even where a future event is likely, a contingent asset would not be recorded in the financial statements, but rather only disclosed in the notes.
That PS3250.59 does not apply because it only applies to a discussion of withdrawals.	Disagree	PS3250.59 does apply. Once the adjusted benefit asset is calculated as per PS3250, PS3250.59 must be considered in assessing the government’s control of a joint pension plan’s assets and the ability the government would have to withdraw assets from the joint pension plan tests whether it has that control. Control is necessary to meet the definition of an asset. Further, PS3250.059 informs PS3250.052 as the latter triggers the need to consider an impairment when uncertainties exist surrounding the Province’s legal right to use a plan’s accounting surplus.
...so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole.	Disagree	The certainty issue in PS3250 relates to recognition of an asset, not pension accounting as a whole.
That the word “expected” in expected future benefit does not equate to certainty.	Disagree	The word expected equates to the absence of uncertainty in recognizing a pension asset under PS3250.

Unfortunately we continue to disagree that these points support maintaining the Pension Asset on the province's consolidated financial statements. Note disclosure of the Pension Asset would be appropriate. It is important to note that in accounting, "expectations" do not lead to the booking of assets in financial statements. If this were the case, we would record revenue receivable this year from cap and trade because the government expects to raise revenue from this in the future.

The following provides additional commentary on why we believe that the Pension Asset should be removed from the balance sheet.

A. Conceptual Framework – Clear Presentation of Annual Pension Expense – Reflect an Asset on the Balance Sheet Only When There is Actual Control Over That Asset

1. As per PS3250.005 "The standards in this Section are based on the accounting framework recommended in PS1100 and PS1201. That framework emphasizes the need to account for all liabilities incurred by a government to help legislators, taxpayers, investors and other users of financial statements assess: a government's future cash requirements from taxes and other revenues..." It is important to consider that Section PS3250 Retirement Benefits simply applies the definition of an asset, liability, revenue and expense to retirement benefits. A key consideration is that the public sector entity controls the economic resource and access to the future economic benefits and that the transaction or event giving rise to the public sector entity's control has already occurred. An entity that controls an economic resource has the ability to deny or regulate access to the future economic benefits by others. In the case of Ontario Teachers' Pension Plan ("OTPP" or the "PLAN"), the economic resources are jointly controlled by the Government and the OTF. The economic benefits are to flow to the beneficiaries. This reality can only change if specific agreements (in addition to the Partners' Agreement and the Funding Management Policy) enable government to access those economic resources. As well, a further requirement is that approval from the Financial Services Commission of Ontario is needed for any PLAN impact/changes that could, if approved, lead to the government obtaining an asset. Applying this understanding leads to a clear presentation of the government's annual pension expense.

B. Annual Evaluation of a Pension Asset (If there is unilateral legal control, there is an Asset; if not there is an Annual Pension Expense impact from minimum and other contributions)

2. It is important to consider all of PS3250 –Retirement Benefits, PS1000 – Financial Statement Concepts, and PS3210 – Assets when evaluating whether the Province has a pension asset on its financial statements that is correctly valued. An opinion on whether there is a supportable Pension Asset should not be based only on actuarial calculations for the purpose of Section PS3250.056(a). All sections should be considered. The need for a valuation allowance must be considered.

- a. PS3250.055 states the objective of PS3250.050 (An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance) is to limit a government's accrued benefit asset to the amount it can realize in the future (versus "may" access or "expects" to access in the future).
- b. The actuarial calculations performed by Deloitte contain assumptions that are subject to judgment with respect to the years of future contributions payable. The assumptions used under three views were that contributions would cease immediately, in two years and in eleven years. Given that government pension plans have and will continue to exist for many years, this short-term view is likely not appropriate. When contributions extend to 50 years, the calculation of expected future benefit under PS3250.056(a) is reduced significantly. Having said this, a valuation allowance is still required to be considered separate from the calculation performed under PS3250.056(a) to support an opinion that the Province's Pension Asset is properly recorded (recognized) in accordance with Public Sector Accounting Standards (i.e. meets PS3250 as a whole, meets the definition of an asset under PS1000 – Financial Statement Concepts, and also meets the test of PS3210 – Assets).
- c. Under PS3250.54 when the adjusted benefit asset is larger than the expected future benefit, the pension asset is considered impaired and a valuation allowance is required. An actuarial calculation is the first step in this process to ensure the Pension Asset is below a ceiling. However once this figure is calculated, Section PS3250.059 must be considered in assessing the government's control and access over the PLAN asset and the ability the government would have to withdraw assets from the PLAN tests whether it has that control. The expected future benefit would include amounts to which a government has a legally enforceable right of withdrawal. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. As such, because there are no agreements in place supporting any form of surplus reduction, the accrued benefit asset has uncertainty that it can be realized and its value at this point in time is zero. However, when the Province obtains the proper approval, the valuation allowance would be adjusted and a pension asset would result from the respective value associated with withdrawal, contribution holidays or the receipt of a refund of contributions.

- d. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and when required, approved by the appropriate regulatory authorities.
- e. The view being suggested by OPCD would avoid transparent reflection of the impact of annual cash contributions on pension expense in the government's annual financial statements, which is not the intent of PS3250.

C. Additional Support for Why a Valuation Allowance is Applicable

- 3. The definition of a plan asset is set out in the Glossary to PS3250. A plan asset is an asset segregated and restricted in a trust or other legal entity separate from the government to provide for retirement benefits under the following conditions:
 - a. The assets in the separate entity are to be used only to settle the related accrued benefit obligation, are not available to the government's own creditors, and either cannot be returned to the government or can be returned to the government if the remaining assets of the trust are sufficient to meet the plan's obligations; and
 - b. To the extent that sufficient assets are in the entity, the government will have no obligation to pay the related retirement benefits directly.
- 4. A plan asset, for the purposes of the plan itself and for accounting purposes must meet the definition of an asset. As well, a plan asset must also be set aside in a separate entity (i.e. a trust), at which point the government loses control over those assets.
- 5. It is useful to note that (a) above is in place to prevent a government from simply allocating assets within its own entity to its pension liability that are not segregated or restricted. Thus the need for having a trust or separate entity to meet the requirement that the assets are not available to the government's general creditors. In other words, the government must have given control over the economic benefits inherent in the assets to another entity. An entity could include the pension plan, trust or other entity appointed to administer the asset. This is important because this definition causes the government to give up control of an asset. If the government still maintains control over the asset, it would be available to the government's own creditors.

D. Important to Distinguish between Funding Surplus/Deficit and Accounting Surplus/Deficit and Control over PLAN assets

- 6. It is important to distinguish between a funding surplus/deficit and an accounting surplus/deficit when assessing this issue. The subject we are dealing with is "an accounting surplus". The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. The accounting objective is

to measure and report the obligation for the benefit plan and to attribute the costs of those benefits to the periods in which related services are rendered.

7. It is equally important to recognize that the Teachers' Pension PLAN reflects a pension liability on its financial statements in contrast to a pension asset (a.k.a. accounting surplus) on the Government's financial statements both for accounting purposes.
8. The Board of the Ontario Teachers' Pension Plan acts as trustee when it administers the trust on behalf of the beneficiaries specified in the agreement or statute. As trustee, it administers the assets of the PLAN, following the terms and conditions set out in the relevant agreements. The Board does not control the assets of the PLAN because it does not have access to the future economic benefits. As well, neither of the joint sponsors (OTF and the government) unilaterally control the assets or have legal access to the future economic benefits. Those benefits of those PLAN assets flow to the beneficiaries. It isn't until there is a clear negotiated agreement between the joint sponsors, and the approval of the Superintendent of the Financial Services Commission of Ontario that legal access and control of assets can be provided to the government.
9. The Ontario Teachers' Pension Plan is responsible for reflecting the financial results and assets of the Pension Plan. The Government is a sponsor to the plan and therefore would pay its required contributions, record its annual pension expense and recognize its pension liability.

E. Impact of Restoration Related to "Share the Pain" on the Accounting Surplus

10. The suggestion that the \$4.3 billion, \$1.85 billion and the \$1.95 billion are relevant, in a material way, to support a Pension Asset on the government's consolidated financial statements is not the case. These are funding impacts and not accounting determined figures. The Government has only contributed approximately \$3.2 million as part of the "Share the Pain" issue. The values noted above, totaling \$8.1 billion assume a funding benefit resulting from the Government discontinuing these additional payments in the future. As well, the payments were to be a short term measure. Because the liability for pension accounting is only affected by obligations to pensioners versus a change in additional short-term payments, the \$8.1 billion is not relevant as a means of justifying the \$10.1 billion Pension Asset related to the Teachers' Pension Plan on the province's financial statements. The impact of discontinuing the payment of the "Share the Pain" amounts does not provide a significant material benefit to the province from an accounting perspective. The "Share the Pain" is a start and stop payment that does not affect minimum contributions. This is immaterial to the discussion of the value of the Pension Asset on an accounting basis. This could potentially support the booking of a Pension Asset for at most \$10,000,000 based on information known to date.

The Government is ending a short-term additional payment commitment. There is no significant recovery to be recognized in accounting from ending this commitment.

11. Government payments to OTPP currently include a 1.1% special contribution, in addition to the minimum contribution, until 2026. Any changes, including the reduction or elimination of these special contributions, are subject to negotiation and agreement between the joint sponsors. If agreement were reached to cease this special payment, it would end a temporary additional payment commitment.

F. Public Expectation of the Province Unilaterally Controlling/Accessing PLAN Assets

12. As at March 31, 2016, there was, and there continues to be no formal determination of what amount of the asset the Province can remove from the PLAN (i.e. 20%, 50%, 70%). In fact, there is no public expectation that the government can access existing assets of the Plan because all access has to be jointly negotiated with the OTF and approved by the Financial Services Commission of Ontario, which is publicly communicated to be an independent regulator. A belief of a government that there may be, someday an action enabling it to access assets of a pension surplus, does not address the reality of the situation. As at March 31, 2016, there was no strong belief with the Financial Services Commission of Ontario, the members of the Legislative Assembly, the taxpayers of Ontario, the Ontario Teachers' Federation or the teachers themselves that the Government was able to use the assets of the PLAN for reducing contributions, taking contribution holidays or withdrawing surpluses.
13. A government can only report an asset when the PLAN (Teachers) has a surplus based on the accounting requirements and not the funding requirements and there are existing authorities in place at the time of reporting that give the government a legally enforceable right to access those assets. PS3250.052 is very important "A government may benefit from an accrued asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a PLAN surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be ...uncertainties as to a government's legal right to use a plan's accounting surplus." It is the occurrence of a past transaction or event on or before the financial statement date that distinguishes a present economic resource controlled by a public sector entity from an economic resource that may be controlled by a public sector entity in the future.
14. In the case at hand, there is no existing law, by-law or policy in relation to OTPP that gives rise to control of an economic resource. Control does not exist until an underlying event occurs (e.g. the government and the OTF reach a specific agreement and it is agreed to by the Superintendent of the Financial Services

Commission of Ontario if PLAN assets are impacted, or if new legislation is passed). Uncertainties exist regarding access and the extent of access to PLAN assets until proper process is followed.

15. Unless there is a specific agreement indicating a distribution of any surplus, in any form, a valuation allowance should be reported by the Province, bringing any reported asset value to zero or other appropriate value (e.g., if the Plan had net unamortized losses, which is not the case).
16. The government's expectation that it may reduce its future contributions (special or minimum) through future negotiations can be examined against the concepts in PS3320 – Contingent Assets. PS3320.03 notes that contingent assets arise from conditions or situations involving uncertainty. Even where a future event is likely, a contingent asset would not be recorded in the financial statements, but rather only disclosed in the notes.

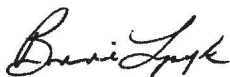
G. Results of Jurisdictional Review

17. Based on our review, few senior governments sponsor joint defined benefit pension plans that are in an accounting surplus position. We noted British Columbia's 2015 Summary Financial statements discussed their pension asset accounting treatment by disclosing: "The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time such a decision is made." Similar accounting was used in British Columbia's March 31, 2016 Summary Financial Statements.

Our opinion on this issue was informed through research and external consultations. I am confident that a correction of an error is the appropriate accounting treatment required and that a Pension Asset should not be reflected in the province's consolidated financial statements for the year ended March 31, 2016. The suggestion that this is solely a measurement issue is incorrect. It is primarily an asset recognition issue where the asset would be adjusted to an amount that would meet the definition of an asset. In the case of the \$10.6 billion recorded pension asset at March 31, 2016, this would be an adjustment to nil.

I look forward to our further discussion on this issue later today.

Sincerely,



Bonnie Lysyk
Auditor General

c. Ms. Cindy Veinot, Assistant Deputy Minister & Provincial Controller

C4 - October 3 2016 DM Letter to AG.pdf

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Ms. Bonnie Lysyk
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October 3, 2016

Dear Ms. Lysyk:

Bonnie

Re: Finalizing 2015-16 Public Accounts

We would like to thank you for meeting with us last week and for the various conversations and email exchanges since that meeting as we work to finalize the 2015-16 Public Accounts. We appreciate the work of you and your staff to finalize the audit work on the Public Accounts, save for the issue discussed below.

As discussed at our in person meeting last week, we appreciate your interpretation of Public Sector Accounting Standards (PSAS) as it relates to the application of the standards to pension asset recognition for jointly sponsored pension plans. Unfortunately, we are not in agreement with that interpretation. As you are aware, the Province has applied consistent accounting treatment for these plans for the past 14 years and has consistently received unqualified audit opinions, without exception.

Based on our respective positions at this time, we believe that this particularly complex accounting matter would benefit from additional discussions, information and consideration prior to making an accounting change. However, we also need to balance the time needed to further consider the issue with the need for timely tabling of the Public Accounts to ensure transparency about the Province's financial position.

The President of the Treasury Board has notified the Legislature last week that there will be a delay in tabling Public Accounts with the Lieutenant-Governor-in Council past the September 27, 2016 deadline. A lengthy delay in tabling the Public Accounts is not in the public interest. The Province believes that it is imperative for the Public Accounts to be tabled as soon as possible this week.

To that end, the government has decided to use legislated accounting for the pension assets related to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Pension Plan (OPSEUPP) for the 2015-16 Public Accounts. As we discussed at length at our meeting on September 27, and in subsequent conversations, the legislated accounting would result in the same valuation of the pension assets that you deem appropriate, and thus lead to the same fiscal results that you consider accurate for 2015-16.

We appreciate you proposing legislated accounting as a solution in our discussions with you during the evening of September 27th.

We have shared the regulation with you on September 28 that provides for the legislative accounting treatment. The regulation enables the public service to take responsibility for the preparation of the Public Accounts in accordance with both legislation and PSAS. In addition and as noted earlier, the resulting fiscal results are consistent with your interpretation of PSAS, thereby eliminating any confusion for the public with respect to the results for the year.

On September 29, 2016, we provided your office with the following documents:

- Consolidated Financial Statements;
- Financial Statement Discussion & Analysis and the remainder of the Annual Report; and
- Management letter of representation as agreed to in our telephone discussion with you on September 28, 2016.

Based on subsequent discussions with you and as well as email exchanges, we understand that you are of the view that the Consolidated Financial Statements and the balance of the Annual Report should not make reference to the use of legislation to explain the change in the accounting for pension assets related to the jointly sponsored pension plans. As you are aware, the use of legislation enables the public service to take responsibility for the preparation of the Public Accounts as being in accordance with legislation and PSAS, and, therefore, we believe it would be disingenuous to not disclose to the users the reason for the legislation. We have also communicated to you that the Province intends to continue to review the accounting treatment of pension assets related to jointly sponsored pension plans in the future. As you also know, the Public Sector Accounting Board (PSAB) has also formed a task force as part of its review of the retirement and post-employment benefits. Two of our advisors are

members of that task force and we will work with PSAB to encourage additional clarity with respect to the intersection of the accounting for jointly sponsored pension plans and the application of the asset ceiling test.

As discussed in our conversation on September 30, the government has not referred to legislated accounting in the past because there was no difference between the legislation and the public service's interpretation of PSAB, however, this situation is different. The Province does not agree with your proposal to restate the prior year and treat that adjustment as the correction of an error, and in addition this would not be consistent with the regulation, which you have seen.

We understand from our recent discussions that you may decide not to issue an opinion on the Consolidated Financial Statements. We believe that together, we have a legislated responsibility to table Public Accounts, including an audit opinion on the consolidated financial statements, within the deadline imposed by legislation. We noted that you referenced professional standards as preventing you from issuing an opinion as a result of the use of legislation. In this regard, we would also point out that the Province's financial statements have noted that they were prepared in accordance with legislation and PSAS since 2011-12, including both years on which you have already signed a clean audit report.

We appreciate that resolution of this last issue has been difficult for all parties and in bringing it to a close, we are looking for your confirmation that you are prepared to issue an audit opinion on the financial statements and annual report submitted to you on September 29, 2016.

We appreciate you meeting with us and Ministers Sandals and Sousa today.



Scott Thompson
Deputy Minister
Ministry of Finance



Greg Orensak
Deputy Minister, Treasury Board and Secretary to
Treasury Board/Management Board of Cabinet
Treasury Board Secretariat

- c. The Honourable Charles Sousa, Minister of Finance
The Honourable Liz Sandals, President of the Treasury Board

C5 - October 4 2016 AG Letter to DM.pdf



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

October 4, 2016

Mr. Greg Orencsak
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Secretary of Treasury Board and
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Greg *Scott*
Dear Mr. Orencsak and Mr. Thompson:

In your letter dated October 3, 2016, you re-confirmed that you are not in agreement with my Office's interpretations of Public Sector Accounting Standards (PSAS) as they relate to pension asset valuation and recognition for jointly sponsored pension plans. However, to date you have not provided us with a persuasive PSAS-based opinion to support your view citing only "that we also need to balance the time needed to further consider the issue with the need for timely tabling of the Public Accounts to ensure transparency about the Province's financial position".

As well, you are not in agreement with the presentation required for the correction of an error prescribed in PS2120 and you indicate that you are not in agreement because you've received "clean opinions" in the past. The increasing balance of the pension asset resulted in a deeper review this year, and provided additional insight. We are confident in our position that the value of the pension asset is \$nil for the current and comparative fiscal years.

By way of background, we notified the Office of the Provincial Controller Division (OPCD) in June 2016 about this significant accounting issue and requested them to delve into it further. Our expectation was to receive, as had been the practice in the past, a position paper backed with evidence supporting their view on an accounting treatment that the \$10.7 billion pension asset met the requirements of PS3250 - Retirement Benefits and PS3210 - Assets as well as PS1000 - Financial Statement Concepts. Further, we would have expected PS3220 - Contingent Assets to have been considered. To date, such a paper has not been received. Rather, in August 2016, the new Controller assured me that Deloitte would be providing an opinion supporting the government's position. The province's internal legal opinion also implied that the OPCD had indicated that Deloitte had provided an opinion. After not receiving any such promised opinion and being concerned about the timeline, I issued two formal letters in September to further encourage dialogue on this issue.

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Mr. Orencsak and Mr. Thompson
Page 2
October 4, 2016

I understand that the province contracted with both Deloitte and PricewaterhouseCoopers (PwC) to provide opinions for a projected cost of \$250,000. We were advised that Deloitte had confirmed their interpretation that the \$10.7 billion was a bona fide asset under PSAS. However, Deloitte finalized their opinion on October 2, 2016 and it does not confirm this, nor does it take responsibility for the work previously performed by Deloitte in August 2016 on this issue. We have not received anything from PwC. Instead of constructive discussions occurring between my Office and OPCD on this issue, Deloitte seemingly has acted as an intermediary, and my staff and I have been requested to continually provide them with additional information on the issue. At times, we learned that Deloitte had been provided with information by OPCD that we had not yet received (e.g. Osler legal opinion).

As you know, we too have consulted externally on this issue and are confident that a \$10.7 billion pension asset would not meet PSAS recognition requirements. We are aware that you plan to conduct further study into the issue in connection with the 2016/17 fiscal year statements.

In your letter you stated that it was I who proposed legislated accounting as a solution. However, this was not the case. You had first suggested this on September 15, 2016, at a meeting at your office with my team. In fact, putting legislation in place was again presented by the two of you at a meeting with me and my staff at my office on Tuesday, September 27, 2016. At that time, I could not understand why you believed you needed a regulation, as my opinion has to be provided with reference to a PSAS framework.

It wasn't until after you shared the September 29, 2016 draft of the financial statements with revised notes and the revised financial statement discussion and analysis, in addition to the draft regulation, that it became clear that you believed you needed a regulation because you were taking issue with the pension asset adjustment and that you believed a regulation would serve two purposes: one, to adjust the in-year deficit and accumulated deficit in order to obtain an unqualified audit opinion, and two, to enable you to maintain that you did not agree with the accounting treatment, but were making the adjustment to comply with legislation. During our call on September 29th with the two of you and OPCD, I indicated my concerns given that my opinion has to be provided with reference to a PSAS framework.

On Friday morning, September 30th, we provided you with suggested revisions to the version we received in the afternoon of Thursday, September 29th. This revised version was prepared to illustrate accounting treatment in accordance with PSAS. I now understand that our suggested revisions were not accepted because they incorporate our opinion that what we have here is a correction of a prior period error. Although your Thursday draft statements correctly adjusted the 2015/16 financial statement's annual deficit and adjusted the accumulated deficit, the way in which the accumulated deficit has been adjusted in these draft statements is not in accordance with PSAS.

Mr. Orencsak and Mr. Thompson

Page 3

October 4, 2016

PSAS requires a restatement of the prior comparative year. This will be pointed out in my qualified opinion. As well, the financial statement discussion and analysis will be highlighted in an "Other Matter" paragraph indicating that it too provides a variance analysis using unadjusted figures for the 2014/15 comparative figures.

In your letter you also indicated that I "may decide not to issue an opinion on the Consolidated Financial Statements". I can assure you that this is not the case as I am required under the *Auditor General Act* to issue such an opinion. The only issue is what that opinion will state and this could not be decided until your statements were finalized. Now that you have decided to publicly issue unaudited financial statements (that are the September 29th version), I will be providing my audit opinion on these financial statements this week, pending receipt of your signed management representation letter, so that the audited financial statement including my audit report can be tabled in the Legislative Assembly.

I certainly concur that trying to resolve this matter, and I would add other matters, has been difficult this year. Given the pension issue was brought to OPCD's attention in June it is most unfortunate that the lack of a more timely resolution has resulted in a delayed tabling of the public accounts past the required legislated tabling date. We will certainly continue to do our part to ensure a similar situation does not recur with respect to the 2016/17 consolidated financial statements.

Sincerely,



Bonnie Lysyk
Auditor General

- c. Hon. Liz Sandals, President of the Treasury Board
Hon. Charles Sousa, Minister of Finance

C6 - October 4 2016 DM Letter to AG.pdf

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Ms. Bonnie Lysyk
Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario M5G 2C2

October 4, 2016


Dear Ms. Lysyk:

Thank you for your letters that we received earlier today as well your draft English audit opinion and the draft management representation letter. Please accept this letter as confirmation that the English version of financial statements and annual report that were provided to you on September 29, 2016 and French version of these same documents that were provided earlier today are the documents that will be tabled with your report in the Legislative Assembly. Those are the same documents as the documents released yesterday, except that the documents released yesterday were not labeled Public Accounts and the financial statements were marked and referred to as unaudited.

We are working towards a timeline of presenting the Public Accounts at Cabinet at noon tomorrow (Wednesday) and tabling the Public Accounts in the Legislative Assembly on Thursday this week. In connection with that timeline, we will need to provide you with the management representation letter

and receive from you the electronic and signed paper copies of the English and French audit opinions tomorrow (Wednesday) morning. Please let us know if this timing is not possible.

Thank your for your assistance in finalizing the 2015-16 Public Accounts.

A handwritten signature in dark ink, appearing to be 'D. Thompson'.

Scott Thompson
Deputy Minister
Ministry of Finance

A handwritten signature in dark ink, appearing to be 'Greg Orenszak'.

Greg Orenszak
Deputy Minister, Treasury Board and Secretary to
Treasury Board/Management Board of Cabinet
Treasury Board Secretariat

- c. Mike Jancik
Ali Ghiassi
Cindy Veinot
Nadine Petsche

F - Note to OAG with supporting analysis (Sept 11).pdf

Veinot, Cindy (TBS)

From: Veinot, Cindy (TBS)
Sent: September-11-16 2:26 PM
To: 'bonnie.lysyk@auditor.on.ca'; Bill Pelow
Cc: Petsche, Nadine (TBS); Fong, Pauline (TBS); Patel, Bharat (TBS)
Subject: Pension asset ceiling
Attachments: Pension Asset Ceiling_additional information for AG (Sept11).docx; Key Funding Decisions.pdf

Bonnie and Bill,

Please find attached some additional analysis we believe warrants consideration in connection with the pension asset ceiling issue. The attached word document addresses the comments provided during Friday's discussion and the pdf document is a summary from OTTP (publicly available on www.mypensionhub.com) of the funding history of the plan since its inception and includes a number of references to the distribution and/or use of surpluses.

Please distribute to others in your organization involved in this discussion.

Cindy

Further to our discussion on September 9, 2016 regarding the Province's reporting of the pension assets related to OTPP and OPSEUPP, we are sharing additional information and analysis that we believe should be considered in reaching a conclusion on whether the Province's accounting for the assets are consistent with PSAB standards.

In summary, our understanding of the OAG's position based on recent discussions is that:

1. The pension asset for TPP of \$10.1 billion should be written down to the Province's share of the surplus in the plan based on the funding valuation, provided that the Province can provide sufficient evidence that it has the ability to realize the benefit from the asset
2. The AG suggested that the Province obtain a legal opinion to provide evidence regarding the Province's ability to realize the benefit of the asset
3. If the stand-alone financial statements of OTPP had been prepared using an estimate of the projected benefit obligation based on the Province's economic assumptions (as permitted by CPA Canada, Part IV Section 4600), and those financial statements disclosed a surplus of at least \$20.2 Billion, there would not be a concern with the \$10.1 billion pension asset recorded by the Province
4. The impact of any write-down would have to be analyzed to determine the period of impact (e.g. a write-down would not necessarily have an in-year impact for fiscal 2015-16).
5. The AG has reviewed the additional disclosure to be added in the notes to the 2015-16 financial statements regarding the Province's ability to realize the benefit of the asset, and has requested it be expanded to include the nature by which the surplus will be used (e.g. reducing future contributions)

While our discussion focused exclusively on TPP, we have assumed the same view holds for OPSEU. (Please advise if our assumption is incorrect).

From the Province's perspective...

The Province continues to believe that the pension assets are appropriately stated in accordance with PSAS. The following addresses the points noted above.

1. PSAS is clear with respect to the determination of whether a valuation allowance is required. It does not reference the use of a funding valuation, which would have been a very simple method to use.

The guidance on determining whether a valuation allowance is required in PSAS is included 3250 in the following paragraphs:

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

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

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

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

.056 A government determines its expected future benefit as the sum of:

- a. the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- b. the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

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

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

The guidance in paragraphs 53 through 59 provides very specific guidance on how to determine if a valuation allowance is required. The two key inputs to the calculation are the **adjusted benefit asset** and the **expected future benefit**. Both of these terms are defined in the standard:

- An **adjusted benefit asset** is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.
- The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions. A government determines its expected future benefit as the sum of:

- a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; **and**
- b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

If the adjusted benefit asset exceeds the expected future benefit, a valuation allowance is required.

The funding valuation surplus is not an input to the calculations in either of these definitions. Taking into consideration the purpose of a funding valuation is useful in assessing why the accounting requirements do not require use of a funding valuation to determine the limit on a pension asset. The following excerpt from PS 3250 articulates the difference between an accounting valuation and a funding valuation:

.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.

.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. Accordingly, it is necessary to develop accounting estimates of liabilities for retirement benefits and expenses using an actuarial cost method and actuarial assumptions that ensure essential information required for fair presentation of financial condition and results of operations can be reported in government financial statements.

.010 **Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan.** In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

While the funding analysis is informative, the surplus determined on the funding valuation basis is not prepared on the same basis or for the same purpose as accounting information and it is not part of the determination of whether a valuation allowance against a pension asset is required.

It is also important to note that the definition of expected future benefit is the summation of:

- a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; **and**
- b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

Based on the calculations completed for both OTTP and OPSEU, (a) alone is in excess of the adjusted benefit obligation. Therefore even if b) is NIL, there is no valuation allowance required, and the outcome of a determination of whether the surplus can be withdrawn will not change the outcome of

the analysis for either plan. In other words, the guidance in paragraph .59, which relates solely to the withdrawal of surplus from the plan has no impact on the analysis completed for the 2015-16 Public Accounts.

In summary, the surplus determined in the funding valuation is not an input to the determination of whether a valuation allowance is required. In addition, based on the calculations prepared for the current year, whether the Province does or does not have the ability to withdraw the surplus in either plan has no impact on the outcome of the determination of whether a valuation allowance is required. In both cases, if the amount in (b) in the definition of expected future benefit, related to component of the withdrawal of surplus from the plan is set to NIL, there is no valuation allowance required for either plan.

2. We agree with your suggestion and a legal opinion is being prepared. We have included a document that provides a history of how surpluses in the plan have been used over the last 26 years (back to 1990) which we believe is very important to consider in assessing the ability of the Province to access the benefit of the pension asset.
3. The stand-alone financial statements of OTTP are not relevant to the province's accounting. They are not prepared for the province, are not used for the funding valuation and as discussed, the method used by OTTP to value its pension obligation in its stand-alone financial statements is an outlier among the pension plans sponsored by provinces across Canada, as shown in the analysis previously provided to you on September 8.

OTTP could have chosen to value its benefit obligation on the same basis as the Province did (i.e. using a discount rate of the expected future return on assets). If it had done that, the obligation in the financial statements of OTTP would have been valued at approximately \$116.4 Billion (Province's valuation) vs. 173.2 Billion (Dec 31 2015 OTTP financial statements). That difference of \$56.8 Billion would have resulted in a surplus reported in the December 31, 2015 financial statements of OTTP of \$55 Billion (reported deficit of \$1.8 billion for 2015 financial statements less reduction in pension obligation of \$56.8 Billion). Taking 50% of that surplus, or \$27.5 Billion is far in excess of the pension asset reported on the financial statements of the Province (\$10.1 Billion.)

The difference between those results (deficit of \$1.8 Billion and surplus of \$55 Billion) is simply a choice in accounting policy under Section IV, Section 4600 of the CPA Canada Handbook. If OTTP had chosen to use the projected benefit obligation of the Province and had reported a surplus in the plan of \$55 Billion, that would not have impacted the Province's accounting. In other words, the Province could not have recorded a pension asset of \$27.5 Billion simply because of the policy OTTP had chosen to follow in its standalone financial statements. Likewise, because OTTP selected another method to calculate the projected benefit obligation in its standalone financial statements (e.g. a discount rate based on the corporate bond yield), that does not impact the Province's accounting.

The calculations used by OTTP in its financial statements are not used in the preparation of the Province's financial statements. A separate set of instructions is provided to the actuary that prepares the calculations for purposes of the Province's reporting.

In summary, the OTTP stand-alone financial statements are not relevant to the Province's accounting. If the OTTP had used a valuation method similar to that of the Province, like the vast majority of other provincial plans do, the Province would not have recorded a larger asset. Likewise, the Province does not reduce its asset because of the stand-alone financial statements of OTTP.

The Province's financial statements are prepared using the Province's assumptions and guidance found under the PS 3250. The financial statements are not to be prepared or influenced by Section 4600 calculations. In fact, the only link that exists between the two standards is in the other direction, which is the OTTP Board in preparing the OTTP financial statements may elect a policy to use the Province's accounting instead of asking for the preparation of a different set of actuarial valuation results. This choice was included by the Canadian Accounting Standards Board in the Section 4600 to allow pension plan administrator (such as OTTP Board) to make use of available information instead of asking for the preparation of another actuarial valuation. The objective was to allow a more efficient approach and avoid fees to be charged to the pension fund which reduces assets available in a plan to pay for benefits.

4. We don't believe there is an error to re-profile by year as the pension assets as currently reported on the Province's financial statements is measured in accordance with PSAS.
5. We will review the draft disclosure and provide additional clarity with respect to how the Province can benefit from the pension asset. As previously noted, we have included a document from OTTP that *provides a history of the use of surpluses in the plan back to 1990*. If you have any specific suggestions regarding the disclosure, please provide those to us.



Plan Funding

The Ontario Teachers' Federation (OTF) and the Ontario government, which jointly sponsor the Ontario Teachers' Pension Plan, must file a funding valuation with the provincial pension regulator at least every three years. A valuation must be filed with assets and liabilities (the cost of future pensions) in balance.

OTF and the Ontario government can file a valuation earlier than required to help manage the plan's funding status.

The following chart shows how OTF and the Ontario government have used surplus funds or resolved funding shortfalls for each valuation filed with the regulator since the inception of the Teachers' pension plan as an independent entity in 1990.

For more information on plan funding, visit the Corporate section of our website at www.otpp.com.

Funding decisions

Year	Valuation status and key decisions
1990	A preliminary unfunded liability of \$7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary \$1.5 billion surplus was distributed: \$1.2 billion used to reduce government's special payments; \$0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary \$0.7 billion surplus was distributed: \$0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary \$6.8 billion surplus was distributed: \$2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; \$4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next \$6.2 billion surplus would be available to OTF for benefit improvements.

Year	Valuation status and key decisions
1999	A preliminary \$3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	\$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary \$6.8 billion surplus was distributed: \$6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining \$76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	\$1.9 billion surplus; no changes to benefits or contribution levels.
2003	\$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary \$6.1 billion shortfall was resolved, leaving plan with a \$0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the \$76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary \$12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary \$2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary \$17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.

Year	Valuation status and key decisions
2012	\$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a \$200 million surplus at Jan. 1, 2012.
2014	\$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	\$6.8 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes go into effect in January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

F - OPSEU PSAB calculations.pdf

OPSEU Pension Plan - PSAB Calculations

Split of 1994-95 Closing Liability Between PSPP and OPSEU Pension

	Source	New PSPP	OPSEU	Total	Source of Total "PSPP calculation" file
1994-95 closing pension liability					
Accrued benefit obligation, closing	actuary	9,631	4,634	14,265	
Less: pension fund assets, closing	actuary	(8,434)	(4,500)	(12,934)	
<i>Pension liability</i>	<i>formula</i>	<i>1,197</i>	<i>134</i>	<i>1,331</i>	
Unamortized experience gain	below	430	207	637	
Pension liability - Dec. 31		1,627	341	1,968	
Adjustment for different year ends	proration based on obligation	99	48	147	- "year end"
1994-95 closing pension liability	formula	1,726	389	2,115	
Annual amortization of experience gain (loss)					
annual amortization related to 1991 experience gain (loss)	proration based on obligation	51	25	76	- "experience g(l)"
annual amortization related to 1992 experience gain (loss)	proration based on obligation	(109)	(52)	(161)	- "experience g(l)"
annual amortization related to 1993 experience gain (loss)	proration based on obligation	99	47	146	- "experience g(l)"
annual amortization related to 1994 experience gain (loss)	proration based on obligation	26	12	38	- "experience g(l)"
	<i>formula</i>	<i>67</i>	<i>32</i>	<i>99</i>	
Unamortized experience gain					
accumulated experience gain	proration based on obligation	864	416	1,280	(0) "experience g(l)"
less: cumulative amortization	proration based on obligation	(102)	(49)	(151)	- "experience g(l)"
less: cumulative recognition of unamortized for plan amendments	proration based on obligation	(387)	(186)	(573)	- "experience g(l)"
cumulative impact of plan amendment on amortization	proration based on obligation	55	26	81	- "experience g(l)"
Unamortized experience gain	formula	430	207	637	
Revised annual amortization of experience gain (loss) after 1993 and 1994 plan amendments					
annual amortization related to 1991 experience gain (loss)	proration based on obligation	14	6	20	- "amendment"
annual amortization related to 1992 experience gain (loss)	proration based on obligation	(109)	(52)	(161)	- "amendment"
annual amortization related to 1993 experience gain (loss)	proration based on obligation	99	47	146	- "amendment"
annual amortization related to 1994 experience gain (loss)	proration based on obligation	26	12	38	- "amendment"
	<i>formula</i>	<i>30</i>	<i>13</i>	<i>43</i>	
Impact on 1993 and 1994 amendments on amortization					
recognition of 1991 unamortized experience gain in 1993	proration based on obligation	(17)	(8)	(25)	- "experience g(l)"
recognition of 1991 unamortized experience gain in 1994	proration based on obligation	(21)	(10)	(31)	- "experience g(l)"

OPSEU Pension Plan - PSAB Calculations

Pension Expenditure - Pension Interest Expenditure (Revenue)

Calendar Year	Source	2009	2010	2011	2012	2013	2014-2015 2014	Interim 2015-2016 2015
Step 1: Interest on average accrued benefit obligation								
accrued benefit obligation, opening	data input	11,548	12,229	12,842	13,420	14,133	14,392	15,133
add: average current period benefit cost	data input + formula	197	208	211	215	214	214	207
add: average transfers from other plans	data input + formula	17	6	5	4	12	7	8
add: average increase due to plan amendments	data input + formula	-	-	-	-	-	-	-
less: average benefit payments (including transfers)	data input + formula	(359)	(311)	(332)	(373)	(442)	(399)	(449)
<i>Average accrued benefit obligation</i>	<i>formula</i>	<i>11,403</i>	<i>12,132</i>	<i>12,726</i>	<i>13,266</i>	<i>13,917</i>	<i>14,214</i>	<i>14,900</i>
interest assumption	data input	6.750%	6.750%	6.750%	6.750%	6.750%	6.750%	6.500%
Interest expenditure on accrued benefit obligation	formula	770	819	859	895	939	959	968
Step 2: Earnings on average pension fund assets								
pension fund asset, opening	data input	13,414	13,541	13,759	13,940	14,208	15,210	16,370
one-time audit adjustment		n/a	n/a	n/a	n/a	n/a	n/a	n/a
add: average contributions	data input + formula	196	219	245	266	270	265	261
less: average benefit payments (including transfers)	data input + formula	(359)	(311)	(332)	(373)	(442)	(399)	(449)
<i>Average pension fund assets</i>	<i>formula</i>	<i>13,251</i>	<i>13,449</i>	<i>13,672</i>	<i>13,833</i>	<i>14,036</i>	<i>15,076</i>	<i>16,183</i>
interest assumption	data input	6.750%	6.750%	6.750%	6.750%	6.750%	6.750%	6.500%
Interest revenue on pension fund assets	formula	894	908	923	934	947	1,018	1,052
Step 1 - Interest on accrued benefit obligation	above	770	819	859	895	939	959	968
Less: Step 2 - Interest on pension fund assets	above	(894)	(908)	(923)	(934)	(947)	(1,018)	(1,052)
Pension Interest Expenditure (Revenue)	formula	(125)	(89)	(64)	(38)	(8)	(58)	(83)



OPSEU Pension Plan - Data Input

Calendar Year							2014-2015	Interim 2015-2016
	2008	2009	2010	2011	2012	2013	2014	2015
Best Estimate Economic Assumptions								
return on investment (to 2000)	6.750%	6.750%	6.750%	6.750%	6.750%	6.750%	6.750%	6.500%
return on investment (2001 +)	6.750%	6.750%	6.750%	6.750%	6.750%	6.750%	6.750%	6.500%
salary escalation	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.250%	3.000%
inflation	2.500%	2.500%	2.500%	2.500%	2.500%	2.500%	2.250%	2.000%
Obligation for Pension Benefits								
accrued benefit obligation, closing	11,548	12,229	12,842	13,420	14,133	14,392	15,133	15,557
interest accrued on benefits	746	794	831	869	917	929	960	969
current period benefit cost (earned by employees)	380	394	415	422	429	427	428	414
transfers from other plans	75	33	12	10	8	24	14	16
increase due to plan amendments expensed								
increase due to plan amendments amortized								
benefit payments (including transfers)	(590)	(718)	(622)	(664)	(745)	(884)	(798)	(897)
experience loss (gain)			(236)	(157)	20	(223)	(78)	(202)
increase (decrease) due to change in assumptions	(19)	178	213	98	84	(14)	215	124
Net increase (decrease)	592	681	613	578	713	259	741	424
check (ending - opening - change)	-	-	-	-	-	-	-	-
Pension Fund Assets								
net assets available for benefits, closing	10,987	12,005	13,095	13,584	14,550	15,952	17,481	18,399
actuarial smoothing adjustment	2,427	1,536	664	356	(342)	(742)	(1,111)	(1,019)
Pension fund assets, closing	13,414	13,541	13,759	13,940	14,208	15,210	16,370	17,380
Contributions - calendar year								
employee contributions	167	169	207	233	256	237	248	241
transfers from other plans	75	33	12	10	8	24	14	16
ontario matching contributions	187	189	219	247	267	278	268	265
ontario special payments								
Total contributions	429	391	438	490	531	539	530	522
Expected average remaining service life of employees								
	12	12.0	12.0	11.3	11.3	12.3	12.1	12.2
Contributions - ontario's fiscal year								
	2008-09	2009-10	2010-11	2011-12	2012-13	2012-13	2014-2015	2015-2016
ontario matching contributions	157	157	184	212	231	219	218	214
ontario special payments								
Total contributions	157.4024	157.18020	183.5678	211.516	230.698	218.657	218.379	213.900



Pension Expenditure - Amortization of Experience Gain (Loss)
Pension Liability - Unamortized Experience Gain (Loss)

Step 6: Recognition of unamortized experience gain to offset cost of plan amendment

OPSEU Pension Plan - PSAB Calculations

Pension Expenditure - Amortization of Experience Gain (Loss)

Pension Liability - Unamortized Experience Gain (Loss)

Calendar Year	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014-2015	2015-2016
Step 7: Impact of Step 6 on annual amortization schedule																							
recognition of 1991 unamortized experience gain in 1995	"amendment" sheet	(6)	(6)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	-	-	-	-	-	-	-	-	-	-	-	-	-
recognition of 1993 unamortized experience gain in 1995	"amendment" sheet	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(25)	-	-	-	-	-	-	-	-	-	-	-
recognition of 1993 unamortized experience gain in 1998	"amendment" sheet				(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	-	-	-	-	-	-	-	-	-	-	-
recognition of 1993 unamortized experience gain in 1999	"amendment" sheet					(19)	(19)	(19)	(19)	(19)	(19)	(18)	-	-	-	-	-	-	-	-	-	-	-
recognition of 1994 unamortized experience gain in 1999	"amendment" sheet					(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	-	-	-	-	-	-	-	-	-	-
recognition of 1995 unamortized experience gain in 1999	"amendment" sheet					(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(12)	-	-	-	-	-	-	-	-	-
recognition of 1995 unamortized experience gain in 2002	"amendment" sheet							(18)	(18)	(18)	(18)	(18)	(18)	(20)	-	-	-	-	-	-	-	-	-
recognition of 1996 unamortized experience gain in 2002	"amendment" sheet								(26)	(27)	(26)	(26)	(26)	(26)	(27)	-	-	-	-	-	-	-	-
recognition of 1996 unamortized experience gain in 2003	"amendment" sheet									(5)	(4)	(4)	(4)	(4)	(4)	-	-	-	-	-	-	-	-
Total impact of Step 6 on annual amortization schedule		formula	(30)	(30)	(31)	(35)	(79)	(79)	(79)	(123)	(129)	(120)	(120)	(73)	(62)	(31)	-	-	-	-	-	-	-
Step 8: Total amortization of experience gain (loss)																							
Step 5: amortization before offset to cost of plan amendments	above	44	111	124	137	222	199	202	157	136	101	153	128	169	184	91	26	(30)	(138)	(194)	(95)	(51)	(51)
Step 7: impact of plan amendment on amortization	above	(30)	(30)	(31)	(35)	(79)	(79)	(79)	(123)	(129)	(120)	(120)	(73)	(62)	(31)	-	-	-	-	-	-	-	-
Total amortization of experience gain (loss) of the year		14	81	93	102	143	120	123	34	7	(19)	33	55	107	153	91	26	(30)	(138)	(194)	(95)	(51)	(51)
Step 9: Pension liability - Unamortized experience gain (loss)																							
Step 4: accumulated experience gain (loss)		821	1,687	1,840	2,014	3,123	2,845	2,885	2,342	2,088	1,763	2,017	2,656	3,207	2,884	2,241	1,746	1,227	650	1,297	1,570	1,881	1,881
Less: cumulative amortization before offset to cost of plan amendments		(93)	(204)	(328)	(465)	(687)	(886)	(1,088)	(1,245)	(1,381)	(1,482)	(1,635)	(1,753)	(1,932)	(2,116)	(2,307)	(2,533)	(2,803)	(2,065)	(1,871)	(1,776)	(1,725)	(1,725)
Less: cumulative recognition of unamortized for plan amendments		(512)	(512)	(512)	(544)	(888)	(888)	(888)	(1,182)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)	(1,207)
Less: cumulative impact of plan amendment on amortization		56	86	117	152	231	310	389	512	641	761	881	954	1,016	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047
Unamortized experience gain - closing balance		272	1,057	1,117	1,157	1,779	1,381	1,298	427	141	(165)	56	640	1,084	608	(126)	(647)	(1,136)	(1,575)	(734)	(366)	96	96
Check																							
Unamortized Opening Balance		208	272	1,057	1,117	1,157	1,779	1,381	1,298	427	141	(165)	56	640	1,084	608	(126)	(647)	(1,136)	(1,575)	(734)	(366)	(366)
Current Year Amortization		(14)	(81)	(93)	(102)	(143)	(120)	(123)	(34)	(7)	19	(33)	(55)	(107)	(153)	(91)	(26)	30	138	194	95	51	
Current Year Experience gain (loss)		404	866	153	174	1,109	(279)	40	(543)	(254)	(325)	253	639	551	(323)	(643)	(495)	(519)	(577)	647	273	411	411
Recognition of Experience Gains on Plan Amendments		(326)	-	-	(32)	(344)	-	-	(294)	(25)	-	-	-	-	-	-	-	-	-	-	-	-	-
272		1,057	1,117	1,157	1,779	1,381	1,298	427	141	(165)	56	640	1,084	608	(126)	(647)	(1,136)	(1,575)	(734)	(366)	96	96	

OPSEU Pension Plan - PSAB Calculations

Calendar Year	Source	1995	1996
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Client's Year	1895	1896	1897	1898	1899	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
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Annual amortization schedule before effect of coal oil plan amendment

[illegible]

Recognition of immunized experience gain in 1992

Recognition of unamortized experience gain in 1095

NEW YORK (UPI)—An official of the Federal Bureau of Investigation (FBI) said today that the FBI is not looking for anyone who might have information about the assassination of President John F. Kennedy.

[illegible]

Recognition of unamortized experience gain in

Recognition of unamortized experience gain in 1990

Revised annual amortization schedule after 1992 plan amendments

[illegible]

identical animals tended to stay together more than

[illegible]

Revised annual amortization schedule after 1992 plan amendments

Extended Abstracts (Abstracts of the 1992 Joint International Statistical Association Meetings, 1992, August 1-5, 1992, Vancouver, British Columbia, Canada)

Reclamation of *Y. nana* (2004) and *Y. nana* (2005) and *Y. nana* (2006)[illegible]

Revised annual amortization schedule after 2002 plan amendments

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3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Recognition of unamortized experience gain in 2003
recruited interviewers: 11 (total) to 116th experience gain (1st-5)
Recognition of unamortized experience gain in 2003
recruited interviewers: 11 (total) to 116th experience gain (1st-5)

Revised annual amortization schedule after 2003 plan amendment

asset	annual amortization schedule after 2003 plan amendments	equation (1)	equation (2)
asset amortization schedule in 1992 (equation (1))			
asset amortization schedule in 1992 (equation (2))			
asset amortization schedule in 1997 (equation (1))			
asset amortization schedule in 1997 (equation (2))			
asset amortization schedule in 1998 (equation (1))			
asset amortization schedule in 1998 (equation (2))			
asset amortization schedule in 2000 (equation (1))			
asset amortization schedule in 2000 (equation (2))			
asset amortization schedule in 2001 (equation (1))			
asset amortization schedule in 2001 (equation (2))			

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FIG. 6. FIGURE 6. 2010 Calculations 2010-17 FVA (upward line correct)

OPSEU Pension Plan - PSAB Calculations
Plan Amendment - supporting calculation for Pension

Plan Amendment - supporting calculation for Pension Expense - Amortization of Experience Gain (Loss)

[illegible]

OPSEU Pension Plan - PSAB Calculations

Pension Expenditure - Amortization of Initial Unfunded Liability

Pension Liability - Unamortized Initial Unfunded Liability

Fiscal Year	Source	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Closing pension liability	"liability" sheet	389													
50% of closing pension liability	formula	195													
EARSL	Input data	13													
Annual amortization	formula		15	15	15	15	15	15	15	15	15	15	15	15	14
Unamortized balance	formula		179	164	149	134	119	104	89	74	59	44	29	14	-

OPSEU Pension Plan - PSAB Calculations

Pension Expenditure - Amortization of Difference Between Employer and Employee Contributions

Pension Liability - Unamortized Difference Between Employer and Employee Contributions

Fiscal Year	Source	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Step 1: Ontario's over (under) contribution - fiscal year																						
Ontario contribution - fiscal year	Data input	44	59	161	167	162	155	247	119	118	135	143	143	153	157	157	184	212	231	219	218	214
Less: employee contributions - calendar year	Data input	147	123	135	137	123	54	56	55	78	105	146	152	170	167	169	207	233	256	237	248	241
Ontario over (under) contribution	formula	(103)	(64)	26	30	39	101	191	64	40	30	(3)	(9)	(17)	(10)	(12)	(23)	(21)	(25)	(18)	(30)	(27)
Step 2: Amortization of difference in contributions																						
50% of Ontario's over (under) contribution	formula	(52)	(32)	13	15	20	51	96	32	20	15	(1)	(4)	(8)	(5)	(6)	(12)	(11)	(13)	(9)	(15)	(14)
expected average remaining service life of employees (EARSLS)	Data input	13	13	13	13	13	12	12	12	12	12	12	12	12	12	12	12	11	11	12	12	12
Annual amortization of difference in contributions	formula	(4)	(2)	1	1	2	4	8	3	2	1	(0)	(0)	(1)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)
Step 3: Annual amortization of difference in contributions																						
amortization of 1995-96 difference	Step 2	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)								
amortization of 1996-97 difference	Step 2		(3)	(3)	(3)	(3)	(3)	(3)	(2)	(2)	(2)	(2)	(2)	(2)	(2)							
amortization of 1997-98 difference	Step 2			1	1	1	1	1	1	1	1	1	1	1	1	1	1					
amortization of 1998-99 difference	Step 2				2	2	1	1	1	1	1	1	1	1	1	1	1	1				
amortization of 1999-00 difference	Step 2					1	1	1	1	1	1	2	2	2	2	2	2	2				
amortization of 2000-01 difference	Step 2						5	5	5	4	4	4	4	4	4	4	4	4				
amortization of 2001-02 difference	Step 2							8	8	8	8	8	8	8	8	8	8	8	8			
amortization of 2002-03 difference	Step 2								3	3	3	3	3	3	3	3	3	3	2	2		
amortization of 2003-04 difference	Step 2									3	3	3	3	3	3	3	3	3	2	2	1	
amortization of 2004-05 difference	Step 2										2	2	2	2	2	2	2	2	1	1	1	
amortization of 2005-06 difference	Step 2										1	1	1	1	1	1	1	1	1	2	2	
amortization of 2006-07 difference	Step 2											(1)		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
amortization of 2007-08 difference	Step 2												(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
amortization of 2008-09 difference	Step 2													(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
amortization of 2009-10 difference	Step 2														(1)	(1)	(1)	(1)	(1)	(1)	(1)	
amortization of 2010-11 difference	Step 2															(1)	(1)	(1)	(1)	(1)	(1)	
amortization of 2011-12 difference	Step 2																(2)	(2)	(2)	(2)	(2)	
amortization of 2012-13 difference	Step 2																	(2)	(2)	(2)	(2)	
amortization of 2013-14 difference	Step 2																		(2)	(2)	(2)	
amortization of 2014-15 difference	Step 2																			(1)	(1)	
amortization of 2015-16 difference	Step 2																					(1)
amortization of 2016-17 difference	Step 2																					
amortization of 2017-18 difference	Step 2																					
amortization of 2018-19 difference	Step 2																					
amortization of 2019-20 difference	Step 2																					
amortization of 2020-21 difference	Step 2																					
Total annual amortization of difference in contributions		(4)	(7)	(6)	(4)	(3)	1	9	13	15	15	16	15	15	18	18	15	13	5	(3)	(5)	(5)
Step 4: Unamortized difference in contributions																						
cumulative 50% over (under) contributions		(52)	(84)	(71)	(56)	(36)	15	110	142	162	177	175	171	163	158	152	140	129	117	108	93	79
less: cumulative amortization		(4)	(11)	(17)	(21)	(24)	(23)	(14)	(1)	14	29	45	60	75	93	111	126	139	144	141	136	131
Unamortized difference in contributions closing balance		(48)	(73)	(54)	(35)	(12)	38	124	143	148	148	130	111	88	65	41	14	(10)	(27)	(33)	(43)	(52)



Pension Liability - Adjustment for Different Year Ends Between Pension Plan and Province

Calendar Year	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Interim
																							2015-2016
Opening pension liability	"liability" sheet	341	475	540	414	269	(27)	(257)	(551)	(633)	(687)	(726)	(699)	(799)	(992)	(1,258)	(1,438)	(1,564)	(1,656)	(1,650)	(1,552)	(1,603)	(1,603)
Pension expenditure	"expense" sheet	204	113	33	28	(84)	(36)	(22)	58	110	132	203	70	(22)	(79)	9	93	155	273	376	217	141	141
Less: employer contribution	Input data	(71)	(47)	(157)	(171)	(176)	(176)	(264)	(124)	(149)	(151)	(160)	(170)	(171)	(187)	(189)	(219)	(247)	(267)	(278)	(268)	(265)	(265)
Less: transfers from other plans	Input data	-	(1)	(2)	(2)	(36)	(17)	(10)	(16)	(15)	(20)	(17)	-	-	-	-	-	-	-	-	-	-	-
Ending pension liability	formula	474	540	414	269	(27)	(257)	(553)	(633)	(687)	(726)	(699)	(799)	(992)	(1,258)	(1,438)	(1,564)	(1,656)	(1,650)	(1,552)	(1,603)	(1,727)	(1,727)
checking	vs. "liability" sheet	1	-	-	-	(0)	2	2	-	-	0	-	-	-	-	-	-	-	-	-	-	-	-
Fiscal Year	Source	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2015-16
Opening pension liability	formula	391	551	605	477	338	92	(100)	(369)	(427)	(435)	(438)	(377)	(451)	(626)	(862)	(1,010)	(1,101)	(1,157)	(1,115)	(958)	(959)	(959)
Pension expenditure	"expense" sheet	204	113	33	28	(84)	(36)	(22)	58	110	132	203	70	(22)	(79)	9	93	155	273	376	217	141	141
Less: employer contribution	Input data (vol. 1)	(44)	(59)	(161)	(167)	(162)	(155)	(247)	(119)	(118)	(135)	(143)	(143)	(153)	(157)	(157)	(184)	(212)	(231)	(219)	(218)	(214)	(214)
Adjustment for opening balance difference								2															
Ending pension liability	formula	551	605	477	338	92	(100)	(369)	(427)	(435)	(438)	(377)	(451)	(626)	(862)	(1,010)	(1,101)	(1,157)	(1,115)	(958)	(959)	(1,032)	(1,032)
Difference - adjustment required		77	65	63	69	119	157	184	206	252	288	322	349	366	396	428	463	499	535	594	644	695	695
Cumulative transfers from other plans												(136)											
EARSL													12.10										
Annual amortization of cumulative transfers from other plans													(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Unamortized balance												(125)	(114)	(102)	(91)	(80)	(69)	(57)	(46)	(35)	(24)	(24)	(24)
Accumulated amortization												(11)	(22)	(34)	(45)	(56)	(67)	(79)	(90)	(101)	(112)	(112)	(112)
Adjustment for different year ends												337	344	362	383	407	431	456	504	543	583	583	583

expense

OPSEU Pension Plan - PSAB Calculations
Pension Expenditure

Fiscal Year	Source	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-2015 2014-15	Interim 2015-2016 2015-16
50% Pension Expenditure Reflecting Accounting Policy for Joint Plans									
Current period benefit cost	formula - 50% of below	190	197	208	211	215	214	214	207
Amortization of experience gains	formula - 50% of below	(77)	(46)	(13)	15	69	97	48	26
Pension interest expenditure	formula - 50% of below	(70)	(62)	(44)	(32)	(19)	(4)	(29)	(42)
Cost of plan amendment	formula - 50% of below	-	-	-	-	-	-	-	-
Less: recognition of unamortized experience gains	formula - 50% of below	-	-	-	-	-	-	-	-
Less: amortization of initial unfunded liability	"initial ufl" sheet	-	-	-	-	-	-	-	-
Less: amortization of cumulative transfers from other plans	formula - 50% of below	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Amortization of difference in contributions	"contributions" sheet	18	18	15	13	5	(3)	(5)	(5)
Pension expenditure	formula	56	102	159	201	264	298	222	180
		56,253,916	101,510,166		201,459,415	263,750,665	297,863,915	221,787,665.29	180,182,665.29
100% Pension Expenditure									
Current period benefit cost	Data input	380	394	415	422	429	427	428	414
Less: employee & other employers' contributions	Data input	(167)	(169)	(207)	(233)	(256)	(237)	(248)	(241)
Amortization of experience gains	"experience g(l)" sheet	(153)	(91)	(26)	30	138	194	95	51
Pension interest expenditure	"Interest" sheet	(139)	(125)	(89)	(64)	(38)	(8)	(58)	(83)
Cost of plan amendment	Data input	-	-	-	-	-	-	-	-
Recognition of unamortized experience gains	"experience g(l)" sheet	-	-	-	-	-	-	-	-
100% Pension expenditure before amortization of cumulative transfers	formula	(79)	9	93	155	273	376	217	141
Less: amortization of cumulative transfers from other plans	"year end" sheet	-11	-11	-11	-11	-11	-11	-11	-11
100% Pension expenditure	formula	(90)	(2)	82	144	262	365	206	129

OPSEU Pension Plan - PSAB Calculations
Pension Liability

Fiscal Year	Source	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-2015 2014-15	Interim 2015-2016 2015-16
50% Pension Liability Reflecting Accounting Policy for Joint Plans									
Accrued benefit obligation, closing balance	formula - 50% of below	5,774	6,115	6,421	6,710	7,067	7,196	7,567	7,779
Less: pension fund assets, closing balance	formula - 50% of below	(6,707)	(6,771)	(6,879)	(6,970)	(7,104)	(7,605)	(8,185)	(8,690)
Unamortized experience gains	formula - 50% of below	304	-63	-323	-568	-787	-367	-183	48
Adjustment for different year ends	formula - 50% of below	181	191	203	216	228	252	271	291
Unamortized initial unfunded liability	"initial ufl" sheet	0	0	0	0	0	0	0	0
Unamortized difference in contributions	"contributions" sheet	-65	-41	-14	10	27	33	43	52
Pension liability (asset) at March 31	formula	(513)	(568)	(593)	(603)	(570)	(490)	(487)	(521)
		(512,712,559)	(568,382,590.42)	(592,535,878.31)	(602,592,907.55)	(569,539,938.10)	(490,333,003.19)	(486,924,621.60)	(520,641,611.30)
Continuity									
Opening pension liability - March 31	above	(412)	(513)	(569)	(593)	(603)	(570)	(491)	(487)
Pension expenditure	"expense" sheet	56	102	159	201	264	298	222	180
Less: Employer contribution - fiscal year	Data Input	(157)	(157)	(184)	(212)	(231)	(219)	(218)	(214)
Closing pension liability - March 31	formula	(513)	(568)	(593)	(603)	(570)	(491)	(487)	(521)
checking		(0)	-	(0)	(0)	(0)	(0)	(0)	(0)
100% Pension Liability									
Accrued benefit obligation, closing balance	Data input	11,548	12,229	12,842	13,420	14,133	14,392	15,133	15,557
Less: pension fund assets, closing balance	Data input	(13,414)	(13,541)	(13,759)	(13,940)	(14,208)	(15,210)	(16,370)	(17,380)
Pension liability (surplus)	formula	(1,866)	(1,312)	(917)	(520)	(75)	(818)	(1,237)	(1,823)
Unamortized experience gains	"experience g(l)" sheet	608	(126)	(647)	(1,136)	(1,575)	(734)	(366)	96
Pension liability at December 31	formula	(1,258)	(1,438)	(1,564)	(1,656)	(1,650)	(1,552)	(1,603)	(1,727)
Adjustment for different year ends	"year end" sheet	362	383	407	431	456	504	543	583
Pension liability at March 31	formula	(896)	(1,055)	(1,157)	(1,224)	(1,194)	(1,048)	(1,060)	(1,145)

G - MAG legal analysis.pdf

Petsche, Nadine (TBS)

From: Petsche, Nadine (TBS)
Sent: September 12, 2016 11:51 AM
To: Bonnie.Lysyk@auditor.on.ca
Cc: Bill Pelow (Bill.Pelow@auditor.on.ca); Veinot, Cindy (TBS); Danek, Mary (TBS)
Subject: OTPP Surplus Opinion Sept 12 2016.docx
Attachments: OTPP Surplus Opinion Sept 12 2016.docx

Good morning Bonnie.

Further to our discussions last week, and your discussion with Deputy Orenacsak on Friday, we have sought legal advice with regards to the Province's legal entitlements to benefit from the government portion of the surplus recognized on the Province's books.

Attached is a draft document for your review. In addition, we would like to suggest a call this afternoon to discuss the content of the letter and receive your feedback. We would plan to invite representatives from the Ministry of Education to contribute additional insights and background with regards to the history and plans w.r.t. the surplus.

Please advise as to what time would work best for you to discuss this item this afternoon.

Regards,
Nadine

**Ministry of the
Attorney General**

Legal Services Branch
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Solicitor-Client Privileged

September 11, 2016

To: Nadine Petsche, Director, Accounting Policy and Financial Reporting,
Office of the Provincial Controller

Re: Actuarial Surplus in the Ontario Teachers' Pension Plan

1. Request

You have asked for a legal opinion on the Province of Ontario's (Ontario's) legal rights in connection with a surplus in the Ontario Teachers' Pension Plan (the Plan). Specifically, you have asked for confirmation that Ontario is legally entitled to benefit from the 'Government Portion' of the surplus recognized by Ontario as a pension asset in its 2015-16 Public Accounts (\$10.1 billion after adjustments), for example through reduced contributions or a contribution holiday, further to the analysis provided to Ontario by Deloitte LLP in August 2016 through an initial report and supplementary analysis (Deloitte Report).

2. Short Answer

Ontario has an enforceable legal interest in the 'Government Portion' of the identified surplus recognized by Ontario as a pension asset in its 2015-16 Public Accounts.

3. Background

i. Legal Framework for the Plan

The Plan is established by the *Teachers' Pension Act*¹ (TPA). The TPA provides that the Plan is a defined benefit pension plan within the meaning of the *Pension Benefits Act*² (PBA). The TPA provides that the governing

¹ R.S.O. 1990, c. T.1

² R.S.O. 1990, c. P.8

documents for the Plan are the pension plan established under Schedule 1 to the TPA, along with such other governing documents as may be created or adopted under the TPA or the text of the pension plan.

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

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

The Minister of Education and the OTF have entered into an agreement for the management of the Plan (Partners Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the agreement.³ The FMP provides for the funding of the Plan and how deficits and surpluses will be addressed.

ii. Accounting Treatment for Plan Surpluses

Ontario's audited financial statements have reflected the Province's respective portion of the accrued pension benefit as calculated in accordance with Public Sector Accounting Standards. Consistent with past practice, in the 2015-16 Public Accounts, Ontario continues to report its portion of the pension asset (\$10.1 billion as of March 31, 2016.) The Deloitte Report sets out an accounting analysis supporting the recognition of the surplus as an asset for the purposes of reporting the Province's financial position, as assessed in accordance with Public Sector Accounting Standards. Deloitte provides the following rationale in support of this position:

We have discussed the plan mechanics with OPCD and here are the key factors of the FMP and OTPP plan characteristics that would be considered in support of the Government Expected future benefit coming from surplus withdrawal and contribution reduction:

- The plan nature is defined to be a 50 / 50 share between employees and employer

³ Partners Agreement, section 110.

- Looking at the FMP, this principle applies to bad news and good news, hence for deficit and surplus situations
- The employer can benefit from surplus withdrawal and contribution reduction
- The surplus situations could be dealt with permanent and temporary changes, increasing the likelihood of surplus application
- The accounting valuation currently includes a 100% CPI indexing, hence the resulting accounting surplus to the employer portion has already fully restored benefits considered
- Accounting valuation uses best estimate assumptions and therefore the resulting surplus is considered a realistic value⁴

While the Deloitte analysis speaks to Ontario benefitting from surplus withdrawal, the Office of the Provincial Controller Division (OPCD) in Treasury Board Secretariat has advised that the analysis under Public Sector Accounting Standards completed by Deloitte demonstrates that no surplus withdrawal is necessary to support the asset recorded in Ontario's Public Accounts.

iii. Concerns of the Auditor General

The Auditor General of Ontario (AGO) has expressed concerns with Ontario's treatment of the pension asset in the Public Accounts. We understand that the AG believes that the ability to benefit through surplus withdrawals is necessary in order to support recognition of the asset on the Province's books. The accounting treatment of surplus withdrawals is governed by Public Sector Accounting Board (PSAB) standard PS3250.059:

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise.

Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is

⁴ Deloitte Report p. 14

incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities. [emphasis added]

In light of this provision, the AGO has taken the position that Ontario cannot rely on the potential for future surplus withdrawals as a rationale for treating the Ontario portion of a Plan surplus as an asset. Any such withdrawal would be subject to the agreement of Plan members and would require regulatory approval under the PBA.

As previously noted, it is OPCD's position that in accordance with PSAS, the value of the pension asset is sufficiently satisfied by other means of benefiting from the surplus, and that the ability to withdraw any surplus is not a necessary consideration based on the results of the analysis included in Deloitte's Report.

OPCD has advised that despite the references in the Deloitte Report, Ontario is not seeking to recognize the value of potential surplus withdrawals from the Plan (which would be subject to the analysis described in PSAB standard PS3250.059). Rather, Ontario is supporting the value of the pension asset recognized through the ability to benefit from contribution holidays to which the government would be entitled under the terms of the FMP. OPCD notes that PSAB Standards PS3250.052 and PS3250.055 provides guidance for determining the amount that is appropriately recognized as a pension asset:

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

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

The AGO has requested that Ontario provide a legal opinion confirming the government's ability to access/realize benefits sufficient to support the pension asset recognized. While the AGO's questions in connection with the treatment of the surplus have referenced surplus withdrawals, we understand

that OPCD is focussing on Ontario's right to apply the surplus toward reduced contributions or contribution holidays.

4. Analysis

i. Plan is a Jointly Sponsored Pension Plan

Section 5 of the TPA provides for Ontario and contributing employers to make contributions to the Plan that are equal to the contributions made by members, and we understand that the Plan is a jointly sponsored pension plan under the PBA. One of the defining features of a jointly sponsored pension plan is that both employer and members are jointly responsible for funding the benefits under the plan.

Regulation 909 under the PBA requires that the documents that create and support a jointly sponsored pension plan must set out the methods by which decisions relating to the terms and conditions of the Plan are to be made. The FMP is the mechanism by which the Plan partners have articulated the manner in which they will share the burden of Plan shortfalls and the benefit of Plan surpluses. As noted in Deloitte's analysis, the FMP provides guidance on how the Plan will be funded in different financial situations. Specific to surplus scenarios, the FMP provides for the actions that may be taken by the partners (i.e. Ontario and the OTF) in two different surplus "zones" - i.e. the Temporary Plan Improvement Zone and the Permanent Plan Improvement Zone.

ii. FMP Framework Governing Surpluses

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

- Article IV (Temporary Improvements) of the FMP provides for temporary actions that can be taken by the partners when Plan assets are greater than current liabilities (subject to the restorations required in section 3.06 of the FMP having already been provided). Section 4.05 of the FMP provides that in such a scenario, the parties may reduce current contributions, provide temporary surplus distributions or provide a temporary benefit improvement.
- Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. Section 5.05 provides

for actions that can be taken in respect of the amount that assets exceed current liabilities plus the 10% margin noted previously. Such actions can include changes to current benefits, current contributions, or both.

iii. Ontario's Legal Interest in Plan Surpluses

Section 10 of the TPA clearly indicates that the Plan is to be managed jointly by Ontario and the OTF. Further, section 10(1)3 expressly permits Ontario and the OTF to enter into an agreement governing "The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members."

Pursuant to this provision, Ontario and the OTF have entered into the FMP. The FMP provides for actions that Ontario and the OTF may take in a deficiency or surplus situation. Where there is a deficiency, contributions can be increased or benefits can be reduced. Under section 5(1.1) of the TPA, increases to contributions would generally need to be shared equally between Ontario and active Plan members (although section 5(7) of the TPA gives Ontario the discretion to pay additional unmatched contributions in the event of a solvency deficiency). The FMP also provides that reductions of benefits would be subject to an agreement whereby those reductions were offset by contributions from Ontario.

In terms of surpluses, the terms of the FMP do not give either Ontario or the OTF any unfettered ability to apply Plan surpluses for their own purposes. Rather, both parties must agree to any proposed application of Plan surpluses. For this reason, it is clear that Ontario would not have any authority to unilaterally apply the Government Portion of the Plan surplus for the purposes of a future contribution holiday.

However, this does not mean that Ontario would not have a legally enforceable expectation that Plan surpluses should result in future contribution holidays. The Supreme Court of Canada has also held, in *Schmidt v. Air Products Canada Ltd.*⁵ and *Nolan v. Kerry (Canada) Inc.*⁶ that "unless the terms of [a] plan specifically preclude it, an employer is **entitled** to take a contribution holiday" (emphasis added). There is nothing in the Plan or FMP that precludes a contribution holiday and, in fact, it is explicitly contemplated as a possible use of plan surpluses.

⁵ *Schmidt v. Air Products Canada Ltd.*, [1994] 2 S.C.R. 611 at p. 638

⁶ *Nolan v. Kerry (Canada) Inc.*, [2009] 2 SCR 678 at para 68.

In our view, the need for agreement with the OTF before implementing a specific reduction or holiday does not diminish Ontario's enforceable legal interest in the surplus or Ontario's reasonable expectation that a surplus could be applied to a contribution holiday at some future point. Instead, the FMP creates a framework through which Ontario can protect and realize this interest, including a process for negotiation, mediation and arbitration of disputes.

In point of fact, Ontario and the OTF have successfully negotiated in the past to deal with Plan surpluses and deficits through mutual agreement, with both parties receiving negotiated benefits (e.g. in 1998 and 1999, when surpluses were used to eliminate the special payments owed by Ontario, with Ontario and the OTF agreeing that other surpluses would be used to fund benefit improvements.)

Based on the forgoing we are of the view that the FMP provides Ontario with a reasonable basis on which to expect to benefit proportionately from Plan surpluses, with the nature and exact extent of that benefit determinable through a fair process of negotiation, mediation and arbitration.

Tom McKinlay, General Counsel, Crown Law Office – Civil
Len Hatzis, Deputy Director, TBS Legal Services
Paul Kaufman, Counsel, TBS Legal Services

G - OTPP Memo of understanding September 18, 2008 with letters.pdf

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

Interest Rate Assumption Adjustment

- A. Interest rate assumption will be adjusted to allow the filing of the January 1, 2008 funding valuation (approximately RRB+1.5%) subject to the provisions set out below.
- B. The Partners shall notify the Board, in writing, that the Funding Management Policy will not expire prior to the date the January 1, 2008 funding valuation is filed.
- C. The Restoration Basis within the Funding Management Policy will be revised and documented as RRB+1.4%.
- D. Establish a review process as per Attachment 1. Partners' Agreement needs to be revised to allow the payment of expenses as outlined in Attachment 1.

Contribution Rate Adjustment

- E. Contribution rate maximum to remain at 15.0% as previously agreed
 - 1. Maximum applies to contribution rate on salaries above the CPP limit.
- F. Basic contribution rate increased to 8.3/9.9% from 7.3/8.9%
 - 1. Special contributions adjusted accordingly to maintain same overall level.
 - 2. To be documented in Schedule 1 to the Teachers' Pension Act (Plan Text) before January 1, 2008 funding valuation is filed.
- G. The total contribution rate established with the January 1, 2005 filed funding valuation will remain unchanged.

Conditional inflation protection for future service after January 1, 2010

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

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

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

- J. Decisions regarding the level of adjustment (within the 50% to 100% range) will be made periodically by the Partners based on the Plan's emerging financial position, as part the valuation filing process. This decision is in effect until the date of the next filed funding valuation.
 - 1. It is understood that, if Plan assets in tandem with scheduled future contributions are sufficient to both sustain 100% adjustments for the future and to provide catch-up in the "pension run rate" (in the event prior adjustment were less than 100%) then these adjustments will both be provided in full.
 - 2. It is further understood that previously foregone inflation adjustments may be restored by the Partners where the resulting adjustments are expected to be sustainable (in light of the Plan's financial position and scheduled future contributions).
 - 3. The above will be documented in the Funding Management Policy by March 31, 2009.

- K. Finalize design of conditional indexation feature by March 31, 2009
 - 1. Appoint a tri-party working group (OTF, Ontario Government and OTPP) to design and advise the parties.
 - 2. Allows opportunity to consider other Canadian pension plans/risk sharing methods employed and to tailor the design to the parties' needs.
 - 3. It is understood that costs reasonably incurred and agreed to by all three parties, for operating the working group will be paid from Plan funds. Partners' Agreement needs to be revised to allow the payment of these expenses.

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

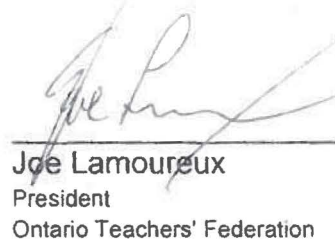
- L. Partners reserve the right (by their mutual agreement) for the finalized design to reflect a conditional indexation formula different from that outlined in H above, provided it results in a comparable reduction in net liability and risk profile using the same assumptions as the filed January 1, 2008 funding valuation.
- M. Any foregone inflation increases to pensioners are to be matched by contributions made by Ontario government/participating employers. Since this commitment conflicts with the current provisions of The Teachers' Pension Act, the government will seek the approval of the Legislature to amend the Act in that regard. The Partners agree that these contributions shall be documented in Schedule 1 to the Teachers' Pension Act (Plan Text) as soon as possible.

Other

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



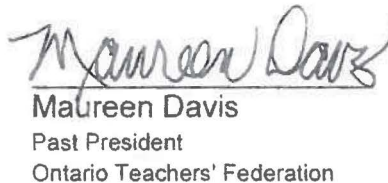
Jim Leech
President and Chief Executive Officer
Ontario Teachers' Pension Plan Board



Joe Lamoureux
President
Ontario Teachers' Federation



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



Maureen Davis
Past President
Ontario Teachers' Federation

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

General

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

Caveat

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

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

Triggering Event

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

Process

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

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

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

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

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

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

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

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

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

Cost

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

General

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

Membership

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

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

Mandate

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

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

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

Meetings and other procedures

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



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

April 14, 2014

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

Dear Mr. Mock:

Re: Filing of the January 2014 Plan Valuation

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

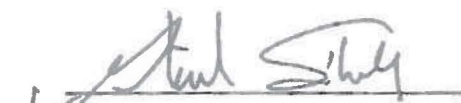
On account of the surplus and in keeping with the commitment made to Plan members when conditional inflation protection was introduced, we propose that for post-2009 service, inflation protection should be raised to 60 percent starting with the January 1, 2015 adjustment. Further, we propose to restore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

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

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

Yours sincerely,


Julie Pauletig
President
Ontario Teachers' Federation


George Zegarac
Deputy Minister
Ministry of Education



Ministry of Education
Mowat Block
Queen's Park
Toronto, ON M7A 1L2

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

March 18, 2015

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

Dear Mr. Mock:

Re: Filing of the January 2015 Plan Valuation

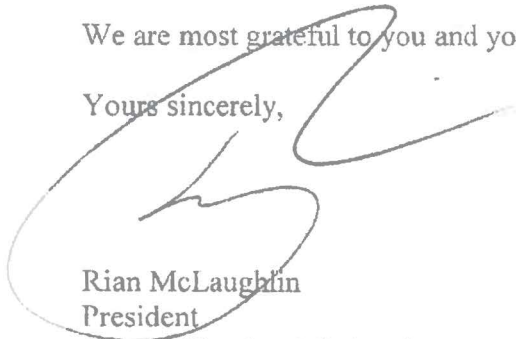
The preliminary valuation of the Ontario Teachers' Pension Plan ("the Plan") as at January 1, 2015 indicates that the Plan has a going concern surplus in excess of \$6 Billion. Although this valuation is not required to be filed with the Financial Services Commission of Ontario, the Partners have decided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

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

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

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

Yours sincerely,


Rian McLaughlin
President
Ontario Teachers' Federation


George Zegarac
Deputy Minister
Ministry of Education



Ministry of Education
Mowat Block
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August 8, 2016

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

Dear Ron Mock:

Re: Filing of the January 2016 Plan Valuation

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

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

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

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

Yours sincerely,

Francine LeBlanc-Lebel
President
Ontario Teachers' Federation

Nancy Matthews
Deputy Minister
Ministry of Education

FLL/NM/am

H - AON memo to MOF re limit on accrued benefit asset.pdf



Memorandum

To: Alex Killoch/Rob Pomykacz, Ministry of Finance

From: Allan Shapira, Aon Hewitt

Date: August 2, 2016

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

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

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

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

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

The FMP has five funding zones:

- The middle zone is the Fully Funded zone under which base benefits and contributions are maintained. In this zone, the plan is adequately funded to provide base benefits (including indexation at 100% of CPI) supported by the base contributions. Given the volatility of market factors and the numerous assumptions in the funding valuation, "fully funded" is considered a range.
- There are two zones below the Fully Funded zone that address the treatment of deficits.
- There are two zones above the Fully Funded zone that address the treatment of surpluses. The first zone is the Temporary Plan Improvement zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost). If the surplus reaches a specified level, the next zone, the Permanent Plan Improvement zone, provides for permanent changes to contribution rates and/or benefits.

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

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

I - OTPP Mercer Information for 2015-16 Public Accounts from.pdf

January 26, 2016

Mark Rozic, Manager (Acting)
External Reporting Branch
Office of the Provincial Controller Division
Treasury Board Secretariat
2nd Floor, Office 260, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

Dear Mr. Rozic:

I am responding to a letter dated December 11, 2015 from Ms. Leah Myers that requested actuarial and financial information about the Ontario Teachers' Pension Plan (registered pension plan - RPP) and the Retirement Compensation Arrangement (RCA) at December 31, 2015.

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

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

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

Market value of assets at December 31, 2015

Not yet
available

Item - 3(a) RPP Benefits Paid (\$ millions)

Retirement Pensions	\$ 5,056
Survivor Pensions	273
Disability Pensions	27
Lump Sum Death Benefits	71
Refunds	1
Commutated Value Transfers	74
Transfers to Other Plans	8
Family Law Value Transfers	27
Total	<u>\$ 5,537</u>

Item – 3(b) RCA Benefits Paid

The RCA pension payments made in 2015 were \$7.40 million and the RCA lump sum payments in 2015 were \$4.87 million.

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

Members

Current Service	\$	1,580
Optional Credit		35
Total	\$	1,615

Province of Ontario

Current Service	\$	1,568
Interest		37
Optional Credit		32
Total	\$	1,637

Other Employers

Transfers from Other Plans		14
Total	\$	47

Grand Total	\$	3,299
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Item 4(b) - RCA Contributions (\$ millions)

Members	\$	5.6
Province of Ontario		3.3
Other Employers		2.4
Total	\$	11.3

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

The foregone inflation amounts for 2014 payments which are part of the government billing for payment in January 2016 are as follows:

	Total	Province of Ontario
RPP	\$ 1,130,253	\$ 1,106,279
RCA	12,205	11,946
Total	\$ 1,142,458	\$ 1,118,225

Item 5 - Economic Assumptions

	RPP	RCA
Discount Rate	3.25%	1.625%
Salary Escalation Rate	2.50%	2.50%
Inflation Rate	1.50%	1.50%
Real Rate	1.70%	0.125%

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

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

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

Contributions	\$	3,157
Interest		51
Total	\$	3,208

Item 9 - Number of Pensioners and Active Members as at December 31, 2015

Pensioners	133,000
Active Members	183,000

Item 12 - Financial Statements

Not yet available.

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

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

Sincerely,



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

cc: Alex Killoch – Ministry of Finance



Lise Houle
Principal

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26 January 2016

Ms. Mary Cover
Director, Pension Strategy & Enterprise Risk
Ontario Teachers' Pension Plan Board
5650 Yonge Street
Toronto, ON M2M 4H5

Private & Confidential

Subject: December 31, 2015 Valuation Results Using the Province's Assumptions

Dear Mary,

As requested, we have provided you with information for the Ontario Teachers' Pension Plan (OTPP) on points 1, 3, 6, 10 and 11 in the December 11, 2015 letter from the Ministry of Finance to Mr. Ron Mock. As instructed in the Ministry letter, the following sets of assumptions have been used in calculating the liabilities as at December 31, 2015:

	Basis 1	Basis 2	Basis 3	Basis 4
Valuation discount rate	6.50%	6.25%	6.25%	6.00%
Inflation rate	2.25%	2.25%	2.00%	2.00%
Real valuation discount rate	4.25%	4.00%	4.25%	4.00%
Salary escalation rate	2.25% for the years 2016 to 2019, 3.25% thereafter	2.25% for the years 2016 to 2019, 3.25% thereafter	2.00% for the years 2016 to 2019, 3.00% thereafter	2.00% for the years 2016 to 2019, 3.00% thereafter

For each basis, all the other assumptions and the valuation methods are those used by the Ontario Teachers' Pension Plan Board in the December 31, 2015 valuation for financial statement purposes. This includes proposed demographic assumption changes as well as negotiated salary increases providing a 1% lump sum increase at September 1, 2015, a 1% increase at September 1, 2016 and a 0.5% increase half-way through the school year commencing September 1, 2016. The demographic assumptions were updated to reflect recent experience of Plan members related to retirement, termination of plan membership, re-

Page 2

26 January 2016

Ms. Mary Cover

Ontario Teachers' Pension Plan Board

instatement of inactive members and increases in salaries related to experience. The changes to the demographic assumptions are described in the presentation material from our meeting with the Technical Committee on January 13, 2016. The remaining demographic assumptions are provided in our Report on the Actuarial Valuation for Financial Statement Purposes as at December 31, 2014. We expect that our report on the December 31, 2015 actuarial valuation will be finalized in March, 2016.

For the sake of clarity, we note that the assumed increases in the YMPE and maximum pension limits under the Income Tax Act are the same rates as the long-term salary growth rates noted for each of the four bases.

The Province has requested that we prepare the results assuming that inflation protection for post 2009 service will be provided at 100% and at 50% of the assumed inflation rate. In this letter we have included results using both of these alternative inflation protection levels. We note that at the time of preparing this letter, the Plan provides for 70% of conditional inflation protection for post 2009 service.

At the Province's request, the liabilities have been calculated using the "projected benefit method, pro-rated on services". In the calculations presented in this letter, we have used the projected benefit method, pro-rated on service with three attribution periods to reflect the different indexing provisions for service accrued to December 31, 2009, service accrued from January 1, 2010 to December 31, 2013 and service accrued from January 1, 2014. However, we note that the same level of indexing was applied to all service from January 1, 2010 to December 31, 2015 for purposes of calculating the liabilities provided in this letter (whether the results are based on 100% or 50% conditional indexing).

We have included information regarding the experience gain/loss incurred relative to salary growth during the year as well as the impact on the December 31, 2015 liabilities due to changing the rate of inflation and salary growth assumption in Bases 3 and 4 in our tables relative to the assumptions from Bases 1 and 2. We note that since the assumed increases in salaries determined by the Province are set equal to the assumed inflation rate plus 1%, we have not separately identified the changes in salary only without the corresponding changes in inflation.

The results as at December 31, 2015 are summarized in the following tables.

Page 3
26 January 2016
Ms. Mary Cover
Ontario Teachers' Pension Plan Board

Results using 100% conditional indexing for post 2009 service (results in \$ millions)

	Basis 1	Basis 2	Basis 3	Basis 4
Valuation discount rate:	6.50%	6.25%	6.25%	6.00%
Inflation rate:	2.25%	2.25%	2.00%	2.00%
Salary escalation rate:	2.25% for the years 2016 to 2019, 3.25% thereafter	2.25% for the years 2016 to 2019, 3.25% thereafter	2.00% for the years 2016 to 2019, 3.00% thereafter	2.00% for the years 2016 to 2019, 3.00% thereafter
1. Actuarial present value (APV) of accrued pension benefits at December 31, 2014 using Last Year's Basis 4	\$113,801	\$113,801	\$113,801	\$113,801
2. Increase in the APV of accrued pension benefits				
Interest on the APV of accrued pension benefits	\$7,310	\$7,310	\$7,310	\$7,310
Current Service Cost (mid-year)	2,868	2,868	2,868	2,868
Contributions for optional credit	34	34	34	34
Repayment of refunds	0	0	0	0
Transfers from other plans	14	14	14	14
Change in valuation assumptions and methods:				
Change in demographic assumptions	350	350	350	350
Change in interest rate from Basis 1	0	4,142	4,142	8,309
	\$10,576	\$14,718	\$14,718	\$18,885
3. Decrease in the APV of accrued pension benefits				
Pensions paid	\$5,356	\$5,356	\$5,356	\$5,356
Refund of contributions	0	0	0	0
Lump sum payments and transfers	180	180	180	180
Salary experience gains	1,028	1,028	1,028	1,028
All other experience gains	552	552	552	552
Negotiated Salary Increases	1,161	1,161	1,161	1,161
Change in inflation rate and salary growth rates from Basis 1	0	0	3,829	3,829
Change in other actuarial assumptions and methods	46 ¹	46	46	46
	\$8,323	\$8,323	\$12,152	\$12,152
4. Net increase in the APV of accrued pension benefits	\$2,253	\$6,395	\$2,566	\$6,733
5. APV of accrued pension benefits at December 31, 2015	\$116,054	\$120,196	\$116,367	\$120,534
6. Annual current service cost at January 1, 2016 (BOY)	\$2,880	\$3,058	\$2,899	\$3,079

¹ Change to commuted value assumption to value benefits payable upon termination

Results using 50% conditional indexing for post 2009 service (results in \$ millions)

	Basis 1	Basis 2	Basis 3	Basis 4
Valuation discount rate:	6.50%	6.25%	6.25%	6.00%
Inflation rate:	2.25%	2.25%	2.00%	2.00%
Salary escalation rate:	2.25% for the years 2016 to 2019, 3.25% thereafter	2.25% for the years 2016 to 2019, 3.25% thereafter	2.00% for the years 2016 to 2019, 3.00% thereafter	2.00% for the years 2016 to 2019, 3.00% thereafter
1. Actuarial present value (APV) of accrued pension benefits at December 31, 2014 using Last Year's Basis 4	\$112,004	\$112,004	\$112,004	\$112,004
2. Increase in the APV of accrued pension benefits				
Interest on the APV of accrued pension benefits	\$7,182	\$7,182	\$7,182	\$7,182
Current Service Cost (mid-year)	2,508	2,508	2,508	2,508
Contributions for optional credit	34	34	34	34
Repayment of refunds	0	0	0	0
Transfers from other plans	14	14	14	14
Change in valuation assumptions and methods:				
Change in demographic assumptions	322	322	322	322
Change in interest rate from Basis 1	0	3,975	3,975	7,990
	\$10,060	\$14,035	\$14,035	\$18,050
3. Decrease in the APV of accrued pension benefits				
Pensions paid	\$5,356	\$5,356	\$5,356	\$5,356
Refund of contributions	0	0	0	0
Lump sum payments and transfers	180	180	180	180
Salary experience gains	979	979	979	979
All other experience gains	545	545	545	545
Negotiated Salary Increases	1,104	1,104	1,104	1,104
Change in inflation rate and salary growth rates from Basis 1	0	0	3,461	3,461
Change in other actuarial assumptions and methods	36 ²	36	36	36
	\$8,200	\$8,200	\$11,661	\$11,661
4. Net increase in the APV of accrued pension benefits	\$1,860	\$5,835	\$2,374	\$6,389
5. APV of accrued pension benefits at December 31, 2015	\$113,864	\$117,839	\$114,378	\$118,393
6. Annual current service cost at January 1, 2016 (BOY)	\$2,523	\$2,671	\$2,574	\$2,727

² Change to commuted value assumption to value benefits payable upon termination

Page 5
26 January 2016
Ms. Mary Cover
Ontario Teachers' Pension Plan Board

We have the following comments on the results:

- Our valuation of the actuarial present value of the accrued pension benefits as at December 31, 2015 and the 2016 current service costs are based on membership data as at August 31, 2015. The actuarial present value of accrued pension benefits as at August 31, 2015 is then extrapolated forward to December 31, 2015, reflecting expected cashflows and the actual inflation adjustment as at January 1, 2016 of 1.30% for pre-2010 service and 0.91% for post-2009 service. The 2015 mid-year current service is based on membership data as at August 31, 2014. A summary of the membership data as at August 31, 2015 was included with our email of October 23rd, 2015 to Glen Tunney.
- We understand that the Province adopted Last Year's Basis 4 in establishing the actuarial present value of accrued pension benefits as at December 31, 2014. This is the same as Basis 1 for the current year.
- We have assumed that any change in the Province's assumptions (i.e. nominal and real discount rates, inflation rate, and salary escalation rate would occur at December 31, 2015).

The Expected Average Remaining Service Lifetime (EARSL) of active employees at August 31, 2015 and estimated for December 31, 2015, is 15.3 years. The increase in the EARSL from the prior year is primarily attributable to the change in assumed termination and retirement rates.

The net experience gain incurred on the plan liability since the prior year was primarily attributable to the lower than expected level of inflation for the January 1, 2016 indexing. Other experience gains and losses were relatively small.

The figures presented in this letter exclude the Ontario Teachers' Retirement Compensation Arrangement ("OTRCA"), which provides benefits to members that are in excess of those permitted to be provided from the registered pension plan. The Province has requested information on the OTRCA based on what will be reported in the OTRCA's 2015 financial statements, and does not require calculations on any other basis.

While the actuarial demographic assumptions used to estimate liabilities for the Plan represent the Ontario Teachers' Pension Plan Board's best estimate of future events and the economic assumptions are as provided by the Province, and while in our opinion the assumptions used for the valuation are appropriate provided the Province selected the economic assumptions in accordance with the Chartered Professional Accountants of Canada Public Sector Accounting Board Handbook ("PSAB Handbook"), the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial



Page 6

26 January 2016

Ms. Mary Cover

Ontario Teachers' Pension Plan Board

assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time.

We have tested the data for reasonableness and consistency, and in my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation. In my opinion, the calculations have been made in accordance with my understanding of the reporting requirements under the PSAB Handbook and this report has been prepared, and, my opinions given, in accordance with accepted actuarial practice in Canada.

If you have any questions, please do not hesitate to call.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Lise Houle'.

Lise Houle

Copy:

Scott Clausen, Mercer

Jason Lipping, Mercer

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Ontario Teachers' Pension Plan - PSAB Calculations

Pension Expenditure - Amortization of Initial Unfunded Liability

Pension Liability - Unamortized Initial Unfunded Liability

Fiscal Year	Source	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Closing pension liability	"liability" sheet			4,875														
50% of closing pension liability	formula			2,438														
EARSL	Input data				14													
Annual amortization	formula				174	174	174	174	174	174	174	174	174	174	174	174	174	176
Unamortized balance	formula				2,264	2,090	1,916	1,742	1,568	1,394	1,220	1,046	872	698	524	350	176	-

*****Amount has been fully amortized by 2006-07, and no longer applies*****



Ontario Teachers' Pension Plan - PSAB Calculations

Pension Expenditure - Amortization of Difference Between Employer and Employee Contributions
Pension Liability - Unamortized Difference Between Employer and Employee Contributions

Fiscal Year	Source	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2027-28	2028-29	2029-30	Check
Step 1: Ontario's over (under) contribution - fiscal year																							
Ontario contribution - fiscal year	Data input	1,516	1,344	1,393	1,461	1,526	1,588	1,684	1,733	1,794	1,858												
Less: Ontario special payments for foregone CPI - fiscal year					1	1	1	0	0	0	0												
Less: employee contributions - calendar year	Data input	1,313	1,377	1,446	1,511	1,578	1,615	1,677	1,744	1,805	1,868												
Less: other employers' contributions - calendar year	Data input	25	26	29	29	32	33	34	36	37	38												
Ontario over (under) contribution	formula	(22)	(59)	(81)	(80)	(85)	(51)	(47)	(47)	(48)	(48)												
Step 2: Amortization of difference in contributions																							
50% of Ontario's over (under) contribution	formula	(11)	(30)	(40)	(40)	(43)	(25)	(23)	(24)	(24)	(24)												
expected average remaining service life of employees (1 AFISL)	Data input	13.9	14.1	14.6	14.5	14.4	15.3	15.3	15.3	15.3	15.3												
Annual amortization of difference in contributions	formula	(1)	(2)	(3)	(3)	(3)	(2)	(2)	(2)	(2)	(2)												
Step 3: Annual amortization of difference in contributions																							
amortization of 1993-94 difference	Step 2																						(129)
amortization of 1994-95 difference	Step 2																						(77)
amortization of 1995-96 difference	Step 2																						30
amortization of 1996-97 difference	Step 2																						154
amortization of 1997-98 difference	Step 2																						271
amortization of 1998-99 difference	Step 2	19																					244
amortization of 1999-00 difference	Step 2	1	1	1																			19
amortization of 2000-01 difference	Step 2																						6
amortization of 2001-02 difference	Step 2																						4
amortization of 2002-03 difference	Step 2																						1
amortization of 2003-04 difference	Step 2	(1)	(1)	(1)	(1)																		(11)
amortization of 2004-05 difference	Step 2	(1)	(1)	(1)	(1)	(1)	(1)	(2)															(14)
amortization of 2005-06 difference	Step 2	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(1)													(22)
amortization of 2006-07 difference	Step 2	(1)	(1)	(1)	(1)																		(7)
amortization of 2007-08 difference	Step 2	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)		(9)	(6)										(125)
amortization of 2008-09 difference	Step 2	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(6)									(34)
amortization of 2009-10 difference	Step 2	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(3)								(26)
amortization of 2010-11 difference	Step 2		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)										(11)
amortization of 2011-12 difference	Step 2			(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)					(30)
amortization of 2012-13 difference	Step 2				(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(2)				(40)
amortization of 2013-14 difference	Step 2					(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(2)	(2)			(43)
amortization of 2014-15 difference	Step 2						(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(2)	(2)		
amortization of 2015-16 difference	Step 2							(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(26)
amortization of 2016-17 difference	Step 2								(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(23)
amortization of 2017-18 difference	Step 2									(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(23)
amortization of 2018-19 difference	Step 3										(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(23)
amortization of 2019-20 difference	Step 3											(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(24)
Total annual amortization of difference in contributions		2	(18)	(20)	(24)	(25)	(27)	(30)	(30)	(31)	(32)	(33)	(32)	(29)	(22)	(18)	(17)	(17)	(12)	(11)	(9)	(7)	(6)
Step 4: Unamortized difference in contributions																							
cumulative 50% over (under) contributions		269	239	199	159	116	91	67	44	20	(4)												
less: cumulative amortization		456	441	421	397	372	345	315	285	254	223												
Unamortized difference in contributions closing balance		(190)	(202)	(222)	(238)	(256)	(254)	(248)	(242)	(235)	(227)												



Ontario Teachers' Pension Plan - PSAB Calculations

Pension Liability - Adjustment for Different Year Ends Between Pension Plan and Province

Calendar Year	Source	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Opening pension liability	"liability" sheet	(4,607)	(5,301)	(5,921)	(7,409)	(9,653)	(11,892)	(13,525)	(15,248)	(16,344)	(17,603)	(19,607)	(22,590)	(26,852)	(31,985)	(37,820)
Pension expenditure	"expense" sheet	97	201	(428)	(1,088)	(831)	(285)	(318)	361	269	(411)	(1,346)	(2,557)	(3,362)	(4,003)	(4,550)
Less: employer contribution	Input data	(781)	(820)	(1,060)	(1,156)	(1,408)	(1,348)	(1,406)	(1,458)	(1,527)	(1,593)	(1,637)	(1,704)	(1,771)	(1,832)	(1,894)
Less: transfers from other plans	Input data	(10)														
Ending pension liability	formula	(5,301)	(5,921)	(7,409)	(9,653)	(11,892)	(13,525)	(15,249)	(16,345)	(17,602)	(19,607)	(22,590)	(26,852)	(31,985)	(37,820)	(44,264)
checking	vs. "liability" sheet							1	1	(1)						
Fiscal Year	Source	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Opening pension liability	formula	(3,613)	(4,256)	(4,851)	(6,087)	(8,245)	(10,321)	(11,923)	(13,584)	(14,616)	(15,808)	(17,745)	(20,689)	(24,911)	(30,006)	(35,803)
Pension expenditure	"expense" sheet	97	201	(428)	(1,088)	(831)	(285)	(318)	361	269	(411)	(1,346)	(2,557)	(3,362)	(4,003)	(4,550)
Less: employer contribution	Input data (vol. 1)	(740)	(795)	(808)	(1,070)	(1,245)	(1,316)	(1,344)	(1,393)	(1,461)	(1,526)	(1,596)	(1,664)	(1,733)	(1,794)	(1,858)
Audit adjustment		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ending pension liability	formula	(4,256)	(4,851)	(6,087)	(8,245)	(10,321)	(11,923)	(13,584)	(14,616)	(15,808)	(17,745)	(20,689)	(24,911)	(30,006)	(35,803)	(42,211)
Difference - adjustment required		1,045	1,070	1,322	1,408	1,571	1,603	1,665	1,729	1,794	1,862	1,901	1,941	1,980	2,017	2,053
Cumulative transfers from other plans		(150)														
EARSL			14													
Annual amortization of cumulative transfers from other plans			-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-10	-10	-10	-10
Unamortized balance			(139)	(128)	(117)	(106)	(95)	(84)	(73)	(62)	(51)	(40)	(30)	(20)	(10)	0
Accumulated amortization			-11	-22	-33	-44	-55	-66	-77	-88	-99	-110	-120	-130	-140	-150
Adjustment for different year ends		1,045	1,059	1,300	1,375	1,527	1,548	1,599	1,652	1,706	1,763	1,791	1,821	1,849	1,877	1,903

Ontario Teachers' Pension Plan - PSAB Calculations
Special Payments for foregone CPI Index post 2009 Service

Calendar Year	Source	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2019	2018	2019
CPI Special Payments - calendar	Input data	-	-	-	-	-	1	1	1	-	-	-	-	-
Fiscal Year	Source	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19	2018-19
CPI Special Payments - Fiscal	Input data (vol, 1)	-	-	-	-	-	1	1	1	-	-	-	-	-
Adjustment for Province's special payments for foregone CPI Index		-	-	-	-	-	1	2	3	3	3	3	3	3



Ontario Teachers' Pension Plan - PSAB Calculations
Pension Expenditure

Calendar Year	Source	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
50% Pension Expenditure Reflecting Accounting Policy for Joint Plans																												
Current period benefit cost	formula - 50% of below	465	590	594	585	646	682	669	602	653	651	650	770	848	868	878	955	998	1,051	1,118	1,175	1,217	1,283	1,396	1,327	1,462	1,451	
Amortization of experience gains	formula - 50% of below	n/a	(56)	(31)	(129)	(74)	(147)	(190)	(220)	(326)	(485)	(568)	(235)	(247)	(222)	(233)	(234)	(235)	(355)	(557)	(458)	(204)	(245)	(91)	35	(156)	(382)	
Pension interest expenditure	formula - 50% of below	167	210	115	127	109	146	71	18	(63)	(188)	(353)	(374)	(250)	(272)	(261)	(281)	(258)	(381)	(536)	(481)	(597)	(495)	(287)	(457)	(707)	(930)	
Cost of plan amendment	formula - 50% of below	-	-	-	-	-	-	129	1,007	-	-	-	2,260	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Reclassification	formula - 60% of below	-	-	-	-	-	-	250	(250)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Less: recognition of unamortized experience gains	formula - 50% of below	-	-	-	-	-	-	(379)	(757)	-	-	-	(2,260)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Less: amortization of initial unrounded liability	initial uli sheet	-	-	-	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(176)	-	-	-	-	-	-	-	-	-	
Less: amortization of cumulative transfers from other contributions sheet	formula - 50% of below	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(8)	
Amortization of difference in contributions	contributions sheet formula	n/a	n/a	n/a	(10)	(16)	(13)	(1)	18	36	39	40	43	44	42	40	39	36	44	40	36	4	(18)	(20)	(24)	(25)	(27)	
Pension expense	formula	632	744	679	399	491	496	375	244	126	(158)	(405)	29	221	241	250	305	359	354	60	266	523	519	892	875	569	118	
		Unrounded 221,360,000 241,420,000 250,387,500 305,275,000 359,260,294 353,810,919 59,572,794 265,828,063 523,012,256 519,141,361 892,031,701 874,988,194 568,818,171 118,324,044																										
100% Pension Expenditure																												
Current period benefit cost	Data input	930	1,180	1,188	1,170	1,292	1,363	1,337	1,504	1,305	1,301	1,300	1,539	1,695	1,735	1,756	1,999	1,995	2,102	2,236	2,349	2,434	2,565	2,791	2,654	2,924	2,902	
Less: employee & other employers' contributions	Data input	(534)	(600)	(720)	(669)	(719)	(626)	(619)	(590)	(821)	(829)	(824)	(638)	(675)	(705)	(727)	(784)	(809)	(1,059)	(1,138)	(1,302)	(1,338)	(1,402)	(1,474)	(1,540)	(1,610)	(1,648)	
Amortization of experience gains	experience gill sheet	n/a	(111)	(61)	(257)	(148)	(203)	(380)	(439)	(651)	(970)	(1,135)	(470)	(403)	(444)	(466)	(467)	(470)	(710)	(1,113)	(916)	(587)	(490)	(181)	70	(312)	(723)	
Pension interest expenditure	Interest sheet	335	410	231	253	218	296	143	35	(126)	(377)	(707)	(749)	(499)	(544)	(521)	(561)	(515)	(761)	(1,073)	(962)	(794)	(990)	(775)	(915)	(1,413)	(1,877)	
Cost of plan amendment	Data input	-	-	-	-	-	-	258	2,013	-	-	-	4,519	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Reclassification	experience gill sheet	-	-	-	-	-	-	500	(500)	-	-	-	(4,519)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Recognition of unamortized experience gains	formula	731	882	638	468	643	740	481	210	(93)	(675)	(1,166)	(318)	28	42	32	97	190	(439)	(1,088)	(831)	(285)	(318)	361	269	(411)	(1,346)	
Less: amortization of cumulative transfers from other contributions sheet	year end sheet	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
100% Pension expenditure	formula	643	744	679	399	491	496	375	244	126	(158)	(405)	29	221	241	250	305	359	354	60	266	523	519	892	875	569	118	



Ontario Teachers' Retirement Compensation Arrangement - PSAB Calculations
Pension Expense

Fiscal Year	Source	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
50% Pension Expenditure Reflecting Accounting Policy for Joint Plans									
Current period benefit cost	formula - 50% of below	5	5	6	8	7	7	3	4
Amortization of experience gains	formula - 50% of below	(18)	(18)	(11)	(8)	(8)	(7)	(8)	(12)
Pension interest expenditure	formula - 50% of below	2	2	3	4	3	3	4	3
Cost of plan amendment	formula - 50% of below	-	-	-	-	-	-	-	-
Less: recognition of unamortized experience gains	formula - 50% of below	-	-	-	-	-	-	-	-
Pension expenditure	formula	(10)	(11)	(1)	3	3	3	(1)	(5)
		(9,590,855)	(10,726,960)	(1,140,540)	3,435,811	2,654,286	2,985,463	(1,129,382)	(5,141,251)
	Add:			-					
	Impact in 201		(1,140,540)						
100% Pension Expenditure									
Current period benefit cost	RCA data	11	10	Fong, Pauline (MOF): See below: Use \$10M for PA and RbP. Included as art of experience gains/losses.			3	7	8
Less: employee & other employers' contributions	RCA data	(4)	(3)				(8)	(6)	(8)
Amortization of experience gains	"RCA exp g(l)" sheet	(35)	(36)				(4)	(16)	(24)
Pension interest expenditure	"RCA Interest" sheet	5	5				7	7	5
Cost of plan amendment	RCA data	-	-	-	-	-	-	-	-
Recognition of unamortized experience gains	"RCA exp g(l)" sheet	-	-	-	-	-	-	-	-
100% Pension expenditure	formula	(23)	(24)	(8)	1.61	0	(3)	(8)	(18)
To bring ministry liability to be in line with PSAB									
in Budget and in PA for RCA liability									
Dr. Liability RCA on EDU's books							-5	-3	-3
Dr. Pension RCA Expense									
Total expense for RCA							(2.01454)	(4.12938)	(8.14125)



Ontario Teachers' Pension Plan - PSAB Calculations
Pension Liability

Calendar Year	Source	2008	2009	2010	2011	2012	2013-14 2013	2014-15 2014	2015-16 2015
50% Pension Liability Reflecting Accounting Policy for Joint Plans									
Accrued benefit obligation, closing balance	formula - 50% of below	46,011	48,304.00	49,559	51,847	52,977	54,762	56,901	58,184
Reclassification	formula - 50% of below	-	-	-	-	-	-	-	-
Less: pension fund assets, closing balance	formula - 50% of below	(53,479)	(54,556.00)	(57,123)	(57,843)	(59,932)	(65,434)	(71,538)	(78,489)
Unamortized experience gains	formula - 50% of below	2,617	276.84	772	(1,648)	(1,237)	1,851	4,816	8,991
Adjustment for different year ends	formula - 50% of below	687	763.52	774	799	826	853	882	895
Adjustment for special payments - foregoing CPI	formula - 50% of below	-	-	-	-	-	(1)	(1)	(2)
Adjustment for OTPP receivable from Province	formula - 50% of below	24	28.99	29	20	20	19	18	19
Unamortized initial unfunded liability	"initial unf" sheet	-	-	-	-	-	-	-	-
Unamortized difference in contributions	"contributions" sheet	113	177.26	190	202	222	238	256	254
Pension liability at March 31	formula	(4,027)	(5,005.39)	(5,799)	(6,623)	(7,124)	(7,711)	(8,667)	(10,147)
		-4,026,643,589	-5,005,385,684	-5,798,635,294	-6,622,806,890	-7,123,832,154	(7,710,599,909)	(8,667,082,410)	(10,146,996,453)
Continuity									
Opening pension liability - March 31	above	(3,016)	(4,027)	(5,005)	(5,799)	(6,623)	(7,124)	(7,711)	(8,667)
Pension expenditure	"expense" sheet	60	266	523	519	892	875	569	118
Less: Employer contribution - fiscal year	Data Input	(1,070)	(1,245)	(1,316)	(1,344)	(1,393)	(1,461)	(1,526)	(1,598)
Closing pension liability - March 31	formula	(4,027)	(5,005)	(5,799)	(6,623)	(7,124)	(7,710)	(8,668)	(10,147)
checking		(0)	-	-	(0)	-	1	(1)	-
100% Pension Liability									
Accrued benefit obligation, closing balance	Data input	92,022	96,608	99,117	103,693	105,954	109,524	113,801	116,367
Reclassification		-	-	-	-	-	-	-	-
Less: pension fund assets, closing balance	Data input	(106,957)	(109,112)	(114,246)	(115,685)	(119,864)	(130,867)	(143,076)	(156,978)
Pension liability (surplus)	formula	(14,935)	(12,504)	(15,129)	(11,992)	(13,910)	(21,343)	(29,275)	(40,611)
Unamortized experience gains	"experience g(l)" sheet	5,235	554	1,545	(3,296)	(2,473)	3,702	9,631	17,983
Adjustment for OTPP receivable from Province	Data input	47	58	59	40	39	38	37	38
Pension liability at December 31	formula	(9,653)	(11,892)	(13,525)	(15,248)	(16,344)	(17,603)	(19,607)	(22,590)
Adjustment for special payments - foregoing CPI	"CPI Special Payments" sheet	-	-	-	-	-	(1)	(2)	(3)
Adjustment for different year ends	"year end" sheet	1,375	1,527	1,548	1,599	1,652	1,706	1,763	1,791
Pension liability at March 31	formula	(8,278)	(10,365)	(11,978)	(13,649)	(14,692)	(15,898)	(17,846)	(20,803)

liability

Ontario Teachers' Retirement Compensation Arrangement - PSAB Calculations

Pension Liability

Fiscal Year	Source	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
50% Pension Liability Reflecting Accounting Policy for Joint Plans									
Accrued benefit obligation, closing balance	formula - 50% of below	114	148.00	192	196	190	172	165	155
Less: pension fund assets, closing balance	formula - 50% of below	(7)	(6.86)	(8)	(8)	(9)	(12)	(13)	(13)
Unamortized experience gains	formula - 50% of below	86	38.61	-9	-12	(7)	11	12	11
Pension liability at March 31	formula	192	179.75	175	176	175	170	164	153
		193,161,612	179,984,133	176,472,309	175,835,899	174,530,399	170,431,899	164,063,399	153,051,399
Continuity									
Opening pension liability - March 31	above	205	192	180	175	175.836	174.530	170	164
Less: fiscal year contributions	"RCA data" sheet	(3)	(2)	(2)	(2)	(2.465)	(5.406)	(5)	(3)
Pension expense	"RCA exp" sheet	(10)	(11)	(1)	3	2.654	2.985	(1)	(5)
Closing pension liability - March 31	formula	193	180	176	176	176.025	172.110	164	156
checking		1	0	1.042	0.647	1.495	1.678	0	3
100% Pension Liability									
Accrued benefit obligation, closing balance	RCA data	227	296	384	392	380	344	330	309
Less: pension fund assets, closing balance	RCA data	(14)	(14)	(15)	(16)	(17)	(24)	(26)	(25)
Pension liability (surplus)	formula	213	282	369	376	363	320	304	284
Unamortized experience gains	"RCA exp g(l)" sheet	170	76	(19)	(26)	(15)	20	23	21
Pension liability at March 31	formula	383	358	350	350	348	340	327	305



Ontario Teachers' Pension Plan and Retirement Compensation Arrangement
Total Pension Liability and Expenditure Reflecting Accounting Policy for Joint Plans

Calendar Year	Source	2008	2009	2010	2011	2012	2013-14 2013	2014-15 2014	2015-16 2015
Pension Liability Reflecting Accounting Policy for Joint Plans									
Accrued benefit obligation, closing balance	"liability" + "RCA liab"	46,125	48,452.00	49,751	52,043	53,167	54,934	57,066	58,338
Reclassification	"liability"	-	-	-	-	-	-	-	-
RCA pick up closing liability	"RCA liab"	-	-	-	-	-	-	-	-
Less: pension fund assets, closing balance	"liability" + "RCA liab"	(53,485)	(54,562.86)	(57,131)	(57,850)	(59,941)	(65,446)	(71,551)	(78,502)
Unamortized experience gains (losses)	"liability" + "RCA liab"	2,703	315.45	764	(1,660)	(1,243)	1,862	4,828	9,002
Adjustment for different year ends	"liability"	687	763.52	774	799	826	853	882	895
Adjustment for OTPP receivable from Province	"liability"	24	28.99	29	20	20	19	18	19
Unamortized initial unfunded liability	"liability"	-	-	-	-	-	-	-	-
Unamortized difference in contributions	"liability"	113	177.26	190	202	222	238	256	254
Pension liability at March 31	formula	(3,834)	(4,826)	(5,623)	(6,447)	(6,949)	(7,540)	(8,502)	(9,992)
		(3,834,389,190)	(4,825,633,785)	(5,623,205,395)	(6,446,970,991)	(6,949,301,756)	(7,539,668,010)	(8,502,019,011)	(9,992,445,054)
							IFIS		(992,316,327)
Continuity									
Opening pension liability - March 31	above	(2,811)	(3,834)	(4,826)	(5,623)	(6,447)	(6,949)	(7,540)	(8,502)
Pension expenditure	below	50	255	522	523	895	878	568	113
Less: Employer contribution - fiscal year	Data Input	(1,073)	(1,246)	(1,318)	(1,346)	(1,396)	(1,466)	(1,531)	(1,601)
Closing pension liability - March 31	formula	(3,833)	(4,825)	(5,622)	(6,447)	(6,948)	(7,537)	(8,503)	(9,990)
checking		1	0	1	0	1	2	(1)	3
Pension Expenditure Reflecting Accounting Policy for Joint Plans									
Current period benefit cost	"expense" + "RCA exp"	1,123	1,179.47	1,223	1,290	1,403	1,334	1,465	1,455
Amortization of experience gains	"expense" + "RCA exp"	(574)	(476.00)	(305)	(253)	(99)	28	(164)	(374)
Pension interest expenditure	"expense" + "RCA exp"	(534)	(478.86)	(394)	(491)	(384)	(454)	(703)	(936)
Cost of plan amendment	"expense" + "RCA exp"	-	-	-	-	-	-	-	-
Reclassification	"expense"	-	-	-	-	-	-	-	-
RCA pick up closing liability	"RCA exp"	-	-	-	-	-	-	-	-
Less: recognition of unamortized experience gains	"expense" + "RCA exp"	-	-	-	-	-	-	-	-
Less: amortization of initial unfunded liability	"expense"	-	-	-	-	-	-	-	-
Less: amortization of cumulative transfers from other plans	"expense"	(6)	(5.51)	(6)	(6)	(6)	(6)	(6)	(6)
Amortization of difference in contributions	"expense"	40	36.00	2	(18)	(20)	(24)	(25)	(27)
Pension expenditure	formula	50	255	522	523	895	878	568	113
		49,981,939	255,101,103	521,871,716	522,577,172	877,973,657	877,973,657	567,688,789	113,182,793
						Use \$885 for Budget and	(5,000,000)	(3,000,000)	(3,000,000)
						PA. Include \$6M as part	872,973,657	564,688,789	110,182,793
						of experience gains	878	568	113
Net Journal Entry in a modified cash environment									
Pension expenditure	above	50	255	522	523				
Less: cash contribution made by Ontario (fiscal year)	input data	(1,073)	(1,246)	(1,318)	(1,346)	(1,396)	(1,466)	(1,531)	(1,601)
Net journal entry	formula	(1,023)	(991)	(797)	(824)	(501)	(588)	(963)	(1,488)
checking		1	0	1	0	1	2	(1)	3

Calendar Year	Gain/(Loss)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
1998	1,290	258	258	258	258	258																		1,290
1999	6,710		1,342	1,342	1,342	1,342	1,342																	6,710
2000	-1,117			-223	-223	-223	-224	-224																-1,117
2001	-6,555				-1,311	-1,311	-1,311	-1,311	-1,311															-6,555
2002	-8,256					-1,651	-1,651	-1,651	-1,651	-1,652														-8,256
2003	5,400						1,080	1,080	1,080	1,080	1,080													5,400
2004	3,636							727	727	728	727	727												3,636
2005	5,929								1,185	1,186	1,186	1,186	1,186											5,929
2006	6,340									1,268	1,268	1,268	1,268	1,268										6,340
2007	-4,092										-818	-818	-818	-819										-4,092
2008	25,989											-5,198	-5,198	-5,198	-5,198	-5,197								25,989
2009	4,073												815	815	814		814							4,073
2010	2,644													529	529	529	529	528						2,644
2011	4,247														850	850	849	849	849					4,247
2012	6,555															1,311	1,311	1,311	1,310	1,310				6,553
2013	4,673																936	935	935	935	935			4,676
2014	6,408																	1,282	1,282	1,282	1,281	1,281		6,408
2015	9,272																		1,854	1,854	1,854	1,855	1,855	9,272
																								0
Smoothing adjustment or unamortized gains/(losses)					-2,973	-9,644	-3,480	1,535	7,434	11,164	3,629	-19,525	-12,705	-6,656	1,414	9,660	9,897	11,400	14,442	9,061	4,991	1,855		
Gain/(loss) to be recognized in year						-1,585	-764	-1,379	30	2,610	3,443	-2,835	-2,747	-3,405	-3,823	-1,693	4,439	4,905	6,230	5,381	4,070	3,136	1,855	
Losses incurred between 2000 and 2002			-15,928																					
Gains earned between 2003 and 2006																								



Ontario Teachers' Pension Plan
Variance Analysis
March 31, 2016

	Original Budget	2016	2015	year over year		budget to actual	
				\$	%	\$	%
Current period benefit cost	1,412	1,455	1,465	(10)	-1%	43	3% (1)
Amortization of experience gains	(373)	(374)	(164)	(210)	128% (2)	(1)	0%
Pension interest (revenue) expense	(935)	(936)	(703)	(233)	33% (2)	(1)	0%
Cost of plan amendment	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-
RCA pick up closing liability	-	-	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-	-	-
Less: amortization of initial unfunded liability	-	-	-	-	-	-	-
Less: amortization of cumulative transfers from other plans	(6)	(6)	(6)	-	0%	-	0%
Amortization of difference in contributions	(27)	(27)	(25)	(2)	8%	-	0%
Other Adjustment to reconcile RCA	-	(2)	(3)	1	-33%	(2)	#DIV/0!
Pension expense	71	110	564	(454)	-80%	39	55% M

	2016	2015	year over year	
			\$	%
Accrued benefit obligation, closing balance	58,338	57,066	1,273	2% (3)
Less: pension fund assets, closing balance	(78,502)	(71,551)	(6,951)	10% (4)
Unamortized experience gains (losses)	9,002	4,828	4,174	86% (5)
Adjustment for different year ends	895	882	13	2% M
Adjustment for OTPP receivable from Province	19	18	1	3% M
Unamortized initial unfunded liability	-	-	-	M
Unamortized difference in contributions	254	256	(2)	-1% M
Other Adjustments	1	(1)	2	-200% M
Pension liability (Asset) at March 31	(9,993)	(8,503)	(1,492)	18%

M Variance is within reason

Variance explanation

- (1) Actual current service cost is higher than originally forecasted due to the increase in active members was higher than originally forecasted.
- (2) Increase in amortization gains is due to the following: Increase in amortization of investment gains from 2009 to 2014 as more of the investment gains from this period is included in pension fund assets.
- (3) Increase benefit obligation is mainly due to 2015 current service cost, 2015 period interest expense less 2015 period benefit payments.
- (4) The increase in pension fund assets is due to more of the 2009 to 2015 investment gains are being smoothed into pension fund asset closing balance.
- (5) The unamortized experience gains have increase due to 2015 investment gains are now included in the unamortized experience gains (losses) balance.

Overall: OTPP pension expense has decreased from prior year mainly due to increase in amortization of investment gains from 2009 to 2014, as more of the investment gains from this period is included in pension fund asset (are being smoothed into pension fund assets). OTPP Pension net asset has increased due more of the 2009 to 2015 investment gains are being smoothed into pension fund assets closing balance is higher than increase in accrued benefit obligation.

OG Account in Ministry 10	237610	237620	
Asset (Obligation) March 31, 2015 Per IFIS	8,667,523,127	(164,931,053)	8,502,592,074
Asset (Obligation) March 31, 2016 PSAB Calculation	10,146,996,453	(153,051,399)	9,993,945,054
Less Contributions	(1,598,238,087)	(2,668,959)	(1,600,907,046)
PSAB Expense to reconcile IFIS to PSAB Liability Calculation	118,764,762	(9,210,695)	109,554,066
PSAB Expense per PSAB Calculation	118,324,044	(8,141,251)	110,162,793
Difference	440,718	(1,069,444)	(628,727) immaterial

Asset (Obligation) March 31, 2015 Per IFIS	8,667,523,127	(164,931,053)	8,502,592,074
Add Contributions	1,598,238,087	2,668,959	1,600,907,046
PSAB expense to be booked	(118,324,044)	8,141,251	(110,162,793)
Asset (Obligation) March 31, 2016 IFIS	10,147,437,170	(154,120,843)	9,993,316,327

2015 Gain available for smoothing based on expected rate of return assumption of 6.50%

Gains are derived from the expected rate of return based on Province's Investment return assumption of 6.50%

Net Assets Available December 31, 2014		154,476
Add: Total contributions in 2015		3,299
Less: Total Benefit Payments 2015		(5,537)
Adjustment for Interest on accounts receivable from Ontario		(38)
Add: Interest Earned on Pension Asset based on expected of 6.75%		
Net Assets Available December 31, 2015	154,476	
Add: Average contributions in 2015	1,650	
Less: Average benefit payments in 2015	<u>(2,769)</u>	
	153,357	
Expected rate of return assumption of 6.50%	6.50%	
	9,968	<u>9,968</u>
Closing Expected Pension Assets		162,168
Net Assets Available December 31, 2015		171,440
Gain available for smoothing		(9,272)

Note: The Province has moved to Basis 3. The assumption is Basis 3 is adopted at the end of the year. Therefore the expected rate of return assumption at the beginning of the year is used for this year (i.e. 6.50%). For Fiscal 2016-17 the expected rate of return of 6.25% will be used to calculate the smoothing adjustment.

