1 - Email - November 24 2016 - Expert Panel - Additional Information on OTF Call Right.pdf

From: Tam, Nelson (TBS)
To: Patricia O"Malley (plomalley@outlook.com); Uros Karadzic (uros.karadzic@ca.ey.com); Murray Gold (mgold@kmlaw.ca); Martin, Paul (FIN) (Paul.Martin@gnb.ca)
Subject: Expert Panel - Additional Information on OTF Call Right
Date: November-24-16 3:27:00 PM
Attachments: OTF Call Right (3).docx

Patricia, Uros, Murray, Paul

Attached is a two page document (password protected) with additional information on the OTF "Call Right" found on page 25 of the position paper prepared by Nadine.

If you have any questions on anything, please send me an email and I will respond on Monday.

Have a great weekend.

Nelson
416-212-0514

OTF Call Right (3).pdf

OTF Call Right

Q. What is the OTF "Call Right"?

A. In 2013, the Minister of Education signed an agreement with the Ontario Teachers' Federation (OTF) to freeze employer contributions for a period of five years. The "freeze period" runs from December 31, 2012 to December 30, 2017.

As a result of the agreement, in the event that a funding valuation reveals a going concern funding shortfall during the freeze period, it can only be addressed through benefit reductions (to a limit*). Contribution rate increases are not permitted during the freeze.

Given this restriction, teachers would bear all of the risk associated with funding shortfalls during the freeze period. This agreement, therefore, departs from the 50-50 risk/reward nature of the Partners Agreement.

In order to address this unequal sharing of risk, the agreement states that, after the freeze period, if there is a surplus, the OTF has "first call" on 100% of the surplus (to take the form of "surplus credits") disclosed in the valuation up to a cumulative total of the value of either:

(i) The benefit reductions that are made during the freeze period; or
(ii) The benefit reduction limit*,

whichever is lower.

The surplus credits would only take into account the value of benefit reductions, if any, made during the freeze period (i.e., they would not include benefit reductions for which matching contributions are made by the government ("share the pain payments").

Surplus can only be used to the extent the funded status of the Plan does not fall below 100% after the surplus credits are paid out.

By including the OTF call right in the agreement, the fundamental principle of 50-50 risk/reward sharing was maintained.

* The agreement sets a "benefit reduction limit" on the extent to which benefits can be reduced. The limit is 20% of the aggregate value of future benefits. If benefit reductions exceed this limit, the Partners return to their usual process and make use of the usual tools to fill a funding gap (i.e., contribution rate increases and/or benefit reductions).

Q. What has been the experience during the freeze period to date and what is expected to happen during the remainder of the freeze period (i.e., to December 30, 2017)?

A. There have been no benefit reductions since the freeze period commenced.

Since the OTPP is currently in a surplus position and the next valuation of the OTPP does not need to be filed until 2019, it is extremely unlikely that the partners would file a valuation that would result in benefits being reduced during the remainder of the freeze period.

Given this, the expectation is that the OTF will have no “call right” on any surplus after the freeze period ends.

1 - OTF Call Right (3).docx

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1A - Email - November 24 2016 - RE_ Information requested re_ Call Right.pdf

From:	Veinot, Cindy (TBS)
To:	Petsche, Nadine (TBS)
Cc:	Tam, Nelson (TBS)
Subject:	RE: Information requested re: Call Right
Date:	November-24-16 3:06:56 PM

Great – thanks,

Nelson – can you send these to the panel with a reference to the page in the position paper that refers to this Call Right.

Cindy

From: Petsche, Nadine (TBS)
Sent: November-24-16 1:56 PM
To: Veinot, Cindy (TBS)
Cc: Tam, Nelson (TBS)
Subject: Information requested re: Call Right

You had asked for additional info on the Call Right. Attached are some Q&As prepared by ISPPD to assist the Panel in understanding the background and relevance (not relevant) to their analysis.
Nadine

From: Killoch, Alex (MOF)
Sent: November 24, 2016 12:56 PM
To: Petsche, Nadine (TBS)
Cc: Pomykacz, Rob (MOF)
Subject:

Hi Nadine

Attached are some Q&A's on the contribution freeze agreement. As Rob discussed, these provisions have no value as benefits have not been reduced during the freeze period.

I hope this helps

Alex

Alex Killoch
Director, Broader Public Sector Pensions Branch
Ministry of Finance
416 325-5724
Alex.Killoch@Ontario.ca

2 - Email - November 18 2016 - Actuarial Assessments Workbook.pdf

From: Petsche, Nadine (TBS)
To: Tam, Nelson (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Actuarial Assessments Workbook
Date: November-18-16 4:55:48 PM
Attachments: calculation_EFB_workbook_exp_pan.xlsx

Nelson,

The attached summary of the actuarial assessments (ceiling tests) can be shared with the Panel. Nadine calculation_EFB_workbook_exp_pan.pdf

	Plan: OTPP	(in $B)	Information
a)	Value of asset - market value used	85.7	*From Excel File*
b)	Value of accounting obligation	58.2	*From Excel File*
c)	Surplus (deficit)	27.5	*a - b*
d)	Unamortized (gains) losses - market value used	-16.2	*From Excel File*
e)	Adjustment for March 31, 2016	-0.9	*From Excel File*
f)	Asset (liability) position	10.4	*c + d + e*
g)	Specific Government adjustment	-0.3	*From Excel File*
h)	Final Asset (liability) position on balance sheet	10.1	*f + g*
i)	Adjusted benefit asset	10.1	*h - max (0 ; d) as per PS3250.053*
j)	Expected future benefit	14.2	*Minimum EFB basis calculation illustrated (k - l + m)*
k)	- Perpetuity of employer service cost	44.6	*r)*
l)	- Minimum funding requirement	30.4	*s)*
m)	- Surplus withdrawal	0.0	*As per the plan funding policy, the employer may have some access to surplus withdrawal. For simplicity, we have used 0 in the test.*
	TEST : Valuation allowance = max (0 ; i - j)	0.0	*No valuation allowance required, no adjustment to the balance sheet asset position, PS3250.050 and PS3250.054*

Expected Future Benefit Calculations

n)	Total plan service accrual accounting	2.9	*From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation*
o)	Employer service accrual share	50%	*From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation*
p)	Expected return on asset - accounting assumption	6.25%	*From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation*
q)	Salary increase - accounting assumption	3.00%	*From AON Memorandum (August 2, 2016) and OTPP Jan 26, 2016 documentation*
r)	Perpetuity of Employer service cost - accounting	44.6	*n * o / (p - q), present value of all future service cost to the employer (the 50% share)*
s)	Minimum employer funding requirement as at March 31, 2016	30.4	*Sum of the present value of future required contributions (table below), using the funding report, projections and assuming the Government uses 50% of the surplus above Income Tax Act excess surplus threshold for contribution holiday and the employees use the other 50%, table shown until present value*
t)	Expected Future Benefit	14.2	*r - s, Perpetuity of employer service cost minus the minimum funding requirement as at March 31, 2016*

Year	Estimated Contributions[1]	Contribution required considering use of 50% of the surplus in excess of ITA excess surplus threshold	Present value of each contribution required
2016[2]	1.3	1.3	1.2
2017	1.7	1.7	1.6
2018	1.8	1.8	1.6
2019	1.8	1.8	1.5
2020	1.9	1.9	1.5
2021	2.0	2.0	1.4
2022	2.0	2.0	1.4
2023	2.1	2.1	1.3
2024	2.1	2.1	1.3
2025	2.2	2.2	1.3
2026	2.3	2.3	1.2
2027	2.3	2.3	1.2
2028	2.4	2.4	1.1
2029	2.5	2.5	1.1
2030	2.5	2.5	1.1
2031	2.6	2.6	1.0
2032	2.7	2.7	1.0
2033	2.8	2.8	1.0

[1] Estimated contributions from funding report (p.16), increased based on salary increase accounting assumption

[2] Remaining contributions used as at March 31,2016 (9 months for 2016)

Year	Estimated Contributions[1]	Contribution required considering use of 50% of the surplus in excess of ITA excess surplus threshold	Present value of each contribution required
2034	2.9	2.9	0.9
2035	3.0	3.0	0.9
2036	3.0	3.0	0.9
2037	3.1	3.1	0.9
2038	3.2	3.2	0.8
2039	3.3	3.3	0.8
2040	3.4	3.4	0.8
2041	3.5	3.5	0.8
2042	3.6	2.1	0.4
2043	3.7	1.4	0.3
2044	3.9	0.3	0.1
2045	4.0	0.3	0.0

2 - calculation_EFB_workbook_exp_pan.xlsx

	Plan: OTPP	(in $B)	Information
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2043	3.7	1.4	0.3
2044	3.9	0.3	0.1
2045	4.0	0.3	0.0

3 - Email - December 2 2016 - FW_ 2013 Term Sheet.pdf

From: Duffy, Paul (EDU)
To: Tam, Nelson (TBS)
Subject: FW: 2013 Term Sheet
Date: December-02-16 9:52:07 AM
Attachments: OTPP JSPP Agreement final March 2013.pdf

Nelson, as requested, please see attached the 2013 Term Sheet.

OTPP JSPP Agreement final March 2013.pdf

OTPP Term Sheet – March 13, 2013

CONFIDENTIAL

This Term Sheet (the "Agreement") sets out the key terms of the agreement between the Plan Sponsors, which is effective during the "Freeze Period" (as defined below). The Government will provide a letter to the Plan Sponsors which will explain: the background of the 2012 Ontario Budget measures about jointly sponsored pension plans; the Government's plan to introduce legislation to carry out those measures, including pooling of broader public sector pension fund assets; the fact that discussions lead to this Agreement instead; and will confirm the Government Commitments which are based on those discussions and this Agreement.

A. General Principles

1. The Freeze Period runs from December 31, 2012 to December 30, 2017.

2. During the Freeze Period there will be no employer contribution increases except as provided for below. An employer contribution increase is defined as any increase in the employer contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period. Employer contribution increases already scheduled to occur during the Freeze Period as a result of valuations filed with an effective valuation date before December 31, 2012 will occur.

3. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no benefit improvements unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit improvement amendments come into effect meets or exceeds 105%, and the benefit improvement will not bring the going concern funded status below 105% as of the effective date of the amendment.

4. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no restoration of benefits reduced as a result of application of these principles unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit restoration amendments come into effect meets or exceeds 105% and the restoration will not bring the going concern funded status below 105% as of the effective date of the amendment.

5. Ad hoc/conditional indexation is not considered to be a benefit improvement or restoration and Plan amendments to provide or restore ad hoc or conditional cost of living increases to pensioners can be made provided the Plan's going concern funded status on the date that the cost of living increase is agreed upon (based on the most recently prepared valuation report with a valuation date that is no more than twelve months earlier and that uses the same valuation methodology and assumptions that would apply to a filed valuation) exceeds 100% and the cost of living increase will not

bring the going concern funded status below 100% as of the effective date of the amendment.

B. Valuations and Consequential Actions During the Freeze Period

6. Should any draft valuation prepared for filing during the Freeze Period disclose a funding circumstance in which employer contribution increases would normally be implemented (i.e., a funding shortfall) the funding circumstance must be addressed within the following Parameters. Any valuation filed during the Freeze Period will conform to the General Principles above and the Parameters as follows:

a. During the Freeze Period there will be no employer contribution increases except as provided for below. A contribution increase is defined as any increase in the contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period.

b. Any future benefit reductions determined to be required in order to meet the General Principles and these Parameters during the Freeze Period will not exceed twenty percent (20%) of the aggregate value of future benefits determined based on the Plan provisions in effect on December 31, 2011 ("the Benefit Reduction Limit"), which aggregate value the Sponsors agree is $42.590 billion. Benefit reductions implemented pursuant to the valuation as at January 1, 2012 shall be taken into account for purposes of achieving the 20% Benefit Reduction Limit. For clarity, twenty percent (20%) is measured on an cumulative basis in the Freeze Period.

c. In respect of the benefit reductions provided for under the January 1, 2012 valuation, the Sponsors agree that the reduction in the aggregate value of future benefits is $4.094 billion (9.6%). This reduction in the aggregate value of future benefits was calculated to include:

(i) the reduction in the funding shortfall from the impact of the decrease in the present value of future benefits and contributions stemming from the increase in the discount rate which resulted from the Plan amendment to remove and replace the remaining 50% guaranteed indexing with full conditional inflation protection ("CIP") for post-2013 service;

(ii) the reduction in present value of benefits from invoking an additional 10% of CIP (inflation protection from 60% to 50%) for post-2009 service effective January 1, 2014 along with the associated increase in the present value of the "share the pain payments" (matching contributions made by the Government/employers) plus the reduction in present value of benefits from invoking a further 5% of CIP (inflation protection from 50% to 45%) for post-2013 service effective January 1, 2015.

Appendix A attached hereto provides further details regarding this benefit reduction calculation.

d. Any future benefit reductions under a post-January 1, 2012 valuation, if necessary, will be implemented with an effective date that is no later than the earlier of:

i. two years following the valuation date of the filed actuarial valuation, or

ii. December 30, 2017.

e. In no case will future benefit reductions implemented as a result of the General Principles and/or Parameters affect or reduce pension benefits or ancillary benefits accrued prior to the implementation date of the benefit reduction(s). Ancillary benefits will be considered to have accrued, if, as of the implementation date of the benefit reduction, the person will have met all of the eligibility requirements to exercise the right to receive the ancillary benefits.

f. Sponsors' agreement on future benefit reductions would be effected by a Plan amendment to be prepared and filed within 60 days of agreement or outcome of the dispute resolution process.

g. Once the Benefit Reduction Limit has been reached (i.e., if the second or subsequent valuation(s) filed during the Freeze Period reduce benefits by $4.424 billion (10.4%)), the Sponsors will return to their usual process and make use of their usual tools (e.g., employer and member contribution rate increases and/or benefit reductions beyond the benefit reduction limit) to determine the steps necessary to avoid:

i. any remaining shortfall identified in the draft valuation; or

ii. a future new funding shortfall identified in a subsequent draft valuation during the Freeze Period.

After 2013, any valuation filed during the Freeze Period must be filed on or before September 30 of the year of filing.

C. Dispute Resolution

7. Any dispute with respect to the interpretation or application of this Agreement may be referred by either Sponsor to final and binding arbitration. Either of the parties may notify the other in writing of its desire to submit a difference or dispute to arbitration and the notice shall contain the names of the first party's appointment to an Arbitration Board. The recipient of the notice shall within five (5) days inform the other party of the name of its appointee to the Arbitration Board. The two (2) appointees so selected shall, within five (5) days of the appointment of the second of them, appoint a third person who shall be the Chairperson. If the recipient of a notice fails to appoint an appointee, or the two appointees fail to agree upon a Chairperson within the time limit, either party may request that the appointment shall be made by the Chief Justice for Ontario.

8. In the event that a dispute arises with respect to the interpretation or application of paragraph 6 in particular, all steps to appoint an Arbitration Board as set out in paragraph 7 will be taken on or before 60 days before September 30. The decision of the Arbitration Board shall be issued at least 20 days before September 30.

9. In the event that a dispute arises with respect to the interpretation or application of paragraph 6, in particular, including whether the Benefit Reduction Limit has been reached, the Arbitration Board's mandate will be restricted to determining the means by which the obligations in this Agreement will be carried out and will be subject to the same restrictions applicable to the Sponsors regarding the available options and for greater certainty will exclude an increase in employer contributions during the Freeze Period. The Sponsors, utilizing their usual processes may increase employer contributions once the Benefit Reduction Limit is reached.

D. End of the Freeze Period

10. At the end of the Freeze Period, this Agreement expires and any obligations to conform to this Agreement, and any measures taken in accordance with it, end with the exception of the provisions in paragraph 11.

11. After the end of the Freeze Period, if the Plan's going concern funded status (based on the most recently filed valuation report with a valuation date after December 30, 2017) exceeds 100%, the union/federation sponsors have "first call" on 100% of the surplus disclosed under a valuation report with a valuation date after December 30, 2017, up to a cumulative total of the value of either: the benefit reductions that are made during the Freeze Period; or the Benefit Reduction Limit, whichever is lower. The "first call" on surplus (to take the form of "surplus credits") would be subject to the following conditions:

(a) Surplus credits would only take into account the value of benefit reductions made during the Freeze Period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (i) the value of benefit reductions for which matching contributions are made by the Government/employer ("share the pain payments"), and (ii) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full CIP for post-2013 service and the resulting change to the discount rate (as described in paragraph 6(c)(i) above).

(b) Subject to (c) below, the surplus credits could be used as the union/federation sponsors wish (i.e., credits would not be required to be used to restore the same benefits that were reduced during the Freeze Period).

(c) The union/federation sponsors are permitted to spend the surplus credits so long as the going concern funded status of the Plan does not fall below 100% after the surplus credits are spent.

(d) This is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the government initiated Freeze Period and is without prejudice or precedent for any future situation.

(e) If inflation protection is invoked below 50% during the Freeze Period, subject to paragraph 11(a), surplus credits will include an amount equal to the actual foregone pension payments during and after the Freeze Period that arise from the reduction in indexing invoked during the Freeze Period until such time as that inflation protection is restored at 50% or more during or after the Freeze Period.

Appendix B attached hereto provides further details regarding the surplus credit calculation.

E. Other Matters

12. The Sponsors will ensure that the cooperation of the Administrator is secured in relation to all aspects of this Agreement, including but not limited to the preparation of the draft valuation, the filed valuation, and applying for any necessary extension of the timelines for filing actuarial valuations and/or Plan amendments as may be necessary to give effect to this Agreement.

13. In order for the terms of this agreement to be effective, the Ontario Government will, subject to Cabinet approval, on or before May 1, 2013, amend Regulation 909 under the Pension Benefits Act to allow for a single four-year valuation cycle for a valuation filing that would otherwise be required to be made during the Freeze Period subject to the following conditions:

a. at least one valuation is filed during the Freeze Period;

b. there are no more than four years between the valuation dates of filed valuations; and

c. any benefit reductions arising from valuations filed during the Freeze Period are implemented in accordance with the General Principles and Parameters herein.

Failing amendment of the said Regulation, this Agreement is of no force or effect.

14. The terms of this Agreement supersede all other agreements (written and oral) between the Sponsors, including the Partners' Agreement. The Sponsors shall amend the Plan, the Partners Agreement or any other documents as necessary to give effect to this Agreement.

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Date:

Terry Hamilton – President,
Ontario Teachers' Federation

March 13, 2013
Date:

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Date: Mar 14/13

Terry Hamilton – President,
Ontario Teachers' Federation

Date:

Appendix A to Term Sheet Between Government and OTF

As of January 1, 2012 (all amounts in millions)

Calculation of Benefit Reduction Limit

Present Value of Future Benefits Based on Plan Provisions as of December 31, 2011 But Including Legislated Vesting Change		$	48,899
Less:	Reduction in Present Value of Future Benefits to Reflect Indexation for Post-2009 Service at 60% of CPI		6,309
Equals:	Present Value of Future Benefits For Purposes of Calculating Benefit Reduction Limit	$	42,590

Benefit Reduction Limit = 20% x $42,590 = $8,518

Calculation of Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation

Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 60% to 50% of CPI for Post-2009 Service		$1,367
Plus		
Increase in Government Matching Contributions From Change in Indexation From 60% to 50% of CPI for Post-2009 Service		1,367
Plus		
Reduction in Present Value of Future Benefits Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)		1,390
Plus		
Reduction in Present Value of Future Contributions Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)		(497)
Plus		
Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 50% to 45% of CPI for Post-2013 Service		467
Equals		
Portion of Benefit Reduction Limit Utilized		
$ Amount	$	4,094
% Amount from 20%		9.6%

Remaining Benefit Reduction Limit for Plan Changes in Freeze Period

Benefit Reduction Limit		$	8,518
Less:	Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation		4,094
Equals:	Remaining Benefit Reduction Limit For Plan Changes in Freeze Period	$	4,424
	% Amount from 20%		10.4%

Appendix B to Term Sheet Between Government and OTF

The following are examples only. For purposes of paragraph 11(e) of the Term Sheet, the actual foregone indexing below 50% will be determined by the Plan Administrator based on the actual pension payments affected.

Subject to the above paragraph, the following example shows how the foregone pension payments in respect of which surplus credits are to be awarded (paragraph 11(e)) would be calculated in connection with invoking CIP below 50%. The example is based on:

- Inflation rate of 2.00% per year
- Retirements as of July 1st of each year
- New pensioner payments each year under the additional 50% CIP provisions for post-2013 service of $3 million times number of years of service from January 1, 2014 to mid-year retirement date
- 10-year period with no mortality reflected
- Indexation at 45% of CPI for the entire period

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,759	27
2018	$ 62,164	$ 62,099	65
2019	$ 92,786	$ 92,658	128
2020	$ 129,714	$ 129,492	222
2021	$ 173,011	$ 172,658	353
2022	$ 222,741	$ 222,212	529
2023	$ 278,968	$ 278,212	756
			$ 2,091

The following example modifies the above example to show the impact of moving from 45% of CPI to 0% of CPI (for post-2013 service) effective January 1, 2017:

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI / 0% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,582	204
2018	$ 62,164	$ 61,582	582
2019	$ 92,786	$ 91,582	1,204
2020	$ 129,714	$ 127,582	2,132
2021	$ 173,011	$ 169,582	3,429
2022	$ 222,741	$ 217,582	5,159
2023	$ 278,968	$ 271,582	7,386
			$ 20,107

3 - OTPP JSPP Agreement final March 2013.pdf

OTPP Term Sheet – March 13, 2013

CONFIDENTIAL

This Term Sheet (the "Agreement") sets out the key terms of the agreement between the Plan Sponsors, which is effective during the "Freeze Period" (as defined below). The Government will provide a letter to the Plan Sponsors which will explain: the background of the 2012 Ontario Budget measures about jointly sponsored pension plans; the Government's plan to introduce legislation to carry out those measures, including pooling of broader public sector pension fund assets; the fact that discussions lead to this Agreement instead; and will confirm the Government Commitments which are based on those discussions and this Agreement.

A. General Principles

1. The Freeze Period runs from December 31, 2012 to December 30, 2017.

2. During the Freeze Period there will be no employer contribution increases except as provided for below. An employer contribution increase is defined as any increase in the employer contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period. Employer contribution increases already scheduled to occur during the Freeze Period as a result of valuations filed with an effective valuation date before December 31, 2012 will occur.

3. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no benefit improvements unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit improvement amendments come into effect meets or exceeds 105%, and the benefit improvement will not bring the going concern funded status below 105% as of the effective date of the amendment.

4. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no restoration of benefits reduced as a result of application of these principles unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit restoration amendments come into effect meets or exceeds 105% and the restoration will not bring the going concern funded status below 105% as of the effective date of the amendment.

5. Ad hoc/conditional indexation is not considered to be a benefit improvement or restoration and Plan amendments to provide or restore ad hoc or conditional cost of living increases to pensioners can be made provided the Plan's going concern funded status on the date that the cost of living increase is agreed upon (based on the most recently prepared valuation report with a valuation date that is no more than twelve months earlier and that uses the same valuation methodology and assumptions that would apply to a filed valuation) exceeds 100% and the cost of living increase will not

bring the going concern funded status below 100% as of the effective date of the amendment.

B. Valuations and Consequential Actions During the Freeze Period

6. Should any draft valuation prepared for filing during the Freeze Period disclose a funding circumstance in which employer contribution increases would normally be implemented (i.e., a funding shortfall) the funding circumstance must be addressed within the following Parameters. Any valuation filed during the Freeze Period will conform to the General Principles above and the Parameters as follows:

a. During the Freeze Period there will be no employer contribution increases except as provided for below. A contribution increase is defined as any increase in the contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period.

b. Any future benefit reductions determined to be required in order to meet the General Principles and these Parameters during the Freeze Period will not exceed twenty percent (20%) of the aggregate value of future benefits determined based on the Plan provisions in effect on December 31, 2011 ("the Benefit Reduction Limit"), which aggregate value the Sponsors agree is $42.590 billion. Benefit reductions implemented pursuant to the valuation as at January 1, 2012 shall be taken into account for purposes of achieving the 20% Benefit Reduction Limit. For clarity, twenty percent (20%) is measured on an cumulative basis in the Freeze Period.

c. In respect of the benefit reductions provided for under the January 1, 2012 valuation, the Sponsors agree that the reduction in the aggregate value of future benefits is $4.094 billion (9.6%). This reduction in the aggregate value of future benefits was calculated to include:

(i) the reduction in the funding shortfall from the impact of the decrease in the present value of future benefits and contributions stemming from the increase in the discount rate which resulted from the Plan amendment to remove and replace the remaining 50% guaranteed indexing with full conditional inflation protection ("CIP") for post-2013 service;

(ii) the reduction in present value of benefits from invoking an additional 10% of CIP (inflation protection from 60% to 50%) for post-2009 service effective January 1, 2014 along with the associated increase in the present value of the "share the pain payments" (matching contributions made by the Government/employers) plus the reduction in present value of benefits from invoking a further 5% of CIP (inflation protection from 50% to 45%) for post-2013 service effective January 1, 2015.

Appendix A attached hereto provides further details regarding this benefit reduction calculation.

d. Any future benefit reductions under a post-January 1, 2012 valuation, if necessary, will be implemented with an effective date that is no later than the earlier of:

i. two years following the valuation date of the filed actuarial valuation, or

ii. December 30, 2017.

e. In no case will future benefit reductions implemented as a result of the General Principles and/or Parameters affect or reduce pension benefits or ancillary benefits accrued prior to the implementation date of the benefit reduction(s). Ancillary benefits will be considered to have accrued, if, as of the implementation date of the benefit reduction, the person will have met all of the eligibility requirements to exercise the right to receive the ancillary benefits.

f. Sponsors' agreement on future benefit reductions would be effected by a Plan amendment to be prepared and filed within 60 days of agreement or outcome of the dispute resolution process.

g. Once the Benefit Reduction Limit has been reached (i.e., if the second or subsequent valuation(s) filed during the Freeze Period reduce benefits by $4.424 billion (10.4%)), the Sponsors will return to their usual process and make use of their usual tools (e.g., employer and member contribution rate increases and/or benefit reductions beyond the benefit reduction limit) to determine the steps necessary to avoid:

i. any remaining shortfall identified in the draft valuation; or

ii. a future new funding shortfall identified in a subsequent draft valuation during the Freeze Period.

After 2013, any valuation filed during the Freeze Period must be filed on or before September 30 of the year of filing.

C. Dispute Resolution

7. Any dispute with respect to the interpretation or application of this Agreement may be referred by either Sponsor to final and binding arbitration. Either of the parties may notify the other in writing of its desire to submit a difference or dispute to arbitration and the notice shall contain the names of the first party's appointment to an Arbitration Board. The recipient of the notice shall within five (5) days inform the other party of the name of its appointee to the Arbitration Board. The two (2) appointees so selected shall, within five (5) days of the appointment of the second of them, appoint a third person who shall be the Chairperson. If the recipient of a notice fails to appoint an appointee, or the two appointees fail to agree upon a Chairperson within the time limit, either party may request that the appointment shall be made by the Chief Justice for Ontario.

8. In the event that a dispute arises with respect to the interpretation or application of paragraph 6 in particular, all steps to appoint an Arbitration Board as set out in paragraph 7 will be taken on or before 60 days before September 30. The decision of the Arbitration Board shall be issued at least 20 days before September 30.

9. In the event that a dispute arises with respect to the interpretation or application of paragraph 6, in particular, including whether the Benefit Reduction Limit has been reached, the Arbitration Board's mandate will be restricted to determining the means by which the obligations in this Agreement will be carried out and will be subject to the same restrictions applicable to the Sponsors regarding the available options and for greater certainty will exclude an increase in employer contributions during the Freeze Period. The Sponsors, utilizing their usual processes may increase employer contributions once the Benefit Reduction Limit is reached.

D. End of the Freeze Period

10. At the end of the Freeze Period, this Agreement expires and any obligations to conform to this Agreement, and any measures taken in accordance with it, end with the exception of the provisions in paragraph 11.

11. After the end of the Freeze Period, if the Plan's going concern funded status (based on the most recently filed valuation report with a valuation date after December 30, 2017) exceeds 100%, the union/federation sponsors have "first call" on 100% of the surplus disclosed under a valuation report with a valuation date after December 30, 2017, up to a cumulative total of the value of either: the benefit reductions that are made during the Freeze Period; or the Benefit Reduction Limit, whichever is lower. The "first call" on surplus (to take the form of "surplus credits") would be subject to the following conditions:

(a) Surplus credits would only take into account the value of benefit reductions made during the Freeze Period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (i) the value of benefit reductions for which matching contributions are made by the Government/employer ("share the pain payments"), and (ii) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full CIP for post-2013 service and the resulting change to the discount rate (as described in paragraph 6(c)(i) above).

(b) Subject to (c) below, the surplus credits could be used as the union/federation sponsors wish (i.e., credits would not be required to be used to restore the same benefits that were reduced during the Freeze Period).

(c) The union/federation sponsors are permitted to spend the surplus credits so long as the going concern funded status of the Plan does not fall below 100% after the surplus credits are spent.

(d) This is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the government initiated Freeze Period and is without prejudice or precedent for any future situation.

(e) If inflation protection is invoked below 50% during the Freeze Period, subject to paragraph 11(a), surplus credits will include an amount equal to the actual foregone pension payments during and after the Freeze Period that arise from the reduction in indexing invoked during the Freeze Period until such time as that inflation protection is restored at 50% or more during or after the Freeze Period.

Appendix B attached hereto provides further details regarding the surplus credit calculation.

E. Other Matters

12. The Sponsors will ensure that the cooperation of the Administrator is secured in relation to all aspects of this Agreement, including but not limited to the preparation of the draft valuation, the filed valuation, and applying for any necessary extension of the timelines for filing actuarial valuations and/or Plan amendments as may be necessary to give effect to this Agreement.

13. In order for the terms of this agreement to be effective, the Ontario Government will, subject to Cabinet approval, on or before May 1, 2013, amend Regulation 909 under the Pension Benefits Act to allow for a single four-year valuation cycle for a valuation filing that would otherwise be required to be made during the Freeze Period subject to the following conditions:

a. at least one valuation is filed during the Freeze Period;

b. there are no more than four years between the valuation dates of filed valuations; and

c. any benefit reductions arising from valuations filed during the Freeze Period are implemented in accordance with the General Principles and Parameters herein.

Failing amendment of the said Regulation, this Agreement is of no force or effect.

14. The terms of this Agreement supersede all other agreements (written and oral) between the Sponsors, including the Partners' Agreement. The Sponsors shall amend the Plan, the Partners Agreement or any other documents as necessary to give effect to this Agreement.

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Date:

Terry Hamilton – President,
Ontario Teachers' Federation

Date: March 13, 2013

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education	Mar. 14/13 Date:
Terry Hamilton – President, Ontario Teachers' Federation	Date:

Appendix A to Term Sheet Between Government and OTF

As of January 1, 2012 (all amounts in millions)

Calculation of Benefit Reduction Limit

	Present Value of Future Benefits Based on Plan Provisions as of December 31, 2011 But Including Legislated Vesting Change	$ 48,899
Less:	Reduction in Present Value of Future Benefits to Reflect Indexation for Post-2009 Service at 60% of CPI	6,309
Equals:	Present Value of Future Benefits For Purposes of Calculating Benefit Reduction Limit	$ 42,590

Benefit Reduction Limit = 20% x $42,590 = $8,518

Calculation of Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation

Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	$1,367
Plus	
Increase in Government Matching Contributions From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	1,367
Plus	
Reduction in Present Value of Future Benefits Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	1,390
Plus	
Reduction in Present Value of Future Contributions Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	(497)
Plus	
Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 50% to 45% of CPI for Post-2013 Service	467
Equals	
Portion of Benefit Reduction Limit Utilized	
$ Amount	$ 4,094
% Amount from 20%	9.6%

Remaining Benefit Reduction Limit for Plan Changes in Freeze Period

	Benefit Reduction Limit	$ 8,518
Less:	Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation	4,094
Equals:	Remaining Benefit Reduction Limit For Plan Changes in Freeze Period	$ 4,424
	% Amount from 20%	10.4%

Appendix B to Term Sheet Between Government and OTF

The following are examples only. For purposes of paragraph 11(e) of the Term Sheet, the actual foregone indexing below 50% will be determined by the Plan Administrator based on the actual pension payments affected.

Subject to the above paragraph, the following example shows how the foregone pension payments in respect of which surplus credits are to be awarded (paragraph 11(e)) would be calculated in connection with invoking CIP below 50%. The example is based on:

- Inflation rate of 2.00% per year
- Retirements as of July 1st of each year
- New pensioner payments each year under the additional 50% CIP provisions for post-2013 service of $3 million times number of years of service from January 1, 2014 to mid-year retirement date
- 10-year period with no mortality reflected
- Indexation at 45% of CPI for the entire period

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,759	27
2018	$ 62,164	$ 62,099	65
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2021	$ 173,011	$ 172,658	353
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2023	$ 278,968	$ 278,212	756
			$ 2,091

The following example modifies the above example to show the impact of moving from 45% of CPI to 0% of CPI (for post-2013 service) effective January 1, 2017:

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI / 0% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
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2020	$ 129,714	$ 127,582	2,132
2021	$ 173,011	$ 169,582	3,429
2022	$ 222,741	$ 217,582	5,159
2023	$ 278,968	$ 271,582	7,386
			$ 20,107

3A - Email - December 2 2016 - Expert Panel - RE_ OTPP funding policy.pdf

From:	Tam, Nelson (TBS)
To:	Martin, Paul (FIN); Patricia O"Malley (plomalley@outlook.com); Uros Karadzic (uros.karadzic@ca.ey.com); Murray Gold (mgold@kmlaw.ca)
Subject:	Expert Panel - RE: OTPP funding policy
Date:	December-02-16 10:01:00 AM
Attachments:	image001.png OTPP JSPP Agreement final March 2013.pdf

Paul, Patricia, Uros, Murray

See email from Paul requesting this document.

Thanks and have a great weekend.

Nelson
416-212-0514

From: Martin, Paul (FIN) [mailto:Paul.Martin@gnb.ca]
Sent: December-02-16 9:31 AM
To: Tam, Nelson (TBS)
Subject: OTPP funding policy

Hi Nelson,

The OTPP funding management policy refers to a document called the "2013 Term Sheet" which is an agreement between the two parties that takes precedence over the funding management policy. Can you provide a copy of it?

Best regards,
Paul

Paul Martin, FCPA, FCA
Comptroller/Contrôleur
Office of the Comptroller/Bureau du contrôleur
Treasury Board/Conseil du Trésor

Phone / Téléphone (506) 238-5891
Fax / Télécopieur (506) 457-6878
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OTPP JSPP Agreement final March 2013_1.pdf

OTPP Term Sheet – March 13, 2013

CONFIDENTIAL

This Term Sheet (the "Agreement") sets out the key terms of the agreement between the Plan Sponsors, which is effective during the "Freeze Period" (as defined below). The Government will provide a letter to the Plan Sponsors which will explain: the background of the 2012 Ontario Budget measures about jointly sponsored pension plans; the Government's plan to introduce legislation to carry out those measures, including pooling of broader public sector pension fund assets; the fact that discussions lead to this Agreement instead; and will confirm the Government Commitments which are based on those discussions and this Agreement.

A. General Principles

1. The Freeze Period runs from December 31, 2012 to December 30, 2017.

2. During the Freeze Period there will be no employer contribution increases except as provided for below. An employer contribution increase is defined as any increase in the employer contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period. Employer contribution increases already scheduled to occur during the Freeze Period as a result of valuations filed with an effective valuation date before December 31, 2012 will occur.

3. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no benefit improvements unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit improvement amendments come into effect meets or exceeds 105%, and the benefit improvement will not bring the going concern funded status below 105% as of the effective date of the amendment.

4. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no restoration of benefits reduced as a result of application of these principles unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit restoration amendments come into effect meets or exceeds 105% and the restoration will not bring the going concern funded status below 105% as of the effective date of the amendment.

5. Ad hoc/conditional indexation is not considered to be a benefit improvement or restoration and Plan amendments to provide or restore ad hoc or conditional cost of living increases to pensioners can be made provided the Plan's going concern funded status on the date that the cost of living increase is agreed upon (based on the most recently prepared valuation report with a valuation date that is no more than twelve months earlier and that uses the same valuation methodology and assumptions that would apply to a filed valuation) exceeds 100% and the cost of living increase will not

bring the going concern funded status below 100% as of the effective date of the amendment.

B. Valuations and Consequential Actions During the Freeze Period

6. Should any draft valuation prepared for filing during the Freeze Period disclose a funding circumstance in which employer contribution increases would normally be implemented (i.e., a funding shortfall) the funding circumstance must be addressed within the following Parameters. Any valuation filed during the Freeze Period will conform to the General Principles above and the Parameters as follows:

a. During the Freeze Period there will be no employer contribution increases except as provided for below. A contribution increase is defined as any increase in the contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period.

b. Any future benefit reductions determined to be required in order to meet the General Principles and these Parameters during the Freeze Period will not exceed twenty percent (20%) of the aggregate value of future benefits determined based on the Plan provisions in effect on December 31, 2011 ("the Benefit Reduction Limit"), which aggregate value the Sponsors agree is $42.590 billion. Benefit reductions implemented pursuant to the valuation as at January 1, 2012 shall be taken into account for purposes of achieving the 20% Benefit Reduction Limit. For clarity, twenty percent (20%) is measured on an cumulative basis in the Freeze Period.

c. In respect of the benefit reductions provided for under the January 1, 2012 valuation, the Sponsors agree that the reduction in the aggregate value of future benefits is $4.094 billion (9.6%). This reduction in the aggregate value of future benefits was calculated to include:

(i) the reduction in the funding shortfall from the impact of the decrease in the present value of future benefits and contributions stemming from the increase in the discount rate which resulted from the Plan amendment to remove and replace the remaining 50% guaranteed indexing with full conditional inflation protection ("CIP") for post-2013 service;

(ii) the reduction in present value of benefits from invoking an additional 10% of CIP (inflation protection from 60% to 50%) for post-2009 service effective January 1, 2014 along with the associated increase in the present value of the "share the pain payments" (matching contributions made by the Government/employers) plus the reduction in present value of benefits from invoking a further 5% of CIP (inflation protection from 50% to 45%) for post-2013 service effective January 1, 2015.

Appendix A attached hereto provides further details regarding this benefit reduction calculation.

d. Any future benefit reductions under a post-January 1, 2012 valuation, if necessary, will be implemented with an effective date that is no later than the earlier of:

i. two years following the valuation date of the filed actuarial valuation, or

ii. December 30, 2017.

e. In no case will future benefit reductions implemented as a result of the General Principles and/or Parameters affect or reduce pension benefits or ancillary benefits accrued prior to the implementation date of the benefit reduction(s). Ancillary benefits will be considered to have accrued, if, as of the implementation date of the benefit reduction, the person will have met all of the eligibility requirements to exercise the right to receive the ancillary benefits.

f. Sponsors' agreement on future benefit reductions would be effected by a Plan amendment to be prepared and filed within 60 days of agreement or outcome of the dispute resolution process.

g. Once the Benefit Reduction Limit has been reached (i.e., if the second or subsequent valuation(s) filed during the Freeze Period reduce benefits by $4.424 billion (10.4%)), the Sponsors will return to their usual process and make use of their usual tools (e.g., employer and member contribution rate increases and/or benefit reductions beyond the benefit reduction limit) to determine the steps necessary to avoid:

i. any remaining shortfall identified in the draft valuation; or

ii. a future new funding shortfall identified in a subsequent draft valuation during the Freeze Period.

After 2013, any valuation filed during the Freeze Period must be filed on or before September 30 of the year of filing.

C. Dispute Resolution

7. Any dispute with respect to the interpretation or application of this Agreement may be referred by either Sponsor to final and binding arbitration. Either of the parties may notify the other in writing of its desire to submit a difference or dispute to arbitration and the notice shall contain the names of the first party's appointment to an Arbitration Board. The recipient of the notice shall within five (5) days inform the other party of the name of its appointee to the Arbitration Board. The two (2) appointees so selected shall, within five (5) days of the appointment of the second of them, appoint a third person who shall be the Chairperson. If the recipient of a notice fails to appoint an appointee, or the two appointees fail to agree upon a Chairperson within the time limit, either party may request that the appointment shall be made by the Chief Justice for Ontario.

8. In the event that a dispute arises with respect to the interpretation or application of paragraph 6 in particular, all steps to appoint an Arbitration Board as set out in paragraph 7 will be taken on or before 60 days before September 30. The decision of the Arbitration Board shall be issued at least 20 days before September 30.

9. In the event that a dispute arises with respect to the interpretation or application of paragraph 6, in particular, including whether the Benefit Reduction Limit has been reached, the Arbitration Board's mandate will be restricted to determining the means by which the obligations in this Agreement will be carried out and will be subject to the same restrictions applicable to the Sponsors regarding the available options and for greater certainty will exclude an increase in employer contributions during the Freeze Period. The Sponsors, utilizing their usual processes may increase employer contributions once the Benefit Reduction Limit is reached.

D. End of the Freeze Period

10. At the end of the Freeze Period, this Agreement expires and any obligations to conform to this Agreement, and any measures taken in accordance with it, end with the exception of the provisions in paragraph 11.

11. After the end of the Freeze Period, if the Plan's going concern funded status (based on the most recently filed valuation report with a valuation date after December 30, 2017) exceeds 100%, the union/federation sponsors have "first call" on 100% of the surplus disclosed under a valuation report with a valuation date after December 30, 2017, up to a cumulative total of the value of either: the benefit reductions that are made during the Freeze Period; or the Benefit Reduction Limit, whichever is lower. The "first call" on surplus (to take the form of "surplus credits") would be subject to the following conditions:

(a) Surplus credits would only take into account the value of benefit reductions made during the Freeze Period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (i) the value of benefit reductions for which matching contributions are made by the Government/employer ("share the pain payments"), and (ii) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full CIP for post-2013 service and the resulting change to the discount rate (as described in paragraph 6(c)(i) above).

(b) Subject to (c) below, the surplus credits could be used as the union/federation sponsors wish (i.e., credits would not be required to be used to restore the same benefits that were reduced during the Freeze Period).

(c) The union/federation sponsors are permitted to spend the surplus credits so long as the going concern funded status of the Plan does not fall below 100% after the surplus credits are spent.

(d) This is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the government initiated Freeze Period and is without prejudice or precedent for any future situation.

(e) If inflation protection is invoked below 50% during the Freeze Period, subject to paragraph 11(a), surplus credits will include an amount equal to the actual foregone pension payments during and after the Freeze Period that arise from the reduction in indexing invoked during the Freeze Period until such time as that inflation protection is restored at 50% or more during or after the Freeze Period.

Appendix B attached hereto provides further details regarding the surplus credit calculation.

E. Other Matters

12. The Sponsors will ensure that the cooperation of the Administrator is secured in relation to all aspects of this Agreement, including but not limited to the preparation of the draft valuation, the filed valuation, and applying for any necessary extension of the timelines for filing actuarial valuations and/or Plan amendments as may be necessary to give effect to this Agreement.

13. In order for the terms of this agreement to be effective, the Ontario Government will, subject to Cabinet approval, on or before May 1, 2013, amend Regulation 909 under the Pension Benefits Act to allow for a single four-year valuation cycle for a valuation filing that would otherwise be required to be made during the Freeze Period subject to the following conditions:

a. at least one valuation is filed during the Freeze Period;

b. there are no more than four years between the valuation dates of filed valuations; and

c. any benefit reductions arising from valuations filed during the Freeze Period are implemented in accordance with the General Principles and Parameters herein.

Failing amendment of the said Regulation, this Agreement is of no force or effect.

14. The terms of this Agreement supersede all other agreements (written and oral) between the Sponsors, including the Partners' Agreement. The Sponsors shall amend the Plan, the Partners Agreement or any other documents as necessary to give effect to this Agreement.

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education	Date:
Terry Hamilton – President, Ontario Teachers' Federation	March 13, 2013 Date:

15. This Agreement may be executed in one or more counterparts and delivered by facsimile or other means of electronic transmission, each of which shall be deemed an original, but all of which taken together shall constitute one and the same agreement.

Liz Sandals - Minister of Education

Mar. 14/13
Date:

Terry Hamilton – President,
Ontario Teachers' Federation

Date:

Appendix A to Term Sheet Between Government and OTF

As of January 1, 2012 (all amounts in millions)

Calculation of Benefit Reduction Limit

Present Value of Future Benefits Based on Plan Provisions as of December 31, 2011 But Including Legislated Vesting Change		$ 48,899
Less:	Reduction in Present Value of Future Benefits to Reflect Indexation for Post-2009 Service at 60% of CPI	6,309
Equals:	Present Value of Future Benefits For Purposes of Calculating Benefit Reduction Limit	$ 42,590

Benefit Reduction Limit = 20% x $42,590 = $8,518

Calculation of Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation

Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	$1,367
Plus	
Increase in Government Matching Contributions From Change in Indexation From 60% to 50% of CPI for Post-2009 Service	1,367
Plus	
Reduction in Present Value of Future Benefits Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	1,390
Plus	
Reduction in Present Value of Future Contributions Resulting From Change in Discount Rate Associated With Plan Changes (15.0 basis points)	(497)
Plus	
Increase in Reduction of Present Value of Future Benefits From Change in Indexation From 50% to 45% of CPI for Post-2013 Service	467
Equals	
Portion of Benefit Reduction Limit Utilized	
$ Amount	$ 4,094
% Amount from 20%	9.6%

Remaining Benefit Reduction Limit for Plan Changes in Freeze Period

Benefit Reduction Limit		$ 8,518
Less:	Portion of Benefit Reduction Limit Utilized By Changes to Plan Incorporated into January 1, 2012 Actuarial Valuation	4,094
Equals:	Remaining Benefit Reduction Limit For Plan Changes in Freeze Period	$ 4,424
	% Amount from 20%	10.4%

Appendix B to Term Sheet Between Government and OTF

The following are examples only. For purposes of paragraph 11(e) of the Term Sheet, the actual foregone indexing below 50% will be determined by the Plan Administrator based on the actual pension payments affected.

Subject to the above paragraph, the following example shows how the foregone pension payments in respect of which surplus credits are to be awarded (paragraph 11(e)) would be calculated in connection with invoking CIP below 50%. The example is based on:

- Inflation rate of 2.00% per year
- Retirements as of July 1st of each year
- New pensioner payments each year under the additional 50% CIP provisions for post-2013 service of $3 million times number of years of service from January 1, 2014 to mid-year retirement date
- 10-year period with no mortality reflected
- Indexation at 45% of CPI for the entire period

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,759	27
2018	$ 62,164	$ 62,099	65
2019	$ 92,786	$ 92,658	128
2020	$ 129,714	$ 129,492	222
2021	$ 173,011	$ 172,658	353
2022	$ 222,741	$ 222,212	529
2023	$ 278,968	$ 278,212	756
			$ 2,091

The following example modifies the above example to show the impact of moving from 45% of CPI to 0% of CPI (for post-2013 service) effective January 1, 2017:

Calendar Year	Pension Payments With 50% of CPI (000's)	Pension Payments With 45% of CPI / 0% of CPI (000's)	Foregone Pension Payments (000's)
2014	$ 1,500	$ 1,500	$ 0
2015	$ 7,515	$ 7,514	1
2016	$ 19,592	$ 19,582	10
2017	$ 37,786	$ 37,582	204
2018	$ 62,164	$ 61,582	582
2019	$ 92,786	$ 91,582	1,204
2020	$ 129,714	$ 127,582	2,132
2021	$ 173,011	$ 169,582	3,429
2022	$ 222,741	$ 217,582	5,159
2023	$ 278,968	$ 271,582	7,386
			$ 20,107

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inflation or asset values) since the previous year end and for significant curtailments, settlements, or other significant one-off events.

11A.180 For the measurement of the defined benefit obligation, paragraph 80 of IAS 19 states that financial assumptions should be based on market expectations at the end of the reporting period for the period over which the obligation is to be settled. Furthermore, paragraph 83 states that the rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds.

11A.181 The Board noted that there is no requirement to remeasure a net defined benefit liability (asset) for interim reporting purposes under IAS 19 and IAS 34. Both indicate that judgement needs to be exercised. [IAS 19 para BC59].

11A.182 It follows, therefore, that IAS 19 requires opening assumptions to be used for the purpose of calculating current service cost and net interest. Some could see this as a contradiction in that IAS 19 requires amounts to be updated when there is a significant change to the liability and to IAS 34, which states that significant market fluctuations should be adjusted for. However, if the service cost or net interest cost recognised in the income statement were to be updated in each interim period, then the cumulative full year amounts in those primary statements would not be the same as if the opening assumptions had been used throughout the annual period. Updating these amounts would lead to variations in the results based on how many interim periods each entity has, which would conflict with the 'year to date' principle in IAS 34.

11A.183 Neither IAS 34 nor IAS 19 specify how frequently the assets and liabilities of a defined benefit plan should be revalued. This will depend on the facts and circumstances specific to the pension plan and requires the exercise of a degree of professional judgement. However, IAS 19 does require an entity to determine the present value of the net defined liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date. [IAS 19 para 58]. In other words, the impact of any actuarial gains and losses since the last valuation must be expected to be immaterial. However, in a volatile economic environment, which might impact both asset values and actuarial assumptions underlying the defined benefit obligation, it will be more difficult to reach such a conclusion and it may be necessary for an entity to obtain a valuation at each interim balance sheet date.

Example – Interim remeasurements

Entity A obtains actuarial valuations of its defined benefit pension obligations at annual intervals. An actuary performs a valuation in January 20X1 to determine, with sufficient reliability, the present value of the defined benefit obligation and the fair value of plan assets at 31 December 20X0, the entity's year-end.

The measurement procedures to be followed in interim reports should be designed to ensure that the resulting information, including the value attributed to the defined benefit obligation and plan assets, is sufficiently reliable. The preparation of interim financial reports may require a greater use of estimates than the preparation of annual reports. Extrapolation (a roll forward) of the latest actuarial valuation as adjusted for significant market fluctuations or other significant one-time events will often provide a reliable measurement for interim reporting purposes.

If entity A operated in volatile economic environments in which other actuarial assumptions such as interest rates are significantly changed during interim periods it may need to perform an interim remeasurement of their pension obligations.

An interim remeasurement of the net pension liability (asset) always needs to be performed if a curtailment or settlement occurs.

11A.184 Obtaining fair values of certain assets held by the pension plan, such as traded securities, is a low-cost and relatively simple task for an entity to perform at the interim balance sheet date. However, obtaining fair values for other assets such as untraded securities (or securities that are traded so thinly that the most recent trade price is not considered a fair reflection of the fair value of the security) or properties, or obtaining a present valuation of the liabilities of the pension plan could be costly and time-consuming tasks. Estimating these values accurately may involve the use of experts such as property surveyors or actuaries.

11A.185 IAS 34 recognises that there will be a greater use of estimates by an entity when it is preparing an interim financial report than when it is preparing its annual financial statements. [IAS 34 para 41]. Consequently, it may be appropriate for an entity to extrapolate a valuation that had been previously obtained for the purposes of calculating the appropriate asset/liability for recognition in the interim financial report. [IAS 34 App C para C4]. As discussed in paragraph 11A.172, IAS 19 encourages, but does not require, the entity to involve a qualified actuary in the measurement of plan liabilities, so it may sometimes be appropriate at an interim reporting date for the entity's directors to perform this extrapolation exercise without actuarial assistance.

11A.186 Interim reports are considered in greater detail in the Manual of Accounting – Interim financial reporting.

Restrictions on the amount recognised as a defined benefit asset

11A.187 Sometimes, a net balance recognised in respect of a defined benefit pension plan may be an asset. Consistent with the principle that a pension plan surplus is regarded as an asset to the extent that the employer can gain an economic benefit from it, IAS 19 contains a restriction over the amount that may be recognised. In principle, the amount recognised as an asset may not exceed its recoverable amount. This amount is measured as the lower of:

- the surplus in the defined benefit plan; and

- the asset ceiling, determined using the discount rate specified in paragraph 83 of IAS 19.

[IAS 19 para 64].

11A.188 The application of this restriction is considered in the following example.

Example – Amount recognised as an asset

A defined benefit plan has the following characteristics at the balance sheet date.

	C'000
Present value of defined benefit obligation	(1,000)
Fair value of plan assets	1,200
Asset determined in accordance with paragraph 57 of IAS 19 (see para para 11A.99)	200
Present value of available future refunds and reductions in future contributions	170

The amount that may be recognised as an asset in this example is C170,000, being the present value of available future refunds and reductions in future contributions.

11A.189 IAS 19 contains no specific guidance concerning the measurement of the recoverable amount of a pension plan surplus. However, IFRIC 14 addresses:

- the amount of pension scheme surpluses that entities can include as a defined benefit asset in their balance sheets, in particular when refunds or reductions in future contributions should be regarded as 'available'; and
- when a minimum funding requirement may give rise to additional liabilities.

The reach of IFRIC 14 is wider than this might suggest since it may lead to an increase in liabilities even when a scheme is in deficit under IAS 19. This happens where contributions to reduce an existing deficit under a funding requirement may not be recoverable once they are made. If a defined benefit plan is in deficit and there is no minimum funding requirement, then IFRIC 14 is not relevant. If a plan is in surplus, and the employer has an unconditional right to the surplus, it can recognise an asset, there is no need to consider the impact of any minimum funding requirement.

11A.190 Statutory minimum funding requirements exist in many countries to improve the security of the post-employment benefit promise made to members of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions. [IFRIC 14 para 2]. IFRIC 14 does not change statutory or contractual funding rules, as these are set by regulators or pension

fund trustees. The interpretation does clarify how entities should account for the effect of any such requirements. It is worth noting that minimum funding requirements can result from the revision of a schedule of contributions, where such a schedule creates an obligation on the employer to pay amounts specified. They do not have to be enforced by statute or by a regulator. Note also that where a schedule of contributions constitutes a minimum funding requirement, it is likely to be revised regularly (typically every three years) by the plan's actuary. The contribution schedule cannot be viewed as having a three year duration (on the basis that it will be replaced by a new schedule after three years), but must be extrapolated forward indefinitely (on the basis that it will be replaced by an equivalent schedule at the end of the three years). [IFRIC 14 para 21].

11A.191 Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid. [IFRIC 14 para 3]. Such an additional liability arises only if two conditions are satisfied:

- the entity has a statutory or contractual obligation to pay additional amounts to the plan; and
- the entity's ability to recover those amounts in the future is restricted.

11A.192 IFRIC 14 does not affect an entity's ability to get a refund, as this is determined by statutory requirements in the jurisdiction in question and the plan rules. The interpretation does provide guidance on how to account for any restrictions that may be in place. An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled, even if this is not until some distant time in the future, such as when the last benefit is paid to the last pensioner in the scheme. A surplus does not have to be immediately realisable at the balance sheet date in order to be recognised. [IFRIC 14 para 8]. A refund does not have to have been agreed to be available.

11A.193 A refund is deemed to be 'available' only if the entity has an unconditional right to a refund, which is a more stringent test than some have applied in the past. If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset. [IFRIC 14 paras 11, 12]. An asset is not recognised when it is conditional, even if the receipt of the refund is probable.

11A.194 Interpreting whether an unconditional right exists or not in practice can be difficult. An entity does not have an unconditional right to a refund when the payment of the refund is subject to approval by another party, for example a regulator or governing body of the plan. However, if a regulator's approval is required for a refund, but that approval is perfunctory (for example, for a closed fund with no more members) then this may be treated as an unconditional right because the approval process is not substantive. In establishing whether there is an unconditional right, it will be important to check the scheme rules. In some cases, legal advice may have to be obtained to determine whether an unconditional right exists.

11A.195 Where a third party (for example plan trustees) has a discretionary power but not an obligation to wind up a plan or grant benefit improvements on the occurrence of a particular event, the question arises as to whether the exercise of that power should be anticipated or whether the effects should be recognised only when they occur. We believe that there are two acceptable views:

- Based on paragraph BC10 of IFRIC 14, the existence of an asset at the balance sheet date depends on whether the company has a *right* to obtain a refund or a reduction in future contributions. This *right* is not affected by future acts that could change the amount of the surplus that may ultimately be recovered. The fact that the trustees could choose to wind up the scheme or grant benefit improvements (and thus reduce the surplus) should not be anticipated and would not remove the company's unconditional right to the surplus.
- Based on paragraphs 12 and BC12 of IFRIC 14, if the entity's right to a refund resulting in economic benefit depends on actions by a third party, even if these actions are discretionary, the entity does not have an unconditional right. If the trustees could force the plan to wind up before the last benefit is paid, or grant benefit improvements and thus effectively eliminate any surplus, the company does not have an unconditional right to the surplus.

The policy that a company adopts is likely to represent a critical accounting judgement requiring disclosure in accordance with paragraph 122 of IAS 1.

11A.196 The economic benefit available as a *refund* is the surplus at the balance sheet date (the fair value of plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs (for example, a tax other than income tax or professional fees). The refund should not be discounted. [IFRIC 14 para 12-15]. Where a refund would not be available until after a plan is wound up, the costs of winding up the plan should be deducted from the amount included in the balance sheet.

11A.197 The economic benefit available as a *future reduction in contributions*, in the absence of any minimum funding requirement, is the future service cost to the entity for each period over the shorter of the plan's expected life and the entity's expected life. The future service costs, which excludes amounts that will be borne by employees, should be calculated using actuarial assumptions that are consistent with those used to determine the defined benefit obligation. [IFRIC 14 para 16-17].

11A.198 Minimum funding contributions may be required to cover future service as well as any existing shortfall relating to past service. The two sub-components are treated differently. [IFRIC 14 para 18].

11A.199 IFRIC 14 concluded that a pre-payment provides an economic benefit to the entity when it relieves the entity of an obligation to pay future minimum funding contributions that exceed future service cost. Therefore, an entity should consider those economic benefits in measuring an asset. For minimum funding contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of:

- any amount that reduces the future minimum funding requirement contributions for future service because the entity made a pre-payment (that is, paid the amount before being required to do so); and
- the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no pre-payment as described in the first bullet point above.

[IFRIC 14 para 20].

11A.200 If an entity has an obligation to pay contributions to cover an existing shortfall in respect of services already received, and those contributions (or a proportion thereof) will not be available after they are paid, then a liability should be recognised. The liability and its subsequent remeasurement should be recognised immediately, *via* a charge to other comprehensive income.

11A.201 The principles of IFRIC 14 are illustrated in the following examples.

Example 1 – Trustee approval required for a contribution holiday

The trustees of an entity's defined benefit pension plan comprise two employer-nominated representatives and two employee-nominated representatives. The trustees determine the rates of contribution to the plan by unanimous vote on the basis that the employer contributes two thirds of the funding requirement and the employees contribute one third. The terms of the plan do not permit refunds. There are no minimum funding requirements. However, the plan's terms stipulate that the level of contributions must be agreed between the entity and the trustees.

A surplus of C3m has arisen in the year ended 31 December 20X5. As the terms of the plan do not permit a refund, the fact that trustee approval is required is not relevant. The surplus can only be recovered through a future reduction in contributions. Where there is no minimum funding requirement, the maximum asset value that can be recognised is the future reduction in contributions (or the present value of the service cost) over the shorter of the expected life of the plan or the entity. As the service cost is, say C0.3m – which, if projected forward over the future service period is in excess of C3m – the amount recognised as an asset by the entity is the full amount of C3m.

Example 2 – Refunds when access to a surplus is limited

Entity A participates in a multi-employer pension plan that provides benefits to employees based on final salary and years of service. Independent trustees administer the plan in accordance with relevant pension legislation. The trustees provide the information each participating employer requires to apply defined benefit accounting.

The most recent actuarial valuation revealed a surplus. Pension legislation permits the trustees to refund surplus contributions to participating employers, subject to a legal maximum. The pension legislation also requires that the plan maintains a solvency margin determined as a percentage of the plan assets. The solvency margin is an insurance for contingencies that is ultimately available for refunds. The trade unions have challenged the trustees in connection with previous refunds and the proposed refunds were subject to litigation. The refunds the participating employers finally received following negotiations with trade unions were significantly less than the legal maximum and were paid in instalments.

Entity A proposes to use its share of the surplus in the plan to calculate the asset limit.

Entity A should take account of the legal maximum ignoring the solvency margin. Local legislation restricts the proportion of the surplus the trustees may refund. Entity A, therefore, restricts the asset limit to the amount of the surplus that is available for refund.

Trade union action might restrict the refund and force the employer to provide additional benefits from the surplus. When the terms of the pension plan change and employees obtain additional benefits for their past service, the entity recognises the past service costs.

The IAS 19 asset ceiling is based on whether a refund is possible and not on whether a refund is likely.

Example 3 – IAS 19 surplus and minimum funding contributions fully refundable

Entity A has a funding level on a minimum funding requirement (MFR) basis (which is measured on a different basis from that required under IAS 19) of 82% in plan B. Under the minimum funding requirements, entity A is required to increase the funding level to 95% immediately and as a result, it has a statutory obligation at the balance sheet date to contribute C200 to plan B immediately. The plan rules permit a full refund of any surplus to entity A at the end of the life of the plan. The year end valuations for plan B are set out below.

	C
Market value of plan assets	1,200
Present value of defined benefit obligation	(1,100)
Surplus	100

The defined benefit asset before consideration of the MFR is C100.

Entity A should recognise a liability to the extent that the contributions payable are not fully available. Payment of the contributions of C200 will increase the IAS 19 surplus from C100 to C300. Under the plan's rules this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognised for the obligation to pay the contributions.

Example 4 – IAS 19 deficit and minimum funding contributions not fully available

Entity C has a funding level on a minimum funding requirement basis of 77% in plan D. Under the minimum funding requirements, entity C is required to increase the funding level to 100% immediately and as a result it has a statutory obligation at the balance sheet date to pay additional contributions of C300 to plan D. The plan rules permit a maximum refund of 60% of the IAS 19 surplus to entity C and entity C is not permitted to reduce its contributions below a specified level, which happens to equal the IAS 19 service cost. The year end valuations for plan D are set out below.

	C
Market value of plan assets	1,000
Present value of defined benefit obligation	(1,100)
Deficit	100

The defined benefit liability before consideration of the MFR is C100.

The payment of C300 would change the IAS 19 deficit of C100 to a surplus of C200. Of this C200, 60% (C120) is refundable. Therefore, of the contributions of C300, C100 eliminates the IAS 19 deficit and C120 (60% of C200) is available as an economic benefit. The remaining C80 (40% of C200) of the contributions paid is not available to entity C.

Paragraph 24 of IFRIC 14 requires the entity to recognise a liability to the extent that the additional contributions payable are not available to it. Entity C should increase the defined benefit liability by C80. As required by paragraphs 122 and 127 of IAS 19, C80 is recognised immediately in OCI and entity C recognises a net balance sheet liability of C180. No other liability is recognised in respect of the statutory obligation to pay contributions of C300. When the contributions of C300 are paid, the net balance sheet asset will be C120.

11A.202 Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset), should be recognised through other comprehensive income. Such amounts should not be recycled through profit or loss in a subsequent period. [IAS 19 para 57]. A settlement or curtailment loss that is recognised in the income statement and leads to a reduction in an irrecoverable surplus within other comprehensive income, represent two different, although connected, transactions and does not represent recycling.

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the plan pays fixed amounts and receives variable amounts (a variable leg), being the amounts actually paid to plan members. These amounts are settled on a net basis. The IFRS Interpretations Committee discussed whether an entity should account for a longevity swap as a single instrument or split the swap into two components in which the variable leg is measured as a qualifying insurance policy in accordance with 4.4.670.20. The Committee noted that the predominant practice is to account for a longevity swap as a single instrument, and to measure it at fair value as part of the plan assets (see 4.4.620), with changes in the fair value recognised in OCI (see 4.4.830.10). *[IAS 19.8, 113–114, 120(c), IU 03-15]*

4.4.680 *Insurance policies that do not qualify as plan assets*

4.4.680.10 A right to reimbursement that arises from an insurance policy that is not a plan asset is recognised as a separate asset rather than as a deduction in determining the net defined benefit liability. However, in all other respects the insurance policy is treated in the same way as plan assets (see 4.4.640). *[IAS 19.118]*

4.4.690 ASSET CEILING*

4.4.690.10 If a plan is in surplus, then the amount recognised as an asset in the statement of financial position is limited to the 'asset ceiling'. The asset ceiling is the present value of any economic benefits available to the entity in the form of:

- a refund (see 4.4.730); or
- a reduction in future contributions (see 4.4.770). *[IAS 19.8, 64, IFRIC 14.7]*

4.4.690.20 If the plan is in deficit and there is a minimum funding requirement, then the effect of the asset ceiling might result in recognition of an additional liability if payments under the minimum funding requirement would create a surplus in excess of the asset ceiling (see 4.4.780–800).

EXAMPLE 15 – ASSET CEILING – IMPACT OF CEILING

4.4.690.30 Company E's defined benefit plan has the following characteristics.

Present value of obligation	11,000
Fair value of plan assets	(14,200)
Computed net asset	(3,200)

4.4.690.40 The present value of available reductions in future contributions as a result of the plan surplus is 1,000. E does not have an unconditional right to a refund. As a result, the adjustment required to limit the net defined benefit asset to the asset ceiling is 2,200 (3,200 - 1,000). Therefore, E recognises an asset of 1,000 in its statement of financial position.

4.4.690.50 Both the initial recognition of a surplus restriction or an additional liability that is recognised when payments under a minimum funding requirement creates a surplus in excess of the asset ceiling (see 4.4.780) and any change in that effect, except for amounts included in net interest on the net defined benefit liability (asset), are recognised immediately in OCI as a part of remeasurements (see 4.4.950.10).

4.4.700 Sharing benefits

4.4.700.10 If any surplus is required to be shared between the entity and employees, or if past practice has established a valid expectation that the benefit will be shared, then the portion that will be made available to the employees increases the defined benefit obligation, and as a consequence decreases the amount that could be recognised as a net asset by the entity (see 4.4.470.10). *[IAS 19.88(b)]*

4.4.710 Economic benefits available

4.4.710.10 Issues often arise about whether a surplus is available to the entity. An economic benefit, in the form of a refund or a reduction in future contributions, is available to an entity if, in accordance with the terms of the plan and applicable statutory requirements, it is realisable during the life of the plan or on the settlement of the plan liabilities. *[IFRIC 14.7–8]*

4.4.710.20 Determining whether the economic benefit is available to an entity requires a detailed analysis of the facts and circumstances in each case, including the terms of the plan and applicable legislation (see 4.4.730–800).

4.4.720 *Intended use of surplus*

4.4.720.10 The economic benefit available to an entity does not depend on how it intends to use the surplus. An entity determines the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both, but not based on mutually exclusive assumptions. *[IFRIC 14.9]*

4.4.720.20 In our view, unless agreement is required, an entity does not need to have made a request, or intend to make a request, for a refund or reduction in future contributions to factor in these methods of realising benefits when applying the asset ceiling. This is because the asset ceiling test is not based on management intentions.

4.4.720.30 Sometimes, an entity may decide to use an available surplus to improve the benefits. In our view, unless there is a legal or constructive obligation to improve the benefits, the surplus should be considered as being available to the entity in determining the amount of the asset to recognise.

4.4.720.40 If the entity enters into a legal or constructive obligation to improve the benefits, then any resulting increase in the obligation (and decrease in the surplus) is treated as a past service cost (see 4.4.870) rather than a change in the effect of the asset ceiling (see 4.4.950.10). *[IAS 19.102]*

4.4.730 Economic benefit available as refund

4.4.740 *The right to a refund*

4.4.740.10 A refund is available to an entity only if the entity has an unconditional right to a refund:

- during the life of the plan, without assuming that the plan liabilities are settled;
- over time until all members have left the plan, assuming the gradual settlement of the plan liabilities; or
- on plan wind-up, assuming the full settlement of the plan liabilities in a wind-up. *[IFRIC 14.11]*

4.4.740.20 The economic benefit available as a refund under each of these scenarios might vary.

4.4.740.30 If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, then the entity does not have an unconditional right and does not recognise an asset. [*IFRIC 14.12*]

4.4.740.40 In our view, if the trustees, or any other third party responsible for governing the plan, have an unconditional right to wind up the plan at any time, then the entity does not have an unconditional right to a refund assuming the gradual settlement of the plan liabilities over time. The entity may have an unconditional right to a refund assuming wind-up but, as explained in 4.4.750.20, this may not support recognition of an asset. In our view, an unconditional right of the entity to a refund should not be assessed based on probability or past practice.

4.4.740.50 In analysing whether an entity has an unconditional right to a refund, care should be taken to understand the terms of the plan, terms of the trust deed and applicable legislation that may influence the existence of such a right. In analysing trustees' rights to wind up the plan, we believe that consideration should be given to whether such rights can be exercised 'with cause' or 'without any cause'. In the latter case, the unconditional right of the entity to a refund after gradual settlement over time is presumed not to exist unless there is evidence to the contrary. However, if the trustees can exercise their right only 'with cause' and such cause is within the entity's control, then we believe that the entity may have an unconditional right to a refund under this scenario, because the entity can avoid by its own actions the trustees' wind-up of the plan. In our experience, determining whether an economic benefit is available as a refund can be complex and often depends on entity- and country-specific facts and circumstances. [*IFRIC 14.11(b)*]

EXAMPLE 16 – ASSET CEILING – UNCONDITIONAL RIGHT TO REFUND

4.4.740.60 Company P has a pension plan. The trustees governing the plan have an unconditional right to wind it up in the event of a change in control of P. In this case, in our view P does not have an unconditional right to a refund assuming the gradual settlement of the plan liabilities over time. This is because we believe that a change-in-control event is an uncertain future event that is not within the control of P (see 7.3.40.50).

4.4.740.70 However, if the trustees had an unconditional right to wind up the plan in the event of a change in control of P only if P reduced its contributions to the plan, then we believe that this does not preclude P from having an unconditional right to a refund. P can avoid the trustees' wind-up of the plan by not reducing contributions to the plan, because reducing its contributions to the plan is within P's control.

4.4.750 ***Measurement of economic benefit***

4.4.750.10 The economic benefit available as a refund is measured as the amount of the surplus at the reporting date – i.e. the fair value of the plan assets less the present value of the defined benefit obligation – that the entity has a right to receive as a refund, less any associated costs. In measuring the amount available when the plan is wound up, the costs of settling the liabilities and making the refund are taken into account. The entity also needs to have an unconditional right to the refund (see 4.4.740). [*IFRIC 14.11, 13–14*]

4.4.750.20 In our experience, even if the entity has an unconditional right to a refund assuming the wind-up, the costs to settle plan liabilities may often be too high to result in the recognition of an asset.

4.4.760 *Taxes on a surplus*

4.4.760.10 If an entity will be required to pay income tax on the realisation of a surplus, then it may be required to recognise a related deferred tax liability (see chapter 3.13).

4.4.760.20 If a refund will be subject to a tax other than income tax, then the available surplus is determined net of tax. [*IFRIC 14.13*]

4.4.770 **Economic benefit available as reduction in contributions**

4.4.770.10 If there is no minimum funding requirement, then the economic benefit available as a reduction in future contributions is measured as the present value of the future service cost to the entity for each year over the shorter of the expected life of the plan and the expected life of the entity. If there is a minimum funding requirement, then the economic benefit is measured following the approach set out in 4.4.790. [*IFRIC 14.16–17*]

4.4.780 **Minimum funding requirements**

4.4.780.10 Some entities are subject to requirements that specify a minimum level of contributions to be made to a post-employment benefit plan over a period of time (a minimum funding requirement). Under a minimum funding requirement, an entity may have a present obligation to make minimum contributions to a plan. If the fair value of plan assets is in excess of the defined benefit obligation, or would be once the committed contributions were made (see 4.4.800), then the entity considers whether the asset ceiling may limit the amount that the entity may recognise as an asset. If the minimum funding requirement contribution could be recovered as a refund, either from the ongoing plan or on settlement or termination of the plan, then the net plan asset would normally qualify for recognition (see 4.4.550). However, if this amount could not be recovered as a refund but only through a reduction in future contributions, then the minimum funding requirement may limit the amount of the asset that can be recognised. As a result, some or all of the minimum funding requirement contribution may have to be recognised in OCI in the current period if it is not recoverable (see 4.4.690.50). [*IAS 19.64, IFRIC 14.20, 24*]

EXAMPLE 17 – ASSET CEILING – MINIMUM FUNDING REQUIREMENT

4.4.780.20 Under a minimum funding requirement, Company Q has a present obligation to make minimum contributions for services that it has received to date. The minimum funding requirement also limits the reduction in future contributions based on a ratio calculated as a percentage of plan assets divided by the obligations to employees as determined under statutory requirements. If the plan is overfunded by a specified percentage – e.g. 110% – then Q is entitled to a reduction in future contributions. Q currently has a funding ratio that is less than 110% and it is therefore required to make minimum funding requirement contributions – i.e. above the normal ongoing contributions for current service – to raise the asset-to-liability ratio to the minimum funding level. Q is allowed to make contributions over the next several years and is not currently entitled to a reduction in future

> contributions. However, Q has projected that, for the services that it has received to date, a reduction in future contributions will be available to it in the future based on its expected return on plan assets and future expected service costs assumed for the purposes of its funding valuation and on the resulting current minimum funding requirement contributions. Q therefore assesses whether sufficient economic benefit is available to it to support recognition of an asset.
>
> **4.4.780.30** The economic benefit, in the form of a refund from the plan or a reduction in future contributions, may be considered available even if it is not immediately realisable at the reporting date. Therefore, because a reduction in contributions will be available to Q in the future, an asset can be recognised. *[IFRIC 14.8]*

4.4.780.40 Minimum funding requirements are classified into two types:
- those relating to contributions in respect of future service (see 4.4.790); and
- those relating to contributions to cover an existing shortfall on the minimum funding basis in respect of services already received (see 4.4.800). *[IFRIC 14.18]*

4.4.790 *Minimum funding requirement for future service*

4.4.790.10 If there is a minimum funding requirement for contributions relating to future service, then the measurement of the economic benefit available as a reduction in future contributions set out in 4.4.770 does not apply. The economic benefit is instead the sum of:

a. any prepaid amount that reduces future minimum funding requirement contributions; and
b. the present value of the estimated future service cost to the entity in each year less the estimated minimum funding requirement contributions that would be required for future service in the given year if there were no prepayment of future minimum funding requirement contributions. This amount can never be less than zero. *[IAS 19.64, IFRIC 14.16, 20, 22]*

4.4.790.20 Under IFRIC 14, a prepayment of an entity's future minimum funding requirement contributions for future service is recognised as an asset. The asset is recognised on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which minimum funding requirement payments would otherwise be required. Such a benefit is available even if the future minimum funding requirement contributions exceed the future IAS 19 service cost. The essence is that the prepayment reduces future contributions that cover not only future service costs but also future excess of minimum funding requirement contributions over service cost. *[IFRIC 14.20–22, IE22–IE27, BC30A]*

4.4.790.30 The IFRS Interpretations Committee discussed whether an entity should assume continuation beyond the fixed period of a future minimum funding requirement for contributions relating to future service in arrangements for which:
- the contribution rate is renegotiated with the pension fund trustees – e.g. on an annual or triennial basis; and
- a pension regulation or a contractual arrangement, or both, requires the entity and the trustees to renew the agreement to decide the schedule of contributions regularly under the existing funding principles, if the plan is continued – i.e. although the level of contributions is subject to future negotiations, the entity must continue to make contributions if the plan continues after the fixed period. *[IU 07-15]*

4.4.790.40 The Committee noted that for such arrangements – i.e. when neither a plan wind-up nor a plan closure to future accrual has been decided and agreed with the trustees – the entity needs to assume a continuation of those factors establishing the minimum funding basis in estimating the minimum funding requirement contributions for future service beyond the minimum fixed period – i.e. it cannot assume a zero contribution rate. This is because such an estimate does not include changes that require future negotiations with the trustees. Furthermore, the Committee noted that for any factors that are not determined by the trustees, the assumptions used to estimate the future minimum funding requirement contributions beyond the fixed period need to be consistent with those used for determining future service costs. *[IU 07-15, IFRIC 14.17, 21, BC30]*

4.4.800 *Minimum funding requirement to cover existing shortfall*

4.4.800.10 If a plan has a funding shortfall on the minimum funding basis for services already received, then the entity may have to pay additional contributions to cover the shortfall. Such minimum funding requirements have to be recognised as a liability if a surplus arising from the payment of the extra contributions is not fully available as a refund or reduction in future contributions. *[IFRIC 14.23–24]*

4.4.810 Multi-employer plans

4.4.810.10 The principles for assessing the asset ceiling set out in 4.4.690–800 also apply in determining whether a surplus is available to an entity that participates in a multi-employer plan (see 4.4.170) to which defined benefit accounting is applied.

4.4.820 DEFINED BENEFIT COST

4.4.830 Components of defined benefit cost

4.4.830.10 The defined benefit cost is the entire periodic change in the net defined benefit liability (asset), excluding changes caused by contributions to or refunds from the plan, benefit payments from the plan or the effects of business combinations and disposals. Except to the extent that another standard requires or permits their inclusion in the cost of an asset, the components of the defined benefit cost are recognised as follows:
- service cost, in profit or loss (see 4.4.850);
- net interest on the net defined benefit liability (asset), in profit or loss (see 4.4.940); and
- remeasurements of the net defined benefit liability (asset), in OCI (see 4.4.950). *[IAS 19.120]*

4.4.830.20 Some standards require or permit the capitalisation of certain employee benefit costs as part of the cost of assets – e.g. inventories (see 3.8.170) or property, plant and equipment (see 3.2.30.40). Any post-employment costs capitalised in the cost of such assets include the appropriate proportion of the components listed in 4.4.830.10. The interaction of the requirements in those standards with the requirement in IAS 19 to capitalise only 'the appropriate proportion' of each component – i.e. service cost, net interest and remeasurements – may be complex, because that proportion might vary between the components of the overall cost. In our experience, it is a matter of judgement to assess the 'appropriate proportion' of each component of defined benefit cost to be included in the cost of the related assets. *[IAS 19.121]*

4.4.840 *Refunds of contributions*

4.4.840.10 If an entity receives a refund of contributions paid to a defined benefit plan, then the refund is recognised as a reduction in the net defined benefit asset or an increase in the net defined

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In summary, a detailed valuation will be required on an annual basis, but not necessarily as at the end of the reporting period. A valuation undertaken other than as at the end of the reporting period will need to be updated as at the end of the reporting period to reflect *at least* changes in financial assumptions, asset values and discount rates. The need for updates in respect of other elements of the valuation will depend on individual circumstances.

5.3 Treatment of the plan surplus or deficit in the statement of financial position

5.3.1 Net defined benefit liability (asset)

IAS 19 defines the net defined benefit liability or asset as the deficit or surplus in the plan adjusted for any effect of the asset ceiling (see 5.3.2 below).

The deficit or surplus is the present value of the defined benefit obligation (see 5.2.2 above) less the fair value of the plan assets (if any) (see 5.2.1 above).

The standard requires that the net defined benefit liability (asset) be recognised in the statement of financial position at each reporting period. *[IAS 19.63]*.

5.3.2 Restriction of assets to their recoverable amounts

The net defined benefit balance determined under IAS 19 may be an asset. The standard asserts that an asset may arise (that is, an asset measured on the basis of IAS 19) where a defined benefit plan has been 'over-funded' or when actuarial gains have arisen. The standard justifies the recognition of an asset in such cases because:

(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit; the present value of those benefits is described as the asset ceiling. *[IAS 19.8, 65 and IFRIC 14.1]*.

In practice, pension plans tend to be funded on a significantly more prudent basis than would be the case if a surplus or deficit was measured in accordance with IAS 19. In particular, the discount rate used for funding purposes is typically lower than the rate specified in the standard. For this reason, IAS 19 may produce an asset, when for funding purposes there is a deficit.

When there is a surplus in a defined benefit plan, the standard requires it to be restricted to the lower of the surplus in the plan and the asset ceiling discounted using the same discount rate used for determining the defined benefit obligation (see 5.2.2.F above). *[IAS 19.8, 64]*.

Any adjustment required by the ceiling test is accounted for in other comprehensive income (see 5.5.3 below).

This limitation has proved quite problematic in practice and as a result was considered by the Interpretations Committee, initially in the context of statutory

minimum funding requirements ('MFR'). This resulted in the publication, in July 2007, of IFRIC 14 – *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* Whilst dealing with the interaction of the asset ceiling with MFR, IFRIC 14 also deals more generally with the restriction of an asset on recoverability grounds. *[IFRIC 14.1-3, 6]*. Subsequently, IFRIC 14 was amended to deal with pre-paid MFR – see 5.3.2.C below.

The Interpretations committee notes that MFR exist in many countries and normally stipulate a minimum amount or level of contribution that must be made to a plan over a given period. Therefore a minimum funding requirement may limit an entity's ability to reduce future contributions. *[IFRIC 14.2]*.

In addition, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid. *[IFRIC 14.3]*.

The issues addressed by IFRIC 14 are: *[IFRIC 14.6]*

- when refunds or reductions in future contributions should be regarded as available in accordance with the definition of the asset ceiling (discussed at 5.3.2.A and B below);
- how a minimum funding requirement might affect the availability of reductions in future contributions (discussed at 5.3.2.C below); and
- when a minimum funding requirement might give rise to a liability (discussed at 5.3.2.D below).

5.3.2.A *IFRIC Interpretation 14 – general requirements concerning the limit on a defined benefit asset*

IFRIC 14 clarifies that economic benefits, in the form of refunds or reduced future contributions, are available if they can be realised by the entity at some point during the life of the plan or when the plan liabilities are settled. In particular, such economic benefits may be available even if they are not realisable immediately at the end of the reporting period. *[IFRIC 14.8]*.

Furthermore, the benefit available does not depend on how the entity intends to use the surplus. The entity should determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. However, economic benefits should not be recognised from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive. *[IFRIC 14.9]*. Perhaps unnecessarily, the interpretation requires the availability of a refund or a reduction in future contributions to be determined in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan. *[IFRIC 14.7]*.

The interpretation observes that an unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period. The

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interpretation further states that benefits are available as a refund only if the entity has an unconditional right to a refund:

(a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund; or

(b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or

(c) assuming the full settlement of the plan liabilities in a single event (i.e. as a plan wind-up).

However, if the right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within an entity's control, the entity does not have an unconditional right and should not recognise an asset. *[IFRIC 14.11-12]*.

The economic benefit available as a refund should be measured as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs. For example, if a refund would be subject to a tax other than income tax of the reporting entity, it should be measured net of the tax. *[IFRIC 14.13]*.

In measuring the amount of a refund available when the plan is wound up (point (c) above), the costs to the plan of settling the plan liabilities and making the refund should be included. For example, a deduction should be made for professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up. *[IFRIC 14.14]*.

Commonly, the trustees of a pension fund will be independent of the entity and have absolute discretion to set investment strategy, asset allocation and also the ability to buy annuities to settle liabilities.

These powers would allow the trustees to 'spend' any current or future surplus. Investing plan assets in ultra-cautious investments (yielding less that the unwinding discount on the obligation) could unwind any surplus over time. Settlements by way of buying annuities would absorb surpluses because the cost of settlement typically exceeds the IAS 19 measure of the obligation.

These trustee powers raise the following questions:

- whether the exercise of such powers by the trustees are 'uncertain future events not wholly within [the entity's] control'; and
- if so, whether 'the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of' them and accordingly no surplus could be recognised in any scenario where trustees have such powers.

Our view is that such trustee powers should not, of themselves, preclude the recognition of a surplus (or, indeed, require the accrual of a liability for future MFR payments – discussed at 5.3.2.D below). However, this matter is currently being discussed by the Interpretations Committee (see 9.2.2 below) and it is possible that clearer guidance may be published in due course.

The reason for our view is that the test in IFRIC 14 is whether the entity has an unconditional right to any surplus which may happen to exist at any future date. It is not concerned with whether such a surplus will exist, or with the powers of others to influence that. Put another way, the question is whether any surplus existing in any of the three scenarios in (a) to (c) above would revert unconditionally to the employer. The fact that any surplus could be extinguished by uncertain future events not controlled by the employer is not relevant – it is the right to a surplus, not its existence, which is relevant. IFRIC 14 makes this clear for future actuarial losses and benefit improvements made by the employer. *[IFRIC 14.BC10]*. Our view is that the same applies to asset allocation decisions (including settlements) whether decided by the employer or the trustees. Naturally, there will be different rules in different jurisdictions. The above arguments are predicated on clear reversion to the entity of any surplus should one exist following final settlement of obligations.

This view is further supported by the general requirements in IAS 19 surrounding settlements. Settlements are accounted for only when they happen, and this is so whether the decision to settle is taken by the employer or by trustees (see 5.5.1.B below). Put simply, the test in (b) above is: if the scheme were to be run off as reflected in the statement of financial position, would the employer have an unconditional right to whatever is left? If the answer is 'Yes' (for example, because that is what the trust deed provides for), then measurement of a surplus follows the 'normal' IAS 19 methodology.

If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity should make no adjustment for the time value of money, even if the refund is realisable only at a future date. *[IFRIC 14.15]*.

5.3.2.B *Economic benefits available as reduced future contributions when there are no minimum funding requirements for future service*

IFRIC 14 addresses separately cases where there are minimum funding requirements relating to benefits to be awarded in future periods in exchange for services to be rendered in those periods, and cases where there are no such funding requirements.

This section deals with the situation where there are no such funding requirements. The implications of future service minimum funding requirements are discussed at 5.3.2.C below.

IFRIC 14 requires that the economic benefit available by way of reduced future contributions be determined as the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees. *[IFRIC 14.16]*.

Future service costs should be determined using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period as determined by IAS 19. Accordingly, no future changes to the benefits to be provided by a plan should be assumed until the plan is amended, and a stable workforce in the future should be assumed unless the entity makes a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce should include the reduction. The present value of the future service cost should be determined using the same discount rate as that used in the calculation of the defined benefit obligation (discount rates are discussed at 5.2.2.F above). *[IFRIC 14.17]*.

5.3.2.C IFRIC Interpretation 14 – the effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

IFRIC 14 defines minimum funding requirements as 'any requirements to fund a post-employment or other long-term defined benefit plan'. *[IFRIC 14.5]*. This is clearly quite a wide definition encompassing more than just statutory regimes.

Some minimum funding arrangements require periodic reappraisal (for example, every three years). Should such an arrangement cover a longer period, all payments over this longer period constitute the minimum funding requirement, not just the three years until the next reappraisal.

The interpretation requires any minimum funding requirement at a given date to be analysed into contributions that are required to cover: *[IFRIC 14.18]*

(a) any existing shortfall for past service on the minimum funding basis. These contributions do not affect future contributions for future service. However, they may give rise to a liability under IFRIC 14 (see 5.3.2.D below); *[IFRIC 14.19]* and

(b) future service.

If there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of: *[IFRIC 14.20]*

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a pre-payment (that is, it paid the amount before being required to do so); and

(b) the estimated net future service cost in each period (as discussed at 5.3.2.B above) less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no pre-payment as described in (a).

The future minimum funding contributions required in respect of future service should be calculated taking into account the effect of any existing surplus on the minimum funding requirement basis but excluding the pre-payment discussed in (a) immediately above. The assumptions used for this calculation should be consistent with the minimum funding requirement basis. For any factors not specified by the minimum funding requirement, the assumptions used should be consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period as determined by IAS 19. The estimate should include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate should not include the effect of expected changes in the terms and conditions of the minimum funding

basis that are not substantively enacted or contractually agreed at the end of the reporting period. *[IFRIC 14.21]*.

If the future minimum funding contribution required in respect of future service exceeds the future IAS 19 service cost in any given period, the present value of that excess reduces the amount of the asset available as a reduction in future contributions. However, the amount of the asset available as a reduction in future contributions can never be less than zero. *[IFRIC 14.22]*.

The mechanics of the above requirements are illustrated in the following two examples based on the illustrative examples accompanying IFRIC 14. Example 32.4 also illustrates the requirement in certain circumstances to recognise an additional liability for future MFR payments in respect of past service (discussed at 5.3.2.D below).

Example 32.4: Deficit-clearing future minimum funding requirements when refunds are not available *[IFRIC 14.IE9-IE21]*

An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IAS 19) of 95% in Plan C. Under the minimum funding requirements, the entity is required to pay contributions to increase the funding level to 100% over the next three years. The contributions are required to make good the deficit on the minimum funding requirement basis (shortfall) and to cover future service.

Plan C also has an IAS 19 surplus at the end of the reporting period of €50m, which cannot be refunded to the entity under any circumstances. There are no unrecognised amounts.

The nominal amounts of the minimum funding contribution requirements in respect of the shortfall and the future IAS 19 service cost for the next three years are set out below.

Year	Total minimum funding contribution requirement	Minimum contributions required to make good the shortfall	Minimum contributions required to cover future accrual
	€m	€m	€m
1	135	120	15
2	125	112	13
3	115	104	11

The entity's present obligation in respect of services already received includes the contributions required to make good the shortfall but does not include the minimum contributions required to cover future service.

The present value of the entity's obligation, assuming a discount rate of 6% per year, is approximately 300, calculated as follows:

$€120m/(1.06) + €112m/(1.06)^2 + €104m/(1.06)^3$

When these contributions are paid into the plan, the IAS 19 surplus (i.e. the fair value of assets less the present value of the defined benefit obligation) would, other things being equal, increase from €50m to €350m. However, the surplus is not refundable although an asset may be available as a future contribution reduction.

As noted above, the economic benefit available as a reduction in future contributions is the present value of:

- the future service cost in each year to the entity; less
- any minimum funding contribution requirements in respect of the future accrual of benefits in that year

over the expected life of the plan.

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The amounts available as a future contribution reduction are set out below.

Year	IAS 19 service cost	Minimum contributions required to cover future accrual	Amount available as contribution reduction
	€m	€m	€m
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

Assuming a discount rate of 6%, the economic benefit available as a future contribution reduction is therefore equal to:

$€(2)m/(1.06) + €0m/(1.06)^2 + €2m/(1.06)^3 + €4m/(1.06)^4 + €4m/(1.06)^5 + €4m/(1.06)^6 .... = €56m.$

The asset available from future contribution reductions is accordingly limited to €56m.

As discussed at 5.3.2.D below, IFRIC 14 requires the entity to recognise a liability to the extent that the additional contributions payable will not be fully available. Therefore, the effect of the asset ceiling is to reduce the defined benefit asset by €294m (€50m + €300m – €56m).

As discussed at 5.5.3 below, the effect of the asset ceiling is part of remeasurements and the €294m is recognised immediately in other comprehensive income and the entity recognises a net liability of €244m. No other liability is recognised in respect of the obligation to make contributions to fund the minimum funding shortfall.

When the contributions of €300m are paid into the plan, the net asset will become €56m (€300m – €244m).

Example 32.5: Effect of a prepayment when a minimum funding requirement exceeds the expected future service charge [IFRIC 14.IE22-27]

An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.

Plan D has an IAS 19 surplus of 35 at the beginning of 2015. This example assumes that the discount rate is 0%, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

The minimum contributions required to cover future service are €15 for each of the next five years. The expected IAS 19 service cost is €10 in each year.

The entity makes a prepayment of €30 at the beginning of 2015 in respect of years 2015 and 2016, increasing its surplus at the beginning of 2015 to €65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

Year	IAS 19 service cost (€)	Minimum funding requirement contribution: Before pre-payment (€)	After pre-payment (€)
2015	10	15	0
2016	10	15	0
2017	10	15	15
2018	10	15	15
2019	10	15	15
Total	50	75	45

At the beginning of 2015, the economic benefit available as a reduction in future contributions is the sum of:

- 30, being the prepayment of the minimum funding requirement contributions; and
- nil. The estimated minimum funding requirement contributions required for future service would be 75 if there was no prepayment. Those contributions exceed the estimated future service cost (50); therefore the entity cannot use any part of the surplus of 35.

Assuming a discount rate of 0%, the present value of the economic benefit available as a reduction in future contributions is equal to 30. Accordingly, the entity recognises an asset of 30 (because this is lower than the IAS 19 surplus of 65).

Two points worth noting in the above are as follows. The first is that, if IFRIC 14 did not allow the recognition of such prepayments, the full surplus of 60 would have been written off. The second is that, in the fact pattern of the question, it is unnecessary to know that the surplus before the prepayment was 35. This is because any surplus (other than the prepayment of MFR) would not be recognised because refunds are not available and future MFR exceed future service costs.

5.3.2.D IFRIC Interpretation 14 – when a minimum funding requirement may give rise to a liability

If there is an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity should determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan. [IFRIC 14.23]. Recovery through reduced future contributions is discussed at 5.3.2.B and 5.3.2.C above.

If a surplus is recoverable by way of a refund (see 5.3.2.A above), a minimum funding requirement to cover a shortfall in respect of past services will neither restrict an IAS 19 asset nor trigger the recognition of a liability. IFRIC 14 illustrates this by way of an example upon which the following is based.

Example 32.6: Effect of the minimum funding requirement when there is an IAS 19 surplus and the minimum funding contributions payable are fully refundable to the entity [IFRIC 14.IE1-2]

An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IAS 19) of 82% in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95% immediately. As a result, the entity has a statutory obligation at the end of the reporting period to contribute €200m to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

	€million
Fair value of assets	1,200
Present value of defined benefit obligation under IAS 19	(1,100)
Surplus	100
Defined benefit asset (before consideration of the minimum funding requirement)	100

Payment of the contributions of €200m will increase the IAS 19 surplus from €100m to €300m. Under the rules of the plan this amount will be fully refundable to the entity with no associated

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costs. Therefore, no liability is recognised for the obligation to pay the contributions and the net defined benefit asset will be recognised at €100m.

To the extent that the contributions payable will not be available after they are paid into the plan, a liability should be recognised when the obligation arises. The liability should reduce the net defined benefit asset or increase the net defined benefit liability so that no gain or loss is expected to result from the effect of the asset ceiling when the contributions are paid. *[IFRIC 14.24]*.

IFRIC 14 illustrates this by way of an example upon which the following is based.

Example 32.7: Effect of a minimum funding requirement when there is an IAS 19 deficit and the minimum funding contributions payable would not be fully available [IFRIC 14.IE3-8]

An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IAS 19) of 77% in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100% immediately. As a result, the entity has a statutory obligation at the end of the reporting period to pay additional contributions of €300m to Plan B. The plan rules permit a maximum refund of 60% of the IAS 19 surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the IAS 19 service cost. The year-end valuations for Plan B are set out below.

	€million
Fair value of assets	1,000
Present value of defined benefit obligation under IAS 19	(1,100)
Deficit	(100)

The payment of €300m would change the IAS 19 deficit of €100m to a surplus of €200m. Of this €200m, 60% (€120m) is refundable. Therefore, of the contributions of €300m, €100m eliminates the IAS 19 deficit and €120m (60% of €200m) is available as an economic benefit. The remaining €80m (40% of €200m) of the contributions paid is not available to the entity. As discussed above, IFRIC 14 requires the entity to recognise a liability to the extent that the additional contributions payable are not available to it. Accordingly, the net defined benefit liability is €180m, comprising the deficit of €100m plus the additional liability of €80m. No other liability is recognised in respect of the statutory obligation to pay contributions of €300m. When the contributions of €300m are paid, the net asset will be €120m.

5.3.2.E IFRIC Interpretation 14 – disclosure requirements

IFRIC 14 does not introduce any new disclosure requirements. However, it suggests that any restrictions on the current realisability of the surplus or a description of the basis used to determine the amount of the economic benefit available, may require disclosure under the provisions in IAS 1 about key sources of estimation uncertainty. *[IFRIC 14.10]*. These requirements are discussed in Chapter 3 at 5.2.1.

5.4 Presentation of the net defined benefit liability (asset)

Neither IAS 19 nor IAS 1 specifies where in the statement of financial position a net asset or net liability in respect of a defined benefit plan should be presented, nor whether such balances should be shown separately on the face of the statement of financial position or only in the notes – this is left to the discretion of the reporting entity subject to the general requirements of IAS 1 discussed in Chapter 3 at 3.1. If the format of the statement of financial position distinguishes current assets and liabilities from non-current ones, the question arises as to whether this split needs also to be made for pension balances. IAS 19 does not specify whether such a split should be made, on the grounds that it may sometimes be arbitrary. *[IAS 19.133, BC200]*.

Employers with more than one plan may find that some are in surplus while others are in deficit. IAS 19 contains offset criteria closely modelled on those in IAS 32 – *Financial Instruments: Presentation*. *[IAS 19.132]*. An asset relating to one plan may only be offset against a liability relating to another plan when there is a legally enforceable right to use a surplus in one plan to settle obligations under the other plan, and the employer intends to settle the obligations on a net basis or realise the surplus and settle the obligation simultaneously. *[IAS 19.131]*. In our view these offset criteria are unlikely to be met in practice.

5.5 Treatment of defined benefit plans in profit or loss and other comprehensive income

IAS 19 identifies three components of annual pension cost as follows:

(a) service cost (see 5.5.1 below);

(b) net interest on the net defined benefit liability (asset) (see 5.5.2 below); and

(c) remeasurements of the net defined benefit liability (see 5.5.3 below). *[IAS 19.120]*.

Of these, (a) and (b) are recognised in profit or loss and (c) is recognised in other comprehensive income. This is unless another standard requires or permits the costs to be included in the cost of an asset, for example IAS 2 – *Inventories* – and IAS 16 – *Property, Plant and Equipment*. Where the post-employment benefit costs are included in the cost of an asset the appropriate proportion of *all* the above items must be included. *[IAS 19.121]*. There is no guidance in the standard as to what an 'appropriate' proportion of these items might be, although both IAS 2 and IAS 16 are clear that only those costs which are directly attributable to the asset qualify for capitalisation. It is not necessarily the case that the appropriate proportion will be the same for all of the components and judgement will be required in deciding how much of each item can meaningfully be said to relate to the production of an asset.

Remeasurements recognised in other comprehensive income should not be reclassified to profit and loss in a subsequent period. The standard notes that those amounts may be transferred within equity. *[IAS 19.122]*.

The standard states that it does not specify how an entity should present service cost and net interest on the net defined benefit liability or asset. These components are accounted for in accordance with IAS 1 (see Chapter 3 at 3.2). *[IAS 19.134]*.