1 - Email - December 9 2016 - RE_ [Not Virus Scanned] Expert Panel - Draft Minutes.pdf

From: lucy.durocher@ca.pwc.com
To: Tam, Nelson (TBS)
Subject: RE: [Not Virus Scanned] Expert Panel - Draft Minutes
Date: December-09-16 2:28:41 PM
Attachments: PENSION ASSET EXPERT ADVISORY PANEL REPORT Draft outline v1.docx

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Thank you - That is what I was looking for.

Please see attached a draft bullet outline for the report for discussion on Monday. It could be worth circulating in advance in case members have a chance to look it over on the weekend. It should capture the discussions/points and structure that was talked about in the last meeting, but I have tried to order some of those thoughts in what I think is a logical flow.

I have highlighted where I have some questions for the panel in terms of what they want to put in the report and what might need to be discussed further at the meetings next week.

Have a great weekend!

Lucy

Lucy Durocher
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From: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 12/09/2016 08:37 AM
Subject: RE: [Not Virus Scanned] Expert Panel - Draft Minutes

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Lucy

Attached is the Terms of Reference with the 4 bullet points.

Let me know if you need anything else.

Thanks and have a great weekend and see you on Monday.

Nelson
416-212-0514

From: lucy.durocher@ca.pwc.com [mailto:lucy.durocher@ca.pwc.com]
Sent: December-09-16 6:39 AM
To: Tam, Nelson (TBS)
Subject: Re: [Not Virus Scanned] Expert Panel - Draft Minutes

Hi Nelson,

In the meeting on Monday, there was a document on the screen that included the 4 bullet points that made up the mandate of the Panel. I don't believe I have that document included in the materials from the last meeting. Would you be able to share that with me, so I can ensure that the report outline reflect the 4 bullet points with the right language.

Many thanks,

Lucy

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From: "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>
To: Lucy Durocher/CA/ABAS/PwC@Americas-CA
Date: 12/08/2016 08:44 AM
Subject: [Not Virus Scanned] Expert Panel - Draft Minutes

Lucy

Attached is the subject document. Please review and provide track change edits specifically related to the timeline section. The Chair and I tried to capture the timing but was unsure if got it right. The document is password protected.

Thanks

Nelson

Nelson Tam, CPA, CA, CIA
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[attachment "Draft Meeting Minutes - December 5 2016 v2.docx" deleted by Lucy Durocher/CA/ABAS/PwC]

[attachment "A - Terms of Reference.pdf" deleted by Lucy Durocher/CA/ABAS/PwC]

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PENSION ASSET EXPERT ADVISORY PANEL REPORT Dr.pdf

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

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  - The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan
  - The requirement regarding control with respect to recognizing a pension asset for other pension plans
  - Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors
  - Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.
- Looked at recognition and measurement of pension assets arising in jointly sponsored pension plans (Ontario Teachers and OPSEU) in accordance with Canadian public sector accounting standards.
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- Single sponsor plans vs joint sponsored plans – key differences. Clear case law for single sponsored plans is generally presumption of no access to withdraw surplus but generally have right and ability to utilize surplus through contribution holidays. (*Murray to help draft).* Importance over whether there is uncertainty over who "owns" the surplus.
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- Formation (Act, Partnership agreement, Schedule 1)
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OPSEU – Structure and organization

- Formation (XXX)
- Who the joint sponsors are – One employer, one employee.
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Conclusion for section:

Both plans are jointly sponsored pension plans (pension regulation) and agreed to be joint defined benefit plans (*AGs views on this to be confirmed with AG in meeting Dec 16*)

Determination of relevant accounting guidance

- PSAS is used
- PS 1150 hierarchy – i) follow specific standard (apply every source of primary GAAP) - PS 3250 exists as primary guidance. Specifically references jointly controlled plans.
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- [Appendix to expand on what relevant sources are and what the panel included in their considerations. *To discuss what to include and to what extent – PS 3250 paras .079 – 0.82, then PS 3250.015- .078. PS 3210. PS 3060. PS 1000 PS 3320? Other frameworks (nothing specific on JDBPs as opposed to multi-employer plans) IFRIC 14? (some relevance, but caution applied as some aspects of IFRIC 14 are not considered applicable for PSAS such as the recognition of a liability for minimum contributions in some circumstances)]*.

Recognition issues

Issue 1 – "Order of operations"

- Para .080 interpretation – "The government should account for its portion of the plan in accordance with the standards for defined benefit plans"
- Does this mean:
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- Different views may impact perspective on how to apply the words in PS 3250.
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- Impact of (B) = calculate assets for plan in accordance with PS 3250. Calculate liabilities for plan in accordance with PS 3250. Calculate valuation allowance for any accrued benefit asset in accordance with PS 3250. Govt sponsor accounts for their portion of that net plan amount after applying PS 3250.
- Under (A) Split plan first would mean that determine what is govt's portion and the calculate assets for government's portion in accordance with PS 3250. Calculate liabilities for government's portion in accordance with PS 3250. Apply valuation allowance guidance from perspective of government to their accrued benefit asset.

- [*To discuss – is the view of the panel that (B) is preferred view, but standard is not clear – alternative readings of the standard may be made – matter of judgment. OR that (A) is not an acceptable reading of the standard, only (B) is appropriate*]

Issue 2 – Definition of an asset - Control

- Discuss control by sole sponsored plans – tie to analysis in "nature of plans" above re: case law for surplus/contribution holidays.
- Main difference between single sponsor plans and JDBP is that there is joint control not control. By definition do not have unilateral control or unilateral "Rights". Instead there is an agreed upon (pre-determined) process, with expectations as to outcome of the process (equitable sharing)
- Joint control = exercise control as a control group via a contractual arrangement as to how joint control is exercised, including how surpluses and deficits are dealt with. Link to Issue 1 – apply DB guidance by control group, then pick up share.
- Joint control still meets asset definition – PS 3210.16 (PS 1000). *Can* benefit from economic resource (reduction in cash outflows), *can* deny or regulate access to the resource because of existence of joint control (essential veto rights – must agree on any surplus), *is* exposed to risks associated with the resource – exposed to risk of plan surplus changing.
- Other examples in PSAS of joint control resulting in asset recognition – PS 3060.
- [Additional Appendix guidance - The gov't accounts for its interest in a government partnership by proportionate consolidation whether the partnership is the ownership of a single asset or when a separate organization holds the assets and liabilities of the partnership. So, the standard *requires* the gov't to recognize an asset for a 50% interest in a capital asset even though it cannot deal with that asset unilaterally
- No conceptual basis exists for arguing that shared control prevents the recognition of a jointly controlled asset but shared responsibility does not prevent the recognition of a jointly controlled liability. In fact, shared responsibility could be argued to require the recognition of the entire obligation. Either interpretation systematically introduces bias into the financial reporting.]

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- PS 3320 relates to possible assets arising from existing conditions or situations involving uncertainty…. Resolution of the uncertainty will confirm the existence or non-existence of an asset
- Implication – PS 3320 is disclosure only – a contingent asset is not recorded in the FS
- View of the panel is that there is no uncertainty regarding the <u>existence</u> of the net pension asset (accrued benefit asset).

- From an <u>accounting</u> perspective assets > liabilities in the plan = plan asset. Accounting asset exists based on the accounting rules for recognition of plan assets and plan liabilities.
- Funding valuation may not show a funding surplus. Funding valuations performed for different reasons. They use different assumptions because of this.
- Accounting = best estimate concept. May include measurement uncertainty and estimates in respect of the assumptions used and fair values of assets calculated.
- Funding – includes provisions for adverse deviations.
- PS 3250 .051 addresses that accounting balances, not funding balances, should be used.
- Discount rate – permitted by PSAS.[Appendix to discuss technical aspects of discount rate vs that used by OTPP/OPSEU in their statements].

[Include brief section on "past transaction" for completeness?]

Issue 4 – Definition of an asset - Future benefit

- [*Questions to panel – this was discussed briefly but not extensively – to confirm if should include this section.*
  Have tried to articulate some of the thoughts discussed in last meeting with some additional references – Panel to discuss if this reflects their views appropriately and provide further guidance if desired]
- Asset = resource from which future economic benefits are expected to be obtained.
- Para .37 = not an asset if
  - No future benefit [refer to existence of net plan asset is issue 4 below?]
  - Future benefit but govt cannot obtain – [see below]
  - Future benefit that may be obtained but events and circumstances have not yet given rise to the government control of the benefit [refer to discussion of control in issue 2 above]
- PS 3250 para 50-59 is trying to get at the same concepts in the definition of "expected future benefit" in accordance with the standard. Para .52 discusses how future benefits may be obtained by the government (e.g. would be impaired if govt is not "entitled to benefit from fully"; uncertainties as to legal right to use a plan surplus would be taken into account). Indicates that if benefits cannot be obtained would result in a valuation allowance. However paragraph .56 defines "expected future benefits" for purposes of the standard and prescribes measurement of these – [refer to Measurement Issues section]
- Primary source of GAAP should apply if it exists. If application PS 3250 paras 50-59 results in an accrued benefit asset after an appropriate valuation allowance has been applied, then this amount must equate to an expected future benefit (by definition) and therefore be eligible for asset recognition, consistent with Section 1000, as the test is designed to capture when the government cannot obtain benefits from the resource

Measurement issues

- PS 3250 defines accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).”
- Accrued benefit asset is adjusted for any net unamortized losses before testing for the valuation allowance to give the adjusted benefit asset. “**Adjusted benefit asset** is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.” This is because the net unamortized losses will unwind automatically overtime based on the accounting model in PS 3250.
- PS 3250 requires that the expected future benefit is compared to the adjusted benefit asset
- PS 3250 states how the expected future benefit is calculated:
  A government determines its expected future benefit as the sum of:
  - the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
  - the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.
- 3250.56 (a) is focus on panel’s mandate – Province does not expect to benefit from surpluses through a withdrawal. [*To add panel’s concurrence with this view? E.g.* Agree that to include a withdrawal in the expected future benefits calculation there must be a legal right to withdraw (para 59) and may not anticipate a legal right to withdraw. In Canada withdrawal typically require approval by FSCO [*Murray to confirm legal position regarding this]* therefore substantive regulatory approval would be required before being able to recognize an expected future benefit for a surplus withdrawal.

Issue 1 – Impact of legally enforceable rights on calculation of 56 (a) amount

- Impact of para 59 – panel believes does not apply to 56 (a) amounts – specifically context of 56 (b) amounts
- Impact of para 52? [*To discuss? Does panel want to address this here?]*
- Impact of joint control (consistent with recognition issue 2 above) on rights and entitlements

Issue 2 – Calculation of the present value of expected future accruals for service for the current number of active employees

- Guidance provided in standard
- Open group used (i.e. perpetuity assumption)– this is appropriate under PSAS unless a change in the # of members is expected.

Issue 3 – What are the "minimum contributions the government is required to make regardless of any surplus"

- What would be minimum contributions in single sponsor plan? How would these be applied
- Difficulty in determining what are minimum contributions in the context of joint plans:
- Who can force minimum contributions? – Regulators, employees, funding valuations, existing plan text is minimum contributions until plan text is changed.
- Can joint sponsors create a "minimum contribution" on each other particularly if plan is accounted for under PS 3250 before govt picks up its portion?
- Period to consider when minimum required contributions have been specified. Alternatives include no minimum, use funding specified to net valuation date, use funding specified in any agreement between the sponsors
- If no expected future benefit to Govt sponsor, then is also no expected future benefit to joint sponsor. Does this make sense? Is this consistent with public expectations and expectations of the other sponsor?

Application to OTPP

- Based on above analysis of issues.
- Joint control
    - If precluded from ever recognizing asset = makes no sense – in good years expense goes up (VA increases) in bad years recognize gains (VA decreases).
- Existence
    - Discount rates – are they appropriate – AG indicates are on higher range. Panel to look at these? Comment on?
    - Address that OTPP uses IFRS discount rate in their FS, creates questions over whether an asset really exists. Size of impact = (Uros to confirm calculation)
- Ability to obtain/legal entitlements/enforceability
- PV of expected future accruals
- Minimum contributions
    - Issue is uncertainty as to future contributions and how to deal with that.
    - <u>Must</u> renegotiate every three years, but negotiations are based on <u>funding</u> surplus. Is this "regardless of any surplus"? Outcomes of future negotiations are unknown. If there is a "minimum" contribution, how is this determined? Anything is speculation because do not know what surplus may or may not exist.

- Alt view – Schedule 1 is the contractual amounts until they are changed. As cannot assume they are changed in the future, must continue indefinitely per what is written. ITA limits are written into Schedule 1 so must determine impact of these as minimum contributions are decreased in certain funding surplus scenarios. Ignores that funding surpluses must be dealt with.
- *"Regardless of any surplus" – [Should Panel address what this means? Accounting surplus? Explore further interplay of funding valuations in determining minimum contributions compared to accounting valuations used for Accrued benefit asset?]*
- What is role of expectations in determining expected future benefit? Common sense that reductions in contributions would be expected as benefit teachers as well. Not any more appropriate to assume that teachers always want increased benefits than they would want contribution reductions. How should this be taken into account, if at all?
- Impact of FMP – intent always to get back to restoration basis. Objective is stable contribution rates over time. Also is based on funding surplus – objective is to have funding "buffers"
- Comment on the calculations performed by Deloitte for the above scenarios. What assumptions have been made. Are they reasonable.
- If agree with Deloitte calculations, discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required
- Relevance of pension payments in service > contributions made each year, so are drawing down on assets/relying on asset returns?

- Compare to BC and NB plans. Key differences here is that documents, including the contribution rates, can change if agreed upon by joint sponsors.

Application to OPSEU

- Based on above analysis….
- Joint control
- Existence
- Ability to obtain/legal entitlements/enforceability
- PV of expected future accruals
- Minimum contributions - discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required

Recommendations to PSAB Employment Future Benefits Task Force

- Deferral accounting – it is not transparent to have deferrals, is confusing the users of the financial statements. Transparency = public interest, public good. Observation that this has arisen from looking at this issue that concern is that important to recognize all liabilities being there and not to recognize assets that aren't really assets. However, any mechanisms used to deal with income statement concerns should ensure that these do not result in lack of transparency on the balance sheet.

- Funding valuations – Consider providing more discussion about how Funding valuations are different and why this is important to explain this.

- Discount rates – Support looking at the discount rate, lack of consistency and therefore confusion to the public as to discount rates that are used. Question is why the liabilities should be measured differently whether you have assets or not assets (or how you invest them) does that make any sense. Drives inconsistency. How is risks inherent in the liability captured in the discount rate for pension accounting. There are many risks in the liability in 3250 that are not captured and don't seem to factor in. Acknowledgement that this is not simple – leads to confusion over the rates.

- Minimum contributions - To get consistent application of the standard means need to be more specific on what is a "minimum contribution regardless of any surplus" in the context of jointly sponsored pension plans

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- Accrued benefit asset is adjusted for any net unamortized losses before testing for the valuation allowance to give the adjusted benefit asset. “**Adjusted benefit asset** is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.” This is because the net unamortized losses will unwind automatically overtime based on the accounting model in PS 3250.
- PS 3250 requires that the expected future benefit is compared to the adjusted benefit asset
- PS 3250 states how the expected future benefit is calculated:
  A government determines its expected future benefit as the sum of:
  - the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
  - the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.
- 3250.56 (a) is focus on panel’s mandate – Province does not expect to benefit from surpluses through a withdrawal. [*To add panel’s concurrence with this view? E.g.* Agree that to include a withdrawal in the expected future benefits calculation there must be a legal right to withdraw (para 59) and may not anticipate a legal right to withdraw. In Canada withdrawal typically require approval by FSCO [*Murray to confirm legal position regarding this]* therefore substantive regulatory approval would be required before being able to recognize an expected future benefit for a surplus withdrawal.

Issue 1 – Impact of legally enforceable rights on calculation of 56 (a) amount

- Impact of para 59 – panel believes does not apply to 56 (a) amounts – specifically context of 56 (b) amounts
- Impact of para 52? [*To discuss? Does panel want to address this here?]*
- Impact of joint control (consistent with recognition issue 2 above) on rights and entitlements

Issue 2 – Calculation of the present value of expected future accruals for service for the current number of active employees

- Guidance provided in standard
- Open group used (i.e. perpetuity assumption)– this is appropriate under PSAS unless a change in the # of members is expected.

Issue 3 – What are the "minimum contributions the government is required to make regardless of any surplus"

- What would be minimum contributions in single sponsor plan? How would these be applied
- Difficulty in determining what are minimum contributions in the context of joint plans:
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- Can joint sponsors create a "minimum contribution" on each other particularly if plan is accounted for under PS 3250 before govt picks up its portion?
- Period to consider when minimum required contributions have been specified. Alternatives include no minimum, use funding specified to net valuation date, use funding specified in any agreement between the sponsors
- If no expected future benefit to Govt sponsor, then is also no expected future benefit to joint sponsor. Does this make sense? Is this consistent with public expectations and expectations of the other sponsor?

Application to OTPP

- Based on above analysis of issues.
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  - Discount rates – are they appropriate – AG indicates are on higher range. Panel to look at these? Comment on?
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    - Alt view – Schedule 1 is the contractual amounts until they are changed. As cannot assume they are changed in the future, must continue indefinitely per what is written. ITA limits are written into Schedule 1 so must determine impact of these as minimum contributions are decreased in certain funding surplus scenarios. Ignores that funding surpluses must be dealt with.
    - *"Regardless of any surplus" – [Should Panel address what this means? Accounting surplus? Explore further interplay of funding valuations in determining minimum contributions compared to accounting valuations used for Accrued benefit asset?]*
    - What is role of <u>expectations</u> in determining expected future benefit? Common sense that reductions in contributions would be expected as benefit teachers as well. Not any more appropriate to assume that teachers always want increased benefits than they would want contribution reductions. How should this be taken into account, if at all?
    - Impact of FMP – intent always to get back to restoration basis. Objective is stable contribution rates over time. Also is based on funding surplus – objective is to have funding "buffers"
    - Comment on the calculations performed by Deloitte for the above scenarios. What assumptions have been made. Are they reasonable.
    - If agree with Deloitte calculations, discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required
    - Relevance of pension payments in service > contributions made each year, so are drawing down on assets/relying on asset returns?
- Compare to BC and NB plans. Key differences here is that documents, including the contribution rates, can change if agreed upon by joint sponsors.

Application to OPSEU

- Based on above analysis….
- Joint control
- Existence
- Ability to obtain/legal entitlements/enforceability
- PV of expected future accruals
- Minimum contributions - discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required

Recommendations to PSAB Employment Future Benefits Task Force

- Deferral accounting – it is not transparent to have deferrals, is confusing the users of the financial statements. Transparency = public interest, public good. Observation that this has arisen from looking at this issue that concern is that important to recognize all liabilities being there and not to recognize assets that aren't really assets. However, any mechanisms used to deal with income statement concerns should ensure that these do not result in lack of transparency on the balance sheet.

- Funding valuations – Consider providing more discussion about how Funding valuations are different and why this is important to explain this.

- Discount rates – Support looking at the discount rate, lack of consistency and therefore confusion to the public as to discount rates that are used. Question is why the liabilities should be measured differently whether you have assets or not assets (or how you invest them) does that make any sense. Drives inconsistency. How is risks inherent in the liability captured in the discount rate for pension accounting. There are many risks in the liability in 3250 that are not captured and don't seem to factor in. Acknowledgement that this is not simple – leads to confusion over the rates.

- Minimum contributions - To get consistent application of the standard means need to be more specific on what is a "minimum contribution regardless of any surplus" in the context of jointly sponsored pension plans

2 - Email - December 9 2016 - Expert Panel - Preliminary Outline.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)
Cc:	lucy.durocher@ca.pwc.com
Subject:	Expert Panel - Preliminary Outline
Date:	December-09-16 2:37:00 PM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL REPORT Draft outline v1.docx

Patricia, Uros, Murray, Paul

Attached is Lucy' preliminary outline of the report (password protected) with highlighted areas where there are still some outstanding questions or items to consider.

If you have time, please review and we can review on Monday with any suggestions.

Thanks

Nelson
416-212-0514

PENSION ASSET EXPERT ADVISORY PANEL REPORT Dr_1.pdf

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

Mandate of the Panel

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

- Looked at recognition and measurement of pension assets arising in jointly sponsored pension plans (Ontario Teachers and OPSEU) in accordance with Canadian public sector accounting standards.

- Other plans such as HOOPP, CAATPP will be covered in supplemental report

Nature of the pension plans examined

- Single sponsor plans vs joint sponsored plans – key differences. Clear case law for single sponsored plans is generally presumption of no access to withdraw surplus but generally have right and ability to utilize surplus through contribution holidays. (*Murray to help draft).* Importance over whether there is uncertainty over who “owns” the surplus.
- JDBP is sub category of DB plans
- Characteristics of JDBP plans (PS 3250 glossary and paras .079 -.080 summarized)
- Difference to multi-employer plans
- Brief history – were single sponsor plans until 1992 (OTPP); objective of the change – employees took on their share of the obligation, but in return got access to their share of the surplus.
- All plans different – must look at specifics of each plan to conclude appropriately.
- Government has legislative abilities to change the Act, but have entered into contractual arrangement with employee sponsor – what are options for changing this unilaterally.

Govt can always set aside a contract because of sovereign power, but for accounting must go by what the current contractual arrangements are (past transactions).

OTPP – Structure and organization

- Formation (Act, Partnership agreement, Schedule 1)
- Who the joint sponsors are – One employer sponsor, one employee Sponsor (federation). Other employers as part of plan, but are not sponsors.
- Board structure (administrator)
- Decision making by sponsors
- Decision making by Board (administrator)
- Basic funding arrangement - govt match (up to) the prior year employee contributions
- Actuarial valuation (funding) every three years – must be "actuarially balanced" – negotiate to balance between the joint sponsors
- Negotiation = good faith negotiation → arbitration, but must agreement must be reached.
- FMP agreement
- Limits (or lack thereof) on negotiation of contributions set by plan text (purpose – will use to compare to NB plans when contributions are determinable within a range under the agreed terms that cannot be changed under the basic plan arrangements)

OPSEU – Structure and organization

- Formation (XXX)
- Who the joint sponsors are – One employer, one employee.
- Board structure (administrator) – representative board
- Decision making by sponsors
- Decision making by Board (administrator)
- Basic funding arrangement -
- Funding zone agreements
- Limits (or lack thereof) on negotiation of contributions set by plan text

Conclusion for section:

Both plans are jointly sponsored pension plans (pension regulation) and agreed to be joint defined benefit plans (*AGs views on this to be confirmed with AG in meeting Dec 16*)

Determination of relevant accounting guidance

- PSAS is used
- PS 1150 hierarchy – i) follow specific standard (apply every source of primary GAAP) - PS 3250 exists as primary guidance. Specifically references jointly controlled plans.
- ii) where PS 3250 is not clear would develop an accounting policy considering other standards within PSAS and the Conceptual Framework
- iii) may also refer to accounting guidance in other GAAP frameworks as long as consistent with item ii) above.
- [Appendix to expand on what relevant sources are and what the panel included in their considerations. *To discuss what to include and to what extent – PS 3250 paras .079 – 0.82, then PS 3250.015- .078. PS 3210. PS 3060. PS 1000 PS 3320? Other frameworks (nothing specific on JDBPs as opposed to multi-employer plans) IFRIC 14? (some relevance, but caution applied as some aspects of IFRIC 14 are not considered applicable for PSAS such as the recognition of a liability for minimum contributions in some circumstances)]*.

Recognition issues

Issue 1 – "Order of operations"

- Para .080 interpretation – "The government should account for its portion of the plan in accordance with the standards for defined benefit plans"
- Does this mean:
  - A) Split plan and apply guidance on DB account for govts portion OR
  - B) Account for plan using DB guidance and then recognize (pick up) your portion
- Different views may impact perspective on how to apply the words in PS 3250.
- View of panel = second option (B) is appropriate as is most closely aligned with concepts of pension DB accounting because Financial Statement accounting is based on a net amount of assets – liabilities (similar to equity accounting – is the sponsors net asset or liability in the plan) rather than picking up share of assets and picking up share of liabilities (which would be similar to proportionate consolidation type accounting).
- Impact of (B) = calculate assets for plan in accordance with PS 3250. Calculate liabilities for plan in accordance with PS 3250. Calculate valuation allowance for any accrued benefit asset in accordance with PS 3250. Govt sponsor accounts for their portion of that net plan amount after applying PS 3250.
- Under (A) Split plan first would mean that determine what is govt's portion and the calculate assets for government's portion in accordance with PS 3250. Calculate liabilities for government's portion in accordance with PS 3250. Apply valuation allowance guidance from perspective of government to their accrued benefit asset.

- [*To discuss – is the view of the panel that (B) is preferred view, but standard is not clear – alternative readings of the standard may be made – matter of judgment. OR that (A) is not an acceptable reading of the standard, only (B) is appropriate*]

Issue 2 – Definition of an asset - Control

- Discuss control by sole sponsored plans – tie to analysis in "nature of plans" above re: case law for surplus/contribution holidays.
- Main difference between single sponsor plans and JDBP is that there is joint control not control. By definition do not have unilateral control or unilateral "Rights". Instead there is an agreed upon (pre-determined) process, with expectations as to outcome of the process (equitable sharing)
- Joint control = exercise control as a control group via a contractual arrangement as to how joint control is exercised, including how surpluses and deficits are dealt with. Link to Issue 1 – apply DB guidance by control group, then pick up share.
- Joint control still meets asset definition – PS 3210.16 (PS 1000). *Can* benefit from economic resource (reduction in cash outflows), *can* deny or regulate access to the resource because of existence of joint control (essential veto rights – must agree on any surplus), *is* exposed to risks associated with the resource – exposed to risk of plan surplus changing.
- Other examples in PSAS of joint control resulting in asset recognition – PS 3060.
- [Additional Appendix guidance - The gov't accounts for its interest in a government partnership by proportionate consolidation whether the partnership is the ownership of a single asset or when a separate organization holds the assets and liabilities of the partnership. So, the standard *requires* the gov't to recognize an asset for a 50% interest in a capital asset even though it cannot deal with that asset unilaterally
- No conceptual basis exists for arguing that shared control prevents the recognition of a jointly controlled asset but shared responsibility does not prevent the recognition of a jointly controlled liability. In fact, shared responsibility could be argued to require the recognition of the entire obligation. Either interpretation systematically introduces bias into the financial reporting.]

Issue 3 – Definition of an asset – existence

- PS 3320 relates to possible assets arising from existing conditions or situations involving uncertainty…. Resolution of the uncertainty will confirm the existence or non-existence of an asset
- Implication – PS 3320 is disclosure only – a contingent asset is not recorded in the FS
- View of the panel is that there is no uncertainty regarding the existence of the net pension asset (accrued benefit asset).

- From an accounting perspective assets > liabilities in the plan = plan asset. Accounting asset exists based on the accounting rules for recognition of plan assets and plan liabilities.
- Funding valuation may not show a funding surplus. Funding valuations performed for different reasons. They use different assumptions because of this.
- Accounting = best estimate concept. May include measurement uncertainty and estimates in respect of the assumptions used and fair values of assets calculated.
- Funding – includes provisions for adverse deviations.
- PS 3250 .051 addresses that accounting balances, not funding balances, should be used.
- Discount rate – permitted by PSAS.[Appendix to discuss technical aspects of discount rate vs that used by OTPP/OPSEU in their statements].

[Include brief section on "past transaction" for completeness?]

Issue 4 – Definition of an asset - Future benefit

- [*Questions to panel – this was discussed briefly but not extensively – to confirm if should include this section.*
  Have tried to articulate some of the thoughts discussed in last meeting with some additional references – Panel to discuss if this reflects their views appropriately and provide further guidance if desired]
- Asset = resource from which future economic benefits are expected to be obtained.
- Para .37 = not an asset if
  - No future benefit [refer to existence of net plan asset is issue 4 below?]
  - Future benefit but govt cannot obtain – [see below]
  - Future benefit that may be obtained but events and circumstances have not yet given rise to the government control of the benefit [refer to discussion of control in issue 2 above]
- PS 3250 para 50-59 is trying to get at the same concepts in the definition of "expected future benefit" in accordance with the standard. Para .52 discusses how future benefits may be obtained by the government (e.g. would be impaired if govt is not "entitled to benefit from fully"; uncertainties as to legal right to use a plan surplus would be taken into account). Indicates that if benefits cannot be obtained would result in a valuation allowance. However paragraph .56 defines "expected future benefits" for purposes of the standard and prescribes measurement of these – [refer to Measurement Issues section]
- Primary source of GAAP should apply if it exists. If application PS 3250 paras 50-59 results in an accrued benefit asset after an appropriate valuation allowance has been applied, then this amount must equate to an expected future benefit (by definition) and therefore be eligible for asset recognition, consistent with Section 1000, as the test is designed to capture when the government cannot obtain benefits from the resource

Measurement issues

- PS 3250 defines accrued benefit asset as “the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).”
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- Based on above analysis of issues.
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3 - Email - December 12 2016 - Revised paper outline.pdf

From:	lucy.durocher@ca.pwc.com
To:	Tam, Nelson (TBS)
Subject:	Revised paper outline
Date:	December-12-16 8:50:51 AM
Attachments:	PENSION ASSET EXPERT ADVISORY PANEL REPORT Draft outline v1.docx

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PENSION ASSET EXPERT ADVISORY PANEL REPORT Dr_2.pdf

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

Mandate of the Panel

- Panel formed to address
    - The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan
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Nature of the pension plans examined

- Single sponsor plans vs joint sponsored plans – key differences. Clear case law for single sponsored plans is generally presumption of no access to withdraw surplus but generally have right and ability to utilize surplus through contribution holidays. (*Murray to help draft).* Importance over whether there is uncertainty over who "owns" the surplus.
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- Difference ~~to~~ from multi-employer plans
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- Who the joint sponsors are – One employer sponsor, one employee Sponsor (federation). Other employers as part of plan, but are not sponsors.
- Board structure (administrator) – expert board
- Decision making by sponsors – all fundamental decisions regarding benefits and contributions
- Decision making by Board (administrator) – management of plan, investment of assets, payment of benefits
- Basic funding arrangement ~~-~~– gov't match (up to) the prior year employee contributions
- Actuarial valuation (funding) at least every three years – must be "actuarially balanced" – negotiate to balance between the joint sponsors
- Negotiation = good faith negotiation → mediation → arbitration, but ~~must~~ agreement must be reached.
- FMP agreement
- Limits (or lack thereof) on negotiation of contributions set by plan text (purpose – will use to compare to NB plans when contributions are determinable within a fixed range under the agreed terms that cannot be changed under the basic plan arrangements)

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- Formation (XXX)
- Who the joint sponsors are – One employer, one employee.
- Board structure (administrator) – representative board
- Decision making by sponsors
- Decision making by Board (administrator)
- Basic funding arrangement -
- Funding zone agreements
- Limits (or lack thereof) on negotiation of contributions set by plan text

Conclusion for section:

Both plans are jointly sponsored pension plans (pension regulation) and ~~agreed to be~~have been accounted for as joint defined benefit plans in accordance with PS3250 since it became affective with no qualification (*AGs views on this to be confirmed with AG in meeting Dec 16*)

Panel view – we agree with accounting classification of both plans as joint defined benefit plans

Determination of relevant accounting guidance

- PSAS is used
- PS 1150 hierarchy – i) follow specific standard (apply every source of primary GAAP) - PS 3250 exists as primary guidance. Specifically references jointly controlled plans.
- ii) where PS 3250 is not clear would develop an accounting policy considering other standards within PSAS and the Conceptual Framework
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Commented [PO1]: I think we agreed that the general approach is to do the accounting for the plan as a whole – 3250 says apply DB requirements to plan then pick up sponsor's portion. So we apply gov't's best estimate assumptions and PSAS requirements to determine total accounting surplus, then apply asset ceiling calc to total plan to see if valuation allowance is required. Conclude no.
Then take on other AG arguments about control
1. by definition control can't be unilateral when plan is under joint control
2. 3250 does not specify any additional requirements to recognize assets for joint plans than for single sponsor ones
3. asset definition does include requirement for control but need to consider def'n of control in 3210
4. conclusion consistent with gov't partnerships (in fact this plan is governed by a Partnership agreement). AG accounting would require instant expensing of any investment in an arrangement under joint control

Recognition issues

Issue 1 – "Order of operations"

- Para .080 interpretation – "The government should account for its portion of the plan in accordance with the standards for defined benefit plans"
- Does this mean:
  - A) Split plan and apply guidance on DB account for govt's portion OR
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Application to OTPP

- Based on above analysis of issues.
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  - Discount rates – are they appropriate – AG indicates are on higher end of range. Panel to look at these? Comment on?
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- Ability to obtain/legal entitlements/enforceability
- PV of expected future accruals
- Minimum contributions
  - Issue is uncertainty as to future contributions and how to deal with that.
  - Must renegotiate every three years, but negotiations are based on funding surplus. Is this "regardless of any surplus"? Outcomes of future negotiations are unknown. If there is a "minimum" contribution, how is this determined? Anything is speculation because do not know what surplus may or may not exist.
  - Alt view – Schedule 1 is the contractual amounts until they are changed. As cannot assume they are changed in the future, must continue indefinitely per what is written. ITA limits are written into Schedule 1 so must determine impact of these as minimum contributions are decreased in certain funding surplus scenarios. Ignores that funding surpluses must be dealt with.
  - *"Regardless of any surplus" – [Should Panel address what this means? Accounting surplus? Explore further interplay of funding valuations in determining minimum contributions compared to accounting valuations used for Accrued benefit asset?]*
  - What is role of expectations in determining expected future benefit? Common sense that reductions in contributions would be expected as that benefits teachers as well. Not any more appropriate to assume that teachers always want increased benefits than they would want contribution reductions. How should this be taken into account, if at all?
  - Impact of FMP – intent always to get back to restoration basis (full indexation). Objective is stable contribution rates over time. Also is based on funding surplus – objective is to have funding "buffers"
  - Comment on the calculations performed by Deloitte for the above scenarios. What assumptions have been made. Are they reasonable.
  - If agree with Deloitte calculations, discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required
  - Relevance of pensions in payment~~s~~ ~~in service~~ > contributions made each year, so are drawing down on assets/relying on asset returns?
- Compare to BC and NB plans. Key differences here is that documents, including the contribution rates, can change if agreed upon by joint sponsors.

Commented [PO10]: I think we need to explain practice – which I believe considers the accounting surplus. Then we need to identify how the requirement is interpreted in practice and note that even under the most conservative interpretation, no valuation allowance is required.

Application to OPSEU

- Based on above analysis….
- Joint control
- Existence
- Ability to obtain/legal entitlements/enforceability
- PV of expected future accruals
- Minimum contributions - discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required

Recommendations to PSAB Employment Future Benefits Task Force

- Deferral accounting – it is not transparent to have deferrals, is confusing the users of the financial statements. Transparency = public interest, public good. Observation that this has arisen from looking at this issue ~~that~~ – concern is that important to recognize all liabilities being there and not to recognize assets that aren't really assets, such as deferred losses recognized as assets when there is no surplus in the plan. However, any mechanisms used to deal with potential income statement volatility concerns should ensure that these do not result in lack of transparency on the balance sheet.

- Funding valuations – Consider providing more discussion about how Funding valuations are different and why this is important to explain this.

- Discount rates – Support looking at the discount rate, lack of consistency and therefore confusion to the public as to discount rates that are used. Question is why the liabilities should be measured differently whether you have assets or not ~~assets~~ (or how you invest them) does that make any sense. Drives inconsistency. How is risks inherent in the liability captured in the discount rate for pension accounting. There are many risks in the liability in 3250 that are not captured and don't seem to factor in. Acknowledgement that this is not simple – leads to confusion over the rates.

- Minimum contributions - To get consistent application of the standard means need to be more specific on what is a "minimum contribution regardless of any surplus" in the context of jointly sponsored pension plans

Commented [PO11]: Note that public sector generally uses sponsor borrowing rate for unfunded plans (same rate OTPP uses in its FS for the pension obligation). How does/should the method you intend to use to settle an obligation affect how you measure it?

Commented [PO12]: Does this question not also arise for single sponsor plans?

3 - PENSION ASSET EXPERT ADVISORY PANEL REPORT Draft outline v1.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

Mandate of the Panel

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

- Looked at recognition and measurement of pension assets arising in jointly sponsored pension plans (Ontario Teachers and OPSEU) in accordance with Canadian public sector accounting standards.

- Other plans such as HOOPP, CAATPP will be covered in supplemental report

Nature of the pension plans examined

- Single sponsor plans vs joint sponsored plans – key differences. Clear case law for single sponsored plans is generally presumption of no access to withdraw surplus but generally have right and ability to utilize surplus through contribution holidays. (*Murray to help draft).* Importance over whether there is uncertainty over who “owns” the surplus.
- JDBP is sub category of DB plans
- Characteristics of JDBP plans (PS 3250 glossary and paras .079 -.080 summarized)
- Difference ~~to~~ from multi-employer plans
- Brief history – were single sponsor plans until 1992 (OTPP); objective of the change – employees took on their share of the risks of the obligation, but in return got access to their share of the surplus.
- All plans different – must look at specifics of each plan to conclude appropriately.
- Government has legislative ability~~ies~~ to change the Act, but has~~ve~~ entered into contractual arrangement with employee sponsor – what are options for changing this

unilaterally. Gov't can always set aside a contract because of sovereign power, but unless and until such a change were to become effective, for accounting must go by what the current contractual arrangements are (past transactions).

OTPP – Structure and organization

- Formation (Act, Partnership agreement, Schedule 1)
- Who the joint sponsors are – One employer sponsor, one employee Sponsor (federation). Other employers as part of plan, but are not sponsors.
- Board structure (administrator) – expert board
- Decision making by sponsors – all fundamental decisions regarding benefits and contributions
- Decision making by Board (administrator) – management of plan, investment of assets, payment of benefits
- Basic funding arrangement ~~-~~ – gov't match (up to) the prior year employee contributions
- Actuarial valuation (funding) at least every three years – must be "actuarially balanced" – negotiate to balance between the joint sponsors
- Negotiation = good faith negotiation → mediation → arbitration, but ~~must~~ agreement must be reached.
- FMP agreement
- Limits (or lack thereof) on negotiation of contributions set by plan text (purpose – will use to compare to NB plans when contributions are determinable within a fixed range under the agreed terms that cannot be changed under the basic plan arrangements)

OPSEU – Structure and organization

- Formation (XXX)
- Who the joint sponsors are – One employer, one employee.
- Board structure (administrator) – representative board
- Decision making by sponsors
- Decision making by Board (administrator)
- Basic funding arrangement -
- Funding zone agreements
- Limits (or lack thereof) on negotiation of contributions set by plan text

Conclusion for section:

Both plans are jointly sponsored pension plans (pension regulation) and ~~agreed to be~~have been accounted for as joint defined benefit plans in accordance with PS3250 since it became affective with no qualification (*AGs views on this to be confirmed with AG in meeting Dec 16*)

Panel view – we agree with accounting classification of both plans as joint defined benefit plans

Determination of relevant accounting guidance

- PSAS is used
- PS 1150 hierarchy – i) follow specific standard (apply every source of primary GAAP) - PS 3250 exists as primary guidance. Specifically references jointly controlled plans.
- ii) where PS 3250 is not clear would develop an accounting policy considering other standards within PSAS and the Conceptual Framework
- iii) may also refer to accounting guidance in other GAAP frameworks as long as consistent with item ii) above.
- [Appendix to expand on what relevant sources are and what the panel included in their considerations. *To discuss what to include and to what extent – PS 3250 paras .079 – 0.82, then PS 3250.015- .078. PS 3210. PS 3060. PS 1000 PS 3320? Other frameworks (nothing specific on JDBPs as opposed to multi-employer plans) IFRIC 14? (some relevance, but caution applied as some aspects of IFRIC 14 are not considered applicable for PSAS such as the recognition of a liability for minimum contributions in some circumstances)]*.

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Then take on other AG arguments about control
1. by definition control can't be unilateral when plan is under joint control
2. 3250 does not specify any additional requirements to recognize assets for joint plans than for single sponsor ones
3. asset definition does include requirement for control but need to consider def'n of control in 3210
4. conclusion consistent with gov't partnerships (in fact this plan is governed by a Partnership agreement). AG accounting would require instant expensing of any investment in an arrangement under joint control

Recognition issues

Issue 1 – "Order of operations"

- Para .080 interpretation – "The government should account for its portion of the plan in accordance with the standards for defined benefit plans"
- Does this mean:
  - A) Split plan and apply guidance on DB account for govt's portion OR
  - B) Account for plan using DB guidance and then recognize (pick up) your portion
- Different views may impact perspective on how to apply the words in PS 3250.
- View of panel = second option (B) is appropriate as is most closely aligned with concepts of pension DB accounting because Financial Statement accounting is based on a net amount of assets – liabilities (similar to equity accounting – is the sponsor's net asset or liability in the plan) rather than picking up share of assets and picking up share of liabilities (which would be similar to proportionate consolidation type accounting).
- Impact of (B) = calculate assets for plan in accordance with PS 3250. Calculate liabilities for plan in accordance with PS 3250. Calculate valuation allowance for any accrued

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  - Issue is uncertainty as to future contributions and how to deal with that.
  - Must renegotiate every three years, but negotiations are based on funding surplus. Is this "regardless of any surplus"? Outcomes of future negotiations are unknown. If there is a "minimum" contribution, how is this determined? Anything is speculation because do not know what surplus may or may not exist.
  - Alt view – Schedule 1 is the contractual amounts until they are changed. As cannot assume they are changed in the future, must continue indefinitely per what is written. ITA limits are written into Schedule 1 so must determine impact of these as minimum contributions are decreased in certain funding surplus scenarios. Ignores that funding surpluses must be dealt with.
  - *"Regardless of any surplus" – [Should Panel address what this means? Accounting surplus? Explore further interplay of funding valuations in determining minimum contributions compared to accounting valuations used for Accrued benefit asset?]*
  - What is role of expectations in determining expected future benefit? Common sense that reductions in contributions would be expected as that benefits teachers as well. Not any more appropriate to assume that teachers always want increased benefits than they would want contribution reductions. How should this be taken into account, if at all?
  - Impact of FMP – intent always to get back to restoration basis (full indexation). Objective is stable contribution rates over time. Also is based on funding surplus – objective is to have funding "buffers"
  - Comment on the calculations performed by Deloitte for the above scenarios. What assumptions have been made. Are they reasonable.
  - If agree with Deloitte calculations, discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required
  - Relevance of pensions in payment~~s~~ ~~in service~~ > contributions made each year, so are drawing down on assets/relying on asset returns?
- Compare to BC and NB plans. Key differences here is that documents, including the contribution rates, can change if agreed upon by joint sponsors.

Commented [PO10]: I think we need to explain practice – which I believe considers the accounting surplus. Then we need to identify how the requirement is interpreted in practice and note that even under the most conservative interpretation, no valuation allowance is required.

Application to OPSEU

- Based on above analysis….
- Joint control
- Existence
- Ability to obtain/legal entitlements/enforceability
- PV of expected future accruals
- Minimum contributions - discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required

Recommendations to PSAB Employment Future Benefits Task Force

- Deferral accounting – it is not transparent to have deferrals, is confusing the users of the financial statements. Transparency = public interest, public good. Observation that this has arisen from looking at this issue ~~that~~ – concern is that important to recognize all liabilities being there and not to recognize assets that aren't really assets, such as deferred losses recognized as assets when there is no surplus in the plan. However, any mechanisms used to deal with potential income statement volatility concerns should ensure that these do not result in lack of transparency on the balance sheet.

- Funding valuations – Consider providing more discussion about how Funding valuations are different and why this is important to explain this.

- Discount rates – Support looking at the discount rate, lack of consistency and therefore confusion to the public as to discount rates that are used. Question is why the liabilities should be measured differently whether you have assets or not ~~assets~~ (or how you invest them) does that make any sense. Drives inconsistency. How is risks inherent in the liability captured in the discount rate for pension accounting. There are many risks in the liability in 3250 that are not captured and don't seem to factor in. Acknowledgement that this is not simple – leads to confusion over the rates.

- Minimum contributions - To get consistent application of the standard means need to be more specific on what is a "minimum contribution regardless of any surplus" in the context of jointly sponsored pension plans

Commented [PO11]: Note that public sector generally uses sponsor borrowing rate for unfunded plans (same rate OTPP uses in its FS for the pension obligation). How does/should the method you intend to use to settle an obligation affect how you measure it?

Commented [PO12]: Does this question not also arise for single sponsor plans?

PENSION ASSET EXPERT ADVISORY PANEL REPORT Draft outline v2.docx

PENSION ASSET EXPERT ADVISORY PANEL

[DRAFT] REPORT

Cover letter? (including mandate summary)

Executive Summary [to be completed]

Mandate of the Panel

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

- Looked at recognition and measurement of pension assets arising in jointly sponsored pension plans (Ontario Teachers and OPSEU (define first time)) in accordance with Canadian public sector accounting standards.

- Other plans such as HOOPP (define first time), CAATPP will be covered in supplemental report

Nature of the pension plans examined

- All plans different – must look at specifics of each plan to conclude appropriately.
- Single sponsor plans vs joint sponsored plans – key differences. Considerable ~~lear~~ ~~c~~case law for single sponsored plans that addresses both withdrawal of surplus and contributiosn holidays. In general, access to withdraw is more complicated and subject to regulatory and legal hurdles There are a lot of legal obstacles to withdraw. There is

Commented [NT1]: Standard is all about legal rights for withdrawal.

less so for contribution holidays particularly when the plan text indicates it is permissible. ~~is generally presumption of no access to withdraw surplus.~~ If plan allow right to reduce contribution also clear, if not clear but ~~generally~~ in general – depends on plan text - have right and ability to utilize surplus through contribution holidays. (*Murray to help draft).* Importance over whether there is uncertainty over who "owns" the surplus.

- Pension legislation has the JSPP as a separate category. Different regulatory requirements.
- Similarly JDBP is sub category of DB plans
- Characteristics of JDBP plans (PS 3250 glossary and paras .079 -.080 summarized) by definition neither party controls unilaterally, as requires joint control.
- Difference ~~to~~ from multi-employer plans
- Brief history – were single sponsor plans until 1992 (OTPP); objective of the change – employees took on their share of the risks of the obligation, but in return got access to their share of the surplus.
- Logic is to get upside and downside.
- Public policy argument – fair deal for both sides, better than single sponsor plan.
- Murray's point that no sensible party to an agreement would agree to accept 50% of the downside risk without also sharing 50% in the upside.]
- ~~All plans different – must look at specifics of each plan to conclude appropriately.~~
- Government has legislative abilit~~ies~~y to change the Act, but ha~~ve~~s entered into contractual arrangement with employee sponsor – what are options for changing this unilaterally. Gov't can always set aside a contract because of sovereign power, but unless and until such a change were to become effective, for accounting must go by what the current contractual arrangements are (past transactions).

OTPP – Structure and organization

- Formation (Act, Partnership agreement, Schedule 1)
- Who the joint sponsors are – One employer sponsor, one employee Sponsor (federation). Other employers as part of plan, but are not sponsors.
- Is JSPP
- Board structure (administrator) – expert board, administrator only.
- Decision making by sponsors – all fundamental decisions regarding benefits and contributions
- Decision making by Board (administrator) – management of plan, investment of assets, payment of benefits
- Basic funding arrangement ~~–~~ gov't match (up to) the prior year employee contributions
- Actuarial valuation (funding) at least every three years – must be "actuarially balanced" – negotiate to balance between the joint sponsors
- Negotiation = good faith negotiation → mediation → arbitration, but ~~must~~ agreement must be reached.

Commented [NT2]: OTPP and OPSEU are clear on permissive to contribution holidays

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Commented [NT3]: Move to appendix. Only include what is relevant. Mention these to say what governs the activities of the sponsors and the Board. DO not need to summarize contractual arrangements other than as specifically required. For the analysis in the analysis section

Links to the Acts, rest are not public.

- FMP agreement sets the framework for the sponsors to negotiate the use of any surplus/deficits. This provides the basis. Include reference to clearly permitting contribution holiday/reductions.
- Limits (or lack thereof) on negotiation of contributions set by plan text (purpose – will use to compare to NB plans when contributions are determinable within a fixed range under the agreed terms that cannot be changed under the basic plan arrangements)
-

OPSEU – Structure and organization

- Formation (XXX)
- Who the joint sponsors are – One employer, one employee.
- Is JSPP
- Board structure (administrator) – representative board
- Decision making by sponsors
- Decision making by Board (administrator)
- Basic funding arrangement -
- Funding zone agreements
- Limits (or lack thereof) on negotiation of contributions set by plan text
- Include reference to clearly permitting contribution withdrawal
-

Commented [NT4]: Same as for OPSEU

~~Conclusion~~ Panel View~~for section~~:

Both plans ~~are jointly sponsored pension plans (pension regulation)~~ and ~~agreed to be~~have been accounted for as joint defined benefit plans in accordance with PS3250 since it became eaffective with no qualification ~~*(AGs views on this to be confirmed with AG in meeting Dec 16)*~~

Panel view – we agree with accounting classification of both plans as joint defined benefit plans.

Determination of relevant accounting guidance

- PSAS is used
- PS 1150 hierarchy – i) follow specific standard (apply every source of primary GAAP) – Clearly, PS 3250 exists as primary guidance. Specifically references jointly controlled plans.

- ii) where PS 3250 is not clear would develop an accounting policy considering other standards within PSAS and the Conceptual Framework
- iii) may also refer to accounting guidance in other GAAP frameworks as long as consistent with item ii) above.
-
- Panel View considered there were some areas where PS 3250 is not clear on the application to JDBP, so did refer to other guidance that is identified in the analysis when relevant.
- ~~[Appendix to expand on what relevant sources are and what the panel included in their considerations. To discuss what to include and to what extent – PS 3250 paras .079 – 0.82, then PS 3250.015- .078. PS 3210. PS 3060. PS 1000 PS 3320? Other frameworks (nothing specific on JDBPs as opposed to multi-employer plans) IFRIC 14? (some relevance, but caution applied as some aspects of IFRIC 14 are not considered applicable for PSAS such as the recognition of a liability for minimum contributions in some circumstances)].~~

Commented [PO5]: I think we agreed that the general approach is to do the accounting for the plan as a whole – 3250 says apply DB requirements to plan then pick up sponsor's portion. So we apply gov't's best estimate assumptions and PSAS requirements to determine total accounting surplus, then apply asset ceiling calc to total plan to see if valuation allowance is required. Conclude no.
Then take on other AG arguments about control
1. by definition control can't be unilateral when plan is under joint control
2. 3250 does not specify any additional requirements to recognize assets for joint plans than for single sponsor ones
3. asset definition does include requirement for control but need to consider def'n of control in 3210
4. conclusion consistent with gov't partnerships (in fact this plan is governed by a Partnership agreement). AG accounting would require instant expensing of any investment in an arrangement under joint control

To be reflected in recognition section

Recognition issues

Issue 1 – Application of DB accounting to JDBP~~"Order of operations"~~

- Para .08~~180~~ interpretation – (Add in first sentence)"The government should account for its portion of the plan in accordance with the standards for defined benefit plans"
- Does this mean:
  - A) Split plan and apply guidance on DB account for govt's portion OR
  - B) Account for plan using DB guidance and then recognize (pick up) your portion
- Different views may impact perspective on how to apply the words in PS 3250.
-
- ~~View of panel = second option (B) is appropriate as is most closely aligned with concepts of pension DB accounting because Financial Statement accounting is based on a net amount of assets – liabilities (similar to equity accounting – is the sponsor's net asset or liability in the plan) rather than picking up share of assets and picking up share of liabilities (which would be similar to proportionate consolidation type accounting).~~
- Impact of (B) = calculate assets for plan in accordance with PS 3250. Calculate liabilities for plan in accordance with PS 3250. Calculate valuation allowance for any accrued benefit asset in accordance with PS 3250. Gov't sponsor accounts for ~~their~~ its portion of that net plan amount after applying PS 3250.
- Under (A) Split plan first would mean that determine what is govt's portion and the calculate assets for government's portion in accordance with PS 3250. Calculate liabilities for government's portion in accordance with PS 3250. Apply valuation allowance guidance from perspective of government to their accrued benefit asset.
-

- View of panel = second option (B) conceptually B is the right answer is appropriate as is most closely aligned with concepts of pension DB accounting because Financial Statement accounting is based on a net amount of assets – liabilities (similar to equity accounting – is the sponsor's net asset or liability in the plan) rather than picking up share of assets and picking up share of liabilities (which would be similar to proportionate consolidation type accounting).
- Add in – consistent with the "Deal" – View A would indicate that could take all liabilities without assets – this is not consistent with equitable sharing. Took on half the risk of the obligations by taking half the "risk" on the surplus. Both parties made trade off on inception of the JDBP – Province traded off control for half of the assets and liabilities. There was a business arrangement that brought these things into existence. A does not respect this.
- If you force yourself into A then relevant facts you are not taking into account. Tules apply to the whole plan, Funding policy applies to the whole thing etc. The only thing that jointly controlled is the whole plan. Not unilateral control of half of it.
- Apply all of the standard to the plan and then pick up your portion – remembering that portion does not have to be equal. Determine portion based on this after having accounted for the plan. View A is not representationally faithful. Systematically introduces bias into the financial statement process.

Only difference between Sole sponsor and JDBP is that one is joint control (so pick up share) but everything else is the same. Need to be clear here this is the main difference – rest of analysis based on this conclusion.

No additional requirements for JDBP in terms of recognition and measurement. Helpful language in .79 – shared control.

- **Add specifics of plans prior to view**
-

- .
- ~~[To discuss – is the view of the panel that (B) is preferred view, but standard is not clear – alternative readings of the standard may be made – matter of judgment. OR that (A) is not an acceptable reading of the standard, only (B) is appropriate]~~

Issue 2 – Definition of an asset – economic resource

- Reference 3210 for additional guidance.
- What asset are we talking about – First there is a surplus which is the net defined benefit asset in the plan (surplus in the plan). Question is whether from (joint) sponsors perspective - is it an economic resource to the (joint) sponsor

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Commented [PO6]: I think it depends on the plan terms. View B is correct for OTPP but for OPSEUPP, as they allocate plan surplus to the sponsors to decide how to use it, I think the asset ceiling test has to be applied to their part of the surplus not as a whole then divide.

Is consistent based on the model discussed this morning.

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- Ability to use the surplus – sponsor to the extent that it available in the reduction of cash outflows.
- Surplus exists (economic resource exists) because it can be used to reduce cash outflow (3210.04(a)) (also IPSAS 39.67)
- From an accounting perspective assets > liabilities in the plan = plan asset. Accounting asset exists based on the accounting rules for recognition of plan assets and plan liabilities.
- Funding valuation may not show a funding surplus. Funding valuations performed for different reasons [PS 3250para 10]. They use different actuarial methods and assumptions because of this.
- Accounting = best estimate concept. Includes significant measurement uncertainty and estimates in respect of the assumptions used and fair values of assets calculated.
- Funding – includes provisions for adverse deviations.
- PS 3250 .051 specifies that accounting balances, not funding balances, should be used.
-
-
- Now get into contingency - is not uncertain economic resource
- PS 3320 relates to possible assets arising from existing conditions or situations involving uncertainty…. Resolution of the uncertainty will confirm the existence or non-existence of an asset
- Implication – PS 3320 is disclosure only – a contingent asset is not recorded in the FS
    - **Add specifics of plans**
    -
- View of the panel is that the accounting asset meets the definition of an economic resource because the accrued benefit asset exists and future benefit is available to the sponsors in accordance with the plan documents. There is no uncertainty regarding the existence of the net pension asset.

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Issue ~~2~~3 – Definition of an asset - Control

- ~~Discuss control by sole sponsored plans – tie to analysis in “nature of plans” above re: case law for surplus/contribution holidays.~~
- ~~Main difference between single sponsor plans and JDBP is that there is joint control not control.~~ By definition do not have unilateral control or unilateral “Rights”. Instead there is an agreed upon (pre-determined) process, with certainty that a conclusion on the use of any surplus will be reached and with expectations as to outcome of the process (equitable sharing)
- Joint control = exercise control as a control group via a contractual arrangement as to how joint control is exercised, including how surpluses and deficits are dealt with. Link to

Commented [LD7]: 67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit 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 asset ceiling is the present value of those future benefits.

Issue 1 – apply DB guidance to plan ~~by control group~~, then members of control group each pick up their share. (allows for possibility that there are sponsors that are not part of the group sharing control)

- Agree that asset definition requires control however ~~J~~joint control still meets asset definition – PS 3210.16 (PS 1000). *Can* benefit from economic resource (reduction in cash outflows), *can* deny or regulate access to the resource because of existence of joint control (essential veto rights – must agree on any surplus), *is* exposed to risks associated with the resource – exposed to risk of plan surplus changing.

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- Other examples in PSAS of joint control resulting in asset recognition – PS 3060. This standard *requires* the gov't to recognize an asset for a 50% interest in a capital asset even though it cannot deal with that asset unilaterally. No write off of investments in jointly controlled partnerships. Why would it apply to JDBPs any differently. No requirement for unilateral rights (use language from .59 to indicate that this is not the concepts. Go so far as to say that .59 does not apply as indicative to join control/control impact for assets. Plan documents specify allocation of the surplus – under existing documents – deal is done is matter of operationalization of the agreement.

Commented [NT8]: OPSEU vs OTPP

(Note – this is not exactly the Province's view either re: Surplus). Surplus withdrawal is complicated legally. Paid into a trust – given up a claim so unless retained a claim it is very difficukt to get it back because it's not yours. Contribution holoiday is different because it not getting something back - it's not putting something in. These are very different things legally.

Consider for putting **in appendix in terms of this background** – trust law etc. withdrwawl vs contribution holidays. This distinction is established in law, standard setters seem to also relying on this (.59)

- [Additional Appendix guidance - The gov't accounts for its interest in a government partnership by proportionate consolidation whether the partnership is the ownership of a single asset or when a separate organization holds the assets and liabilities of the partnership. ~~So, the standard *requires* the gov't to recognize an asset for a 50% interest in a capital asset even though it cannot deal with that asset unilaterally~~
- ~~No conceptual basis exists for arguing that shared control prevents the recognition of a jointly controlled asset but shared responsibility does not prevent the recognition of a jointly controlled liability. In fact, shared responsibility could be argued to require the recognition of the entire obligation. Either interpretation systematically introduces bias into the financial reporting. and is not a faithful representation of the business arrangement. Murray's point that no sensible party to an agreement would agree to accept 50% of the downside risk without also sharing 50% in the upside.]~~

Commented [NT9]: Moved earlier. Check everything is captured.

- Para 1000.37 = not an asset if
  - Future benefit that may be obtained but events and circumstances have not yet given rise to the government control of the benefit [

Commented [NT10]: i.e. need further approvals etc. However here, we have contractual agreements that say they have (joint) control of the benefit.

AND That control is a result of past events (contributions paid by the entity and service rendered by the employee); [IPSAS .67]
3250.51 – definition of accrued benefit asset – nothing more that you need. Reiterate the plan exists, the ABA exist.

- **Add specifics of plans**

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Panel view – the sponsors share control of the pension surplus. 3250 requires them to account for their portion of that surplus.

~~Issue 3 – Definition of an asset – existence~~

- ~~PS 3320 relates to possible assets arising from existing conditions or situations involving uncertainty…. Resolution of the uncertainty will confirm the existence or non-existence of an asset~~
- ~~Implication – PS 3320 is disclosure only – a contingent asset is not recorded in the FS~~
- ~~View of the panel is that there is no uncertainty regarding the existence of the net pension asset (accrued benefit asset).~~
- ~~From an accounting perspective assets > liabilities in the plan = plan asset. Accounting asset exists based on the accounting rules for recognition of plan assets and plan liabilities.~~
- ~~Funding valuation may not show a funding surplus. Funding valuations performed for different reasons. They use different actuarial methods and assumptions because of this.~~
- ~~Accounting = best estimate concept. May iIncludes significant measurement uncertainty and estimates in respect of the assumptions used and fair values of assets calculated.~~
- ~~Funding – includes provisions for adverse deviations.~~
- ~~PS 3250 .051 addresses specifies that accounting balances, not funding balances, should be used.~~
- ~~Discount rate – permitted by PSAS.[Appendix to discuss technical aspects of discount rate vs that used by OTPP/OPSEU in their statements].~~

~~[Include brief section on "past transaction" for completeness?]~~

~~Issue 4 – Definition of an asset - Future benefit~~

- ~~*[Questions to panel – this was discussed briefly but not extensively – to confirm if should include this section.*~~
  ~~*Have tried to articulate some of the thoughts discussed in last meeting with some additional references – Panel to discuss if this reflects their views appropriately and provide further guidance if desired]*~~
- ~~Asset = resource from which future economic benefits are expected to be obtained.~~
- ~~Para .37 = not an asset if~~
  - ~~No future benefit [refer to existence of net plan asset is issue 4 below?]~~
  - ~~Future benefit but gov't cannot obtain – [see below]~~
  - ~~Future benefit that may be obtained but events and circumstances have not yet given rise to the government control of the benefit [refer to discussion of control in issue 2 above]~~
- ~~PS 3250 para 50-59 is trying to get at the same concepts in the definition of "expected future benefit" in accordance with the standard. Para .52 discusses how future benefits may be obtained by the government (e.g. would be impaired if gov't is not "entitled to benefit from fully"; uncertainties as to legal right to use a plan surplus would be taken into account). Indicates that if benefits cannot be obtained would result in a valuation~~

Commented [PO11]: Also need to refer to comparable rates used in accounting for public sector plans in other provinces/fed.

Commented [PO12]: Do we have the FS for the OPSEU plan?

Commented [NT13]: There is a future benefit and we control it, but can we Obtain it. – comes into .56

Commented [NT14]: i.e. need further approvals etc. However here, we have contractual agreements that say they have (joint) control of the benefit.

Commented [NT15]: Move this

Commented [PO16]: We need to emphasize that there is more than one way for the gov't to benefit. An ability to withdraw assets from the plan is NOT required and in fact has never been contemplated by the gov't as support for recognizing the asset.

~~allowance. However paragraph .56 defines "*expected* future benefits" for purposes of the standard and prescribes measurement of these – [refer to Measurement Issues section]~~

- ~~Primary source of GAAP should apply if it exists. If application PS 3250 paras 50-59 results in an accrued benefit asset after an appropriate valuation allowance has been applied, then this amount must equate to an expected future benefit (by definition) and therefore be eligible for asset recognition, consistent with Section 1000, as the test is designed to capture when the government cannot obtain benefits from the resource~~

Commented [PO17]: Need more discussion of the fact that both the asset definition and the application of it in PS3250 talk about expectations. The idea that no asset can be recognized if there is any uncertainty is not supportable. Uncertainty about ultimate realization is dealt with in the measurement not in recognition.

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Commented [NT18]: Be in the measurement section. Same for next paragraph.

Panel View – PS 3250 requires the *recognition* of an asset for the government's portion of the plan surplus for both plans.

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Those assets may require a valuation allowance. The measurement of those assets is addressed in the next section.

Measurement issues

-
- Primary source of GAAP should apply if it exists. If application PS 3250 paras 50-59 results in an accrued benefit asset after an appropriate valuation allowance has been applied, then this amount must equate to an expected future benefit (by definition) and therefore be eligible for asset recognition, consistent with Section 1000, as the test is designed to capture when the government cannot obtain benefits from the resource
- PS 3250 defines accrued benefit asset as "the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance)."
- Accrued benefit asset is adjusted for any net unamortized losses before testing for the valuation allowance to give the adjusted benefit asset. "**Adjusted benefit asset** is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains." This is because the net unamortized losses will unwind automatically overtime based on the accounting model in PS 3250.

Commented [PO19]: Note no adjustment for net unamortized gains which is what we have here.

- PS 3250 requires that the expected future benefit is compared to the adjusted benefit asset
- PS 3250 ~~states~~ specifies how the expected future benefit is to be calculated:
  A government determines its expected future benefit as the sum of:

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

- 3250.56 (a) is focus of~~n~~ panel's mandate – Law treats surplus withdrawals and reductions in contributions quite differently. Current legal framework - need FSCO approval with a court order an arbitration award or an agreement between employer and members for any surplus withdrawal That difference is reflected in the accounting standards. Separate detailed withdrawal requirements (para 59) – conditions on recognition but not measurement. Contribution holidays = no guidance on recognition, but all about how to measure these benefits.
- Province does not expect to benefit from surpluses through a withdrawal. ~~[*To add panel's concurrence with this view? E.g.* Agree that to~~ To include a withdrawal in the expected future benefits calculation there must be a legal right to withdraw (para 59) and may not anticipate a legal right to withdraw. ~~In Canada withdrawal typically require approval by FSCO [*Murray to confirm legal position regarding this]* therefore substantive regulatory approval would be required before being able to recognize an expected future benefit for a surplus withdrawal.~~ OPSEU does not permit the withdrawal of surplus. OTPP does not specifically mention surplus withdrawal – no explicit right..

Discount rate – permitted by PSAS.[Appendix to discuss technical aspects of discount rate vs that used by OTPP/OPSEU in their statements].

- ~~PS 3250 para 50-59 is trying to get at the same concepts in the definition of "expected future benefit" in accordance with the standard. Para .52 discusses how future benefits may be obtained by the government (e.g. would be impaired if gov't is not "entitled to benefit from fully"; uncertainties as to legal right to use a plan surplus would be taken into account). Indicates that if benefits cannot be obtained would result in a valuation allowance. However paragraph .56 defines "*expected* future benefits" for purposes of the standard and prescribes measurement of these – [refer to Measurement Issues section]~~
-
- ~~Primary source of GAAP should apply if it exists. If application PS 3250 paras 50-59 results in an accrued benefit asset after an appropriate valuation allowance has been applied, then this amount must equate to an expected future benefit (by definition) and therefore be eligible for asset recognition, consistent with Section 1000, as the test is designed to capture when the government cannot obtain benefits from the resource~~

Commented [PO20]: Do we need to put all this in when asset withdrawal never contemplarted?

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Commented [PO21]: Also need to refer to comparable rates used in accounting for public sector plans in other provinces/fed.

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Commented [PO22]: Do we have the FS for the OPSEU plan?

Commented [NT23]: Where does this belong? Need to find a home or delete.

Commented [PO24]: We need to emphasize that there is more than one way for the gov't to benefit. An ability to withdraw assets from the plan is NOT required and in fact has never been contemplated by the gov't as support for recognizing the asset.

Commented [NT25]: Commonly a restriction in the plan text where by a employer has made explicitly in the plan text to match employees etc in the plan text. i.e. whatever they do they must match employer contributions. However there is no such restrictions here in the OTPP and OPSEU. OTPP – match is maximum contribution in Act. Match in plan text is by agreement. No prohibition on the partners agreeing to reduce employer contributions for a period of time.
No minimum on the match.

Commented [PO26]: Need more discussion of the fact that both the asset definition and the application of it in PS3250 talk about expectations. The idea that no asset can be recognized if there is any uncertainty is not supportable. Uncertainty about ultimate realization is dealt with in the measurement not in recognition.

Commented [NT27]: Be in the measurement section. Same for next paragraph.

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Issue 1 – Impact of legally enforceable rights on calculation of 56 (a) amount

- PS 3250 para 50-59 is trying to get at the same concepts in the definition of "expected future benefit" in accordance with the standard. Para .52 discusses how future benefits may be obtained by the government (e.g. would be impaired if gov't is not "entitled to benefit from fully"; uncertainties as to legal right to use a plan surplus would be taken into account). Indicates that if benefits cannot be obtained would result in a valuation allowance. However paragraph .56 defines "*expected* future benefits" for purposes of the standard and prescribes measurement of these – [refer to Measurement Issues section]
- Impact of para 59 – panel believes does not apply to 56 (a) amounts – specifically context of 56 (b) amounts. Other than the last sentence every sentence specifically mentions withdrawal of assets from the plan – Is specific. OPSEU – specifically that a contribution holiday is not a withdrawal. Deal with last sentence – change in surplus allocation only when agreed to – this does not apply to this situation i) OTPP does not change allocation. ii) OPSEU has separate pools.
- ~~Impact of para 52? [*To discuss? Does panel want to address this here?]*~~
- Impact of joint control (consistent with recognition issue 2 above) on rights and entitlements

Add specifics for plans

Issue 2 – Calculation of the present value of expected future accruals for service for the current number of active employees

- Guidance provided in standard
- Open group used (i.e. perpetuity assumption)– this is appropriate under PSAS unless a change in the # of members is expected. Be clear not expected for either plan.
- Can add to CSC the expected expenses to be paid out of the plan (administrative expenses) plus investment expenses. Being careful where those expenses are recorded – are they taken of the return of assets already. (3250 para 58)
- Province should consider to what extent the expenses paid out of the plan could be added to the economic benefit.

Issue 3 – What are the "minimum contributions the government is required to make regardless of any surplus"

- (Accounting concept here is accounting obligation PV costs is the benefit unless have to put more c ash in – therefore if nothing makes you put in more cash from a funding valuation perspective then can use accounting surplus). Set this out first.
- If I have a surplus is it possible to change the contributions?
- IF I have a surplus do I have to keep on piling money in?

- Is this funding surplus or accounting – The panel understands that in practice actuaries interpret this in practice to be funding surplus and not accounting surplus.

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Commented [PO28]: We need to emphasize that there is more than one way for the gov't to benefit. An ability to withdraw assets from the plan is NOT required and in fact has never been contemplated by the gov't as support for recognizing the asset.

Commented [NT29]: Commonly a restriction in the plan text where by a employer has made explicitly in the plan text to match employees etc in the plan text. i.e. whatever they do they must match employer contributions. However there is no such restrictions here in the OTPP and OPSEU. OTPP – match is maximum contribution in Act. Match in plan text is by agreement. No prohibition on the partners agreeing to reduce employer contributions for a period of time. No minimum on the match.

Commented [PO30]: Need more discussion of the fact that both the asset definition and the application of it in PS3250 talk about expectations. The idea that no asset can be recognized if there is any uncertainty is not supportable. Uncertainty about ultimate realization is dealt with in the measurement not in recognition.

Commented [NT31]: Be in the measurement section. Same for next paragraph.

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- Recommendations to province – be mindful that if have a funding surplus and have a legal requirement to continue to contribute could be minimum contributions.

Because everything is renegotiated in three years (OTPP)

There is no minimum contributions that have to be made regardless of any surplus.

- What would be minimum contributions in single sponsor plan? How would these be applied. Can the employer take a contribution holiday. Yes unless they have made a commitment to match contribution regardless. Same would apply for joint plans? If so then if they don't have this commitment then they can.
- Difficulty is that funding amounts for these plans include "restricted" amounts for stabilization reserves etc (like internally restricted surplus). These can be used by the two sponsors. Can disappear because the surplus disappears or because the sponsors use them.
- If it is surplus then we are making contributions regardless of this surplus. OR do we not have surplus?
- Difficulty in determining what are minimum contributions in the context of joint plans when future contributions are dependent on the funded status of the plan and negotiation:
- Who can force minimum contributions? – Regulators, employees, funding valuations, existing plan text is minimum contributions until plan text is changed.
- Can joint sponsors create a "minimum contribution" on each other particularly if plan is accounted for under PS 3250 before gov't picks up its portion?
- Period to consider when minimum required contributions have been specified. Alternatives include no minimum, use funding specified to next valuation date, use funding specified in any agreement between the sponsors
- Minimum contributions
    - Issue is uncertainty as to future contributions and how to deal with that.
    - Must renegotiate every three years, but negotiations are based on funding surplus. Is this "regardless of any surplus"? Outcomes of future negotiations are unknown. If there is a "minimum" contribution, how is this determined? Anything is speculation because do not know what surplus may or may not exist.
    - Alt view – Schedule 1 is the contractual amounts until they are changed. As cannot assume they are changed in the future, must continue indefinitely per what is written. ITA limits are written into Schedule 1 so must determine impact of these as minimum contributions are decreased in certain funding surplus scenarios. Ignores that funding surpluses must be dealt with.
    - *"Regardless of any surplus" – [Should Panel address what this means? Accounting surplus? Explore further interplay of funding valuations in determining minimum contributions compared to accounting valuations used for Accrued benefit asset?]*

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Commented [NT32]: Uros – has this dilemma. Current contributions are made regardless of any surplus.

Question is how far out do "current" contributions go – valuation period? Period of agreement (2026) or until ITA hits.

Point is that this is a choice that the Joint sponsors are making. What is different from single sponsor.

First Actuarial valuation Is subject to PBA and actuarial standards. However if this shows a surplus then this must be dealt with by joint sponsor.

OTPP - uses discount rates to put limits on surplus. Bury this in the assumptions.
OPSEU different mechanism. show a "stabilization reserve"

If zero funding surplus then is no MC regardles of any surplus - therefore is not a required contribution. At worst then MC is until next valuation allowance.

Commented [PO33]: I think we need to explain practice – which I believe considers the accounting surplus. Then we need to identify how the requirement is interpreted in practice and note that even under the the most conservative interpretation, no valuation allowance is required.

- What is role of expectations in determining expected future benefit? Common sense that reductions in contributions would be expected as that benefits teachers as well. Not any more appropriate to assume that teachers always want increased benefits than they would want contribution reductions. How should this be taken into account, if at all?
- Impact of FMP – intent always to get back to restoration basis (full indexation). Objective is stable contribution rates over time. Also is based on funding surplus – objective is to have funding "buffers"
- Comment on the calculations performed by Deloitte for the above scenarios. What assumptions have been made. Are they reasonable.
- If agree with Deloitte calculations, discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required
- Relevance of pensions in payment > contributions made each year, so are drawing down on assets/relying on asset returns?

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- No requirement for minimum contributions. Most is until next valuation although could always file every year. Panel notes that all of the calculations support recognition of the asset. These other views exist because there is not clear guidance on how to apply.
- If no expected future benefit to Gov't sponsor, then is also no expected future benefit to joint sponsor. Does this make sense? Is this consistent with public expectations and expectations of the other sponsor?

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- ***Add specifics for plans***

Panel view -

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Panel view – measurement conclusion

Application to OTPP

- Based on above analysis of issues.
- ~~Joint control~~
  - ~~If precluded from ever recognizing asset = makes no sense – in good years expense goes up because contributions made but (VA increases) and in bad years recognize gains because (VA decreases).~~
- Existence

- ~~Discount rates – are they appropriate – AG indicates are on higher end of range. Panel to look at these? Comment on?~~
    - ~~Address that OTPP uses IFRS discount rate in their FS, creates questions over about whether an asset really exists. Size of impact = (Uros to confirm calculation)~~
- ~~Ability to obtain/legal entitlements/enforceability~~
- ~~PV of expected future accruals~~
- ~~Minimum contributions~~
    - ~~Issue is uncertainty as to future contributions and how to deal with that.~~
    - ~~Must renegotiate every three years, but negotiations are based on funding surplus. Is this "regardless of any surplus"? Outcomes of future negotiations are unknown. If there is a "minimum" contribution, how is this determined? Anything is speculation because do not know what surplus may or may not exist.~~
    - ~~Alt view – Schedule 1 is the contractual amounts until they are changed. As cannot assume they are changed in the future, must continue indefinitely per what is written. ITA limits are written into Schedule 1 so must determine impact of these as minimum contributions are decreased in certain funding surplus scenarios. Ignores that funding surpluses must be dealt with.~~
    - ~~*"Regardless of any surplus" – [Should Panel address what this means? Accounting surplus? Explore further interplay of funding valuations in determining minimum contributions compared to accounting valuations used for Accrued benefit asset?]*~~
    - ~~What is role of expectations in determining expected future benefit? Common sense that reductions in contributions would be expected as that benefits teachers as well. Not any more appropriate to assume that teachers always want increased benefits than they would want contribution reductions. How should this be taken into account, if at all?~~
    - ~~Impact of FMP – intent always to get back to restoration basis (full indexation). Objective is stable contribution rates over time. Also is based on funding surplus – objective is to have funding "buffers"~~
    - ~~Comment on the calculations performed by Deloitte for the above scenarios. What assumptions have been made. Are they reasonable.~~
    - ~~If agree with Deloitte calculations, discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required~~
    - ~~Relevance of pensions in payments in service > contributions made each year, so are drawing down on assets/relying on asset returns?~~
- Compare to BC and NB plans. Key differences here is that documents, including the contribution rates, can change if agreed upon by joint sponsors.

~~Application to OPSEU~~

- ~~Based on above analysis….~~
- ~~Joint control~~

Commented [PO34]: I think we need to explain practice – which I believe considers the accounting surplus. Then we need to identify how the requirement is interpreted in practice and note that even under the most conservative interpretation, no valuation allowance is required.

Commented [NT35]: Put in an appendix?
Is not important to the panel's arguments. However need to understand why the AG referred to these – is there a concern that we need to address that we have not yet.

- ~~Existence~~
- ~~Ability to obtain/legal entitlements/enforceability~~
- ~~PV of expected future accruals~~
- ~~Minimum contributions - discuss actuarial valuations which demonstrate the value of the EFB > recognized asset under all possible alternatives so no valuation allowance is required~~

Recommendations to PSAB Employment Future Benefits Task Force

- Clarify the effect of joint control on the ability to *expect* future benefits in the form of contribution reductions/apply the other parts of PS 3250. What is required.
- Joint control -
    - If precluded from ever recognizing asset = makes no sense – in good years expense goes up because contributions made but VA increases and in bad years recognize gains because VA decreases.
-
- Different readings of issue 1 are being noted in practice – should clarify the ordering.

- Deferral accounting – it is not transparent to have deferrals, is confusing the users of the financial statements. Transparency = public interest, public good. Observation that this has arisen from looking at this issue ~~that~~ – concern is that important to recognize all liabilities being there and not to recognize assets that aren't really assets, such as deferred losses recognized as assets when there is no surplus in the plan. However, any mechanisms used to deal with potential income statement volatility concerns should ensure that these do not result in lack of transparency on the balance sheet. ~~–~~. [Reference to IPSAS 39]

- Funding valuations – Consider providing more discussion about how Funding valuations are different and why this is important to explain this.

- Discount rates – Support looking at the discount rate, lack of consistency and therefore confusion to the public as to discount rates that are used. Question is why the liabilities should be measured differently whether you have assets or not ~~assets~~ (or how you invest them) does that make any sense. Drives inconsistency. How is risks inherent in the liability captured in the discount rate for pension accounting. There are many risks in the liability in 3250 that are not captured and don't seem to factor in. Acknowledgement that this is not simple – leads to confusion over the rates.

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Commented [PO36]: Note that public sector generally uses sponsor borrowing rate for unfunded plans (same rate OTPP uses in its FS for the pension obligation). How does/should the method you intend to use to settle an obligation affect how you measure it?

- Minimum contributions - To get consistent application of the standard means need to be more specific on what is a “minimum contribution regardless of any surplus” in the context of jointly sponsored pension plans

Commented [PO37]: Does this question not also arise for single sponsor plans?