

FW_ URGENT_ Statement of Facts and Assumptions Sept 19.docx.rtf

From: Hatzis, Len (TBS) []
To: JSteele@osler.com [JSteele@osler.com]; Marin, Jon (jomarin@osler.com) [jomarin@osler.com]; Rienzo, Douglas (DRienzo@osler.com) [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: FW: URGENT: Statement of Facts and Assumptions Sept 19.docx
Date: Monday, September 19, 2016 11:58:39
Attachment 1: Statement of Facts and Assumptions Sept 19 (3).docx

Jana et al

I know that you have been engaged with Deloitte on these issues, but here are their draft statement of facts that would be folded into their opinion. We think it would be very useful if you could advise if there are inaccuracies in this – it isn't that long. At first blush, Paul and I made a couple of comments as noted in the attached.

From: Petsche, Nadine (TBS)
Sent: September 19, 2016 11:42 AM
To: Hatzis, Len (TBS); Kaufman, Paul (TBS)
Subject: URGENT: Statement of Facts and Assumptions Sept 19.docx
Importance: High

Len/Paul,

Please advise of any issues. The item has been under review by EDU and ISPPD since 10am, but just checking to see if there are any issues that you see? Please feel free to suggest edits to wording.

From: Colley, Matthew (CA - Toronto) [<mailto:mcolley@deloitte.ca>]
Sent: September 19, 2016 9:59 AM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: Statement of Facts and Assumptions Sept 19.docx

Hi – Please find attached the statement of facts and assumptions. There are a couple of comments in this document where we would like OPCD to review the wording before sending onto the AG.

Thanks

Matt

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Statement of Facts and Assumptions Sept 19 (3).pdf

Statement of Facts and Assumptions

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

Commented [HL1]: Is this accurate – nothing in the TPA says we represent employers.

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

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

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

(Source: OTPP.com)

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

- Teacher's Pension Act (TPA)
- Partners Agreement
- Financial Management Policy (FMP)

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

- The plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook and is appropriately accounted for as such.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes are appropriate and meet the requirements of S. 3250.

Relevant Extracts from the TPA

Section 5 (1.1) of the TPA states that the total amount of contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year. The only instance where contributions would not be equal would include the government's payments in connection with forgone inflation adjustments and the additional contributions related to the 2008 filing agreement (1.1%) which is often referred to as "share the pain" payments) (Section 5 (8)).

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

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

Actuarial Valuation of the OTPP for accounting and funding purposes

¹ Partners Agreement, section 110.

The following is a summary of the components of the plan and the Province's calculation of its share of the plan as of March 31, 2016.

(all figures in \$B)	Total plan	50% Share of the plan
Market related value of assets	157.0	78.5
Value of obligation	116.4	58.2
Surplus (deficit)	40.6	20.3
Unamortized (gains) losses	(18.0)	(9.0)
Adjustment for March 31, 2016	(1.8)	(0.9)
Asset (liability) position	20.8	10.4
Specific Government adjustment		(0.3)
Final asset (liability) position on balance sheet		10.1

According to the OTPP website, the most recent funding valuation reported a preliminary funding surplus of \$13.2 billion on March 31, 2016.

Relevant Extracts from the Partners' Agreement

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

The Partner's agreement requires that when changes to the plan are required that the Partners negotiate how those changes are made in good faith (Paragraph 75)

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

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

Commented [HL2]: Inaccurate: This applies to arbitration NOT mediation

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

Relevant Extracts from the FMP

The FMP is an appendix to the partnership agreement that speaks to how the plan should be funded by both parties. The protocol for the use of surplus under the OTPP is detailed in the Funding Management Policy ("FMP") adopted by the Ontario Government and Ontario Teachers Federation as sponsors of the OTPP.

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

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

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. Should they be unable to agree the mediation process set out in the Partners Agreement, the arbitration process outlined in the Partners Agreement will be followed.

It is our understanding that the plan is currently in the Restoration Zone. We understand that contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would permit this special contribution to be eliminated.

Commented [Deloitte3]: Can this be confirmed as to whether the parties need to agree in order to reduce this cotnribution? Our understanding is that both parties do need to agree.

History of Surplus

The FMP was not established until 2003. The following is a summary of the history of how surpluses we treated before the FMP and post the FMP. The following is a summary of deficits over the year.

Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1990	\$(7.8 billion) unfunded liability	Increased contributions by 1% to 8.9%	Agreed to make a series of special payments to eliminate the unfunded liability and match increased contributions	Special payments considered an asset bringing the plan to a \$0 surplus
1993	\$1.5 billion	\$325 million to offset social contract days	Eliminated special payments for \$1.2 billion saving	\$0
1996	\$0.7 billion	\$0.6 billion for benefit improvements and RCA contributions	N/A	\$0.1 billion
1998	\$6.8 billion	\$2.2 billion for benefit	\$4.6 billion to reduce the value of remaining special	\$0

		improvements	payments	
1999	\$3.5 billion	N/A	\$3.5 billion to reduce the value of remaining special payments	\$0
2001	\$6.8 billion	\$6.2 billion for benefit improvements	N/A	\$0.6 billion
2002	\$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		\$1.9 billion
Total		\$9.3 Billion	\$9.3 Billion	

* Source: Ontario Teachers' Pension Plan Board "Report on Funding" (April 2002)

Year	Valuation Status and Key Decisions
2003	\$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.
2005	A preliminary \$6.1 billion shortfall was resolved, leaving plan with a \$0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the \$76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary \$12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary \$2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary \$17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	\$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a \$200 million surplus at Jan. 1, 2012.
2014	\$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.

2015 Some of the \$6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

2016 Some of the \$13.2 billion funding surplus will be used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Some funds will also be reserved to increase the stability in contribution and benefit levels, should future valuations show a decline in asset value or an increase in pension costs.

* Source: Ontario Teachers' Pension Plan, "Key Funding Decisions Since 1990" adapted for September 14, 2016 announcement.

Impact of Restoring Inflation Indexation

As noted above, a preliminary \$12.7 billion plan shortfall in 2008 was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agreed to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation. In other words, employers and members shared in the outcome since the members would forego some benefits and the employers would also bear the cost to the extent of 50% of the missed inflation. These additional payments are often referred to as the "share the pain" payments. Despite the fact that the inflation protection was reduced, the cost of this protection has been fully reflected in the measurement of the accrued benefit obligation associated with the plan on the grounds that either the benefits would be restored and provided to pensioners or the "share the pain" payments would continue.

As also noted in the table above, plan surpluses arising in 2014-2016 are being used to restore some of the inflation protection that was reduced in 2008. This restoration of inflation protection is fully contemplated in the FMP under Section 3 describing the Restoration Zone. The direct impact of this action is that a portion of the "share the pain" payments that would otherwise be required have been eliminated. The estimated value of this reduction in contributions is \$4.3 billion related to the 2016 action (\$1.85 billion for 2015, and XX for 2014).

Commented [DK(-T4): OPCD to make sure you agree with how I've worded this.

Commented [DK(-T5): Amount outstanding

Fw_ New Model Output.rtf

From: Hatzis, Len (TBS) []
To: Marin, Jon [jomarin@osler.com]; Steele, Jana [JSteele@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Kearney, Sean (TBS) [Sean.Kearney@ontario.ca]
Subject: Fw: New Model Output
Date: Saturday, September 24, 2016 13:59:35
Attachment 1: image001.png

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Saturday, September 24, 2016 11:47 AM

To: Hatzis, Len (TBS)

Subject: Fw: New Model Output

Second email

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Allan Shapira <allan.shapira@aonhewitt.com>

Sent: Saturday, September 24, 2016 10:14

To: Veinot, Cindy (TBS)

Cc: Killoch, Alex (MOF); Petsche, Nadine (TBS); Pomykacz, Rob (MOF)

Subject: Re: New Model Output

It would definitely be in the temporary zone and may even be in the permanent zone. I would have to take some time today to figure that out if that is important.

It seems like the AG is hung up on the fact that the government needs agreement of another party, the other joint sponsor to use surplus. That is the essence of a joint plan and it plays out in both increasing contributions when necessary and reducing then when there is an opportunity to do so. I should remind everyone that the temporary zone was introduced in response to the concerns of the member sponsor that with what they view as conservative funding the surplus would grow very large with only a permanent zone and they would not get access to it early enough. Clearly that reflects their desire to use the surplus and they can only do so if the government gets its 50% share.

Allan

Sent from my iPhone

On Sep 24, 2016, at 9:01 AM, Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca> wrote:

Thanks everyone for looking at this so quickly.

One question on #3 – does the math work such that the plan would be in permanent zone when it is estimated to hit the ITA limit? In other words, based on one of the scenarios provided by Martin Raymond, does this mean that based on continued expected returns, one model suggests that the plan would be in the permanent zone in 15 years?

From: Killoch, Alex (MOF)
Sent: September-24-16 8:57 AM
To: Petsche, Nadine (TBS); Pomykacz, Rob (MOF)
Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)
Subject: Re: New Model Output

I talked to Allan last night.

The answer to number 1 is that the rule applies to joint plans.

Number 2 is that the rule applies to the employer only. But under the terms of the plan it would be both parties that need to determine how to to reduce surplus.

There is no rule other than the FMP for dealing with surplus. And Raymond is correct that the plan would never get to the ITA maximum. The ofc would never allow it to get through the temp and permanent zones, (and I doubt gov't would either)

Alex

From: Petsche, Nadine (TBS)

Sent: Saturday, September 24, 2016 8:35 AM

To: Killoch, Alex (MOF); Pomykacz, Rob (MOF)

Cc: allan.shapira@aonhewitt.com; Veinot, Cindy (TBS)

Subject: RE: New Model Output

Alex/Rob,

Just wondering what the plan is w.r.t. the questions posed below? Thx. n

From: Raymond, Martin (CA - Montreal) [<mailto:maraymond@deloitte.ca>]

Sent: September-23-16 4:44 PM

To: Petsche, Nadine (TBS)

Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)

Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

2- Is the Income Tax Act only requiring the employer to reduce contribution even in a joint plan ? if so, our estimate of using 50% of the excess surplus would move to 100%. However, we have used 50% of the excess surplus as a benefit to the employer knowing that under the plan, the sharing principle would lead to employees and employer reducing both their contributions to meet the requirement of the

Income Tax Act

3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

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maraymond@deloitte.ca | www.deloitte.ca

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<image001.png>

De : Raymond, Martin (CA - Montreal)

Envoyé : 23 septembre 2016 15:13

À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>

Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Objet : RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA

Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

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De : Petsche, Nadine (TBS) [<mailto:Nadine.Petsche@ontario.ca>]

Envoyé : 23 septembre 2016 15:10

À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>

Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Objet : New Model Output

Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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image001.pdf



Fw_ Our discussion.rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: Fw: Our discussion
Date: Saturday, September 17, 2016 10:27:03

Jana

I am speaking with Jim Leech very shortly - 1030 am - I think he should connect with you or one of your lawyers as well as he apparently has some views / experience re the OTPP (see bottom of email chain) that may be of relevance. Not sure of any of your team's availability to get on a quick call with him... Sent from my BlackBerry 10 smartphone on the Rogers network.

Original Message

From: Hatzis, Len (TBS) <Len.Hatzis@ontario.ca>
Sent: Saturday, September 17, 2016 9:13 AM
To: Jim Leech
Cc: Kaufman, Paul (TBS); Kearney, Sean (TBS); Veinot, Cindy (TBS)
Subject: Re: Our discussion

No problem - 1030 sounds good. Will call you then. Much appreciated

Sent from my BlackBerry 10 smartphone on the Rogers network.

Original Message

From: Jim Leech
Sent: Saturday, September 17, 2016 8:52 AM
To: Hatzis, Len (TBS)
Cc: Kaufman, Paul (TBS); Kearney, Sean (TBS); Veinot, Cindy (TBS)
Subject: Re: Our discussion

Best time for me is 10:30 - I will have landed in Kingston by that time

416 930 2006

Jim Leech | @QUChancellor

Two Old Mill Drive, PH1 | Toronto | Ontario | M6S 0A2 | +1 416 930 2006

> On Sep 17, 2016, at 8:14 AM, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca> wrote:

>

> Hi Jim

> Following up on the below, hoping you have time this morning for a brief chat. Are you free at approx 10? Thanks very much.

>

> Sent from my BlackBerry 10 smartphone on the Rogers network.

> From: Jim Leech <jim@jimleech.ca>

> Sent: Saturday, September 17, 2016 7:48 AM

> To: Orencsak, Greg (TBS)

> Cc: Orsini, Steve (CAB); Hatzis, Len (TBS); Kearney, Sean (TBS); Veinot, Cindy (TBS); Thompson, Scott (MOF)

> Subject: Re: Our discussion

>

>

> Pleased to talk over w/e

>

> I am on train to Kingston this am for opening of new stadium - train back tonight.
>
> Around Sun until late afternoon when I leave for NYC
>
> I understand:
>
> 1. The FMP at OTPP has changed since I retired three years ago - I am not familiar with current version
> - but I can answer questions re intent
>
> 2. I understand that OTPP (Barb Zvan) has provided Finance with description of FMP - she is authority
> on current version (and history)
>
> Jim Leech I +416 930 2006 I @QUchancellor
> Two Old Mill Drive I Toronto I ON I M6S 0A2
>
>
> On Sep 17, 2016, at 7:33 AM, Orencsak, Greg (TBS)
<Greg.Orencsak@ontario.ca<mailto:Greg.Orencsak@ontario.ca>> wrote:
>
> Hi Jim,
>
> Steve passed your note along. Thanks for sharing your view on an issue that has proved vexing for the
Province, given that our Auditor General has taken a sudden opposing view to recognizing the surplus as
an asset.
>
> We are in the midst of finalizing an external legal opinion through Oslers this weekend. They are looking
to render advice on how the government can have access to the surplus, and your knowledge and
expertise about OTPP would be valuable to ensure a sound understanding of not only the co-sponsors'
fundamental rights, but also the role of the FMP.
>
> I am hoping that you may be amenable to having a chat with our internal/external legal team about this.
Sean Kearney and Len Hatzis are the respective director and deputy director of my legal team, who can
connect you through to Oslers as well, and would most benefit from your advice.
>
> I'm also happy to connect if you'd like and can be reached on cell at 416 508 8065.
>
> Thanks for your help and hope that this is not a huge imposition on your weekend.
>
> Greg
>
>
> Greg Orencsak
>
> Deputy Minister, Treasury Board
> Secretary of Treasury Board and Management Board of Cabinet
> 416.325.1607 |
greg.orencsak@ontario.ca<mailto:greg.orencsak@ontario.ca><mailto:greg.orencsak@ontario.ca>
> Treasury Board Secretariat
> [Title: TBS logo]
> The contents of this email may be confidential and/or commercially sensitive. If received in error or you
are not the intended recipient, please notify sender and delete any copies immediately.
>
>
> ----- Forwarded message -----
> From: Jim Leech <jim@jimleech.ca<mailto:jim@jimleech.ca><mailto:jim@jimleech.ca>>
> Date: Sep 16, 2016 7:24 PM

> Subject: Our discussion
> To: "Orsini, Steve (CAB)"
<Steve.Orsini@ontario.ca<mailto:Steve.Orsini@ontario.ca><mailto:Steve.Orsini@ontario.ca>>
> Cc:
>
> Speaking as a "non- accountant", I think that you have a defensible position.
>
>
> I think PS3250.050 (the italics which indicate that it is the over riding para) gives you the right to
recognize the asset.
>
> AG hangs its hat on the gov't not having unilateral right to use surplus because gov't needs the
agreement of the OTF. But they fail to recognize the *raison d'être* for the Funding Management Policy
between the gov't and OTF that sets out exactly how any surplus is to be used (reduce future
contributions or apply against future deficits) if there is no other agreement. In other words there is no
question that gov't will realize the benefit – only a question of when and in what form. I believe that is
what PS3250.052/055 is trying to say.
>
> The discussion around PS3250.059 whether or not the surplus is "withdrawable" is simply a red herring.
>
>
> So it really turns on the enforceability of the FMP.
>
> Jim Leech | +416 930 2006 | @QUChancellor
> Two Old Mill Drive | Toronto | ON | M6S 0A2
>

Fw_ PA work plan - confidential advice to Cabinet.rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: Fw: PA work plan - confidential advice to Cabinet
Date: Sunday, October 02, 2016 13:54:08
Attachment 1: image001.png
Attachment 2: Current - Partners' Agreement - 03-06-15.pdf

Jana

There is some debate around the fmp /partners agreement around the issue of contribution reductions raised by Jim Leech. See the point he has raised below in the email from Steve Orsini. TBS Legal has its view - I responded below - but we wanted to check with oslers as your office authored the opinion. I think you have already opined generally on this in your opinion but we would need a specific response to jim's issue. There is a second more recent email from Steve setting out jim's assertion and also our draft response to that second email. I will send you that momentarily. We are hoping you can answer jim's question. Unfortunately time is of the essence on this as we are hoping for an answer by first thing tomorrow morning. Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hatzis, Len (TBS) <Len.Hatzis@ontario.ca>
Sent: Friday, September 30, 2016 5:53 PM
To: Orsini, Steve (CAB)
Subject: RE: PA work plan - confidential advice to Cabinet

Steve

See attached - the FMP is an appendix to the partners' agreement and begins at page 18 of that document.

From: Orsini, Steve (CAB)
Sent: September 30, 2016 5:40 PM
To: Hatzis, Len (TBS)
Subject: Re: PA work plan - confidential advice to Cabinet

Thanks. Can you please send me a copy of the agreement? I will forward it to Jim.

Steve Orsini

Sent from my BlackBerry Priv

On Sep 30, 2016 5:27 PM, "Hatzis, Len (TBS)" <Len.Hatzis@ontario.ca> wrote:

Steve

Just on the narrow question raised by Jim, assuming he is talking about the contribution rate, Oslers' view isn't consistent with Jim's recollection. As noted in the Oslers' opinion, the Funding Management Policy (FMP) contemplates five funding zones and in particular two zones that deal with a surplus situation (Temporary Improvement Zone and Permanent Improvement Zone). In either case, there is no trigger that would automatically result in a reduction of the rate. Instead, in those surplus situations (and assuming other conditions have been fulfilled), contribution reductions is just one of a few options that the Sponsors could agree to in order to utilize the surplus.

From: Orsini, Steve (CAB)

Sent: September 30, 2016 4:54 PM

To: Orencsak, Greg (TBS); Jancik, Mike (TBS); MacIntyre, Kyle (TBS); Thompson, Scott (MOF); Mayman, Gadi (OFA); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Kearney, Sean (TBS); Hatzis, Len (TBS); Laughton, Patrick (TBS); Hughes, Karen (TBS); Betzner, Lynn (CAB); DiMuzio, Sofie (TBS); Ghiassi, Ali (MOF); Tedesco, Lauren (TBS); Prins, Sebastian (TBS); Ostergard, Matt (TBS); Ingram, Kelsey (MOF); McLean, David (MOF); Killorn, Bill (OPO); MacKenzie, Rebecca (OPO); Bossin, Bryan (OPO); Mksyartinian, Jacob (OPO); Bardeesy, Karim (OPO); Bevan, Andrew (OPO)

Cc: Bromm, William (CAB); Kwamena, Boafoa (CAB)

Subject: RE: PA work plan - confidential advice to Cabinet

Greg,

Thanks. Really good outline. Here is my report back:

1. Jim Leech is prepared to speak to the fact that there is a benefit to the province. He thought the Funding Management Agreement referenced going back to the base rate (9%) from the current rate (\$13%) if there is a sufficient surplus. I didn't see this reference in the Osler's opinion, but it may be good to double check. Anyways, he is in New York Monday and Tuesday and will take media calls. He then flies to Saudi Arabia on Wednesday and will not be reachable.
2. Tony Dean is reflecting on writing a thought piece on the process of resolving possible interpretation disagreements; and
3. Paul Boothe will give some thought on how we might want to structure a panel and

review process. He is meeting with a former member of PSAB early next week and will seek their advice.

I will let you know if I hear of anything else.

Steve

From: Orencsak, Greg (TBS)

Sent: September-30-16 1:46 PM

To: Jancik, Mike (TBS); MacIntyre, Kyle (TBS); Thompson, Scott (MOF); Mayman, Gadi (OFA); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Kearney, Sean (TBS); Hatzis, Len (TBS); Laughton, Patrick (TBS); Hughes, Karen (TBS); Betzner, Lynn (CAB); Orsini, Steve (CAB); DiMuzio, Sofie (TBS); Ghiassi, Ali (MOF); Tedesco, Lauren (TBS); Prins, Sebastian (TBS); Ostergard, Matt (TBS); Ingram, Kelsey (MOF); McLean, David (MOF); Killorn, Bill (OPO); MacKenzie, Rebecca (OPO); Bossin, Bryan (OPO); Mksyartinian, Jacob (OPO); Bardeesy, Karim (OPO); Bevan, Andrew (OPO)

Subject: PA work plan - confidential advice to Cabinet

Hi folks, here is a work plan to guide us over the next few days. Some elements will change/evolve, my office will attempt to keep this up to date. Comms team is working on a timeline for Monday's rollout.

Greg

Greg Orencsak

Deputy Minister, Treasury Board

Secretary of Treasury Board and Management Board of Cabinet

416.325.1607 | greg.orencsak@ontario.ca

Treasury Board Secretariat

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image001.pdf

SEP

Current - Partners' Agreement - 03-06-15.pdf

This is an AGREEMENT

BETWEEN:

Her Majesty the Queen
in right of the Province of Ontario
represented by the Minister of Education and Training
("the Minister")

and

The Ontario Teachers' Federation
represented by its Executive
("the OTF")

These are the terms to which the Minister and the OTF agree;

Introduction

1. The Minister and the OTF have agreed to establish a partnership for the purpose of designing and administering the Ontario Teachers' Pension Plan and managing the Ontario Teachers' Pension Fund.
2. It is the intention of the partners that this partnership will start on the 1st day of January, 1992.
3. In this agreement,
 - (a) the Minister and the OTF will be referred to as the "partners" or the "partnership",
 - (b) the Ontario Teachers' Pension Plan Board continued by the *Teachers' Pension Act, 1989* will be referred to as "the Board",
 - (c) the Ontario Teachers' Pension Plan continued by the *Teachers' Pension Act, 1989* will be referred to as the "pension plan" or the "plan" and,
 - (d) the Ontario Teachers' Pension Fund continued by the *Teachers' Pension Act, 1989* to provide benefits in respect of the pension plan will be referred to as the "pension fund" or the "fund".
4. The partnership established by this agreement is intended to govern all aspects of the plan and the fund. Wherever this agreement differs with any law, that part of the agreement is of no effect but the rest of the agreement continues to govern the plan and the fund.
5. The Minister agrees to do everything possible to make sure that the Teachers' Pension Plan Board will not be considered a Scheduled Agency under the Guidelines of the Management Board of Cabinet.
6. The Minister agrees to do everything possible to have subsection 43(3) of Ontario Regulation 708/87 amended to provide that the pension fund is no longer exempted from the application of subsection 23(1) of the *Pension Benefits Act*.

Role of the partners

7. The Minister may designate one or more persons to act in the Minister's place under this agreement. The OTF may designate one or more persons to act in its place under this agreement.
8. The partners will be responsible for designing the plan structure, setting the benefits of the plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the plan, this agreement or other plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the Board, and defining the role of the Board.
9. The partners will enter into a memorandum of understanding with the Board setting out,
 - (a) the duties of the Board,
 - (b) the process for consultation in the preparation of valuations,
 - (c) the process for consultation on the amount of money to be paid to members of the Board, including the Chair and to members of committees appointed by the Board,
 - (d) the actuarial methods which the Board will use in valuing the plan and,
 - (e) any other terms of the relationship between the partners and the Board to which the partners agree.
10. The partners agree that every three years they will follow the procedure described in this agreement to meet and negotiate changes to the plan.
11. Either partner may ask the other to meet at any time to discuss changes to any of the matters referred to in paragraph 8 and the partners agree to make their best efforts to do so.
- 11a. The partners agree to meet as required to discuss the amount of the Minister's contribution due on the first business day of January that is to be deferred to the first business day of April of the same year and to determine the interest rate to be applied for the period of the deferral; determination of such interest rate to be guided by the principle that the Teachers' Pension Plan not be disadvantaged by the deferral. (Last amended May 29, 1992 - Effective May 29, 1992)
- 11b. The partners agree that the payment of a portion of the Minister's contribution that is due on the first business day of January of 1994 and a portion of the Minister's contribution that is due on the first day of January of 1995 may be deferred to March 31 of each respective year; the amount of the deferral, with interest, to equal \$200 million in 1994 and \$125 million in 1995; amounts to be adjusted to reflect payments authorized under Paragraph 65. (Last amended November 15, 1993 - Effective November 15, 1993)
12. If the Board advises the partners that a change must be made to the plan to comply with any law the partners agree that they will meet as soon as possible to discuss it.
13. The partners will establish a Partners Committee by each appointing three members. Either partner may refer to the Committee any matter referred to in paragraph 8 or 12 when no agreement results from discussion of the matter.
14. The Partners Committee may by agreement use the services of the manager of negotiations referred to in paragraph 76 to resolve any dispute. The Committee may by agreement use any dispute resolution mechanism including voluntary arbitration to resolve any dispute.

15. Either partner may ask the actuary hired by the Board to provide or prepare any information which that partner thinks it needs in discussing changes to the plan. The cost of the actuary in preparing that information will be paid out of the fund. The information will be provided to both partners.

15a. The partners may initiate, with the Board, discussions, reviews and research regarding the funded status of the plan including the design of conditional inflation protection, the reasonable costs of such reviews and research to be paid out of the fund subject to the prior approval of the Board. (Last amended October 9, 2008 – Effective January 1, 2009)

16. Either partner may audit the plan and the fund at any time at the expense of that partner. The Board will cooperate in the audit.

Role of the Board

17. The Board is responsible for the administration of the pension plan, the management of the pension fund and all other matters set out in this agreement.

18. The Board may exercise every power necessary to administer the pension plan, manage the pension fund and fulfil every other task which the partners assign to it.

19. The responsibilities of the Board include,

- (a) investing and managing the pension fund to do all things possible so that the obligations of the pension plan will be met,
- (b) preparing a valuation at least every three years to comply with the *Pension Benefits Act*,
- (c) preparing annual valuations if the Board decides it is appropriate and providing preliminary results to the partners as soon as they are available,
- (d) deciding on the actuarial assumptions used in administering the plan and in preparing valuations of the plan,
- (e) consulting with the partners during the preparation of a valuation and making its best effort to respond to any comments and recommendations of the partners. The content of a final valuation is the decision of the Board,
- (f) giving a copy of every valuation prepared for the Board to each partner and giving any information requested by a partner to each partner as quickly as possible,
- (g) having the plan and the fund audited every year,
- (h) preparing a report at the end of every fiscal year that tells how the plan and the fund have been doing in that year,
- (i) holding a meeting with both partners at least once each year to explain the annual report to them and to answer any questions about the plan and fund,
- (j) making sure that the plan and the fund are administered and managed to comply with all laws that affect them,
- (k) advising the partners about any changes to the plan that need to be made to comply with the law,
- (l) advising the partners about changes that would improve the administration of the plan,

- (m) interpreting the plan and determining benefit entitlements,
- (n) developing an investment policy and giving a copy to each partner and to the Financial Services Commission of Ontario,
- (o) making rules regarding the conduct of its business,
- (p) appointing or electing a vice Chair and any other officers that the Board feels are necessary for the conduct of its business.

The Board

- 20. The Board will have a maximum of nine members. The partners will each appoint four members.
- 21. The ninth member of the Board will be the Chair. The process for appointing a Chair is set out in the next section of this agreement.
- 22. The Minister and the OTF will each appoint two members to the Board to terms ending on the 31st day of December, 1992.
- 23. The Minister and the OTF will each appoint two members of the Board whose terms will end on the 31st day of December, 1993.
- 24. If a person appointed under paragraph 19 or 20 is a member of the Board when the partnership starts, the Lieutenant Governor in Council will make an Order changing the length of that person's term.
- 25. After the expiry of the term of a member of the Board who holds office on the 1st day of January, 1992 the partner who recommended to the Lieutenant Governor in Council the appointment of that member will fill the vacancy by appointing or re-appointing.
- 26. Unless a member cannot complete his or her term, is removed or is appointed after a member whose term was extended because of a delay in the appointment of his or her successor, the term of all members appointed after the 1st day of January, 1992 will be two years.
- 27. No person may be a member of the Board for more than four consecutive terms. The initial term of a member who is appointed as a successor under paragraph 29, or as a new member under paragraph 30 or 31, shall not be counted in the number of consecutive terms a member may serve. (Last amended January 15, 2014 – Effective January 1, 2014)
- 28. If no appointment is made to fill the vacancy at the end of a member's term, the member will continue in office until an appointment is made.
- 29. When a successor is appointed to a term after his or her predecessor's term has been extended for failure to appoint a successor, the successor's term will end two years after the predecessor's term would have ended but for the delay in appointment.
- 30. If a member of the Board cannot finish his or her term then the partner who appointed the member may appoint a new member for a term ending on the date when the term of the departing member would have ended.
- 31. At any time either partner may remove a board member whom that partner has appointed and appoint a new member for a term ending on the date when the term of the departing member would have ended.

The Chair

32. The partners may decide together on the person to be appointed as Chair of the Board. The partners agree to meet six months before the term of the Chair of the Board expires to discuss candidates, and attempt to agree upon the Chair.
33. Either partner may initiate the selection of a Chair in the following way as an alternative to the discussion referred to in paragraph 32,
 - (a) The partners will each prepare a list of at least three persons that they would like to be Chair. The partners will give each person named a number indicating priority. The lowest priority will be indicated by the number equal to the number of persons on the list.
 - (b) The partners will then examine the list prepared by the other.
 - (c) If one name appears on both lists that person will be appointed Chair.
 - (d) If two or more persons appear on both lists the priority ratings given to those persons by each partner will be added together. The person whose priority rating adds to the lowest number will be appointed Chair.
 - (e) If no name appears on both lists the partners agree to consult together and to prepare and exchange lists until a name does appear on lists prepared by each.
34. The person selected by the partners will be the Chair for a term of two years beginning on the 1st day of January of the year following selection.
35. No person may be Chair for more than four consecutive terms. Previous terms served by a Chair as a board member shall not be counted in the number of consecutive terms a Chair may serve. (Last amended December 16, 1994 - Effective December 16, 1994)
36. The Lieutenant Governor in Council will make an order making the term of the current Chair of the Board end on the 31st day of December, 1991.
37. If no appointment is made to fill the vacancy at the end of a Chair's term then the Chair will continue in office until an appointment is made.
38. If the Chair cannot finish his or her term then the Minister and the OTF will select a new Chair. The new Chair will be appointed for a term ending on the date when the term of the departing Chair would have ended.
39. The Chair may vote on any matter the Board is considering.

Operation of the Board

40. The Board may appoint committees and delegate to them any function of the Board. The Board may appoint persons who are not Board members to sit on any committee.
41. Committee members will be appointed for a term of up to two years.
42. A quorum of the Board or a Committee is a majority of the members. No meeting of the Board or a Committee may conduct any business unless a member appointed by each partner is present.

43. The Board will decide on a reasonable amount of money to be paid to the Board members, Committee members and the Chair for time and effort spent on Board business. The money will be paid out of the pension fund.
44. If any Board or Committee member is a public servant of Ontario that person will only be paid for any income the person loses as a result of time spent on Board business and for his or her expenses of doing Board business.
45. Any expenses that the Board must pay to operate and to administer the pension plan and manage the pension fund will be paid out of the pension fund.
46. The Board will employ a Chief Executive Officer and such other staff as are necessary to carry out its responsibilities.
47. The Board may decide which of its employees will be able to participate in the Public Service Pension Plan established under the *Public Service Pension Act, 1989* and the Minister agrees to do all things possible to ensure that those employees are covered.
48. The Board may employ persons to provide it with professional, technical or other help.
49. The Board must employ an external actuary and an external auditor.
50. The Board's employees will be paid out of the pension fund.

Indemnification

51. (a) Subject to subsection (e), the Board shall indemnify a person or his or her heirs or legal representatives (the "Indemnee") against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment (collectively "Expenses"), reasonably incurred by the person in respect of any civil, criminal, administrative or investigative action or proceeding (collectively a "Proceeding") to which the person is made or threatened to be made a party by any person including the Board, by reason of being or having been a member, committee member, officer or employee of the Board or a person who acts or acted at the Board's direction as a member, director, officer, employee, partner or agent of another corporation, partnership, joint venture, trust or other enterprises (collectively "enterprise"), if,
 - i) the person acted honestly and in good faith with a view to the best interests of the Board or such other enterprise; and
 - ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the person had reasonable grounds for believing that his or her conduct was lawful.

(Last amended August 4, 2011 – Effective September 1, 2000)

- (b) In furtherance of its obligations under subsection (a) the Board may purchase and maintain insurance for the benefit of any person referred to in subsection (a) in relation to any Expenses that may be indemnifiable under subsection (a). (Last amended August 4, 2011 – Effective September 1, 2000)
- (c) The Board's indemnification of a person referred to in subsection (a) and any cost of purchasing and maintaining insurance for the benefit of such person are expenses of operating and administering the pension plan and managing the pension fund and may be paid out of the pension fund. (Last amended August 4, 2011 – Effective September 1, 2000)

- (d) The Board or a person referred to in subsection (a) may apply to the court for an order approving an indemnity under this section and the court may so order and make any further order it thinks fit. (Last amended August 4, 2011 – Effective September 1, 2000)
- (e) An indemnity given pursuant to subsection (a) extends only to Expenses that exceed amounts otherwise recoverable (and, in fact, recovered) by the Indemnee under any indemnity or policy of insurance applicable in respect of a Proceeding, and is to be regarded specifically as excess to any such amounts. An indemnity given pursuant to subsection (a) shall be subject to the condition that, in the event any indemnitor or insurer against whom an Indemnee may have a claim for indemnity shall decline to pay, deny liability or otherwise contest either a claim by a person or the due amount thereof, the Indemnee must, if so requested by the Board, co-operate with and assist the Board in pursuing any claim against the other indemnitor or insurer as the case may be, in such manner and to the extent that counsel to the Board may recommend or advise in the circumstances. (Last amended August 4, 2011 – Effective September 1, 2000)
- (f) In any case where the Board reasonably considers that a person has fulfilled the conditions set out in clauses (a)(i) and (ii), above, and that it is otherwise appropriate to do so, prior to any settlement or judgment the Board may make an advance to an Indemnee in respect of a person referred to in subsection (a) to defray Expenses incurred or to be incurred by the Indemnee in relation to a Proceeding on such conditions as the Board considers appropriate and necessary. Any advance made under this subsection (f) shall be repayable by the Indemnee if the Indemnee fails to meet the conditions set out in clauses a(i) and (ii), above, in respect of such person. (Last amended August 4, 2011 – Effective September 1, 2000)
- (g) Where the Board considers it appropriate, the Board may enter into an indemnity agreement with any person and such agreement shall reflect the limitation of this provision. (Last amended August 4, 2011 – Effective September 1, 2000)
- (h) The application of paragraph 51 is effective as of September 1, 2000. (Last amended August 4, 2011 – Effective September 1, 2000)

- 52. The Board may buy, sell or lease real estate either as an investment or to provide a place to carry on business.
- 53. The Board may delegate any of its powers or duties to a committee or to an employee. It may impose conditions on any delegation it makes.
- 54. A committee of the Board may delegate any of its tasks to an employee of the Board if the Board approves.

Initial unfunded
liability

- 55. The going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund as at the 1st day of January, 1990 will be paid by the Treasurer of Ontario out of the Consolidated Revenue Fund according to Schedule 2 of the *Teachers' Pension Act, 1989*.
- 56. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Gains and losses

- 57. A valuation which is prepared for filing with the Superintendent of Financial Services shall be actuarially balanced so that the present value of,
 - (a) benefits and costs to be paid out of the fund, and
 - (b) any contingency reserve,

are equal to the sum of the value of the plan's assets, including

- (c) the present value of,
 - (i) the members' contributions,
 - (ii) the employers' contributions,
 - (iii) the outstanding balance of special payments to liquidate the going concern unfunded actuarial liability disclosed by the valuation as at January 1, 1990, and
 - (iv) any outstanding payments required to discharge a solvency deficiency. (Last amended March 5, 2002 - Effective April 2, 2001)

The IUL
Settlement

57a. Notwithstanding any other provision in this agreement, and including without limitation, paragraphs 10, 55, 59, 60, 60a and paragraphs 73 to 101, during the IUL settlement period this paragraph shall apply to the application of actuarial gains.

- (i) In this paragraph,
 - (a) the "initial unfunded liability settlement period" (the "IUL settlement period") means the period between January 1, 1998 and December 31, 2002 and includes any period of extension pursuant to subparagraph (v).
 - (b) the "initial unfunded liability" means the going concern unfunded actuarial liability disclosed by the initial valuation of the pension fund referred to in paragraph 55 of the agreement.
- (ii) Notwithstanding subparagraph 19(c), during the IUL settlement period, an actuarial valuation for funding purposes of the pension fund shall be prepared by the Board's actuary as at the 1st day of January and filed annually with the Superintendent of Financial Services, unless the partners jointly agree to instruct the Board not to file the valuation.
- (iii) Effective with the valuation as at January 1, 1998, any actuarial gains disclosed in a valuation prepared in accordance with subparagraph (ii) will be applied in the following order of priority:
 - (a) (1) to provide an early retirement pension calculated in accordance with subsection 43(4) of Schedule 1, to members who have accumulated at least that number of years of qualifying service that, when added to the member's age upon termination of employment in education, totals eighty-five years (the "factor 85 entitlement"), provided that such member so qualifies on or after June 1, 1998, and on or before December 31, 2002;
 - (2) to provide early retirement reductions measured from 85 points rather than 90 points for benefits calculated under sections 44 and 52 of Schedule 1 for members who cease to be employed in education between June 1, 1998 and December 31, 2002;
 - (b) to provide for a permanent reduction in the amount of the Canada Pension Plan or Quebec Pension Plan reduction for pension instalments payable on or after January 1, 1999 as provided for in subsection 81(3) of Schedule 1 by substituting "0.0060" for "0.0068" in the formula;

- (c) to provide to members on an absence, as defined in subsection 94(1) of Schedule 1, that commences during the period from the 1st day of June, 1998 to the 31st day of December, 2002, an exemption from the requirement in subsection 94(3)(b) of Schedule 1 where the member is otherwise eligible to purchase credited service under that section, and where the member, at the beginning of the leave,
 - (1) was at least 60 years of age;
 - (2) has accumulated at least that number of years qualifying service that, when added to the member's age, totals 75 years; or
 - (3) has credited service which totals at least 30 years; and
- (d) to eliminate the obligation on the Minister of Finance to make special payments on account of the initial unfunded liability, in accordance with this agreement.
- (iv) Subject to subparagraphs (v) and (vi), if there are any actuarial gains remaining after providing for (iii) (a), (b), (c) and (d), such gains disclosed in the annual actuarial valuations for funding purposes up to and including the valuation as at January 1, 2002, will be available for benefit enhancements including, but not limited to, the renewal on a permanent or temporary basis of the factor 85 entitlement, member contribution rate reductions, or to be allocated to a contingency reserve, as determined by the OTF in its sole discretion. (Last amended March 5, 2002 - Effective April 2, 2001)
- (v) (a) The sum of the actuarial gains available to the OTF under subparagraph (iv), including the actuarial gains disclosed in the valuation as at January 1, 2002, shall be equal to the present value of the special payments, before the application of actuarial gains pursuant to subparagraph (iii)(d), required to amortize the initial unfunded liability as determined by the Board's actuary and disclosed in the valuation as at January 1, 1998 (the "IUL amount"), and the increase in the going concern liabilities required to provide the benefits conferred by (iii)(a), (b) and (c) as determined by the Board's actuary as at January 1, 1998, (the "benefit cost amount"). The partners agree that, effective April 3, 2001, after recognition of plan changes adopted to that time, there remains \$76 million in actuarial gains available to the OTF under subparagraph (iv). (Last amended March 5, 2002 - Effective April 2, 2001)
- (b) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, all actuarial gains disclosed in any actuarial valuation for funding purposes subsequent to the valuation as at January 1, 2002, will be available for such benefit enhancements, member contribution rate reductions, or to be held in a contingency reserve, as determined by the OTF in its sole discretion, until the sum of the actuarial gains available to the OTF for such purposes equals the difference between the IUL amount and the benefit cost amount.
- (c) In the event that the sum of the actuarial gains available to the OTF under subparagraph (iv) up to and including the actuarial gains disclosed in the valuation as at January 1, 2002 is less than the difference between the IUL amount and the benefit cost amount, the IUL settlement period shall be extended to the date that the sum of the actuarial gains available to the OTF under subparagraph (iv) and (v) equals the difference between the IUL amount and the benefit cost amount.

- (vi) (a) Prior to April 1, 2001, if actuarial gains are available after provision has been made for (iii)(a) to (d), and the OTF wishes to apply such gains pursuant to subparagraph (iv) for benefit enhancements or member contribution rate reductions, the partners shall meet to determine the effective date for the implementation of such benefit enhancements or contribution rate reductions.
- (b) Subsequent to April 1, 2001, the OTF may, at its sole discretion, determine when such benefit enhancements or contribution rate reductions, are to be implemented. The Minister agrees to waive his consent to the plan amendments necessary to implement such benefit enhancements or member contribution rate reductions, provided these amendments are not filed by the OTF prior to April 1, 2001. Pursuant to paragraphs 8 and 104 of this agreement, the partners agree that Schedule 1 shall be amended by the OTF, to implement such benefit enhancements or contribution rate reductions, and the OTF shall promptly deliver the amendment(s) to the Board, and the Board shall promptly file the amendment(s) with the Superintendent of Financial Services upon receipt of same from the OTF.
- (vii) The Minister of Finance will continue to make special payments out of the Consolidated Revenue Fund in accordance with paragraph 55 of the agreement during the IUL settlement period until the obligation to make special payments on account of the initial unfunded liability is eliminated in accordance with this agreement. The amount of the special payments payable pursuant to this subparagraph shall be in accordance with the schedule of payments set out in Appendix H to the Report on the Actuarial Valuation for Funding Purposes for the plan as at January 1, 1996 ("Appendix H") until December 1, 2001, and in accordance with Schedule 2 subsequent to December 1, 2001, if the Minister of Finance continues to be obligated to make special payments on account of the initial unfunded liability beyond this date. If subsection 3(12) of Schedule 2 to the *Teachers' Pension Act* is applicable with respect to any actuarial gains disclosed in a valuation pursuant to subparagraph (ii), the Minister of Finance shall not exercise his discretion in subsection 3(12) of Schedule 2 to reduce the remaining special payments as set out in Appendix H, until the obligation of the Minister of Finance to make special payments on account of the initial unfunded liability is eliminated.
- (viii) The issue raised in the "part-time leave" case pending before the Ontario Court of Appeal shall be referred to mediation by Mr. M. Stanley Beck. Mr. Beck will be asked to provide a non-binding opinion on the merits of the case by no later than July 15, 1998. The cost of the mediation pursuant to this subparagraph shall be paid from the fund.
- (ix) The partners shall establish a committee to deal on a priority basis with accounting matters relating to joint pension plan sponsorship, and agree to contact the Public Sector Accounting and Auditing Board (PSAAB) to raise issues of concern to the partners. The committee shall report to the Partners by May 1, 1999. The reasonable costs of the committee shall be paid from the fund.
- (x) Subject to any extension of the IUL settlement period pursuant to subparagraph (v), at the end of the IUL settlement period, the provisions of this agreement respecting the use of actuarial gains or losses, other than this paragraph 57a, will apply. The next triennial negotiation pursuant to paragraphs 73 to 101 will be based on the actuarial valuation for funding purposes as at January 1, 2002, unless the IUL settlement period is extended beyond this date, or the partners agree otherwise.
- (xi) Any dispute regarding the interpretation, application, administration and implementation of the provisions in this paragraph 57a may be resolved in accordance with paragraph 14 of the agreement, and/or through such other proceedings as are otherwise available to either partner.

- 58.** If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate a need to increase the contribution rate the partners agree to meet as soon as possible to discuss how to adjust for that need on an equally shared basis. If the partners cannot agree on how to adjust they will refer the issue to the mediation and arbitration procedures described elsewhere in this agreement to adjust the contribution rate and/or benefits. (Last amended November 15, 1993 - Effective November 15, 1993)
- 59.** If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate that the contribution rate can be decreased the implicit actuarial gain disclosed by the valuation will be applied to reduce and, if possible, eliminate the payments required to liquidate any unamortized balance of a solvency deficiency. (Last amended November 15, 1993 - Effective November 15, 1993)
- 60.** An implicit actuarial gain remaining after the elimination of a deficiency mentioned in paragraph 59, will be used to establish a contingency reserve in an amount agreed upon by the partners or for any of the following purposes upon which the partners have agreed or which an arbitrator has awarded,
- (i) to reduce contributions which members and employers are required to pay, and/or
 - (ii) to improve benefits payable to members.
- 60a.** The portion of the gain disclosed by the January 1, 1996 valuation remaining after the implementation of the benefit improvements contained in the December 30, 1996 arbitration award shall be placed in a contingency reserve called the Rate Stabilization Fund for the period January 1, 1996 to December 31, 1998. (Last amended February 20, 1997 - Effective January 1, 1996)
- 60b.** The \$76 million of actuarial gains that, effective April 3, 2001, remain available to the OTF under the subparagraph 57a (iv) shall be allocated to a contingency reserve until such time as the OTF, in its sole discretion, may determine, at which time such gains shall be used toward the provision of future benefit enhancements and/or member contribution rate reductions as determined by the OTF, in its sole discretion. (Last amended March 5, 2002 – Effective April 2, 2001)
- 60c.** The portion of the actuarial surplus disclosed by the January 1, 2001 valuation that remains after providing for,
- (a) the benefit improvements contained in the plan amendments dated April 2, 2001, and
 - (b) the contingency reserve pursuant to paragraph 60b,
- shall be allocated to a contingency reserve called the Rate Stabilization Fund for the period January 1, 2001 to December 31, 2001, or until such later date agreed to by the partners. (Last amended March 5, 2002 – Effective April 2, 2001)
- 60d.** The partners acknowledge that the \$76 million referred to in paragraph 60b will be used towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3% and that this application will fully discharge the credit owing the Ontario Teachers' Federation under paragraph 60b. (Last amended December 21, 2006 – Effective January 1, 2007)

- 60e.** The partners agree that \$7 million shall be allocated to a contingency reserve, to the credit of the Minister, to reflect the additional \$7 million that was used, in addition to the \$76 million referred to in paragraph 60d, towards reducing the additional contributions payable by active members in accordance with section 19 of Schedule 1 in 2008 from 3.1% to 2.3%. (Last amended December 21, 2006 – Effective January 1, 2007)
- 61.** The valuation as at January 1, 1992 that was prepared and provisionally filed with the Pension Commission of Ontario shall be considered invalid. (Last amended November 15, 1993 - Effective November 15, 1993)
- 62.** The board will prepare a valuation of the plan as at the 1st day of January, 1993. (Last amended November 15, 1993 - Effective November 15, 1993)
- 63.** A portion, in the amount of \$1.2 billion, of the gain disclosed by the January 1, 1993 valuation is to be applied to reduce the Minister's scheduled special payments under Schedule 2 of the Act, in the period from January 1, 1993 until the entire amount is exhausted. (Last amended November 15, 1993 - Effective November 15, 1993)
- 64.** A further portion, in the amounts of \$200 million as at March 31, 1994 and \$125 million as at March 31, 1995, of the gain disclosed by the January 1, 1993 valuation, is to be applied to reduce scheduled government payments to the plan on or before the 31st of March, 1995. (Last amended November 15, 1993 - Effective November 15, 1993)
- 65.** The partners may authorize the use of an additional portion of the gains from the 1993 valuation to offset social contract targets for those members of the plan who are not covered by the Teachers' Sub-Sectoral Framework Agreement and who meet the set of principles agreed on by the partners; these gains will be allocated in the same proportion as members of the plan who are covered by the Teachers' Sub-Sectoral Agreement. (Last amended November 15, 1993 - Effective November 15, 1993)
- 66.** Any residual portion of the gain disclosed by the January 1, 1993 valuation is to be placed in a contingency reserve for rate stabilization until at least January 1, 1996. (Last amended November 15, 1993 - Effective November 15, 1993)
- 67.** Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)
- 68.** If a solvency valuation of the plan, conducted as at a date on or before the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,
- (1) The members will during each of the fifteen years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).
- (2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the fifteen years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through fifteenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

- 69.** If a solvency valuation of the plan, conducted as at a date after the 1st day of January, 1996, discloses a solvency deficiency the contributions of members, the Minister and employers required to contribute to the fund under Schedule 1 will be adjusted in the following way,

(1) The members will during each of the ten years following the date of the solvency valuation contribute the members' contribution required under Schedule 1 plus an amount equal to "B" as defined in subparagraph (2).

(2) The Minister and employers will during each of the five years following the date of the solvency valuation contribute the Minister's and employers' contributions required under Schedule 1 plus an amount equal to,

$$A - B$$

where

"A" is equal to the amount of the annual payment required to amortize the solvency deficiency amortized over the five years following the date of the solvency valuation, and

"B" is equal to one half of the amount of the annual payment required to amortize the solvency deficiency over the ten years following the date of the solvency valuation.

(3) The Minister and employers will during each of the sixth through tenth years following the date of the solvency valuation contribute the contributions required of them under Schedule 1 less an amount equal to "B". (Last amended November 15, 1993 - Effective November 15, 1993)

- 70.** If a valuation done after one which showed a solvency deficiency discloses that there is no solvency deficiency or one that is less than would be expected based on the first valuation, the partners agree to adjust on an equally shared basis for any payments that have been made under paragraphs 68 or 69. (Last amended November 15, 1993 - Effective November 15, 1993)

- 71.** Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)

Triennial negotiation
of changes to the plan

- 72.** The Board will prepare a valuation of the plan as at the 1st day of January, 1996 as soon as possible after that date. This will be the valuation to be used for the first set of negotiations. (Last amended November 15, 1993 - Effective November 15, 1993)

- 73.** The subject of the negotiations and of all subsequent triennial negotiations will be any of the matters referred to in paragraphs 8 and 12.

74. As soon as preliminary results of the valuation are available the partners will meet to bargain in good faith and make every reasonable effort to reach an agreement on the changes, if any, that will be made to the plan.
75. The partners will advise the Board what changes affecting benefits and contribution rates they are proposing and the Board will provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.
76. There will be a manager of negotiations whose fees and expenses shall be paid by the fund. The manager will be appointed by agreement of the partners or if they cannot agree the Chief Executive Officer of the Board will act as manager. When the manager is appointed, the partners may give the manager any role in the negotiation process in addition to the role described in this agreement. (Last amended March 27, 1996 - Effective January 1, 1996)
77. At any time after the preliminary results of a valuation are available the partners may agree to appoint a mediator. The mediator will be chosen by the agreement of the partners or by a method to which they agree at that time.
78. If no agreement is reached on all proposed changes by the 1st day of May, 1996 and no mediator has been appointed by agreement the manager will appoint a mediator to mediate proposed changes to the contribution rate or benefits under the plan. The manager will do so by preparing a list of five persons willing to act as mediator and asking each partner to select three names from the list. The manager will appoint one of the persons chosen by both partners. (Last amended November 15, 1993 - Effective November 15, 1993)
79. Any proposed changes to the plan not involving the contribution rate or benefits which remain unresolved on the 1st day of May, 1996 will be referred to the Partners Committee established under paragraph 13. The Partners Committee will make every effort to resolve those issues referred to it. (Last amended November 15, 1993 - Effective November 15, 1993)
80. If the partners agree, the mediator may be appointed as a mediator/arbitrator in which case the appointee will decide on the process and time frame for conducting mediation/arbitration.
81. If the partners do not agree on mediation/arbitration the mediator will meet with them and try to mediate an agreement.
82. Within 30 days of appointment the mediator will prepare a confidential report setting out his or her views on the positions of the two partners and containing a recommendation. The report will be delivered to the partners.
83. The mediator may extend the deadline for delivering the report by 14 days if he or she is of the opinion that the partners are likely to reach an agreement during the extension.
84. If the partners do not accept the report within 14 days of its being delivered to them it will be destroyed and an arbitration board will be appointed.
85. At any time after a mediator has been appointed the partners may agree to appoint a board of arbitration.
86. If the partners agree to appoint a board of arbitration or if 14 days have passed since the mediator's report each partner will appoint one person to the board of arbitration and the two appointees will select a final member who will be the umpire.

87. This agreement together with a referral to a board of arbitration constitutes a submission under the *Arbitrations Act*, R.S.O. 1980, c. 25, as amended.
88. If the persons appointed by the partners to a board of arbitration do not appoint an umpire within 14 days of the appointment of the latter of them, the manager will prepare a list of five persons who are willing to act as umpire and ask each partner to select three names from the list. The manager will appoint as umpire one of the persons chosen by both partners.
89. The umpire will establish the procedure for conducting the arbitration but will allow each partner an opportunity to present evidence and make representations. The persons appointed by the partners will consult with the appointing partner during the arbitration.
90. The board of arbitration will hold a hearing within 30 days of its appointment and make an award within 60 days of the conclusion of the hearing. The board of arbitration will provide reasons for its award.
91. The board of arbitration in making an award will consider prevailing economic conditions and the overall state of the provincial economy.
92. The award made by the board of arbitration will,
- (a) deal only with the contribution rate and/or benefits of the pension plan and otherwise maintain the plan as it is set out in Schedule 1,
 - (b) comply with the laws of Ontario,
 - (c) provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members,
 - (d) be based on the valuation of the plan and the costing of changes to benefits which were prepared by the Board,
 - (e) ensure that any increase in benefits is adequately funded,
 - (f) not impair the ability of the Board to fulfil its fiduciary responsibilities,
 - (g) if it includes benefit improvements, not provide for an increase in the contribution rate paid by plan members greater than .5% of pensionable salary,

provided that all such awards shall be subject to the limitations referred to in subparagraph EE(2). (Last amended March 26, 2003 – Effective January 1, 2003)

- 92.1 In the event that a board of arbitration is appointed pursuant to any provision of the agreement, other than paragraph 57a, to determine the application of actuarial gains disclosed in a valuation for funding purposes where a portion of the actuarial gains disclosed in such valuation is subject to the provisions of paragraph 57a, the board of arbitration shall not issue an award regarding that portion of the actuarial gains which is subject to the provisions of paragraph 57a. (Last amended May 27, 1998 - Effective April 18, 1998)
93. The board of arbitration will give the partners a copy of the award and reasons as soon as they are prepared.

94. The Board will prepare a final valuation of the plan which implements all of the changes to the plan which have been awarded or agreed to by the partners. The changes will take effect on the 1st day of January, 1997 or on such earlier date to which the partners have agreed. (Last amended November 15, 1993 - Effective November 15, 1993)
95. The final valuation will be filed with the Financial Services Commission of Ontario and Schedule 1 will be amended to reflect the changes agreed to and the award if any.
96. Every three years, after January 1, 1996, the process described in this section will be repeated unless the partners agree that no changes will be made to the plan. (Last amended November 15, 1993 - Effective November 15, 1993)
97. The manager and the umpire may agree to extend the timelines set out by this agreement if they think it will help the partners reach an agreement.
98. The partners may agree to change the procedure described in this agreement, either for one round of negotiations or for all future negotiations.
99. The costs of mediation and arbitration will be paid out of the fund. (Last amended March 27, 1996 - Effective January 1, 1996)
100. The mediator or the umpire may employ experts to assist her or him. The cost of employing experts will be shared equally by the partners. The mediator or umpire will consult with the partners about a reasonable budget for such costs.
101. Revoked. (Last amended March 26, 2003 – Effective January 1, 2003)

General

102. Schedule 1 to the *Teachers' Pension Plan, 1989* as amended is adopted by the partners as part of this agreement.
103. The partners agree that this agreement forms part of the plan documents of the pension plan and that they will file a copy of this agreement with the Pension Commission of Ontario.
104. The partners may at any time agree to change any of the provisions of Schedule 1. A change to Schedule 1 will be effected when it is filed with the Financial Services Commission of Ontario by the partners.
105. The partners will not make any change to Schedule 1 which is contrary to the laws of Ontario. Any change which is inconsistent will be void to the extent of the inconsistency.
106. Sections 116, 117, 118 and all of Part XII of Schedule 1 are revoked.
107. Revoked. (Last amended November 15, 1993 - Effective November 15, 1993)
108. The Board will print a new consolidation of Schedule 1 as soon as possible after any changes to it have been filed with the Financial Services Commission of Ontario.
109. The Minister will submit a copy of Schedule 1 and the annual report to the Lieutenant Governor in Council and lay it before the Assembly at the first opportunity after the report is prepared by the Board.

- 110.** The partners agree that the Funding Management Policy attached hereto, and as amended from time to time, forms part of this agreement. (Last amended June 3, 2009 – Effective January 1, 2009)

July 15, 1991

APPENDIX “A”

Funding Management Policy

Article I. Application

- Section 1.01 Best Estimates Assumptions: For the purposes of this Funding Management Policy, except as otherwise provided herein, the Board shall provide the required reports using the Board’s best estimates assumptions including, in the case of the discount rate, a margin for adverse deviation. The Board’s best estimate economic assumptions may be based on market data, smoothed data, the reference rate or the Board’s expectation if the Board believes future experience may differ from market data. The Board’s assumptions shall be used only if they would be consistent with accepted actuarial practice. (Last amended May 27, 2015 – Effective March 6, 2015)
- Section 1.02 Escalated Adjustments Indices: The Board shall also maintain indices to record escalated adjustments for post-2009 service. (Last amended May 27, 2015 – Effective March 6, 2015)
- Section 1.03 Different Discount Rate: If a preliminary valuation uses a discount rate lower than the restoration basis for valuations prepared under Article III and Article VI, lower than the temporary basis for valuations prepared under Article IV, or lower than the distribution basis for valuations prepared under Article V, then the Board shall notify the partners and the partners shall meet with the Board. (Last amended May 27, 2015 – Effective March 6, 2015)
- Section 1.04 Exit Provision: The provisions in Article II to Article IX shall expire twelve months after the notification referred to in Section 1.03 unless both partners otherwise notify the Board. (Last amended May 27, 2015 – Effective March 6, 2015)
- Section 1.05 This Funding Management Policy shall be applied as follows:
- (a) If there is a restoration basis excess when current contributions exceed basic contributions and/or current benefits are less than run-rate benefits, the excess can be used to reduce contributions and/or increase benefits in accordance with Article III: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.04, then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;
 - (b) If there is a restoration basis deficit using current contributions and current benefits, contributions must be increased and/or benefits must be reduced in accordance with Article III to eliminate the deficit: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, satisfy the conditions in Section 3.09, then Section 3.10, Section 3.11, Section 3.12, Section 3.13, and Section 3.14 shall apply;
 - (c) If there is a restoration basis excess when contributions are less than or equal to basic contributions and benefits are greater than or equal to run-rate benefits, prepare a temporary basis valuation in accordance with Article IV: If the results of a preliminary valuation, using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, either:
 - (i) do not satisfy the conditions in either Section 3.04 or Section 3.09; or
 - (ii) satisfy the conditions in Section 3.04, and
 - 1) the present value of revised benefits is equal to the present value of run-rate benefits, and
 - 2) the present value of revised contributions is equal to the present value of basic contributions;
 then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02;

(d) Temporary and Distribution Basis Valuations:

- (i) If there is a temporary basis excess, prepare a distribution basis valuation in accordance with Article V: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the distribution basis, the definitions in Section 5.01 and the proviso in Section 5.02, and
 - 1) If there is a distribution basis excess, the distribution basis excess can be used to make plan improvements in accordance with Article V: if the results of that preliminary valuation satisfy the conditions in Section 5.03, then Article V shall apply;
 - 2) If there is a distribution basis deficit but a temporary basis excess, the temporary basis excess can be used to make temporary plan improvements in accordance with Article IV: if the results of that preliminary valuation do not satisfy the conditions in Section 5.03, then the preliminary valuation shall be performed using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, and Article IV shall apply;
- (ii) If there is a temporary basis deficit, the restoration basis valuation will apply in accordance with Article III: If the results of a preliminary valuation, using the temporary basis, the definitions in Section 4.01 and the proviso in Section 4.02, do not satisfy the conditions in Section 4.03, then the preliminary valuation shall be performed using the restoration basis, the definitions in Section 3.01 and the provisos in Section 3.02 and Section 3.03, and Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply;
- (e) Post-December 30, 2017 Valuations: If the results of a preliminary valuation prepared as of a date after December 30, 2017, using the restoration basis and the definitions in Section 6.01, satisfy the conditions in Section 6.02, then Section 6.03 shall apply;
- (f) 2013 Term Sheet Precedence: The provisions of the 2013 Term Sheet shall take precedence over this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.06 Actions Subject to Pension Legislation: Prior to the commitment of a surplus distribution or a contribution decrease, the partners shall ensure such distribution or contribution decrease is in accordance with the *Income Tax Act* (Canada), the *Pension Benefits Act* (Ontario) and their respective regulations. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.07 Conditions on Temporary Improvements: Any commitment to provide temporary improvements shall be made conditional on the results of a preliminary valuation for each year of the commitment period indicating that the conditions in Section 3.04(a) are met prior to and after such temporary improvement. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 1.08 Headings: Headings are underlined and are for convenience only and shall not affect the interpretation or meaning of any provision of this Funding Management Policy. (Last amended May 27, 2015 – Effective March 6, 2015)

Article II. Definitions

Section 2.01 For the purposes of this Funding Management Policy:

- (a) “2013 Term Sheet” means the March 13, 2013 OTTP Term Sheet entered into by the partners;
- (b) “basic contributions” are the contributions required by subsections 19(1) or (2) of Schedule 1 as it read on January 1, 2012;
- (c) “commitment period” means the three-year period during which a temporary improvement is provided;
- (d) “commitment value” means the present value of the portion of the temporary improvement value provided during the commitment period;

- (e) “Consumer Price Index” means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act* (Canada);
- (f) “CPI adjustment” means the ratio between 1.000 and 1.080 of the average for the Consumer Price Index over the last twelve months of the twenty-four-month period ending with the 30th day of September in the immediately preceding year to the average for the Consumer Price Index over the first twelve months of that period - 1. If the ratio would have been less than 1.000 or greater than 1.080, but for those limits, the difference shall be carried forward in a manner consistent with that set out in section 80 of Schedule 1;
- (g) “current accumulated adjustment ratio” is an index maintained by the Board that begins with “1.000000” for 2010 and is the product of all current ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the current accumulated adjustment ratio is being determined. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with “1.000000” for 2010;
- (h) “current benefits” are the pension benefits, current escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read at the current valuation date without taking into account any amendment made, or changes agreed to by the partners, on or after the current valuation date;
- (i) “current contributions” are the contributions required by Schedule 1 as it read at the current valuation date without taking into account any amendment made on or after the current valuation date;
- (j) “current escalated adjustments” are the escalated adjustments in respect of post-2009 service that were applied prior to the January 1st following the current valuation date and assumed thereafter at the rate set out in the most recent filed valuation;
- (k) “current ratio”, for a year, means $1 +$ the proportion of the CPI adjustment granted as agreed to by the partners, and as may have been revised from time to time, provided that the proportion shall not be less than 50% in respect of service accrued before 2014, but not including any revision agreed to by the partners in relation to the current valuation;
- (l) “current valuation date” in respect of a valuation is the date provided in Section 7.01;
- (m) “distribution basis” is the reference rate with a positive adjustment of 0.5% together with the Board’s best estimate actuarial assumptions for all other factors;
- (n) “freeze period” means the period from December 31, 2012 to December 30, 2017;
- (o) “going concern liabilities” are the going concern liabilities within the meaning of Regulation 909 made under the *Pension Benefits Act* and must also include the present value of the pension benefits and escalated adjustments that both accrued prior to the valuation date and that will accrue on or after the valuation date to the persons who were members of the plan on the valuation date and the present value of the ancillary benefits for which the eligibility requirements will be satisfied on or after the valuation date by the persons who were members of the plan on the valuation date;
- (p) “preliminary valuation” means a valuation referred to in Section 7.01;
- (q) “reference rate” means the interest rate chosen by the Board representing the Government of Canada long bond yield (currently, CANSIM Series V39056 nominal and CANSIM Series V39057 real, or their reasonable respective replacements) that may be based on market data or smoothed data;
- (r) “remaining amortization value” means the difference between the temporary improvement value and the commitment value;
- (s) “restoration basis” is the reference rate with a positive adjustment of 1.55% together with the Board’s best estimate actuarial assumptions for all other factors;

- (t) “revised accumulated adjustment ratio” is an index maintained by the Board that begins with "1.000000" for 2010 and is the current accumulated adjustment ratio, as modified by an agreement between the partners to change the proportion of the CPI adjustment in respect of post-2009 service prior to the year following the current valuation date. The index may differ in respect of service accrued before 2014 and service accrued after 2013 with both indices beginning with “1.000000” for 2010;
- (u) “revised benefits” are the current benefits including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation;
- (v) “revised contributions” are the current contributions including any amendment made on or after the current valuation date based on that valuation;
- (w) “revised escalated adjustments” are the current escalated adjustments including any amendment made, or changes agreed to by the partners, on or after the current valuation date based on that valuation and assumed thereafter at the rate set out in that valuation;
- (x) “run-rate accumulated adjustment ratio” is an index maintained by the Board that begins with "1.000000" for 2010 and is the product of all run-rate ratios for the years in the period commencing with 2010 and ending with the year prior to the year for which the run-rate accumulated adjustment ratio is being determined;
- (y) “run-rate benefits” are the pension benefits, run-rate escalated adjustments and ancillary benefits calculated in accordance with Schedule 1 as it read on January 1, 2009, together with any benefits provided by amendments described in Article IX;
- (z) “run-rate escalated adjustments” are the escalated adjustments in respect of post-2009 service that would have applied at the rate of 100% of the CPI adjustment prior to the January 1st following the current valuation date and that would be assumed thereafter at the rate of 100% of the CPI adjustment;
- (aa) “run-rate ratio”, for a year, means 1 + the CPI adjustment for the year;
- (bb) “temporary basis” is the reference rate with a positive adjustment of 1.25% together with the Board’s best estimate actuarial assumptions for all other factors;
- (cc) “temporary improvement” means an improvement provided in accordance with Section 4.05;
- (dd) “temporary improvement value” is the present value of a contribution decrease, a distribution of surplus and/or a benefit improvement that is amortized over a period of up to ten years, but is committed to for the duration of the commitment period only, provided that at the establishment of the commitment:
 - (i) the partners may elect an amortization period between three and ten years; and
 - (ii) for amortization periods of less than ten years, any temporary improvement for a given year shall be limited such that the present value of that given year's temporary improvement is not greater than the present value of basic contributions, calculated using the temporary basis, to be paid in the same year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article III. Funding Zone - Restoration

Section 3.01 Definitions: For the purposes of Article III, as at the current valuation date, using the restoration basis:

- (a) “assets” are the assets described in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the *Pension Benefits Act*;
- (b) “current liabilities” are the difference between:
 - (i) the going concern liabilities calculated using current benefits, and

- (ii) the present value of current contributions;
- (c) “revised liabilities” are the difference between:
 - (i) the going concern liabilities calculated using revised benefits, and
 - (ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.02 Restoration Basis Plus an Adjustment: For the purposes of Article III, current liabilities and revised liabilities may be calculated as at the current valuation date using the restoration basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.03 CPI Adjustment: For the purposes of Article III, and subject to a subsequently filed valuation, the proportion of the CPI adjustment for the period covered by the current valuation, in respect of each applicable period of service, will be the same for each year in that period and assumed at the same rate thereafter. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.04 Restoration Basis Excess, but Basic Contributions and/or Run-Rate Benefits Not Restored:

- (a) If assets are greater than current liabilities; and
- (b) if:
 - (i) the present value of current contributions is greater than the present value of basic contributions, or
 - (ii) the present value of current benefits is less than the present value of run-rate benefits, or
 - (iii) both (i) and (ii);

then Section 3.05, Section 3.06, Section 3.07 and Section 3.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.05 Restoration Basis Excess Report: The Board shall report to the partners:

- (a) the excess of assets over current liabilities; and
- (b) the extent to which the excess can be used to provide the changes specified in Section 3.06.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.06 Application of Restoration Basis Excess: For purposes of clarity, excesses identified pursuant to Section 3.05 shall be applied in the following order, provided that the partners reserve the right to reconsider such application having regard to the contribution rate and benefits then in effect, prevailing economic circumstances and other relevant factors:

- (a) Bring Escalated Adjustments to 50% for Post-2013 Service: to provide escalated adjustments up to 50% of the CPI adjustment in respect of service accrued after 2013 for the period covered by the valuation, and assumed thereafter at the same rate;
- (b) Bring Escalated Adjustments to 100%: to provide escalated adjustments up to 100% of the CPI adjustment for the period covered by the valuation, and assumed thereafter at the same rate;
- (c) Restore Escalated Adjustments for Post-2013 Years: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2013, to the current accumulated adjustment ratio for the period from 2010 to 2013, beginning with the first year in which current escalated adjustments were less than 50% of the run-rate escalated adjustments;

- (d) Restore Escalated Adjustments for Post-2009 Years: to provide escalated adjustments to increase, to the extent possible, the current accumulated adjustment ratio for each year after 2009 to the run-rate accumulated adjustment ratio, beginning with the first year in which current escalated adjustments were less than run-rate escalated adjustments;
- (e) Provide Benefit Increases or Contribution Rate Reductions: to provide the following:
 - (i) an increase in benefits, where the present value of current benefits is less than the present value of run-rate benefits,
 - (ii) a reduction in contribution rates, where the present value of current contributions exceeds the present value of basic contributions, or
 - (iii) a combination of (i) and (ii).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.07 Conditions on Application of Excess: Subject to Section 3.06 and Section 3.08 or any mutual agreement to the contrary, the partners shall apply the excess of assets over current liabilities to change benefits, contributions, or both, provided that no change or amendment shall be made unless, after such change or amendment:

- (a) assets are equal to or greater than revised liabilities;
- (b) the revised accumulated adjustment ratio is equal to or less than the run-rate accumulated adjustment ratio;
- (c) the revised accumulated adjustment ratio is equal to or greater than the current accumulated adjustment ratio;
- (d) the present value of revised benefits is equal to or less than the greater of the present value of current benefits and the present value of run-rate benefits;
- (e) the present value of revised benefits is equal to or greater than the lesser of the present value of current benefits and the present value of run-rate benefits;
- (f) the present value of revised contributions is equal to or greater than the lesser of the present value of current contributions and the present value of basic contributions; and
- (g) the present value of revised contributions is equal to or less than the greater of the present value of current contributions and the present value of basic contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.08 2013 Term Sheet Limits: As set out in further detail in the 2013 Term Sheet, during the freeze period:

- (a) The partners may provide escalated adjustments pursuant to Section 3.06(a), Section 3.06(b), Section 3.06(c) and Section 3.06(d) only if the assets are greater than 100% of the current liabilities and do not fall below 100% of the revised liabilities after the adjustment; and
- (b) The partners may agree to improve benefits, or to restore benefits that were reduced during the freeze period, pursuant to Section 3.06(e) only if the net assets available for benefits (as such term is used in the preliminary valuations) are equal to or greater than 105% of the current liabilities and do not fall below 105% of the revised liabilities after the benefit improvement or restoration.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.09 Restoration Basis Deficit: If current liabilities are greater than assets, then Section 3.10, Section 3.11, Section 3.12, Section 3.13 and Section 3.14 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.10 Restoration Basis Deficit Report: The Board shall report to the partners:

- (a) the excess of current liabilities over assets; and
- (b) the amount required to change current benefits, current contributions, or both, to eliminate the excess referred to in Section 3.10(a) above, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.11 Conditions on Elimination of Deficit: Subject to Section 3.12 and Section 3.14, the partners may change benefits, contributions, or both, to eliminate the excess referred to in Section 3.10(a), provided that no change or amendment shall be made unless, after such change or amendment:

- (a) assets are equal to or greater than revised liabilities; and
- (b) revised member contributions shall be limited to 15% of pensionable salaries above the Year's Maximum Pensionable Earnings as prescribed under the *Canada Pension Plan*.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.12 Restrictions on Benefit Reductions: Current benefits shall not be reduced unless:

- (a) the partners agree on the terms and conditions of any reduction in current benefits;
- (b) the partners have entered into a written agreement governing the manner in which contributions by the Minister and the Employers will be adjusted to offset any reduction in benefits; and
- (c) the revised accumulated adjustment ratio, in respect of each year, is equal to or greater than the current accumulated adjustment ratio for the year.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.13 Restrictions on Contribution Increases: Subject to Section 3.14, the partners have the authority to set the level of contributions that must be reached before current benefits are reduced below run-rate benefits, subject to the commitment that member contributions will not exceed 15% of pensionable salaries above the Year's Maximum Pensionable Earnings (as prescribed under the *Canada Pension Plan*). (Last amended May 27, 2015 – Effective March 6, 2015)

Section 3.14 Further Restrictions on Contribution Increases: As set out in further detail in the 2013 Term Sheet, during the freeze period there will be no employer contribution increases except as provided under the 2013 Term Sheet. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IV. Funding Zone – Temporary Improvements

Section 4.01 Definitions: For the purposes of Article IV, as at the current valuation date, using the temporary basis:

- (a) “assets” are either:
 - (i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or
 - (ii) the assets described in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;
- (b) “current liabilities” are the sum of:

- (i) the difference between:
 - 1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and
 - 2) the present value of the lesser of current contributions and basic contributions;
 and
- (ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);
- (c) “revised liabilities” are the sum of:
 - (i) the difference between:
 - 1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and
 - 2) the present value of revised contributions;
 and
 - (ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);
- (d) The reference rate for purposes of determining the temporary basis is based on:
 - (i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and
 - (ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.02 Temporary Basis Plus an Adjustment: For the purposes of Article IV, current liabilities and revised liabilities may be calculated as at the current valuation date using the temporary basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.03 Temporary Basis Excess: If assets are greater than current liabilities, then Section 4.04, Section 4.05 and Section 4.06 shall apply, provided that no temporary improvements may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.04 Temporary Basis Excess Report: The Board shall report to the partners:

- (a) the amount by which assets exceed current liabilities;
- (b) the commitment value;
- (c) the extent to which the commitment value can be used to provide a reduction to current contributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;

- (d) the extent to which the commitment value can be used to provide annual surplus distributions, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period;
- (e) the extent to which the commitment value can be used to provide a temporary benefit improvement, beginning with the year following the year in which a preliminary valuation is filed and lasting for the commitment period; and
- (f) the extent to which the commitment value can be used to provide a combination of Section 4.04(c), Section 4.04(d) and Section 4.04(e).

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.05 Conditions on Application of Excess: Subject to Article VI and Section 4.06, the partners may apply all or part of the commitment value to change temporarily current contributions, provide surplus distributions on a temporary basis, or provide a temporary benefit improvement, provided that no amendment shall be made unless, after such amendment, the excess of assets over revised liabilities is equal to or greater than zero. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.06 Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.07 Temporary Basis Deficit: If assets are equal to or less than current liabilities, then Section 4.08 and Section 4.09 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.08 Temporary Basis Deficit Report: The Board shall report to the partners the amount by which current liabilities exceed assets. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 4.09 No Action on Temporary Basis and Return to Restoration Basis: Subject to Article VI, the partners shall not provide new temporary improvements and Article III shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article V. Funding Zone – Permanent Improvements

Section 5.01 Definitions: For the purposes of Article V, as at the current valuation date, using the distribution basis:

- (a) “assets” are either:
 - (i) the market value of net assets available to provide benefits as determined by the Board, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; or
 - (ii) the assets described in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act, if the excess of the assets described in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;
- (b) “current liabilities” are the sum of:
 - (i) the difference between:

- 1) the going concern liabilities calculated using the greater of current benefits and run-rate benefits, and
 - 2) the present value of the lesser of current contributions and basic contributions;
- and
- (ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);
- (c) “current targeted funding amount” is 10% of current liabilities;
- (d) “revised liabilities” are the sum of:
- (i) the difference between:
 - 1) the going concern liabilities calculated using the greater of revised benefits and run-rate benefits, and
 - 2) the present value of revised contributions;
 - and
 - (ii) the remaining amortization value (equal to zero with respect to a particular commitment period if, as of the valuation date, the payment in respect of the last year of a commitment period will be paid in that year);
- (e) The reference rate for purposes of determining the distribution basis is based on:
- (i) market data, if the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data is less than the excess of the assets in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data; and
 - (ii) smoothed data, if the excess of the assets in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the Pension Benefits Act over current liabilities calculated using a reference rate based on smoothed data is less than the excess of the market value of net assets available to provide benefits over current liabilities calculated using a reference rate based on market data;
- (f) “revised targeted funding amount” is 10% of revised liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.02 *Distribution Basis Plus an Adjustment*: For the purposes of Article V, current liabilities and revised liabilities may be calculated as at the current valuation date using the distribution basis plus an adjustment. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.03 *Distribution Basis Excess*: If the excess of assets over current liabilities is greater than the current targeted funding amount, then Section 5.04 and Section 5.05 shall apply, provided that no changes pursuant to Section 5.05 may be provided unless the partners have provided all of the changes specified in Section 3.06. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.04 *Distribution Basis Excess Report*: The Board shall report to the partners:

- (a) the amount by which assets minus current liabilities exceed the current targeted funding amount; and

- (b) the amount required to change current benefits, current contributions, or both, as requested by either partner.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.05 Conditions on Application of Excess: Subject to Article VI, the partners may apply all or part of the amount by which assets minus current liabilities exceed the current targeted funding amount to change current benefits, current contributions, or both, provided that no amendment shall be made unless:

- (a) after such amendment the excess of assets over revised liabilities is equal to or greater than the revised targeted funding amount; and
- (b) the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any change in current benefits that is reflected in the value of the liabilities.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.06 Distribution Basis Deficit: If:

- (a) the excess of assets over current liabilities is less than the current targeted funding amount;
- (b) the present value of current contributions is equal to or less than the present value of basic contributions;
- (c) the present value of current benefits is equal to or greater than the present value of run-rate benefits; and
- (d) the current accumulated adjustment ratio is equal to the run-rate accumulated adjustment ratio;

then Section 5.07 and Section 5.08 shall apply.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.07 Distribution Basis Deficit Report: The Board shall report to the partners the amount by which assets minus current liabilities are less than the current targeted funding amount. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 5.08 No Action on Distribution Basis and Return to Temporary Basis: Subject to Article VI, the partners shall not apply, pursuant to this Article V, any part of the amount by which assets exceed current liabilities, and Article IV shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VI. Post December 30, 2017 Valuations

Section 6.01 Definitions: For the purposes of Article VI, as at the current valuation date, using the restoration basis:

- (a) “assets” are the assets described in paragraph (a) of the definition of “going concern assets” in Regulation 909 made under the *Pension Benefits Act*;
- (b) “current liabilities” are the difference between:
 - (i) the going concern liabilities calculated using current benefits, and
 - (ii) the present value of current contributions;
- (c) “revised liabilities” are the difference between:
 - (i) the going concern liabilities calculated using revised benefits, and
 - (ii) the present value of revised contributions.

(Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.02 Post-2017 Excess: Notwithstanding any other provision of this Funding Management Policy, as set out in further detail in the 2013 Term Sheet, after the end of the freeze period, if a valuation report with a valuation date after December 30, 2017 provides that assets are greater than current liabilities as at the date of the current valuation, then Section 6.03 shall apply. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 6.03 2013 Term Sheet Provisions:

- (a) the OTF will have ‘first call’ on 100% of the value of the excess of the assets over the current liabilities (to take the form of “surplus credits”) up to a cumulative total of the value of the lesser of:
 - (i) the value of the benefit reductions made during the freeze period, including the value of benefit reductions made in the January 1, 2012 valuation, but excluding: (1) the value of benefit reductions for which matching contributions are made by the Minister and the Employers, and (2) the value of benefit reductions relating to the removal and replacement of the remaining 50% guaranteed indexing with full conditional inflation protection for post-2013 service and the resulting change to the discount rate, and
 - (ii) the benefit reduction limit as calculated under the 2013 Term Sheet;
- (b) if inflation protection is invoked below 50% during the freeze period, surplus credits will include an amount equal to the actual foregone pension payments during and after the freeze period that arise from the reduction in inflation protection invoked during the freeze period until such time as that inflation protection is restored at 50% or more during or after the freeze period; and
- (c) the OTF may apply all or part of surplus credits to change current benefits, current contributions, or both, provided that no amendment shall be made unless assets are equal to or greater than revised liabilities after such amendment.

(Last amended May 27, 2015 – Effective March 6, 2015)

Article VII. Valuation Frequency and Timing

Section 7.01 The Board shall require the actuary to prepare a preliminary valuation of the plan as of January 1, 2003 and each January 1 thereafter and, in addition, on such other date as the partners mutually agree. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.02 Subject to the requirements of the *Pension Benefits Act*, the partners agree that valuations shall be filed with the Superintendent of Financial Services only by their mutual agreement. The partners shall direct the Board, no later than seven months following the valuation date, whether to file. No such filing shall affect the timing of triennial negotiations between the partners referred to in paragraph 96. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 7.03 The seven-month notice requirement referred to in Section 7.02 shall not apply to the January 1, 2005 valuation and shall not apply to the January 1, 2012 valuation. (Last amended May 27, 2015 – Effective March 6, 2015)

Article VIII. Arbitration

Section 8.01 Unless the partners mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.02 The limitations on amendments set out in Section 3.07, Section 4.05, Section 4.06, Section 4.09, Section 5.05, and Section 5.08 shall apply to an award made by a board of arbitration pursuant to paragraph 92. (Last amended May 27, 2015 – Effective March 6, 2015)

Section 8.03 Subject to the 2013 Term Sheet, nothing in Article II to Article IX affects the timing of the triennial negotiation, mediation and arbitration process referred to in paragraphs 72 to 100. (Last amended May 27, 2015 – Effective March 6, 2015)

Article IX. Limitations

Section 9.01 The limitations on amendments in this Funding Management Policy shall not apply to amendments:

- (a) made pursuant to paragraphs 60b, 60d, or 60e;
- (b) that are required to comply with provincial law or, where both partners agree, to maintain registration as a registered pension plan under the *Income Tax Act (Canada)*; or
- (c) made by mutual agreement of the partners that do not increase liabilities by more than 0.5%.

(Last amended May 27, 2015 – Effective March 6, 2015)

Fw_ September 15 letter.rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Veinot, Cindy (TBS) [Cindy.Veinot@ontario.ca]
Subject: Fw: September 15 letter
Date: Saturday, September 17, 2016 08:11:55
Attachment 1: MOF letter.pdf

Hi Jana

Here is a letter (with attachments) that has relevance re the fmp. Thanks
Sent from my BlackBerry 10 smartphone on the Rogers network.

MOF letter.pdf

September 15, 2016

Alex Killoch, Director
BPS Pensions Branch
Ministry of Finance
1st Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Alex:

As requested, we are outlining the annual process for providing actuarial and financial information about the Ontario Teachers' Pension Plan (Plan) to the Ministry of Finance. We are also providing information related to the funding valuation of the Plan and in particular, the discount rate setting process. Copies of various documents, correspondence and memos have been attached for reference purposes with applicable dates noted below.

Annual Process Related to the Province of Ontario Budget

Each December, the Ministry of Finance provides a request for information to the President and CEO of the Plan to assist in the preparation of the Ontario Budget. Specific assumptions to be used in the analysis are provided including return on investment, inflation, real rate of return and anticipated salary growth. The Province selects the best estimate assumptions in accordance with the Chartered Professional Accountants of Canada Public Sector Accounting Board Handbook. (December 11, 2015 request from the Province attached).

The external Plan actuary – Mercer – prepares the liability and current service cost calculations using the “projected benefit method, pro-rated on services” and economic assumptions are requested by the Province. Supporting information including contribution and benefit information is provided by the Plan. (January 26, 2016 correspondence from Mercer and the Plan attached).

Supplemental information was prepared by Mercer at the request of the Province in June of 2016 to assist in addressing inquiries from the Office of the Auditor General of Ontario. (June 17, 2016 Memo attached).

Annual Funding Valuation Process

On an annual basis, Mercer prepares a preliminary valuation for review by the Ontario Teachers' Pension Plan Board (Board). It is the Board's responsibility to decide key actuarial assumptions in close collaboration with the Plan actuary. The independent actuary must confirm that the

assumptions are independently reasonable and are appropriate in aggregate in accordance with the Canadian Institute of Actuaries Standards of Practice.

The annual assumption setting exercise is robust. The determination of the discount rate is informed by the Funding Management Policy (described below) and the Discount Rate Review process which reflects what the Plan's assets can reasonably be expected to earn over the long run less expenses and less provisions for adverse deviation (PFAD). The Plan takes into consideration two key PFADs: plan maturity and insufficient return. PFADs are set with reference to the demographic profile of the Plan, the risk tolerance and intergenerational fairness between members. A key challenge is the maturity of the Plan with the ratio of active members to pensioners being 1.4 to 1 with the ratio projected to decrease in the future. Longevity compounds this challenge as Teachers in Ontario live longer than the general Canadian population and their life expectancy continues to increase.

For the January 1, 2016 funding valuation (which will be filed with the regulatory authorities by September 30th), the nominal discount rate is 4.8% with an underlying real return of 2.75%. This real return takes into account PFADs of approximately 150 basis points.

Funding versus Accounting Valuations

The funding valuation assesses the Plan's long-term financial health to facilitate determination of future contribution rates and benefit levels. For the Plan, the cost method used is the aggregate method which allows the Plan to address funding surpluses and deficits through future benefits changes (eg. Conditional Inflation Protection (CIP)) and enables the Plan to factor in cash flows from future service. This differs from accounting standards which requires use of the projected benefit method prorated on services.

There are also differences in the assumption setting process. The Plan's assumption setting process for the annual funding valuation is noted above. Please refer to the attached Memo prepared by Mercer dated September 15, 2016, which outlines key methods and assumptions to be used to value pension plans per Canadian Public Sector Accounting Standards (PS3250).

Funding Management Policy

The Plan Sponsors (the Province of Ontario and Ontario Teachers' Federation) are jointly-responsible for two key decisions: a) what pension benefits the Plan will provide, and b) the contribution rate needed to ensure the Plan's benefits are fully funded over the long term. In doing so, the Sponsors negotiate the use of surplus funds and, when there is a funding shortfall, both share responsibility for eliminating it.

In March 2003, the Sponsors adopted a Funding Management Policy (FMP) as a supplement to the Partners' Agreement, with the objective to provide a guidance framework for decision making when there is a funding surplus or shortfall. A key component in the creation of the FMP was the concept of 'funding zones', each defined by a range. The funding zones provide a point of reference for whether action is required by the Sponsors, and if so, guidance is provided on how to use any surplus funds or resolve any shortfall – specifically, answering the question of when is it prudent to increase or decrease benefits, raise or lower contribution rates, or simply conserve assets for an uncertain time. While the FMP outlines preferred mechanisms

associated with its various funding zones, it is ultimately the Sponsors' responsibility to decide what actions to take.

In March 2015, a zone for Temporary Plan Improvements was added to the FMP, to allow for temporary contribution decreases, surplus distribution and/or benefit improvements (so long as they do not increase the long-term cost of the Plan) when assets exceed the projected cost of future benefits when valued using the Temporary Basis. Uses of surplus in this zone are paced, amortized over a period between three and 10 years, with an annual spending limit applied to amortization terms shorter than 10 years. The zone includes a provision that temporary improvements cease if a significant market event occurs. (FMP Framework and Summary attached).

As noted in Mercer's June 17th Memo, "should the plan earn future returns that are equal to the valuation discount rate adopted by the Province for financial statement reporting purposes, it is possible that some of the future contribution requirements could be reduced by agreement of the Sponsors as experience gains would be recognized in the funding valuation based on the assumptions currently used for funding purposes".

We trust that the above information and various attachments provide a helpful overview of the annual process for providing financial information to the Ministry of Finance as well as the process in place for the annual funding valuation. Please do not hesitate to call if you have any questions or require further information.

Sincerely,



Barbara Zvan, FSA, FCIA, CERA
SVP, Strategy & Risk and Chief Investment Risk Officer
(416) 730-6364
Barbara_zvan@otpp.com

Cc: Ross Peebles
Joshua Paul
Rob Pomykacz
Allan Shapira
Mary Cover

Ministry of Finance

Income Security and Pension Policy
Division

Office of the Assistant Deputy Minister
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Toronto ON M7A 1Y7
Tel. : 416 212-8073
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Ministère des Finances

Division des politiques en
matière de sécurité du revenu
et de régimes de retraite

Bureau du sous-ministre adjoint
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Tél. : 416 212-8073
Téléc. : 416 327-0160



December 11, 2015

Mr. Ron Mock
President and Chief Executive Officer
Ontario Teachers' Pension Plan Board
5650 Yonge Street, Suite 400
Toronto, Ontario
M2M 4H5

Dear Mr. Mock:

In preparation for the 2016 Ontario Budget, I am writing to request actuarial and financial information, as at December 31, 2015, on the Teachers' Pension Plan (TPP) and the Teachers' Retirement Compensation Arrangement (TRCA). This information is required for calculating the Province's 2015-16 pension expense and pension liability.

To ensure that the information requested in this letter is consistent with the Province's best estimates (as required by the Public Sector Accounting Board [PSAB]), please use the following economic assumptions in your actuarial calculations for the requested TPP information.

Economic Assumption (annual rates)	Basis 1	Basis 2	Basis 3	Basis 4
Return on Investment	6.50%	6.25%	6.25%	6.00%
Inflation	2.25%	2.25%	2.00%	2.00%
Real Rate of Return	4.25%	4.00%	4.25%	4.00%
Salary Growth	2.25% for 2016 to 2019 and 3.25% thereafter	2.25% for 2016 to 2019 and 3.25% thereafter	2.00% for 2016 to 2019 and 3.00% thereafter	2.00% for 2016 to 2019, 3.00% thereafter

Despite the salary growth assumption above, please reflect in the valuation a 1% lump sum increase for the school year 2015-16, a 1% increase for the school year 2016-17 and additional 0.5% increase half-way through the school year 2016-17.

We understand the Board may be preparing its financial statements based on International Financial Reporting Standards and Canadian Institute of Chartered Accountant Standard Section 4600. There has not been any change in reporting requirements under the Public Sector Accounting Board. Therefore, the actuarial and financial information we are requesting in this letter should be prepared in the same manner as has been provided to us in prior years.

Please provide the following actuarial and financial information with one set of calculations for each set of assumptions outlined in the table above. In these calculations for the TPP, please use the projected benefit method, prorated on services:

1. Actuarial present value (APV) of accrued benefit obligations, as at December 31, 2015. ***Basis 4 in last year's letter was used by the Province for 2015. Please include an APV reconciliation on that basis from December 31, 2014 to December 31, 2015 for all four bases.***
2. Actuarial value and market value of pension fund assets, as at December 31, 2015. The actuarial value of assets should be determined on the same basis as in prior years.
3. Interest on accrued benefits, cost of benefits accrued (separating out current period benefit cost, cost related to any plan amendments, transfers and other costs), actuarial adjustments, and the benefits paid (separate retirement pensions from other benefit payments) for the year ended December 31, 2015.
4. Contributions broken down by employee contribution, Province of Ontario contribution and other transfers for the year ended December 31, 2015 and the additional payments from the Province of Ontario with respect to "payments re foregone inflation adjustment" under subsection 5(2.1) of the Teachers' Pension Act for the year ended December 31, 2015. Please provide the same level of detail as would be disclosed in the "Contributions" note to the TPP's 2015 financial statements.
5. Return on investment, inflation and salary escalation assumptions that will be used in the TPP's 2015 financial statements.
6. Expected average remaining service life of active employees, as at December 31, 2015.
7. Net gain and loss for the year ended December 31, 2015 that would be subject to smoothing on the same basis as in prior years. Please also provide the same level of detail as in prior years.

8. The "Schedule of Contributions and Interest Receivable from the Province of Ontario" (due in early January, 2016).
9. Number of pensioners and active members, as at December 31, 2015.
10. Please provide a brief, high level explanation of the source(s) of the actuarial gains and losses for 2015.
11. Please provide the 2016 service cost for all requested bases.
12. 2015 financial statements of the TPP and the TRCA as soon as they are available.

Please provide items 1 to 5 above for the TRCA based on what will be reported in the TRCA's 2015 financial statements. Note that we do not require that the information on the TRCA be based on the Province's economic assumptions.

Although the TPP has been amended to provide conditional inflation protection for service after December 31, 2009, the intention of the Partners is to provide 100% inflation protection to the extent possible. As such, please provide us with the actuarial calculation for #1 and #3 above assuming that inflation protection for post 2009 service will be provided at 100% and at 50% of the annual increase in the Consumer Price Index.

We require these estimates by **January 29, 2016**. Should you have any questions, please contact Mr. Rob Pomykacz at robert.pomykacz@ontario.ca, or by telephone at (416) 327-0156.

To expedite the preparation of Ontario's 2015-16 *Public Accounts*, I would also ask that you communicate by letter by April 30, 2016 whether, to the best of your knowledge, there were any events between December 31, 2015 and March 31, 2016, which would in your opinion, affect these valuation results in a material way.

Mr. Mock
Page 4

Please forward all the information requested in this letter to:

Mark Rozic, Manager (Acting)
External Reporting Branch
Office of the Provincial Controller Division
Treasury Board Secretariat
2nd Floor, Office 260, Frost Building South
7 Queen's Park Crescent
Toronto ON M7A 1Y7
Tel: (416) 325-8293
Fax: (416) 325-2029
E-mail: mark.rozic@ontario.ca

And to:

Alex Killoch, Director
BPS Pensions Branch
Ministry of Finance
1st Floor, Frost Building South
7 Queen's Park Crescent
Toronto ON M7A 1Y7
Tel: (416) 325-5724
Fax: (416) 212-8293
E-mail: alex.killoch@ontario.ca

Thank you for your cooperation in this matter.

Yours sincerely,



Leah Myers

c: Alex Killoch
Sanjeev Batra
Mark Rozic
Pauline Fong
Joshua Paul
Mary Cover
Rob Pomykacz
Bill Pelow

January 26, 2016

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

Dear Mr. Rozic:

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

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

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

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

Market value of assets at December 31, 2015

Not yet
available

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

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

Item – 3(b) RCA Benefits Paid

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

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

Members

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

Province of Ontario

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

Other Employers

Transfers from Other Plans		14
Total	\$	47

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

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

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

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

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

Item 5 - Economic Assumptions

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

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

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

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

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

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

Pensioners	133,000
Active Members	183,000

Item 12 - Financial Statements

Not yet available.

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

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

Sincerely,



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

cc: Alex Killoch – Ministry of Finance



Lise Houle
Principal

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Toronto ON M5J 0A8
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lise.houle@mercer.com
www.mercer.ca

26 January 2016

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

Private & Confidential

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

Dear Mary,

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

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

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

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Ms. Mary Cover
Ontario Teachers' Pension Plan Board

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

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

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

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

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

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

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

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

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

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

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

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

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Ms. Mary Cover
Ontario Teachers' Pension Plan Board

We have the following comments on the results:

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

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

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

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

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



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Ms. Mary Cover
Ontario Teachers' Pension Plan Board

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

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Lise Houle'.

Lise Houle

Copy:
Scott Clausen, Mercer
Jason Lipping, Mercer

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MEMO

TO: Mary Cover, Ontario Teachers' Pension Plan
DATE: 17 June 2016
FROM: Lise Houle
SUBJECT: Ministry of Finance Request for Supplemental Accounting Results
COPY: Scott Clausen, Jason Lipping, Mercer

As a follow-up to the accounting results we provided to you with our letter of January 26th, 2016, determined using the actuarial assumptions provided by the Ministry of Finance, we understand that the Ministry has requested supplemental information from the Ontario Teachers' Pension Plan as the Ministry addresses inquiries from the Office of the Auditor General of Ontario.

In particular, the Ministry has requested the following information relating to the Ontario Teachers' Pension Plan, using Bases 3 and 4 described in our January 26th letter:

- Present value of future current service accruals,
- Present value of future basic contributions, and
- Present value of future supplemental contributions

The requested information, calculated as at August 31, 2015 and rolled forward to December 31, 2015 is as follows:

	Basis 3	Basis 4
Valuation Discount Rate	6.25%	6.00%
Inflation Rate	2.00%	2.00%
Real Valuation Discount Rate	4.25%	4.00%
Salary Escalation Rate	2.00% for the years 2016 to 2019, 3.00% thereafter	2.00% for the years 2016 to 2019, 3.00% thereafter
PV of future service accruals	\$36,767 million	\$39,563 million
PV of future basic contributions	\$36,073 million	\$36,826 million
PV of future supplemental contributions	\$2,888 million	\$2,924 million

The present value of future service accruals is calculated as the difference between the actuarial present value of total projected pension benefits (ie aggregate liabilities) less the actuarial present value of accrued pension benefits as at December 31, 2015. The benefits used in our calculations reflect 100% conditional indexing for both pre-2010 and post-2009 service. The actuarial present

value of accrued pension benefits as at December 31, 2015 are those provided in our January 26th letter while the actuarial present value of total projected pension benefits are calculated using the same approach, but captures all projected service to date of expected decrement.

The actuarial present value of basic contribution reflects both expected basic employee and employer contributions to be paid to date of assumed decrement.

The actuarial present value of future service accruals and of basic contributions only considers current active and inactive members of the Ontario Teachers' Pension Plan. In keeping with the approach used for the funding valuation, the present value of future supplemental contributions is determined on an open-group basis and reflects scheduled contributions to December 31, 2026.

It is our understanding that the province intends to use these figures to perform a high level test to consider if there should be a limit applied to the asset/surplus held as at December 31, 2015. We note that, should the plan earn future returns that are equal to the valuation discount rate adopted by the Province for financial statement reporting purposes, it is possible that some of the future contribution requirements could be reduced by agreement of the Sponsors as experience gains would be recognized in the funding valuation based on the assumptions currently used for funding purposes.

For more details on the actuarial assumptions, methods and data used in our calculations, please refer to our January 26th letter. The demographic assumptions are summarized in our Report on the Actuarial Valuation for Financial Statement Purposes as at December 31, 2015.

MEMO

TO: Mary Cover, Ontario Teachers' Pension Plan
DATE: 15 September 2016
FROM: Scott Clausen, Mercer
SUBJECT: Canadian Public Sector Accounting Standards (PS3250)

As discussed, the purpose of this memo is to provide section references from Canadian Public Sector Accounting Standards (PS 3250) that refer to the selection of methods and assumptions to be used to value pension plans for the purpose of the province's financial reporting. All Section references shown in this memo refer to Sections from PS3250.

Actuarial Cost Method:

.029

The projected benefit method prorated on services should be used to attribute the cost of retirement benefits to the periods of employee service.

.030

When a retirement plan provides benefits that accrue in a non-uniform manner, the projected benefit method prorated on services may need to be adjusted to reflect the manner in which retirement benefits are earned by employees. For example, a pension plan formula may state that the pension benefit accrues at one percent of salary for the first 15 years and at two percent of salary for the final 20 years. In this circumstance, the prorating of the total estimated benefit to each accounting period would be adjusted to reflect the rates at which pension benefits are earned in that 35-year period.

.032

In other retirement plans, regular benefit increases for inflation protection may be provided even when such protection is not promised in a contractual agreement or in legislation. For those plans, careful analysis and professional judgment are needed to determine the substance of a government's obligation. If a regular pattern of benefit increases can be established over a reasonable period, it may be appropriate to incorporate the cost of such inflation protection in the cost of retirement benefits earned to the accounting date and reported as an accrued benefit obligation.

Asset Valuation:

.035

When determining a government's retirement benefit liability and expenditure / expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently.

Actuarial Assumptions:

.042

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

.044

The actuarial assumptions underlying the valuation of the retirement benefit liability and expenditure / expense would be internally consistent. For example, when a government determines its discount rates by reference to its plan asset earnings, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the short-term forecast of rates of return on assets currently held in the fund. When a government determines its discount rates by reference to its cost of borrowing, the assumptions used to determine the short-term forecast incorporated in the discount rates would be consistent with the specific rates of interest and the periods committed to by the government on the amounts borrowed.

Limit on Accrued Benefit Asset:

.050

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

.053

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

.054

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

.055

The objective of the Recommendation in paragraph .050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056

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

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

Actuarial Gains and Losses:

.061

Actuarial gains and losses would be amortized over a reasonable future period because of their tentative nature and because further adjustments will likely be required in the future. A reasonable future period is the **expected average remaining service life of the related employee group**. Amortization may commence in the period following the determination of the adjustment. Actuarial gains and losses would be determined on a market value basis or a basis adjusted to market value, consistent with paragraph .035.

Past Service Costs:

.066

The cost of plan amendments related to prior period employee services should be accounted for in the period of the plan amendment.

Joint Defined Benefit Plans:

.079

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

.081

When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the Recommendations for defined benefit plans.

FUNDING MANAGEMENT POLICY (FMP) FRAMEWORK DESCRIPTION

Valuation Basis

Assets = 110% of Liabilities valued at interest rates + 0.5% <i>That is, Assets ~ 133% Liabilities valued at interest rates + 1.55%</i>		Zone: Permanent Plan Improvements Mechanism: Improve benefits as negotiated Funding Risk: Plan is essentially fully funded at Government of Canada long bond rates. Funding security is desired to ensure the Plan can support these benefits continually in the future. The impact of new teachers is important as they will create losses.
Assets = Liabilities valued at interest rates + 1.25% <i>That is, Assets ~ 107% Liabilities valued at interest rates + 1.55%</i>		Zone: Temporary Plan Improvements Mechanism: Improve benefits or lower contributions as negotiated¹ Funding Risk: Plan is well funded and can afford changes that temporarily provide a benefit enhancement (as long as it does not create a long term cost) and/or lower the contributions being paid into the Plan. ¹ Amortization period used to determine temporary benefit
Assets = Liabilities valued at interest rates + 1.55%		Zone: Fully Funded (Do Nothing) Mechanism: Maintain Base Benefits and Contributions Funding Risk: Plan is adequately funded to provide base benefits supported by the base contributions. Given the volatility of market factors and the numerous assumptions in the funding valuation, "fully funded" is considered a range.
		Zone: Additional Support Required From Current FMP Levers Mechanism: Raise Contribution Rates and/or Invoke Conditional Inflation Protection as negotiated Funding Risk: Plan is not considered adequately funded to provide base benefits supported by the base contributions. An increase to the contribution rate (within FMP maximum) and/or a decrease to the level of indexing being provided are necessary to recoup the deficit. As the funding position improves, these plan changes will be reversed.
		Zone: Additional Support Required From New/Additional Changes Mechanism: Negotiate other plan changes Funding Risk: Plan is not considered adequately funded to provide base benefits supported by the base contributions and CIP is fully invoked and contribution rates are increased to maximum outlined in FMP. Plan changes are necessary to recoup the deficit. As the funding position improves, these plan changes will be reversed.

APPENDIX I. FUNDING MANAGEMENT POLICY SUMMARY

Subject	Summary of Provisions
Application (Article I):	Section 1.01 and 1.02 - Requires the Board to use Board's "best estimates assumptions," including a margin for adverse deviation in the case of the discount rate. - Sets out what best estimates economic assumptions may be based on. - Requires the Board to maintain indices to record inflation adjustments for post-2009 service. Sections 1.03 and 1.04 - If the Board uses a discount rate different from that outlined in the FMP and this discount rate is more penalizing (that is, produces a larger deficit or a smaller surplus), the FMP becomes void in 12 months unless both Partners notify the Board otherwise. These sections serve as an "exit" provision for the Partners. Section 1.05 sets out under what circumstances each section of the FMP applies. Section 1.06 limits surplus distributions or contribution decreases to those permitted by law. Section 1.07 makes temporary improvements conditional on not having a restoration basis deficit.
Definitions (Article II):	Section 2.01 Defines key terms, including: - Basic contributions (contributions as per Sch.1 on January 1, 2012), which is used throughout the FMP as the target contribution rate (10.4% on earnings up to the YMPE/12% above the YMPE). - Run-rate benefits (benefits as per Sch.1 on January 1, 2009), which include 100% inflation protection and assume basic contributions. - Reference Rate (rate chosen by the Board representing Government of Canada nominal and real return bonds, which may be based on market or smoothed data; has recently been 3 year smoothed nominal and real return bonds). - Remaining amortization value (difference between the temporary improvement value and the commitment value). - Temporary improvement value (present value of a temporary improvement amortized over 3-10 years; if amortized over fewer than 10 years, improvement for a year is limited to the amount of basic contributions paid during a year).
Restore basic contributions and benefits (Article III):	Section 3.01 - Restoration basis is used (<i>reference rate + 1.55%</i>). - Defines assets (refers to PBA Regulations) and current and revised liabilities. Section 3.02 - Sets out that current and revised liabilities are calculated using the restoration basis, plus an adjustment. The phrase "plus an adjustment" is used throughout the FMP and reflects the fact that the Board often files using a basis that is higher than required under the FMP. Section 3.03 - Outlines how indexing is accounted for in the valuation (that is, level of indexing provided in current filing zone continues).
Restoration Basis: Surplus (Article III continued)	<i>Sections 3.04 to 3.08 apply when surplus exists using the restoration basis and current contributions are higher than target, partial indexing (for previous years or go forward) exists or other benefits have been reduced.</i> Section 3.04 Sets conditions under which sections 3.05-3.08 apply: - If Assets > Liabilities (surplus reported); and - Current contributions > Basic contributions (i.e., contributions are above long-term target level); or - Current Benefits < Run-Rate Benefits (i.e. contributions are above long-term target level or benefits are below the long-term target level). Section 3.06 Sets out the order of how to restore past benefit reductions or contribution increases: - Actions can consist of increasing benefits to run-rate (long-term target) including prospective restoration or lowering contributions to basic (target) or a combination. - First, increase go-forward indexing to 50% for post-2013 service period, then to 100% on all post-2009 service periods. Second, restore current pension amounts to run rate level, as much as possible, starting with the years where indexing was less than 50% until all years of partial indexation are restored to the same level and then restore to 100% for all service periods. - Partners reserve the right to reconsider order in the future. Section 3.07 A number of conditions apply after a decision: - Assets equal to or greater than revised liabilities (i.e. no deficit created); - Inflation indexing restored to no more than if 100% of inflation was provided;

APPENDIX I. FUNDING MANAGEMENT POLICY SUMMARY

Subject	Summary of Provisions
	▪ Inflation indexing restored to no less than current level (i.e. can't lower prior inflation indexing given); ▪ The value of revised benefits needs to be between current and run-rate benefits (similarly, contributions must be between current and target). Section 3.08 (Expires December 30, 2017) Sets out the limits from the 2013 Term Sheet (commonly known as the JSPP Agreement) with respect to escalated adjustments and benefit improvements: ▪ Escalated adjustments if assets are greater than 100% of the current liabilities (and not below 100% after). ▪ Benefit improvement or restoration if net assets available for benefits are greater than 105% of the current (unsmoothed) liabilities (and not below 105% after).
Restoration Basis: Deficit	<i>Sections 3.09 to 3.14 apply when the liabilities are greater than the assets using the restoration basis; thus the Partners must raise contribution rates, lower the amount of indexing and/or decrease other benefits.</i> Section 3.09 Sets conditions under which Sections 3.10 to 3.14 apply: ▪ If Current liabilities > Assets (i.e., deficit reported). Section 3.11 Sets out that deficit can be eliminated by changing contributions or benefits provided that: ▪ Assets are equal to or greater than revised liabilities; and ▪ Revised member contributions are no more than 15% (above YMPE).
(Article III continued)	Section 3.12 The Partners can agree to change benefits or contribution level as long as: ▪ Partners have entered into a written agreement governing the manner in which contributions by the Minister and the Employers will be adjusted to offset any reduction in benefits; and ▪ No indexing granted gets taken away. Section 3.13 Outlines the current intention that member contributions will be increased up to 15% (above YMPE) before benefits are reduced or less than full indexing is provided. Section 3.14 Sets out the limits with respect to the 2013 Term Sheet regarding employer contribution increases.
Funding Zone: Temporary (Article IV):	Section 4.01 ▪ Temporary basis is used (<i>reference rate + 1.25%</i>). ▪ Defines: - Assets (either market value of net assets or assets defined in PBA Regulations; that is, if smoothing creates surplus that otherwise would not exist, it cannot be spent). - Current liabilities (liabilities including the greater of current and run-rate benefits and any remaining amortization value from a previous temporary commitment). - Revised liabilities (liabilities including the greater of revised and run-rate benefits and any remaining amortization value from a previous temporary commitment). - Reference rate (ensures that smoothed data is not used to get a surplus if there otherwise would not be surplus). Section 4.02 Sets out that the liabilities are calculated using the temporary basis, plus an adjustment. <i>Sections 4.03 to 4.06 apply when the plan has a surplus using the temporary basis; that is, there is surplus available for improving benefits, decreasing contributions or distributing surplus, all on a temporary basis. The surplus spend is amortized over a period of three to ten years, at the partners' choice. If amortization period is less than ten years, the annual spend limit is the amount of basic contributions for a year.</i> Section 4.03 Sets out conditions under which Sections 4.04 and 4.05 apply: - If assets > liabilities; and - Current Contributions ≤ Basic Contributions (current contributions are equal to or lower than long-term target); and - Current Benefits ≥ Run-Rate Benefits (current benefits are equal to or higher than long-term target); and - Full inflation indexing has been provided. Section 4.04

APPENDIX I. FUNDING MANAGEMENT POLICY SUMMARY

Subject	Summary of Provisions
	The Board reports the commitment value (the amount of surplus that can be used to provide a temporary improvement). Section 4.05 The Partners can agree to temporary improvements so long as after the change, assets over revised liabilities are equal to or greater than zero. Section 4.06 provides a requirement for a side agreement setting out how Minister contributions are adjusted if there is a surplus distribution or temporary improvement of benefits.
"Do Nothing" Zone (Article IV continued):	<i>Sections 4.07 to 4.09 apply if assets are equal to or less than current liabilities using the temporary basis; that is, if there is a deficit using the temporary basis.</i> Section 4.09 States that the Partners will not provide new improvements if there is a temporary basis deficit. That is, the Partners will do nothing, and Article III (restoration basis) will apply. However, no actions result from move to restoration because contributions and indexing are already at run-rate in order to be in temporary zone. The Partners could, however, have to file a valuation (using the restoration basis) if the filing schedule required a filing.
Funding Zone: Distributions (Article V):	Section 5.01 ▪ Distribution basis is used (<i>reference rate + 0.5%</i>). ▪ Defines: - Assets (either market value of net assets or assets defined in PBA Regulations; that is, if smoothing creates surplus that otherwise would not exist, it cannot be spent) - Liabilities (includes remaining amortization value) - Current targeted funding amount - Revised targeted funding amount - Reference rate (ensures that smoothed data is not used to get a surplus if there otherwise would not be surplus) Section 5.02 Sets out that the liabilities are calculated using the distribution basis, plus an adjustment. <i>Sections 5.03 to 5.05 apply when the plan has a surplus using the distribution basis; that is, there is usable surplus for improving benefits above run-rate permanently or decreasing contributions below target level permanently.</i> Section 5.03 Sets out conditions under which Sections 5.04 and 5.05 apply: - If Assets > 110% of Liabilities; and - Current Contributions ≤ Basic Contributions (current contributions are equal to or lower than long-term target); and - Current Benefits ≥ Run-Rate Benefits (current benefits are equal to or higher than long-term target); and - Full inflation indexing has been provided prospectively and benefits are fully restored. Section 5.05 The Partners can agree to change benefits or contributions so long as after the change assets remain greater than 110% of the liabilities and a side agreement has been entered into to set out how Minister contributions are adjusted if there is a surplus distribution or temporary improvement of benefits. <i>Sections 5.06 to 5.08 apply when the plan has a funding ratio that is at least 100% but less than 110% and valued using contribution rates at the basic or target level, full indexing provided prospectively and benefits fully restored.</i> Section 5.06 Sets out the conditions under which Sections 5.07 and 5.08 apply: ▪ If Assets ≤ 110% of Liabilities; and ▪ Current Contributions ≤ Basic Contributions (current contributions are equal to or lower than long-term target); and ▪ Current Benefits ≥ Run-Rate Benefits (current benefits are equal to or higher than long-term target); and ▪ Full inflation indexing has been provided prospectively and benefits are fully restored. Section 5.08 If the conditions in Section 5.06 are satisfied, there is not sufficient surplus to provide a permanent improvement; therefore, Article IV will apply to determine whether there is surplus using the temporary basis.

Subject Post-December 30, 2017 Valuations (Article VI):	Summary of Provisions <i>This section articulates at a high level the use of the surplus credits (earned pre-January 1, 2018) after December 30, 2017. OTF earns surplus credit for any unmatched forgone inflation (i.e., inflation indexing less than 50%) prior to January 1, 2018 or via other benefit reductions made before January 1, 2018. See the JSPP Agreement for more detail.</i> Section 6.01 ▪ Restoration basis is used (reference rate + 1.55%). ▪ Defines: - Assets (PBA regulations) - Current Liabilities - Revised Liabilities Section 6.02 Provides overriding provision for post-December 30, 2017: for valuations where assets are greater than current liabilities, Section 6.03 applies (with reference to the 2013 Term Sheet). Section 6.03 Sets out the use of surplus credits: ▪ OTF has first call on surplus up to a limit;
Valuation frequency and filing (Article	<i>This section reinforces an earlier section of the Partners' Agreement that specifies that it is the Partners' joint decision whether to file (other than in a required filing year).</i> ▪ Partners' decision when to file. ▪ Partners will notify the Board within 7 months of valuation date.
Arbitration (Article VIII):	Refers to Arbitration already in prior section of the Partners' Agreement.
Limitations (Article IX):	FMP does not apply for changes required by law or for changes that increase the liabilities by less than 0.5% or for changes that use the \$76m in section 60 (<i>Note \$76m was utilized with January 1, 2008 filing</i>).

Fw_ TPP Partners Agreement.rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: Fw: TPP Partners Agreement
Date: Sunday, October 02, 2016 13:56:10

Here is the second email as discussed that specifies jim's assertion and our initial response that is just internal to TBS Legal. Happy to discuss

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Kaufman, Paul (TBS) <Paul.Kaufman@ontario.ca>

Sent: Sunday, October 2, 2016 1:08 PM

To: Hatzis, Len (TBS)

Subject: RE: TPP Partners Agreement

I'm pretty sure that the provision that the SoC cites isn't the relevant provision. That provision is from the partners' agreement itself (not the FMP) and dates from 1993, so I think it is effectively mooted by the FMP. I think that provision may have related to the unfunded liabilities that the province agreed to make special payments in respect of in 1990 (and which were paid down through utilization of plan surpluses in the 90s by agreement with OTF). This is ancient history and the provision is vague though so I'm not 100% certain. EDU might be able to confirm that.

I think what Mr. Leech is referring to is the process for dealing with 'restoration basis excesses' in section 3.06 of the FMP, which Osler deals with starting on page 10 of their opinion. Section 3.06 provides for surpluses in the plan restoration zone (where the plan seems to be right now) to be applied first to restoring foregone indexation and then to either, or a combination of, increasing benefits to the run-rate level or reducing contributions to the basic target rate. A few notes on this though, based on the Osler analysis:

- the partners would still need to agree to take any of the above-noted actions, and could agree not to. they could also agree to utilize a surplus in a manner other than what is contemplated in section 3.06.
- if contributions were lowered to the 'basic target rate', Osler understood that to involve a 1.1% reduction to offset an agreed increase in 2001 (the idea of a reduction from 13% to 9% was discussed in emails on Friday, not sure where those numbers came from, I can't find the actual numbers themselves in the FMP)
- the Osler opinion references an agreement in the "2013 Term Sheet" (I don't think we

have a copy of this) which limited the ability to make escalated adjustments (I believe this means restoring indexation) or improve benefits during the freeze period that expires on December 30 2017. Mr. Leech might be thinking that this strengthens the notion that surpluses could be applied to reduce contributions, but I think that the parties' actual practice (e.g. the September 2016 agreement to use part of the current surplus to restore inflation indexing with the rest going into a reserve) undercuts this idea.

So, if Mr. Leech is referring to section 3.06 of the FMP, he is right that it contemplates that the parties could agree to reduce contributions to offset past increases (after restoring lost indexation), but I think there are a number of caveats to whether this would happen and past practice doesn't seem to support this idea. EDU might have a better sense of how this works in practice though.

From: Hatzis, Len (TBS)
Sent: Sunday, October 02, 2016 10:44 AM
To: Kaufman, Paul (TBS)
Subject: Fw: TPP Partners Agreement

Can you see if Jim / Steve is right on this?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Orsini, Steve (CAB) <Steve.Orsini@ontario.ca>
Sent: Sunday, October 2, 2016 10:30 AM
To: Orencsak, Greg (TBS); Thompson, Scott (MOF); Kearney, Sean (TBS); Hatzis, Len (TBS); Hughes, Karen (TBS); Veinot, Cindy (TBS); Petsche, Nadine (TBS); Jancik, Mike (TBS); Ghiassi, Ali (MOF); Bevan, Andrew (OPO); Bardeesy, Karim (OPO); MacKenzie, Rebecca (OPO); McEachern, Gillian (OPO); Killorn, Bill (OPO); Mksyartinian, Jacob (OPO); MacIntyre, Kyle (TBS); Bromm, William (CAB)
Subject: FW: TPP Partners Agreement

Jim is of the view that the TPP Partners Agreement gives preference to contribution reductions (after partial indexation has been restored) to eliminate special payments used to address the unfunded liability (see below). I think I found the relevant provision, but I am not sure.

It doesn't address the AG's first issue, but gives more credence that there is a benefit to

the crown.

Also, Jim will likely reference this in his remarks. It would be great if someone could confirm.

For media interviews on Monday or Tuesday, the best number to reach Jim is at: **416 930 2006**

Steve

If the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario as at a date after the 1st day of January, 1993 indicate that the contribution rate can be decreased the implicit actuarial gain disclosed by the valuation will be applied to reduce and, if possible, eliminate the payments required to liquidate any unamortized balance of a solvency deficiency. (Last amended November 15, 1993 - Effective November 15, 1993)

From: Jim Leech [mailto:jim@jimleech.ca]
Sent: October-01-16 11:17 PM
To: Orsini, Steve (CAB)
Cc: Bromm, William (CAB)
Subject: Re: TPP Partners Agreement

The agreement that talks about reducing contributions to the base rate is the Partners Funding Management Agreement

Jim Leech | +416 930 2006 | @QUchancellor

Two Old Mill Drive | Toronto | ON | M6S 0A2

On Oct 1, 2016, at 7:29 PM, Orsini, Steve (CAB) <Steve.Orsini@ontario.ca> wrote:

Jim,

Thanks for making yourself available on Monday and Tuesday for potential media calls.

What is the best number to reach you on.? We will make sure we limit any calls to one or two.

Also, attached is the Partners Agreement for your information.

Thanks again.

Steve

<Current - Partners' Agreement - 03-06-15.pdf>

RE_ Osler opinion re_ OTPP surplus.rtf

From: Hatzis, Len (TBS) []
To: Rienzo, Douglas [DRienzo@osler.com]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
CC: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]
Subject: RE: Osler opinion re: OTPP surplus
Date: Tuesday, September 20, 2016 12:10:30
Attachment 1: image001.gif
Attachment 2: image002.gif
Attachment 3: image003.jpg

Thanks for quick turnaround

From: Rienzo, Douglas [mailto:DRienzo@osler.com]
Sent: September 20, 2016 12:02 PM
To: Hatzis, Len (TBS); Kaufman, Paul (TBS)
Cc: Steele, Jana; Marin, Jon
Subject: Osler opinion re: OTPP surplus

Len, Paul:

Please find enclosed our opinion in final form. We would be pleased to discuss it with you at your convenience.

Doug Rienzo

Douglas Rienzo
Partner, Pensions & Benefits

Chair, Diversity Committee

416.862.5683

DIRECT

416.862.6666

FACSIMILE

drienzo@osler.com

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8

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image003.pdf



RE_ do you have the 2013 term sheet_.rtf

From: Hatzis, Len (TBS) []
To: Rienzo, Douglas [DRienzo@osler.com]
CC: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]
Subject: RE: do you have the 2013 term sheet?
Date: Tuesday, September 20, 2016 14:39:34
Attachment 1: image001.gif
Attachment 2: image002.gif
Attachment 3: image003.jpg

thanks

From: Rienzo, Douglas [mailto:DRienzo@osler.com]
Sent: September 20, 2016 2:39 PM
To: Hatzis, Len (TBS)
Cc: Steele, Jana; Marin, Jon
Subject: RE: do you have the 2013 term sheet?

Enclosed.

Douglas Rienzo
Partner, Pensions & Benefits

Chair, Diversity Committee

416.862.5683

DIRECT

416.862.6666

FACSIMILE

drienzo@osler.com

Osler, Hoskin & Harcourt LLP

Box 50, 1 First Canadian Place
Toronto, Ontario, Canada M5X 1B8

<http://www.osler.com/>

From: Hatzis, Len (TBS) [<mailto:Len.Hatzis@ontario.ca>]
Sent: Tuesday, September 20, 2016 2:36 PM
To: Rienzo, Douglas <DRienzo@osler.com>; Marin, Jon <jomarin@osler.com>
Cc: Steele, Jana <JSteele@osler.com>
Subject: FW: do you have the 2013 term sheet?

Can you advise and forward if you have it pls - thanks

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image002.pdf

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image003.pdf



Re_ Facts used in Osler's analysis .rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
Subject: Re: Facts used in Osler's analysis
Date: Saturday, September 17, 2016 10:23:28

Thanks very much

Sent from my BlackBerry 10 smartphone on the Rogers network.

Original Message

From: Steele, Jana

Sent: Saturday, September 17, 2016 10:23 AM

To: Hatzis, Len (TBS); Marin, Jon; Rienzo, Douglas

Subject: RE: Facts used in Osler's analysis

We can provide this to them by end of day in draft. This is the complex factual analysis that we have been working through.

-----Original Message-----

From: Hatzis, Len (TBS) [mailto:Len.Hatzis@ontario.ca]

Sent: Saturday, September 17, 2016 10:15 AM

To: Steele, Jana <JSteele@osler.com>; Marin, Jon <jomarin@osler.com>; Rienzo, Douglas <DRienzo@osler.com>

Subject: Fw: Facts used in Osler's analysis

Hi

Is this possible?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Saturday, September 17, 2016 10:08 AM

To: Hatzis, Len (TBS)

Cc: Colley, Matthew (CA - Toronto); Petsche, Nadine (TBS)

Subject: Facts used in Osler's analysis

Hi Len,

Understand the Oslers may not have a draft of their opinion to share until Monday, could you check to see if they could share the fact section of their opinion without any analysis in draft form with Deloitte today. That would help ensure that when the opinion is provided, there are not any disconnects regarding the various agreements, etc. considered in their opinion and the Deloitte opinion.

Oslers and Deloitte are planning to speak on Sunday.

Thanks,

Cindy

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Re_ URGENT_ Statement of Facts and Assumptions Sept 19.docx.rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: Re: URGENT: Statement of Facts and Assumptions Sept 19.docx
Date: Monday, September 19, 2016 14:03:59

Hi

Our folks need final comments Asap. Sorry for the time pressures

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hatzis, Len (TBS)
Sent: Monday, September 19, 2016 1:07 PM
To: Steele, Jana; Marin, Jon; Rienzo, Douglas
Cc: Kaufman, Paul (TBS)
Subject: RE: URGENT: Statement of Facts and Assumptions Sept 19.docx

Thanks – do you have ETA for your review? Much appreciated.

From: Steele, Jana [mailto:JSteele@osler.com]
Sent: September 19, 2016 12:00 PM
To: Hatzis, Len (TBS); Marin, Jon; Rienzo, Douglas
Cc: Kaufman, Paul (TBS)
Subject: RE: URGENT: Statement of Facts and Assumptions Sept 19.docx

Thanks Len. We will review and let you know. Jana

From: Hatzis, Len (TBS) [<mailto:Len.Hatzis@ontario.ca>]
Sent: Monday, September 19, 2016 11:59 AM
To: Steele, Jana <JSteele@osler.com>; Marin, Jon <jomarin@osler.com>; Rienzo, Douglas <DRienzo@osler.com>
Cc: Kaufman, Paul (TBS) <Paul.Kaufman@ontario.ca>
Subject: FW: URGENT: Statement of Facts and Assumptions Sept 19.docx
Importance: High

Jana et al

I know that you have been engaged with Deloitte on these issues, but here are their draft statement of facts that would be folded into their opinion. We think it would be very useful if you could advise if there are inaccuracies in this – it isn't that long. At first blush, Paul and I made a couple of comments as noted in the attached.

From: Petsche, Nadine (TBS)
Sent: September 19, 2016 11:42 AM
To: Hatzis, Len (TBS); Kaufman, Paul (TBS)
Subject: URGENT: Statement of Facts and Assumptions Sept 19.docx
Importance: High

Len/Paul,

Please advise of any issues. The item has been under review by EDU and ISPPD since 10am, but just checking to see if there are any issues that you see? Please feel free to suggest edits to wording.n

From: Colley, Matthew (CA - Toronto) [<mailto:mcolley@deloitte.ca>]
Sent: September 19, 2016 9:59 AM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Subject: Statement of Facts and Assumptions Sept 19.docx

Hi – Please find attached the statement of facts and assumptions. There are a couple of comments in this document where we would like OPCD to review the wording before sending onto the AG.

Thanks

Matt

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Re_opinion .rtf

From: Hatzis, Len (TBS) []
To: Rienzo, Douglas [DRienzo@osler.com]
CC: Marin, Jon [jomarin@osler.com]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Steele, Jana [JSteele@osler.com]
Subject: Re: opinion
Date: Monday, September 19, 2016 22:21:30

Can we chat at 9 am tomorrow pls

Sent from my BlackBerry 10 smartphone on the Rogers network.

Original Message

From: Hatzis, Len (TBS)
Sent: Monday, September 19, 2016 10:04 PM
To: Rienzo, Douglas
Cc: Marin, Jon; Kaufman, Paul (TBS); Steele, Jana
Subject: Re: opinion

Douglas

No problem - we intend to send some comments by email tonight for your consideration re incorporation into draft. Hopefully these comments make sense in your view and can be accommodated to the extent possible for tomorrow morning. Happy to discuss tomorrow morning

Sent from my BlackBerry 10 smartphone on the Rogers network.

Original Message

From: Rienzo, Douglas
Sent: Monday, September 19, 2016 8:58 PM
To: Hatzis, Len (TBS)
Cc: Marin, Jon; Kaufman, Paul (TBS); Steele, Jana
Subject: Re: opinion

Can we chat in the morning, Len?

> On Sep 19, 2016, at 8:47 PM, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca> wrote:

>

> Can we chat with you later this evening before you look to finalize?

>

> Sent from my BlackBerry 10 smartphone on the Rogers network.

> From: Hatzis, Len (TBS)

> Sent: Monday, September 19, 2016 7:59 PM

> To: Rienzo, Douglas

> Cc: Marin, Jon; Kaufman, Paul (TBS); Steele, Jana

> Subject: Re: opinion

>

>

> Thanks douglas

> I need to review with my clients and will be back to you.

>

> Sent from my BlackBerry 10 smartphone on the Rogers network.

> From: Rienzo, Douglas

> Sent: Monday, September 19, 2016 7:06 PM

> To: Hatzis, Len (TBS)

> Cc: Marin, Jon; Kaufman, Paul (TBS); Steele, Jana

> Subject: RE: opinion

>
>
> Len:
>
> Please find enclosed the draft opinion. Please let us know if you have any comments or questions;
subject to your comments we can prepare it in final form. Please note that due to time restrictions we are
still reviewing it internally, so there may be some minor changes to be made before finalizing.
>
> Doug
> [cid:image001.gif@01D212A8.CC388EB0]
>
> Douglas Rienzo
> Partner, Pensions & Benefits
> Chair, Diversity Committee
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>
> [2016%20diversity-english]
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>
>
> From: Hatzis, Len (TBS) [mailto:Len.Hatzis@ontario.ca]
> Sent: Monday, September 19, 2016 3:15 PM
> To: Rienzo, Douglas <DRienzo@osler.com>
> Cc: Marin, Jon <jomarin@osler.com>; Kaufman, Paul (TBS) <Paul.Kaufman@ontario.ca>; Steele, Jana
<JSteele@osler.com>
> Subject: opinion
>
> Hi
> Any update on delivery of draft opinion . thanks
>
>
>
> Len Hatzis
> Deputy Director
> Legal Services Branch | Treasury Board Secretariat
> 77 Wellesley Street West, 9th Floor, Toronto ON M7A 1N3

> 416.327.6393

>

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> *****

Urgent narrow question.rtf

From: Hatzis, Len (TBS) []
To: Steele, Jana [JSteele@osler.com]; Marin, Jon [jomarin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]
CC: Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]; Kearney, Sean (TBS) [Sean.Kearney@ontario.ca]
Subject: Urgent narrow question
Date: Saturday, September 24, 2016 13:57:59
Attachment 1: image001.png

Here is the urgent question we need assistance pls asap. We will send you the second email and also a draft response from us that needs further refinement

Thanks

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Saturday, September 24, 2016 11:47 AM

To: Hatzis, Len (TBS)

Cc: Petsche, Nadine (TBS)

Subject: Fw: New Model Output

Hi Len,

Martin Raymond has done some additional modelling to look at when the plan would meet the cap in the ITA. I will send you another email with responses to the questions below, but my ask is whether one of your legal colleagues could draft a sentence that explains the cap in the ITA. I remember from one of the calls we had with you and several other lawyers when you were drafting the first opinion that the concept was raised so I'm hoping one of the lawyers involved in that discussion can draft something today.

Thanks

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Petsche, Nadine (TBS) <Nadine.Petsche@ontario.ca>

Sent: Saturday, September 24, 2016 08:29

To: Veinot, Cindy (TBS)

Subject: FW: New Model Output

From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]

Sent: September-23-16 4:44 PM

To: Petsche, Nadine (TBS)

Cc: allan.shapira@aonhewitt.com; Killoch, Alex (MOF); Pomykacz, Rob (MOF); Colley, Matthew (CA - Toronto)

Subject: RE: New Model Output

After a discussion with Matthew, find enclosed the following questions that might be needed to review with the use of Income Tax Act excess surplus for contribution reduction.

1- Is the Income Tax Act excess surplus still applicable to a joint plan? I believe it does since the idea is to avoid excess use of pension plans as tax free deferral vehicles and therefore should apply to all types of employer provided pension plans

2- Is the Income Tax Act only requiring the employer to reduce contribution even in a joint plan ? if so, our estimate of using 50% of the excess surplus would move to 100%. However, we have used 50% of the excess surplus as a benefit to the employer knowing that under the plan, the sharing principle would lead to employees and employer reducing both their contributions to meet the requirement of the Income Tax Act

3- Finally, is there a plan provision (I did not see if one applies) that would force the employer to modify the plan benefits and therefore prevent of taking a contribution reduction that is otherwise applicable as per the Income Tax Act. I did not see one, and this is likely to be logic that the plan does not need one since the idea would generally be to deal with surplus through the Temporary and Permanent zones in the sharing of surplus and therefore not getting into the excess surplus position. However, for our illustration we assume that no surplus is used through the Temporary and Permanent zones, considering no agreement and therefore we end up dealing with the excess surplus situation.

Regards

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

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De : Raymond, Martin (CA - Montreal)

Envoyé : 23 septembre 2016 15:13

À : 'Petsche, Nadine (TBS)' <Nadine.Petsche@ontario.ca>

Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>; Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Objet : RE: New Model Output

Here are the 2 files

One for projection of plan situation

One for the expected future benefit and asset ceiling test

Martin Raymond, FSA, FCIA

Partner – Audit – Actuarial services

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De : Petsche, Nadine (TBS) [<mailto:Nadine.Petsche@ontario.ca>]

Envoyé : 23 septembre 2016 15:10

À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>

Cc : allan.shapira@aonhewitt.com; Killoch, Alex (MOF) <Alex.Killoch@ontario.ca>;

Pomykacz, Rob (MOF) <Robert.Pomykacz@ontario.ca>; Colley, Matthew (CA - Toronto) <mcolley@deloitte.ca>

Objet : New Model Output

Importance : Haute

Martin,

We are on a call with Matt and he is describing your most recent model run for the OTPP. Can you please share that with Allan Shapira and cc. Alex Killoch and Rob Pomykacz as soon as possible.

Thanks.

Nadine

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image001.pdf

