

RE_ Hi - can you forward these documents if you have them - thanks.rtf

From: Marin, Jon [jomarin@osler.com]
To: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Steele, Jana [JSteele@osler.com]
Subject: RE: Hi - can you forward these documents if you have them - thanks
Date: Sunday, September 18, 2016 15:20:00
Attachment 1: OTPP JSPP Afreement final March 2013.pdf
Attachment 2: MOF letter.pdf

Len,
Attached, please find copies of each of the documents requested below (the June 17, 2016 Mercer letter is an enclosure to the Sept. 15, 2016 OTPP letter in the "MOF Letter" PDF).

Regards,
Jon

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

From: Hatzis, Len (TBS) [mailto:Len.Hatzis@ontario.ca]
Sent: Sunday, September 18, 2016 3:13 PM
To: Steele, Jana <JSteele@osler.com>; Marin, Jon <jomarin@osler.com>
Subject: Hi - can you forward these documents if you have them - thanks

1. Osler's has made reference to a 2012 term sheet. Could you get us a copy of this?
2. There was a memo from Lise Houle (at Mercer's) to Mary Cover (Ontario Teachers' Pension Plan) dated June 17, 2016. Could we obtain this as well?

Sent from my BlackBerry 10 smartphone on the Rogers network.

This e-mail message is privileged, confidential and subject to copyright. Any unauthorized use or disclosure is prohibited.

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OTPP JSPP Afreement final March 2013.pdf

CONFIDENTIAL

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

A. General Principles

1. The Freeze Period runs from December 31, 2012 to December 30, 2017.
2. During the Freeze Period there will be no employer contribution increases except as provided for below. An employer contribution increase is defined as any increase in the employer contribution rate beyond the highest contribution rate provided for in the last valuation filed by the Plan prior to the Freeze Period. Employer contribution increases already scheduled to occur during the Freeze Period as a result of valuations filed with an effective valuation date before December 31, 2012 will occur.
3. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no benefit improvements unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit improvement amendments come into effect meets or exceeds 105%, and the benefit improvement will not bring the going concern funded status below 105% as of the effective date of the amendment.
4. During the Freeze Period, except as may be required by the Pension Benefits Act or as a result of a judicial or quasi-judicial decision that is binding upon the Sponsors or the Plan, there will be no restoration of benefits reduced as a result of application of these principles unless the Plan's going concern funded status, based on the most recently filed valuation report, on a non-smoothed basis, as of the date that the benefit restoration amendments come into effect meets or exceeds 105% and the restoration will not bring the going concern funded status below 105% as of the effective date of the amendment.
5. Ad hoc/conditional indexation is not considered to be a benefit improvement or restoration and Plan amendments to provide or restore ad hoc or conditional cost of living increases to pensioners can be made provided the Plan's going concern funded status on the date that the cost of living increase is agreed upon (based on the most recently prepared valuation report with a valuation date that is no more than twelve months earlier and that uses the same valuation methodology and assumptions that would apply to a filed valuation) exceeds 100% and the cost of living increase will not

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

B. Valuations and Consequential Actions During the Freeze Period

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

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

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

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

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

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

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

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

- i. two years following the valuation date of the filed actuarial valuation, or
- ii. December 30, 2017.

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

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

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

- i. any remaining shortfall identified in the draft valuation; or
- ii. a future new funding shortfall identified in a subsequent draft valuation during the Freeze Period.

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

C. Dispute Resolution

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

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

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

D. End of the Freeze Period

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

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

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

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

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

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

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

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

E. Other Matters

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

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

- a. at least one valuation is filed during the Freeze Period;
- b. there are no more than four years between the valuation dates of filed valuations; and
- c. any benefit reductions arising from valuations filed during the Freeze Period are implemented in accordance with the General Principles and Parameters herein.

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

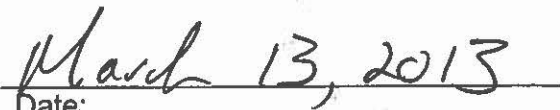
14. The terms of this Agreement supersede all other agreements (written and oral) between the Sponsors, including the Partners' Agreement. The Sponsors shall amend the Plan, the Partners Agreement or any other documents as necessary to give effect to this Agreement.

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

Liz Sandals - Minister of Education

Date:


Terry Hamilton - President,
Ontario Teachers' Federation


Date:

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


Liz Sandals - Minister of Education


Date: Mar 14/13

Terry Hamilton – President,
Ontario Teachers' Federation

Date:

Appendix A to Term Sheet Between Government and OTF

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

Calculation of Benefit Reduction Limit

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

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

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

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

Remaining Benefit Reduction Limit for Plan Changes in Freeze Period

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

Appendix B to Term Sheet Between Government and OTF

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

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

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

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

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

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

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
Frost Building South, 5th floor
7 Queen's Park Crescent East
Toronto ON M7A 1Y7
Tel. : 416 212-8073
Fax : 416 327-0760

Ministère des Finances

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

Bureau du sous-ministre adjoint
Édifice Frost Sud, 5^e étage
7 Queen's Park Crescent East
Toronto ON M7A 1Y7
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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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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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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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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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>).

Re_ OTPP surplus accounting issue - follow-up Q.rtf

From: Steele, Jana [JSteele@osler.com]
To: Allan Shapira [allan.shapira@aonhewitt.com]
CC: Marin, Jon [jomin@osler.com]; Rienzo, Douglas [DRienzo@osler.com]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
Subject: Re: OTPP surplus accounting issue - follow-up Q
Date: Saturday, September 17, 2016 10:17:52

Thanks Allan.

Sent from my iPhone

On Sep 17, 2016, at 10:15 AM, Allan Shapira <allan.shapira@aonhewitt.com> wrote:

I am around if you need any other information.

Sent from my iPhone

On Sep 17, 2016, at 10:14 AM, Marin, Jon <jomin@osler.com> wrote:

Allan,
Many thanks for getting back to us so quickly with your comments.

Have a great weekend.

Best regards,
Jon

Sent from my iPhone

On Sep 17, 2016, at 10:09 AM, Allan Shapira <allan.shapira@aonhewitt.com> wrote:

The arbitration issue is a legal issue that I don't think is in my bailiwick.

My reference was to the surplus credits from the term sheet. If there were benefit reductions arising from the application of the term sheet then the members would get a surplus credit from those reductions. I don't think there are any surplus credits so the term sheet provisions are a non-issue.

If the surplus is used contribution reductions for both parties there is an easy symmetry. If the members want to use their surplus for a benefit improvement

then the form of the corresponding value to the government has to be addressed in the side agreement. It is only about the form not whether they get a corresponding value.

Allan

Sent from my iPhone

On Sep 16, 2016, at 1:32 PM, Rienzo, Douglas <DRienzo@osler.com> wrote:

Allan:

We have a few more questions about the technical application of the Funding Management Policy, and are hoping you can help us.

1. You mentioned some restrictions on the use of surplus to benefit members. Aside from the 2013 Term Sheet promises under 6.03 (which you said are not big ticket items, if they end up applying at all), are you referring to the “side agreement” provision in 4.06?

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.

What does that section mean? It refers to an agreement to “offset any surplus distribution or temporary improvement in benefits” – does that mean that the government is supposed to get a contribution reduction of equivalent value if surplus is used for a distribution to members or for a temporary benefit improvement? Are there any other provisions in the FMP like this, that the government can point to as supporting its expectation to benefit from part of the surplus?

2. We understand that every time there is a valuation, the parties must sit down and consider what action to take under Article III, and go to mediation and perhaps to arbitration if they cannot agree (i.e. they follow the procedures set out in sections 74 to 100 of the Partners Agreement). If the plan is in Zone 4 or Zone 5, are the potential actions under Articles IV and V also folded into the mediation/arbitration process? The FMP is unclear on this point, and only seems to refer to that process applying to Article III decisions as set out below:

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.

3. The Partners Agreement contains some guidelines for the arbitrator, in section 92:

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). [emphasis added]

Do you have any idea what the reference to “subparagraph EE(2) means?

Could you perhaps reply by email or, if it's easier, suggest a time when we might chat about this? We have been asked to provide our opinion asap, so if we could speak to you this afternoon that would be ideal. I apologize for the short notice. Thanks, Allan.

Doug

<image001.gif>

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

[<image002.gif>](#)

<image003.jpg>

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Re_opinion .rtf

From: Marin, Jon [jomarin@osler.com]
To: Steele, Jana [JSteele@osler.com]
CC: Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]; Rienzo, Douglas [DRienzo@osler.com]; Kaufman, Paul (TBS) [Paul.Kaufman@ontario.ca]
Subject: Re: opinion
Date: Monday, September 19, 2016 22:40:04

9am works for me as well.

Best,
Jon

Sent from my iPhone

> On Sep 19, 2016, at 10:31 PM, Steele, Jana <JSteele@osler.com> wrote:
>
> Fine for me.
>
> Sent from my iPhone
>
>> On Sep 19, 2016, at 10:21 PM, Hatzis, Len (TBS) <Len.Hatzis@ontario.ca> wrote:
>>
>> 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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>>> 416.862.5683
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>>> [cid:image002.gif@01D212A8.CC388EB0]<<http://www.osler.com/>>
>>>
>>> [2016%20diversity-english]
>>>
>>>
>>>
>>> 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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>>>
>>> *****

TBS - Memo Excerpt - Framework for Analysis (PRIVILEGED AND CONFIDENTIAL).rtf

From: Marin, Jon [jomarin@osler.com]
To: 'mcolley@deloitte.ca' [mcolley@deloitte.ca]
CC: Steele, Jana [JSteele@osler.com]; Rienzo, Douglas [DRienzo@osler.com]; Hatzis, Len (TBS) [Len.Hatzis@ontario.ca]
Subject: TBS - Memo Excerpt - Framework for Analysis (PRIVILEGED AND CONFIDENTIAL)
Date: Saturday, September 17, 2016 23:49:37
Attachment 1: Memo Excerpt - Framework for Analysis.DOCX

Matthew,

As requested, attached please find an excerpt from our Legal Opinion to the Treasury Board Secretariat which provides the factual framework for our analysis.

Please note that we are providing the attached excerpt from our Opinion to you in draft form, in the interests of time, but that our comments in the attached excerpt remain subject to further review and revision.

We look forward to discussing with you tomorrow.

Best regards,

Jon

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Memo Excerpt - Framework for Analysis.pdf

IV. FRAMEWORK IN THE LEGISLATION AND PLAN DOCUMENTATION FOR SURPLUS UTILIZATION BY THE SPONSORS

1. Joint Sponsorship Plan Design and Cost Sharing

The OTPP qualifies as a “jointly sponsored pension plan” (“**JSPP**”) under the PBA, which has three material implications relevant to the present analysis:

1. Plan Governance – under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan.¹
2. Funding – the OTPP (and certain other prescribed JSPPs) are exempt from solvency funding requirements under the PBR.²
3. Cost Sharing – in a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. However, given the OTPP qualifies as a JSPP, members can be required to make contributions in respect of any going concern unfunded liability (and, as noted, solvency funding is not required under the OTPP).³ Under the OTPP, there is 50/50 cost sharing on all plan funding obligations, meaning that the parties share the plan funding risk equally.⁴

Joint governance and cost sharing form two of the core features of the OTPP. Consistent with the equal sharing of risk permitted under the JSPP plan design, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the Sponsors.

Consistent with the JSPP design, the FMP requires the Sponsors to negotiate and agree upon decisions relating to surplus utilization. In this regard, the Sponsors can be said to have *equal opportunity* to benefit from surplus utilization through the negotiation process.

2. Provisions in the Legislation and Plan Documentation Relating to the Utilization of Surplus

(a) Teachers’ Pension Act (Ontario)

Section 10(1)3 of the Teachers’ Act provides that the Minister of Education (the “**Minister**”) and the executive of the Ontario Teachers’ Federation (the “**OTF**”) may enter into an agreement (i.e., the Sponsors Agreement) that provides for certain matters, including: “3. The sharing of

¹ PBR, s. 3.1(1).

² PBR, s. 1.3.1(3).

³ See PBA, ss. 1(2), ss. 55(4).

⁴ [ADD CITATION]

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

(b) Sponsors Agreement and FMP

The procedures pursuant to which surplus may be withdrawn or utilized from the OTPP are identified in the FMP (which forms Appendix “A” to the Sponsors Agreement).

We understand that the FMP was first established in March 2003, as a supplement to the Sponsors Agreement, to provide a guidance framework to the Sponsors for decision-making when the OTPP has a funding surplus or shortfall. Prior to the creation of the FMP, the OTPP was considered fully funded (and surplus could be utilized, including through permanent benefit improvements) where assets equalled at least 100% of liabilities. The FMP is intentionally conservative through prioritizing the preservation of assets until a sufficient surplus “cushion” has been built to justify the utilization of surplus for contribution reductions or benefit improvements.

The FMP contemplates five “funding zones”, each defined by a range. These funding zones provide the Sponsors with guidance as to when, based upon the funding level of the plan, it may be appropriate to (amongst other things) increase or decrease benefits, raise or lower contribution rates or conserve assets. The FMP is not intended to be “binding” on the Sponsors. Rather, the Sponsors will always have the discretion to agree to pursue a course of action that is not expressly provided for in the FMP. As will be discussed below, the ultimate discretion of the Sponsors is reflected throughout various provisions of the FMP.

In the context of plan surpluses, three funding zones are of relevance, each of which is discussed below in greater detail.

(i) Restoration Zone

Article III of the FMP (Funding Zone – Restoration) (the “**Restoration Zone**”) is the “fully funded” zone where assets equal at least the liabilities, valued at the interest rate + 1.55%. In this zone, the plan is considered 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. It is our understanding that the OTPP is currently in the Restoration Zone.

In the Restoration Zone, benefits cannot be improved and contributions cannot be reduced, subject to certain actions that allow for the restoration of past benefit reductions or contribution increases. In this regard, Section 3.06 provides the following:

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).

By way of summary, the Restoration Phase allows for surplus to be utilized to “restore” foregone indexation (Sections 3.06(a)-(d))⁵ 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)). While the FMP contemplates that the actions will typically be taken sequentially (i.e., starting with Section 3.06(a) and ending with the actions in Section 3.06(e)), the Sponsors are required to first agree to the actions (if any) taken under Section 3.06 and have the discretion to apply the actions in a different order.⁶

As noted, under Section 3.06(e), surplus can be utilized to reduce contribution rates “where the present value of current contributions exceed the present value of basic contributions” (the **“Restoration Contribution Reduction”**). 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.

The 2012 Term Sheet sets out an agreement between the Sponsors which is in effect from December 31, 2012 to December 30, 2107 (the **“Freeze Period”**), the terms of which are reflected in the FMP. Under Section 3.08 of the FMP, there are certain limits (relating to the funded status

⁵ This is achieved by first increasing go-forward indexing to 50% for post-2013 service period, then to 100% on all post-2009 service periods and next, by restoring current pension amounts to a certain prescribed level starting with the years where indexing was less than 50% until all years of partial indexation are restored to the same level and then by restoring indexation to 100% for all service periods.

⁶ Pursuant to Section 3.06 of the FMP, “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...”

of the plan) on the ability to make escalated adjustments or to improve benefits pursuant to Section 3.06 during the Freeze Period.

As noted below, no action can be taken under the Temporary Improvement Zone (as defined below) or the Permanent Improvement Zone (as defined below) until all restorative actions under Section 3.06 of the FMP have been provided for (subject to the general discretion of the Sponsors regarding the basis upon which surplus is to be utilized).

(ii) Temporary Improvement Zone

Article IV of the FMP (Funding Zone – Temporary Improvements) (the “**Temporary Improvement Zone**”) was added to the FMP in March 2015 and allows for: (i) temporary contribution decreases (i.e., a contribution holiday), (ii) surplus distribution and/or (iii) benefit improvements, provided in each case that the plan’s funding level reaches prescribed thresholds.

In the Temporary Improvement Zone, assets will equal at least the liabilities, valued at interest rates + 1.25%. In this zone the plan is considered well-funded and able to afford temporary changes, so long as they do not increase the long-term cost of the OTPP. Surplus cannot be utilized under the Temporary Improvement Zone until the Sponsors have provided for all of the changes specified in Section 3.06 of the Restoration Zone.⁷

In all cases the Sponsors’ prior agreement is required to provide for a temporary contribution decrease, surplus distribution or benefit improvement.⁸ Where the Sponsors agree to a change which would result in surplus being distributed or utilized for a temporary benefit improvement, the Sponsors are required to enter into a written agreement “governing the manner in which the contributions by the Minister and employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.”⁹ The requirement for this written agreement, which specifically identifies the manner in which employer contributions will be adjusted (if at all) in the event of member benefit improvements, arguably reflects the past practice of the Sponsors sharing equally in the benefits of surplus utilization (OTF through benefit improvements and the Province through contribution reductions). In the event that no temporary contribution reductions will occur in connection with a benefit improvement, the Province would be required to acknowledge that it is “forfeiting” the opportunity to benefit from a contribution reduction as part of the surplus utilization agreement.

We note that, as a temporary measure, the OTF has “first call” rights on 100% of the surplus disclosed in valuation report with a valuation date after December 30, 2017, up to certain prescribed amounts (the “**OTF Call Right**”).¹⁰ The 2012 Term Sheet indicates that “[t]his is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising in the government initiated Freeze Period and is without prejudice or precedent for any future situation.” In other words, this one-time opportunity to benefit from surplus utilization is directly linked to the cost sharing nature of the plan and the

⁷ FMP, section 4.03

⁸ FMP, section 4.05.

⁹ FMP, section 4.06

¹⁰ FMP, section 6.03.

additional assumption of risk by OTPP plan participants during the Freeze Period. In light of the Freeze Period and the OTF Call Right, it is our understanding that no actions under the Temporary Improvement Zone will be permitted until the Freeze Period has ended and the OTF Call Right in Article VI of the FMP has been satisfied.¹¹ It is our understanding that the quantum of the OTF Call Right is not presently expected to be material.

Mercer, the external actuary for the OTPP, has determined 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”.¹²

(iii) Permanent Improvement Zone

Where the surplus reaches prescribed levels, Article V of the FMP (Funding Zone – Permanent Improvements) (the “**Permanent Improvement Zone**”) will apply. In the Permanent Improvement Zone, assets will equal at least 110% of the liabilities, valued at interest rates + 0.5%. In the Permanent Improvement Zone, the plan is essentially fully funded at the Government of Canada long bond rates and the funding security desired to support permanent changes (either an improvement in benefits or a reduction in contributions) is present.

Under the FMP framework, these changes can be introduced once the Sponsors have already provided for the changes specified in Section 3.06 (i.e., no further action to restore benefits remains to be taken under the Restoration Zone).¹³

The Sponsors are required to mutually agree to any change made in the Permanent Improvement Zone. As in the Temporary Improvement Zone, where the Sponsors have agreed to a change which would result in an improvement to member benefits, the Sponsors would be required to first enter into a written agreement “governing the manner in which the contributions by the Minister and employers may be adjusted to offset any change in current benefits that is reflected in the value of the liabilities.”¹⁴

In light of the Freeze Period and the OTF Call Right, it is our understanding that no actions under the Permanent Improvement Zone will be permitted until the Freeze Period has ended and the OTF Call Right in Article VI of the FMP has been satisfied.¹⁵ As noted, it is our understanding that the quantum of the OTF Call Right is not presently expected to be material.

3. History of Surplus Utilization

¹¹ See FMP, sections 4.05 and 4.09.

¹² Memo from Lise Houlse (Mercer) to Mary Cover (Ontario Teachers’ Pension Plan) dated June 17, 2016.

¹³ FMP, section 5.03.

¹⁴ FMP, section 5.05(b).

¹⁵ See FMP, sections 5.05 and 5.08.

The history of surplus utilization prior to the date that the FMP was established (in March 2003) demonstrates a past practice of the Sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

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 improvements	\$4.6 billion to reduce the value of remaining special payments	\$0
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)

Although surplus utilization prior to 2003 may not have been 50/50 on a distribution-by-distribution basis, the history of surplus utilization would appear to suggest a mutual understanding of the Sponsors that, in the aggregate, the benefits derived from surplus utilization should be of equal monetary value at the end of the day.

As noted above, the FMP was first established in March 2003 to provide a guidance framework to the Sponsors decision-making when the OTPP has a funding surplus or shortfall. Below is a summary of the key funding decisions since the introduction of the FMP:

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.

* Source: Ontario Teachers' Pension Plan, "Key Funding Decisions Since 1990"

Surplus has only been utilized twice since the FMP was first introduced – in each of 2014 and 2015 escalated adjustments were provided to increase the pensions of members who had retired after 2009. As noted above, the OTPP is currently in the Restoration Zone which, pursuant to Section 3.06, prioritizes the utilization of surplus to “restore” foregone indexation before any other actions are taken with respect to surplus. In other words, since the FMP was established the OTPP has not reached a level of surplus under the FMP which would allow for the parties to enter into

an agreement regarding its utilization under the Temporary Improvement Zone or the Permanent Improvement Zone.

In this respect, the pre-FMP practice of the Sponsors sharing the benefits of surplus utilization 50/50 would arguably continue to shape the expectations of the parties should surplus reach the requisite level that it could be utilized under the Temporary Improvement Zone or the Permanent Improvement Zone.