1. Additional Asset Ceiling Detail (EY 12 June 2017).pdf

Ernst & Young LLP
EY Tower
100 Adelaide Street West, PO Box 1
Toronto, ON M5H 0B3

Tel: +1 416 864 1234
Fax: +1 416 864 1174
ey.com

Cindy Veinot
Assistant Deputy Minister & Provincial Controller
Office of the Provincial Controller Division
Office of the Treasury Board, Treasury Board Secretariat
Frost Bldg S, 7 Queen's Park Cres E
Toronto ON M7A 1Y7

12 June 2017

Additional information on asset ceiling calculation

Dear Cindy,

This document is in response to the request received from Nadine Petsche on 6 June 2017 to provide our advice to you regarding the request from the Office of the Auditor General of Ontario (AG). In particular, we understand that you would like some additional advice related to the asset ceiling calculation we performed, and the AG's ask to prepare and provide a calculation of the asset ceiling test using the "perpetuity assumption" for both Service Cost and Contributions for each significant pension plan.

This document provides this additional advice and is intended to inform and support OPCD in forming its opinion on appropriate accounting related to OTPP and OPSEUPP in the Province's financial statements. This document does not constitute an accounting opinion and should not be used as such. This document is intended for OPCD's use only. Please inform us in writing of any parties outside of the OPCD that you would like to share this document with before it is shared.

Asset ceiling test for OTPP and OPSEUPP

As you know, we have completed our analysis and calculation of the asset ceiling tests for OTPP and OPSEUPP that was provided to your office via two draft documents dated 16 May 2017. [1]

The asset ceiling test analysis and calculation we prepared for you showed that there is no impact on the asset ceiling test, and that there is no valuation allowance required in respect of OTPP and OPSEUPP. This is because the expected future benefit exceeds the value of any contributions that the plan sponsors must make regardless of any contributions [PS 3250.50-59]. The following table summarizes the results:

As at 31 March 2017	OTPP	OPSEUPP
1. Adjusted benefit asset (PS 3250.053)	51.8B	2.30B
2. Expected future benefit (PS 3250.056)		
a. Present value of service cost (PS 3250.057)	100.1B	13.88B
b. Present value of minimum contribution requirement, regardless of any surplus (PS 3250.056a)	(0.0)B	(0.0)B
c. Expected future benefit [(2.a) – (2.b)]	100.1B	13.88B
3. Valuation allowance (PS 3250.054) [max (0, (1)-(2.c)]	0.0B	0.00B

[1] Those documents are in draft form to allow for a final update once the discussions on year-end adjustments are complete. However, our conclusions as they relate to the asset ceiling calculation, and in particular to the "perpetuity assumption" are not affected by any changes that may be made to that year-end adjustment process.]

4.	Accrued benefit assets	26.9B	1.95B
5.	Valuation allowance	(0.0)B	(0.0)B
6.	Accrued benefit assets, net of valuation allowance (PS3250.050) [(4) – (5)]	26.9B	1.95B
7.	Province's portion of accrued benefit asset	50%	50%
8.	Province's portion of accrued benefit asset [(6) x (7)]	13.5B	n/a
9.	Province's portion of accrued benefit asset, reflecting unused RSF in excess of OPSEU's RSF[2]	n/a	1.02B

The above analysis does not reflect any year-end adjustments to the balance sheet position by OPCD.

Since the plans have significant future service cost accruals, the present value of which exceeds the current surplus, it is reasonable to conclude that the government can benefit from the entire surplus asset and therefore can recognize it on the balance sheet under PSAS.

In the above analysis we have considered, in perpetuity, any minimum contributions that the plan sponsors (Province and the employee unions) are required to make regardless of any surplus, in accordance with 3250.56. As there are no minimum contributions that are required to be made regardless of any surplus for either OTPP or OPSEUPP, this present value in perpetuity is nil.

For ease of reference, we will refer to the "minimum contributions the government is required to make regardless of any surplus" in PS 3250.56(a) as "MCRS" in the remainder of this document.

For greater clarity, we have not included the currently required funding contributions, in perpetuity or otherwise, into the asset ceiling test calculation as it is our understanding that this would not be in compliance with PSAS. These contributions are currently in place to fund deficits, and to provide for current service costs for which there are no assets currently in place. However, there is no requirement for these contributions to continue regardless of any possible surplus in the plan (ie. they are not MCRS). When there is surplus, these contributions can be reduced, or a contribution holiday can be put in place, as permitted by the legislation and plan documents related to OTPP and OPSEUPP. There is no requirement in OTPP and OPSEUPP to maintain a minimum level of contributions regardless of any surplus that may exist. Because of this, for the purposes of the calculations we prepared for you we determined that there are no MCRS as per 3250.56(a) that would need to be included in the asset ceiling calculation for these plans.

Further detail on these points, and additional matters for your consideration, are contained in the remainder of this document.

[2] Based on the Rate Stabilization Fund ("RSF") allocation as at 31 December 2014, the most recent funding valuation date, OPSEU has utilized their RSF $0.09B more than the Province. The Province portion, reflecting RSF allocation is determined as 50% x (1.95B-0.09B) +0.09B

"Perpetuity Assumption" and MCRS considerations

PSAS guidance

PS 3250.56 states "*a government determines its expected future benefit the sum of:*

(a) *the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and*

(b) *the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations".*

The purpose of the asset ceiling test is to ensure that the financial statements do not include any assets that the government cannot expect to benefit form. A pension asset may have a value if it can be refunded from the pension plan to the government (PS 3250.56(b) above), or it may have value if it can be used to reduce future contributions that otherwise might need to be made (PS 3250.56(a)). We understand based on the pension legislation and plan documents, and our discussions with the OPCD, that it would be difficult or impossible for the plan sponsors to withdraw assets from either OTPP or OPSEUPP. Thus, the only way the plan sponsors may expect to benefit from any surplus assets in the plan is via future contribution reductions or holidays. The asset ceiling test is used to determine the amount of assets that can be used in this way, and hence the amount of assets that can therefore be recognized on the balance sheet.

As PS 3250.57 states, the test is performed by first determining the total present value of all future service costs. This present value represents the total cost of all benefits that will be earned by plan members in the future. This cost can either be met through future contributions, or if there is a surplus in the plan and the legislation and the plan terms permit, from that surplus. This is the maximum amount of surplus that could be used to offset future cost, and therefore the maximum pension asset that the government could recognize on its balance sheet. Reducing this maximum value would be any contributions that the government/plan sponsors are required to make regardless of any surplus. The logic here is that if the plan sponsors must continue contributing to the plan even if the plan was in surplus (ie. "regardless of any surplus"), then the government's benefit from that surplus is reduced. The reduction in the asset equals to the present value of any such MCRS.

As discussed in detail in the Pension Expert Panel report, neither OTPP nor OPSEUPP have any requirements that would compel the plan sponsors to continue to contribute into these plans, even if the plans were in surplus. The contribution levels for both plans are negotiated directly by the plan sponsors who make them, and the funding level of the plan is a key determining factor in those negotiations, allowing the plan sponsors to increase or decrease contributions as they deem appropriate, and reducing or eliminating any contributions that may not be needed if the plan is already in a surplus position. This is in contrast to other plans, some of which have requirements to continue contributing regardless of any surplus. For example, the public service pension plan in New Brunswick has a minimum contribution level of 8% of payroll that cannot be reduced. Therefore, this plan would have MCRS (ie. 8% of payroll) that must be used in the asset ceiling test. In our understanding, it is this requirement that results in full valuation allowance and no pension asset being recognized in New Brunswick government's financial statements.

Canadian practice

The MCRS language contained in PS3250.56 mirrors the same language in other current and former Canadian standards:
- Part II – Accounting Standards for Private Enterprises (where 3462.69 has the same reference to MCRS)
- Part III – Accounting Standards for Not-for-Profit Organizations (which incorporates 3462 provisions)
- Part V – pre-changeover CICA 3461 (where 3461.105 has the same reference to MCRS)

Under all these standards, in our experience, the Canadian practice has been to interpret the "perpetuity assumption" and MCRS as we describe in this document, and in the same manner as we applied it in our calculations shared with you on 16 May 2017 for OTPP and OPSEUPP. We have never seen MCRS interpreted in a way that would treat any and all contributions as MCRS; to do so would be more in line with the type of analysis that would need to be carried out under IFRIC 14. However, IFRIC 14 only refers to minimum funding requirements, and does not qualify them as the requirements that exist "regardless of any surplus". This is the main reason that adoption of IFRIC 14 in Canada caused significant concern and discussion, that highlighted differences between IFRIC 14 requirements and the existing Canadian practice, with the "regardless of any surplus" qualifier being one of the key difference areas. In the non-IFRIC 14 context, the only instances where the "regardless of any surplus" qualifier applied, and affected the asset ceiling tests, were those where the employer had committed to a minimum contribution level that was not dependent on the funding status of the plan (eg. a commitment to match employee contributions of 4% of earnings).

Expert panel report

The Pension Asset Expert Advisory Panel report ("Report") stated the following:

> "*A question arises as to whether the surplus that is contemplated in the phrase "regardless of any surplus" is an accounting surplus or a funding surplus. The Panel understands that in practice actuaries interpret this to be a funding surplus. If any contributions are required even when there is a funding surplus, these would be "minimum contributions the government is required to make regardless of any surplus". This interpretation rests on the logic that funding contributions, including any minimum funding requirements, are driven by funding surpluses/deficits, and not accounting surpluses/deficits."*

The Report also outlines in detail how the funding contributions are set for OTPP and OPSEUPP. It concludes that there are no contributions that would be required to continue even if the plans were in a surplus position.

The recommendations of the Report are therefore consistent with the approach we describe in this document, and with our asset ceiling calculations shared with you on 16 May 2017 for OTPP and OPSEUPP.

Purpose of Asset Ceiling under PSAS

In our view, the purpose of the asset ceiling tests under PSAS, as well as other standards, is to ensure that only those assets that the government can expect to benefit from should be included on the balance sheet. Any assets that the government cannot expect to be able to use should be written down via a valuation allowance.

It is important to note that the true ultimate cost of a pension promise (ie. the total of all benefits paid to pensioners over time) does not depend on the measurement of that cost. In other words, both the funding valuations and the accounting valuations are attempting to measure the same real costs, each for a different depend on how we measure it. Accounting and funding valuations merely allocate those costs to periods of time. With that in mind, it is reasonable to expect that in some periods the surplus or deficit will be measured differently under the accounting standards vs. funding valuations. Nevertheless, the economic question that the asset ceiling is attempting to address is if at any point there may be a surplus in the plan that for some reason could not be used either by reducing contributions or withdrawing assets. Put another way, there should only be an asset impairment if the plan is both overfunded, and the contributions could not be reduced in order to use up excess assets. While this may be the case for some plans, we understand that this is not the case for OTPP and OPSEUPP.

cc: Karen Hughes, Associate Deputy Minister
Helen Angus, Deputy Minister
Nadine Petsche, Director, Accounting Policy and Financial Reporting Branch

2. OTPP Recognition of accrued benefit asset (EY 23 Aug 2017) - Final.pdf

Ernst & Young LLP
Ernst & Young Tower
222 Bay Street, PO Box 251
Toronto, ON M5K 1J7

Tel: +1 416 864 1234
Fax: +1 416 864 1174
ey.com

Mark Donaldson
Director, Accounting Policy and Financial Reporting
Office of the Provincial Controller Division
7 Queen's Park Crescent, 2nd Floor
Toronto ON M7A 1Y7

23 August 2017

Ontario Teacher's Pension Plan
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Teachers' Pension Plan ("OTPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OTPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OTPP in the Province's financial statements. This document does not constitute an accounting opinion and should be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $25.2B (obligation of $123.8B, market related-value of asset of $168.1B, unamortized actuarial gain of $19.1B)
- The Province's portion (49%[1]) of the accrued benefit asset is $11.5B[2]

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $11.5B for its respective portion of the Plan.

[1] 50% less 1% representing non-consolidated participating employers
[2] Reflects specific downward net adjustment of $0.8B by OPCD to the Province's portion of the Plan for the Province's financial statements

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS. The Plan is jointly sponsored by the Province, through the Minister of Education, and the Ontario Teachers' Federation ("OTF"), representing the employees.
- Funding valuations must be filed at least once every three years. The Funding Management Policy ("FMP") provides the joint sponsors a framework of priorities in determining how the surplus/deficiency should be addressed. If there is a surplus/deficiency on a preliminary funding valuation basis, the joint sponsors must negotiate and agree to changes in future contribution levels and/or benefit levels to result in an actuarially balanced valuation. An actuarial valuation in this context, is considered balanced if the value of future contributions to the Plan equals to the value of future benefits from the Plan.
- Both contribution level and benefit levels are to be negotiated and the FMP does not specify any minimum contribution requirement. If the value of future contributions is greater than needed to pay the benefits, then the joint sponsors can agree to reduce contributions or increase benefits, while maintaining the concept of 50/50 sharing of costs between the two joint sponsors.
- Changes to contribution levels and benefit levels must reflect the sharing principle in that each joint sponsor is responsible for their share of deficit or entitled to their share of surplus.
- The Act or the Plan documents do not prohibit contribution holidays (i.e. surpluses belonging to the joint sponsors may be applied to reduce contributions).
- The Province's portion of the overall Plan reflects the sharing principle between the sponsors under the Teacher's Pension Act ("Act"). That portion is 50%, adjusted for the non-consolidated participating employers as described below:
  - Under the Act, designated private schools and designated organizations may participate in the Plan. Such participating employers are required to contribute and remit the contributions by its employees who become active members of the Plan. It is our understanding that some of these participating employers ("non-consolidated participating employers") are not consolidated into the Province's financial statement.
  - The contributions made by the non-consolidated participating employers and their employees represent approximately 2% of the Plan's total contributions for the fiscal year. Therefore, the Province's portion of the Plan should be adjusted and reduced from 50% to 49% (50% - (2% x 50%)) for its financial reporting purposes.

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Assumed inflation protection for post-2009 service will be provided at 100% of the assumed inflation rate
- Valuation discount rate: 6.00%
- Inflation rate: 2.00%
- Salary escalation rate: 2.00% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

<u>Joint Defined Benefit Plans</u>

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

The Province and the employee sponsor share equally in the costs and risks of the OTPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 49% (50%, reduced by 1% in respect of non-consolidated participating employers) portion to the Province.

<u>Province's ability to benefit from an accrued benefit asset</u>

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs*".

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. Based on Ontario case law and the Ontario Pension Benefits Act ("PBA"), it is difficult to establish the right of a plan sponsor to withdraw surplus. For purposes of determining the expected future benefit, our assumption is that the Province does not have a right to surplus withdrawal. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Funding Management Policy sets out an agreed upon framework of priorities for the sponsors in jointly determining how any funding surpluses can be utilized. The sponsors may negotiate lower contributions or an increase in benefits. There is no minimum level of contribution requirements set out by the Plan and contributions levels are negotiated. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*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)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$173.9B
Market-related value of assets ("MVRA")	$(168.1)B
Actuarial gains/losses not recognized due to smoothing	$5.8B
Unamortized actuarial gains/(losses), on MRVA basis	$19.1B
Unamortized actuarial gains/(losses), on MVA basis	$24.9B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$173.9B
Obligation	$(123.8)B
Plan surplus	$50.1B
Unamortized losses	$0.0B
Adjusted benefit asset (PS 3250.053)	$50.1B

The adjusted benefit asset for the Plan is $50.1B.

3.2 Expected future benefit

PS 3250.56 states **“***a government determines its expected future benefit the sum of:*

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) *the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations”.*

Present value of the Plan’s expected future accruals

PS 3250.57 further states “*A government’s expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…”*

Mercer’s accounting results letter determined the following using the Province’s assumptions for financial reporting under PSAB:

- The 2017 total service cost is $3.1B
- The total present value of expected future accruals is $100.1B as at 31 December 2016

Mercer also noted the present value of expected future accruals has been calculated on an open group basis using a perpetuity approach (i.e. the current number of active employees), by projecting the current service cost with the assumed salary scale and discounting with interest. This is in line with PSAS requirements.

We have validated Mercer’s calculation of the total present value of expected future accruals of $100.1B. We have estimated the present value of the Plan’s expected future accruals to be approximately $95B, based on the current number of active employees and the province’s assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 6.00%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $3.1B / (0.06-0.0275) = $95B.

We note that our estimate is approximately $5B lower than the amount determined by the actuary. The actuary’s result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuaries to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan’s funding status, our interpretation is that there are no minimum contribution that the Province is required to make, regardless of any surplus. The sponsors of the Plan can agree to any level of contribution through negotiation that leads to an actuarially balanced funding valuation. The Plan's funding level has an impact on the contribution rates, i.e. they are made with consideration for the Plan's funding surplus. In other words, if the Plan is overfunded, the joint sponsors can agree to reduce contributions, or even take a full contribution holiday. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OTPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OTPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

As discussed in Section 2, we have assumed no Plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$100.1B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$100.1B

The Plan's expected future benefit is $100.1B.

3.3 Valuation allowance

PS 3250.054 states "*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*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$50.1B
Plan's expected future benefit (PS 3250.056)	$100.1B
Valuation allowance (PS 3250.054) [max (0, $50.1B – 100.1B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$25.2B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$25.2B

Accordingly, the Province's portion of the Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$25.2B
Province's portion of the accrued benefit asset (49%[3]) [PS3250.050 x 49%]	12.3B
Other Province specific adjustment made by OPCD	(0.8)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$11.5B

Based on the results of the analysis above, OPCD may draw the conclusion that an accrued benefit asset of $11.5B (without any asset impairment) could be recognized for the Province's financial reporting under PSAB.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

---

[3] 50%, less 1% representing non-consolidated participating employers

Appendix
Information Provided

Our analysis is based on the following information we received:

- Actuarial valuation report for OTPP as at 1 January 2016 prepared by Mercer for funding purposes
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re; Ontario Teachers' Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- Teachers' Pension Act
- OTPP Funding Management Policy
- Letter Re: Accounting results as at 31 March 2017 prepared by Mercer
- Pension Asset Expert Advisory Panel report

Appendix

Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

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

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

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

.53 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.

.54 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.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

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

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

Joint defined benefit plans

.79 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.

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

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

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

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

Glossary

- *An **accrued benefit asset** is the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).*

  *An **adjusted benefit asset** is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.*

- *The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions. A government determines its expected future benefit as the sum of:*

  (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus;

  (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

- *A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:*

  (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

  (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

  (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

  (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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

3. OPSEUPP Recognition of accrued benefit asset (EY 23 Aug 2017) - Final.pdf

Building a better working world

Ernst & Young LLP
Ernst & Young Tower
222 Bay Street, PO Box 251
Toronto, ON M5K 1J7

Tel: +1 416 864 1234
Fax: +1 416 864 1174
ey.com

Mark Donaldson
Director, Accounting Policy and Financial Reporting
Office of the Provincial Controller Division
7 Queen's Park Crescent, 2nd Floor
Toronto ON M7A 1Y7

23 Aug 2017

Ontario Public Service Employees' Union Pension Plan
Accrued benefit asset recognition

The Office of the Provincial Controller Division ("OPCD") has asked EY to undertake an asset ceiling test to inform OPCD's decision as to whether a valuation allowance is required in relation to the Province's share of the Ontario Public Service Employees' Union Pension Plan ("OPSEUPP", or the "Plan") under the Public Sector Accounting Standards ("PSAS").

This document provides the results of our analysis and recommendations to OPCD management regarding the recognition of an accrued benefit asset for OPSEUPP as at 31 March 2017. The purpose of this document is to support OPCD in forming its opinion on appropriate accounting related to OPSEUPP in the Province's financial statements. This document does not constitute an accounting opinion and should not be used as such. This document is intended for OPCD's use only. Please inform us in writing if you would like to share this document more broadly.

As at 31 March 2017, prior to considering the possible need for a valuation allowance, OPCD determined the following:

- Plan's accrued benefit asset is $1.95B (obligation of $16.59B, market related-value of asset of $18.53B, unamortized actuarial loss of $0.01B)
- The Province's portion (47.38%[1]) of the accrued benefit asset is $0.92B[2]. This amount does not reflect any adjustment for the differential use of the Rate Stabilization Fund ("RSF") by the joint sponsors discussed later in this document.

Since our analysis determined that a valuation allowance is not required at 31 March 2017, it would appear appropriate to report the Province's portion of the accrued benefit asset of $0.96B ($0.92B, adjusted for the estimated differential use of the RSF) for its respective portion of the Plan.

[1] 50% less 2.62% representing non-consolidated participating employers
[2] Reflects specific downward net adjustment of $0.01B by OPCD to the Province's portion of the Plan for the Province's financial statements

1 Background Information

1.1 Key characteristics of the Plan

Following key characteristics of the Plan are most relevant to our analysis:

- The Plan is a Joint Defined Benefit Plan ("JDBP") under PSAS.
- The Plan is jointly sponsored by the Province, represented by the Chair of the Management Board of Cabinet, and the Ontario Public Service Employees' Union ("OPSEU"), representing the employees.
- Funding valuations must be filed at least once every three years.
- The Plan has established a Rate Stabilization Fund ("RSF"), as the sum of past unspent surpluses which were evenly allocated between the joint sponsors. Each sponsor may decide, without the other joint sponsor's consent, the use of its portion of the surplus.
- As at 31 December 2014, the date of the most recently completed funding valuation, the Province's RSF balance was $0.1B and the OPSEU's RSF balance was $0.01B. This means that the OPSEU joint sponsor has historically used $0.09B more surplus than the Province.
- While the joint sponsors established a trust ("OPTrust"), the Board of Trustees is responsible for the administration of the Plan and the investment of the assets. Decisions related to amendments to the trust agreement, plan text, and sponsorship agreement (e.g. contribution level, benefit to be provided) are the responsibility of the joint sponsors.
- The funding policy provides the joint sponsors a recommended framework for addressing the priorities for surplus use and deficit funding.
- The Plan documents explicitly state that no surplus shall be paid out of the fund to either sponsors.
- Contribution holiday does not constitute a surplus withdrawal according to the sponsorship agreement. Furthermore, the sponsorship agreement permits contribution holiday (i.e. sponsors may use their respective RSF to meet any additional contribution requirements).
- The Province's portion of the overall Plan reflects the sharing principle between the sponsors in accordance with the plan text and sponsorship agreement:
  - Employers match the contributions of the members.
  - Any emerging actuarial gains and losses are to be shared equally between the sponsors.
  - Any surplus is to be shared equally between the joint sponsors under the current arrangement (the proportion may be collectively bargained).
  - Any deficit is to be funded by the joint sponsors and required contributions will increase in equal amounts.
- The Province's portion of the overall Plan is 50%, adjusted for the non-consolidated participating employers as described below:
  - Under the Plan, the sponsors may agree in writing that elective agencies become an employer in the Plan and their employees becoming members of the Plan. The employers are required to contribute and remit the contributions by its employees who become members of the Plan. It is our

understanding that some of these participating employers are not consolidated in the Province's financial statement.

- The contributions made by the non-consolidated participating employers and their employees represent approximately 5.24% of the Plan's total contributions for the fiscal year. Therefore, the Province's portion of the Plan should be adjusted and reduced from 50% to 47.38% (50% - (5.24% x 50%)) for its financial reporting purposes.

1.2 Assumptions for financial reporting

The following highlights key assumptions applied for the valuation of the obligation and costs at 31 March 2017 for the purpose of Province's financial statements. The assumptions represent best estimate assumptions, selected by the Province:

- The Province's financial statement year-end reporting is as at 31 March 2017 (the "measurement date")
- The measurement of assets and obligations are as at 31 December 2016 (the use of this earlier measurement date is permitted under PSAS 3250.039). We do not anticipate that the conclusion would be different at 31 March 2017
- Valuation discount rate: 5.90%
- Inflation rate: 2.00%
- Salary escalation rate: 1.75% per annum to 2019 and 2.75% thereafter

2 Considerations for the accrued benefit asset recognition

PSAS contains relevant guidance for recognition of an accrued benefit asset in respect of the Province's share of the Plan at 31 March 2017. We have considered the guidance under PS 3250 relating to recognition of an accrued benefit asset based on an expected future benefit available to the Province, in the context of accounting for a JDBP under PS 3250.

Joint Defined Benefit Plans

PS 3250.081 states "*when a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.*"

Under the current arrangement, the Province and the employee sponsor share equally in the costs and risks of the OPSEUPP. Both entitlement to any surplus and responsibility for any deficiency are shared equally between the Province and the employee sponsor. The determination of a net asset or liability (and valuation allowance, if applicable) is therefore performed on an aggregate Plan basis, and the Province's portion of that asset/liability is determined subsequently by applying 47.38% (50%, reduced by 2.62% in respect of non-consolidated participating employers) portion to the Province. A further adjustment may need to be made to account for differential use of RSF by each of the joint sponsors. The need for RSF adjustment was also noted in the Pension Asset Expert Advisory Panel report.

Province's ability to benefit from an accrued benefit asset

PS 3250.050 states "*an accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs*".

PS 3250.052 states "*a government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus*".

The Province is only able to recognize an accrued benefit asset to the extent that they are able to derive an expected future benefit from such asset. As per PS 3250.052, an expected future benefit may arise from (i) withdrawal of surplus or (ii) by taking a contribution holiday or receiving a refund of contributions. The Plan text explicitly prohibits any surplus withdrawal by both joint sponsors. However, contribution holidays are permitted by the Ontario PBA and the Plan documents. As such, the Province has access to an expected future benefit through future contribution reductions. The Province may use its portion of the RSF for contribution reduction without any restriction and does not require consent by the other sponsor. Therefore, the joint sponsors can each benefit from their respective portion of plan surplus for accounting purposes.

3 Determination of the accrued benefit asset recognition

This section provides details on the determination of the accrued benefit asset in respect of the Plan. Based on PS 3250.50 to 3250.059 (Limit on the carrying amount on accrued benefit asset), we have estimated the adjusted benefit asset, the expected future benefit, the valuation allowance, and the accrued benefit asset (net of valuation allowance) to be recognized by the Province under PSAS as at 31 March 2017.

3.1 Adjusted benefit asset

PS 3250.053 states "*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)*".

Based on the financial information for the Plan as at the measurement date provided by OPCD, we have determined the unamortized actuarial gains/losses for the Plan on a basis using the market value of assets as follows:

Market value of assets ("MVA")	$19.05B
Market-related value of assets ("MVRA")	$(18.53)B
Actuarial gains/(losses) not recognized due to smoothing	$0.52B
Unamortized actuarial gains/(losses), on MRVA basis	$(0.01)B
Unamortized actuarial gains/(losses), on MVA basis	$0.51B

As there is an unamortized actuarial gain (determined on a basis using market value of assets), the adjusted benefit asset is equal to the Plan's surplus position on a market basis:

Market value of assets	$19.05B
Obligation	$(16.59)B
Plan surplus	$2.46B
Unamortized losses	$0.00B
Adjusted benefit asset (PS 3250.053)	$2.46B

The adjusted benefit asset for the Plan is $2.46B.

3.2 Expected future benefit

PS 3250.56 states **“***a government determines its expected future benefit the sum of:*

(a) *the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and*

(b) *the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations”.*

Present value of the Plan’s expected future accruals

PS 3250.57 further states “*A government’s expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation…”*

According to the accounting results letter provided by OPTrust, the Plan’s actuary (Willis Towers Watson, “WTW”) has determined the following using the Province’s assumptions for financial reporting under PSAB:

- The 2017 total service cost is $0.39B
- The total present value of expected future accruals is $13.88B as at 31 December 2016

The letter indicates that the present value of expected future accruals has been calculated on an open group basis (i.e. the current number of active employees). This is in line with PSAS requirements.

We have validated the actuary’s calculation of the total present value of expected future accruals of $13.88B. We have estimated the present value of the Plan’s expected future accruals to be approximately $12.38B, on an open group basis using a perpetuity approach (i.e. the current number of active employees) and the province’s assumptions for financial reporting under PSAB as at the measurement date:

- Annual salary increase of 2.75% (ultimate rate)
- Discount rate of 5.90%

Our estimate of the present value of expected future accrual has been determined as follows: 2017 current service cost / (discount rate – ultimate rate of salary increase) = $0.39B / (0.059-0.0275) = $12.38B.

We note that our estimate is approximately $1.5B lower than the amount determined by the actuary. The actuary’s result is likely more refined; however, the use of either figure will result in a valuation allowance of nil as the expected benefit exceeds the adjusted benefit asset. Therefore, we have not followed up with the actuary to reconcile this difference.

Minimum contributions the Province is required to make regardless of any surplus

As there is no minimum fixed contribution (as a percentage or dollar amount) requirement which is independent of the Plan’s funding status, our interpretation is that there are no minimum contributions that the Province is required to make, regardless of any surplus. Moreover, since there is no restriction on the sponsor’s use of its RSF, the contribution can be reduced to zero for the sponsors without each other’s consent. The sponsorship agreement explicitly explains that a contribution holiday can be taken when there is a surplus. Therefore, there is no minimum level of contribution required "regardless of any surplus". This interpretation is consistent with the interpretation we see applied in practice for other Canadian plan sponsors reporting under PSAS. It is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Present value of the required employee contributions

We note that PS 3250.056 is written in the context of a single sponsor Plan while the OPSEUPP is a joint-sponsored Plan. As such, the present value of the required employee contributions for OPSEUPP is nil (i.e. the employee contributions being referenced by PS 3250.056 is in respect to contributions made by employees who are not sponsor of the Plan). This interpretation is also consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

Plan surplus that can be withdrawn

No plan surplus can be withdrawn by the joint sponsors.

Expected future benefit

Using the actuary's estimate of the present value of the Plan's expected future accruals, the expected future benefit for the Plan is the present value of the Plan's expected future accruals:

Present value of the Plan's expected future accruals (PS 3250.57)	$13.88B
Present value of the required employee contributions (PS 3250.056a)	(0.0)B
Minimum required contributions regardless of any surplus (PS 3250.056a)	(0.0)B
Plan surplus that can be withdrawn (PS 3250.056b)	0.0B
Expected future benefit (PS 3250.056)	$13.88B

The Plan's expected future benefit is $13.88B.

3.3 Valuation allowance

PS 3250.054 states "*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*".

Per 3.1 and 3.2 of this letter, we have determined that the Plan's expected future benefit exceeds the Plan's adjusted benefit asset:

Plan's adjusted benefit asset (PS 3250.053)	$2.46B
Plan's expected future benefit (PS 3250.056)	$13.88B
Valuation allowance (PS 3250.054) [max (0, $2.46B – 13.88B)]	$0.0B

The Plan's accrued benefit asset is not impaired, and accordingly, no valuation allowance is required.

3.4 Accrued benefit asset recognition

The Plan's accrued benefit asset, net of valuation allowance as at the measurement date is:

Accrued benefit asset	$1.95B
Valuation allowance (PS3250.054)	0.0B
Accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B

Based on the RSF allocation as at 31 December 2014, the most recent funding valuation date, OPSEU has utilized their RSF $0.09B more than the Province:

OPSEU's RSF balance at 31 December 2014	$0.01B
Province's RSF balance at 31 December 2014	0.10B
Adjustment for the differential use of RSF by the joint sponsors	$0.09B

In other words, the Province has $0.09B more of unused RSF than OPSEU at 31 December 2014.

Accordingly, the Province's portion of the Plan's accrued benefit asset, adjusted for the relative position of the sponsors' RSFs and net of valuation allowance as at the measurement date is:

Plan's accrued benefit asset to be recognized (net of valuation allowance) (PS3250.050)	$1.95B
Adjustment for the differential use of RSF by the joint sponsors	(0.09)B
Plan's accrued benefit asset to be divided equally between the joint sponsors	1.86B
Province's portion of the accrued benefit asset to be divided evenly (47.38%[3] x 1.86B)	0.88B
Province's unused RSF in excess of OPSEU's RSF ((1-5.24%) x 0.09B)	0.09B
Other Province specific adjustment made by OPCD	(0.01)B
Accrued benefit asset to be recognized by the Province (PS3250.050)	$0.96B

Based on the results of the analysis above, OPCD may conclude that an accrued benefit asset of $0.96B could be recognized for the Province's financial reporting under PSAS. This asset is after an adjustment for the differential use of RSF by the joint sponsors. No asset impairment is required.

While the analysis in this document has been prepared independently, the conclusions overall are consistent with the conclusions of the Pension Asset Expert Advisory Panel report.

[3] 50%, less 2.62% representing non-consolidated participating employers

Appendix
Information Provided

Our analysis is based on the following information we received:

- Province's financial reporting information under PSAS as at 31 March 2017, prepared by OPCD
- Actuarial Information for the OPESU Pension Plan provided by OPSEU Pension Trust (related to 2016 year-end financial information, including to actuarial calculations performed by Willis Towers Watson)
- Analysis of Pension Asset ceiling Accounting Considerations for the Office of the Provincial Controller Division re: OPESU Pension Plan prepared by Deloitte for 31 March 2015 financial reporting
- OPSEUPP actuarial valuation funding report as at 31 December 2014 by Willis Towers Watson
- OPSEU actuarial gain or loss allocation history (up to 31 December 2014)
- OPSEUPP plan text
- The Sponsorship Agreement for OPESUPP
- Ontario Public Service Employees' Union Pension Act
- OPTrust Funding Policy: Board-Approved Policy
- Pension Asset Expert Advisory Panel report

Appendix

Applicable guidance under PS 3250

Measurement date

.39 For a defined benefit plan, the plan assets and the accrued benefit obligation would usually be measured at the date of the financial statements. As a practical matter, an earlier date may be used provided the government adopts this practice consistently from year to year and as long as no significant change relevant to the valuation of the plan occurs between the valuation date and the financial statement date.

Limit on the carrying amount on accrued benefit asset

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

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

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

.53 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.

.54 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.

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

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

(a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

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

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

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

Joint defined benefit plans

.79 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.

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

accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

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

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

Glossary

- *An **accrued benefit asset** is the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).*

  *An **adjusted benefit asset** is an accrued benefit asset less the amount, if any, by which the aggregate of any unamortized actuarial losses exceeds the aggregate of any unamortized actuarial gains.*

- *The **expected future benefit** is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions. A government determines its expected future benefit as the sum of:*

  (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus;

  (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

- *A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:*

  (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

  (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

  (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

  (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

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