OPSEU Letter.pdf

OPSEU Pension Trust
Fiducie du régime de retraite du SEFPO

January 31, 2014

CONFIDENTIAL / VIA COURIER

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

Dear Mr. Killoch:

Re: Actuarial Information for the OPSEU Pension Plan

In response to the Assistant Deputy Minister Leah Myers' letter dated December 18, 2013, please find attached the requested 2013 yearend financial information related to the OPSEU Pension Plan (the "Plan"). The requested information has been determined as of December 31, 2013 and is contained in the body of this letter and in the attached exhibits.

The calculations for items 1, 3, 5, 9 and 11 have been performed on an accounting basis by Towers Watson using the projected unit credit cost method and the economic assumptions detailed in Ms. Myers' letter. All other requested calculations were compiled by OPSEU Pension Trust ("OPTrust").

Please note the following regarding the attached information:

- The Assistant Deputy Minister requested that the actuarial information be prepared using four sets of economic assumptions (Basis 1, 2, 3 and 4). The assumptions used under each basis are described in Exhibit 2.

- The December 31, 2013 calculations are based on December 31, 2013 member data for the Plan, as provided by the OPTrust to Towers Watson and as used in the December 31, 2013 funding valuation of the Plan. A summary of the December 31, 2013 member data for the Plan is contained in the attached Exhibit 3.

- The information on the market value and actuarial value of the Plan's assets as at December 31, 2013 is preliminary and is subject to change. In particular, the December 31, 2013 valuation for alternative assets will not be complete until March 2014. As of December 31, 2013 over 30% of the Fund is allocated to alternative assets. As such the total market and actuarial value of assets may materially change once those asset valuations are complete.

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- The contribution breakdown in item 4 of the attached Exhibit 1 has been updated to the same level of detail as the Plan's financial statements, as requested by the government.

- The schedule of the deferred gains / losses to derive the actuarial asset value adjustment as at December 31, 2013 has been included as item 7 in the attached Exhibit 1.

- The number of pensioners and active members as at December 31, 2013 are included as item 8 in the attached Exhibit 1.

- A high level explanation of the causes of actuarial losses and gains (including salary) for 2013 are included in items #9 and #11 in the Exhibit 1.

- The December 31, 2013 liability calculations have been based on the provisions of the Plan as at December 31, 2013. A summary of the applicable provisions is contained in Buck's funding actuarial valuation report for the Plan as at December 31, 2012. There have been no material changes to the Plan provisions since December 31, 2012.

- Except for the economic assumptions noted in Exhibit 1 and the asset valuation method (OPTrust no longer uses a smoothed value of assets), the December 31, 2013 liability calculations are based on the same assumptions that are being considered for use in the December 31, 2013 financial statement valuation of the Plan. A description of those assumptions for the Plan's December 31, 2013 financial statement valuation is contained in Exhibit 4 attached.

As you are aware, the government's best estimate economic assumptions are not those of the OPSEU Pension Trust. These assumptions have not been used in the past for the Plan's funding valuations, or the Plan's financial statement actuarial valuations and, in particular, they have not been used for the most recent December 31, 2012 funding valuation of the Plan, or the December 31, 2013 financial statement valuation of the Plan. We would also note that the obligations of employers to contribute to the Plan are based on the terms of the Plan and the funding actuarial valuations of the Plan.

If you have any questions or require any additional information, please contact us.

Yours truly,

Bill Foster
Chief Administrative Officer

Encls.

cc: Mr. Mark Rozic, Ministry of Finance
Ms. Leah Myers, Ministry of Finance
Mr. Bill Hatanaka, OPSEU Pension Trust
Mr. Dani Goraichy, OPSEU Pension Trust
Mr. Ian Markham, Towers Watson

Exhibit 1

Actuarial Information for the OPSEU Pension Plan as Requested by the Province (Amounts in $ millions)

			December 31, 2013					
			Basis 1		***Basis 2***		***Basis 3***	***Basis 4***
1.	Actuarial present value of accrued benefit obligations		14,392		14,855		14,409	14,251
2.	(a) Actuarial value of pension fund assets (preliminary)		15,176		15,176		15,176	15,176
	(b) Market value of pension fund assets (preliminary)		15,790		15,790		15,790	15,790
3.	For the year ended: Actuarial Present Value of Accrued Benefit Obligations as of December 31, 2012		14,133		14,596			
	(a)	Interest on accrued benefits	929		924			
	(b)	Cost of benefits accrued	451	(i)	470	(i)		
	(c)	Cost of benefit improvements	0		0			
	(d)	Changes in assumptions	138		159			
	(e)	Changes in Valuation System	(152)		(172)			
	(f)	Benefits paid	(884)	(ii)	(884)	(ii)		
	(g)	Experience (Gains)/Loss	(223)	(iii)	(238)	(iii)		
	Actuarial Present Value of Accrued Benefit Obligations as of December 31, 2013		14,392		14,855			

(i) Includes current period service cost, past service contributions and transfers from other plans. Past service contributions made during 2013.
Basis 1 – Current service cost of $404 million, prior service cost of $23 million and transfers in of $24 million.
Basis 2 – Current service cost of $423 million, prior service cost of $23 million and transfers in of $24 million.

(ii) Includes retirement pensions, refunds, commuted value transfers and transfers to other plans. The retirement pensions paid during 2013 were $614 million. Refunds and commuted value transfers were $106 million. Transfers to other plans were $164 million.

(iii) Basis 1 - The experience loss/(gains) comprised of salary gain of $261 million and $38 million of other losses.
Basis 2 - The experience loss/(gains) comprised of salary gain of $273 million and $35 million of other losses.

Economic Assumptions as provided by the Province

	Basis 1	*Basis 2*	*Basis 3*	*Basis 4*
Assumptions provided by Province				
Return on investment	6.75%	6.50%	6.50%	6.50%
Inflation	2.50%	2.50%	2.25%	2.25%
Real Rate of Return	4.25%	4.00%	4.25%	4.25%
Salary Escalation Rate				
2014	0.00%	0.00%	0.00%	0.00%
2015-2019	3.50%	3.50%	3.25%	2.25%
2019 onwards	3.50%	3.50%	3.25%	3.25%

Other assumptions - Based on the same assumptions used for the December 31, 2013 funding valuation of the Plan				
YMPE increase	2.75%	2.75%	2.75%	2.75%
ITA maximum increase beginning in 2013	2.75%	2.75%	2.75%	2.75%
TV CIA rate for Lump Sum:	2.50%	2.50%	2.50%	2.50%
Interest on Employee Contributions	3.25%	3.25%	3.25%	3.25%

Mortality table	1994 Uninsured Pensioners Mortality Table, with generational projection using projection scale AA.	
% elect Deferred pension/ lump Sum	30%/70%	
	Regular	Age Related Rates
Retirement rates	90 points	40% ages 55 to 59
	60/20	30% age 60&20; 20% ages 61 to 64

EXHIBIT 1 (continued)

Actuarial Information for the OPSEU Pension Plan as Requested by the Province
(Amounts in $ millions)

			December 31, 2013
4.	For the year ended:		
	(a)	Employee contributions:	
		Current Service (include LTIP)	246
		Prior Service	15
			261
	(b)	Employer contributions: *	
		Current Service (include LTIP)	246
		Prior Service	8
			254
	(c)	Transfers from other plans	24

**Includes member LTIP payments made by the Province of Ontario*

5.	Expected average remaining service lifetime of active employees	12.3 years

The expected average remaining service lifetime (the "EARSL") was calculated by Towers Watson and provided to OPTrust.

6. Economic assumptions used in the Plan's financial statements:

(a)	Return on investment	6.50%
(b)	Inflation	2.25%
(c)	General salary escalation	1.00% for 2014; 3.00% for thereafter
(d)	YMPE increases	2.75%

EXHIBIT 1 (continued)

Actuarial Information for the OPSEU Pension Plan as Requested by the Province
(Amounts in $ millions)

7. The following preliminary schedule provides the composition of the actuarial asset value adjustment as at December 31, 2013:

	Deferred (Gains)/Losses	Timing of Future Recognition			
	2013	**2014**	**2015**	**2016**	**2017**
2009	-	-	-	-	-
2010	(140)	(140)	-	-	-
2011	126	63	63	-	-
2012	(192)	(64)	(64)	(64)	-
2013	(408)	(102)	(102)	(102)	(102)
Total	**(614)**	**(243)**	**(103)**	**(166)**	**(102)**

The actuarial asset value adjustment reflects the portion of gains or losses not yet recognized for purposes of determining the value of actuarial assets. The actuarial asset value adjustment provides for the smoothing of gains and losses, mitigating volatility and providing a more stable basis for determining surplus.

The actuarial value of investments as at the reporting dates has been determined using a formula that smoothes out the effects of the changes in market values over a five-year period. The approach recognizes differences between the actual and management's best estimate of the return on investments in income evenly over the current and following four years. Management's best estimate of investment return is 6.5% for 2013, 6.75% for 2012 and 2011, 7% for 2010 financial statement purposes.

8. For the year ended:

		December 31, 2013
(a)	Number of Active Members	43,827
(b)	Number of Inactive Members	
	Pensioners and Survivors	30,426
	Deferred pensioners	4,650
	Special deferred pensioners	4,094
	Former members with unprocessed benefits	1,471
	Total	40,641

EXHIBIT 1 (continued)

Actuarial Information for the OPSEU Pension Plan as Requested by the Province
(Amounts in $ millions)

9. The salary gain is the biggest component of the overall experience gain, while the mortality assumption update is the biggest component of the assumption loss.

10. We will provide the 2013 financial statements as soon as they are available.

11. Basis 1 - The experience loss/(gains) comprised of salary gain of $261 million and $38 million of other losses.

    Basis 2 - The experience loss/(gains) comprised of salary gain of $273 million and $35 million of other losses.

EXHIBIT 2

Economic Assumptions as Provided by the Province

	Basis 1	Basis 2	Basis 3	Basis 4
Assumptions provided by Province				
Return on investment	6.75%	6.50%	6.50%	6.50%
Inflation escalation	2.50%	2.50%	2.25%	2.25%
Real rate of return	4.25%	4.00%	4.25%	4.25%
Salary escalation rate				
2014	0.00%	0.00%	0.00%	0.00%
2015-2018	3.50%	3.50%	3.25%	2.25%
2019 onwards	3.50%	3.50%	3.25%	3.25%
Other assumptions				
YMPE increases	2.75%	2.75%	2.75%	2.75%
ITA maximum increase beginning in 2013	2.75%	2.75%	2.75%	2.75%
Interest on Employee Contributions	3.25%	3.25%	3.25%	3.25%

EXHIBIT 3

Summary of Plan Member Data at December 31, 2013

The membership data at December 31, 2013 was used for the Plan's December 31, 2013 funding valuation and was provided to Towers Watson by the OPSEU Pension Trust. A summary of the data follows.

	Dec. 31/13 Total
Active Members	
Number	43,827
Average Credited Service	12.7
Average Age	46.5
Average Salary	$63,012
Pensioners and Survivors	
Number	30,426
Average Age	69.3
Average Annual Pension	$18,400
Deferred Pensioners	
Number	4,650
Average Age	48.5
Average Annual Pension	$6,313
Special Deferred Pensioners*	
Number	4,094
Average Age	52.0
Average Annual Pension	$7,027
Former Members with Unprocessed Benefits**	
Number	1,471
Average Age	44.2
Average Annual Pension	$4,382

* Former Plan members whose membership terminated as a result of a divestment.

** Former members who ceased Plan participation prior to December 31, 2013 but who have not elected a benefit entitlement option.

EXHIBIT 4

Actuarial Assumptions Used in Plan's December 31, 2013 Financial Statements

Investment Return

The assumed rate of return on investments is 6.50% per annum. This rate is net of expected investment-related expenses.

Inflation Rate

The inflation rate as measured by increases in the Consumer Price Index is assumed to be 2.25% per annum.

Salary Scale

The rate of salary increase consists of two components:

(a) Economic Increases

A rate of 1.00% per annum for 2014 and 3.00% per annum thereafter has been assumed for increases in salary related to inflation and productivity.

(b) Promotion Increases

A salary promotion scale based on years of service has been assumed and is presented in Appendix "A".

Rate of Increase in the Year's Maximum Pensionable Earning ("YMPE") under the Canada Pension Plan

It is assumed that the YMPE will increase at a rate of 2.75% per annum.

Income Tax Act Maximum Pension Limit

It is assumed that the maximum annual pension limit of $2,770.00 per year of pensionable service will increase at a rate of 2.75% per annum, starting in 2015.

Interest on Employee Contributions

It is assumed that employee contributions will be credited with interest at the rate of 3.25% per annum.

Mortality Rates

It has been assumed that the mortality of members before and after retirement will be represented by the 1994 Uninsured Pensioners Mortality Table, with generational projection using projection scale AA.

Withdrawal Rates

It is assumed that members will terminate their employment in accordance with rates based on member age. Sample rates are shown in Appendix "B".

EXHIBIT 4 (continued)

Actuarial Assumptions Used in Plan's 2013 Financial Statements

Transfer Value Take-up Rate and Transfer Value Basis

It is assumed that 70% of members terminating will elect a transfer value option. Lump sum transfer values determined for this group were calculated using a discount rate of 2.5% real. Mortality was assumed to be represented by the 1994 Uninsured Pensioners Mortality Table, with generational projection using projection scale AA.

Retirement Rates

It is assumed that members will retire in accordance with the rates of retirement shown in Appendix "C". Three sets of retirement rates are used in the valuation. The "reduced" early retirement rates are applied until the member qualifies for unreduced benefits under the 90-point rule where age plus service total 90 years, or the age 60 and 20 years of service rule. Thereafter, either the 60/20 or the 90-point retirement rates are used.

Disability

No provision has been made for disability in recognition of the continuation of pension accrual and contributions under the Plan.

Marital Status

It has been assumed that 85% of male members and 60% of female members are married at the time a benefit commences to be paid.

It has been assumed that the spouse of a male member is three years younger than the member and the spouse of a female member is two years older than the member.

Expenses

A provision for administrative expenses equal to the present value of the estimated future costs attributable to administering the accrued pension benefits.

Special Deferred Pensioners

For special deferred pensioners, it was assumed that mortality, withdrawal and retirement rates subsequent to divestment will be the same as the rates for active members of the OPSEU Plan. Salaries and the YMPE for these members are assumed to increase at the rate of 2.25% annum to account for the indexation of their accrued pensions.

APPENDIX "A"

Rates of Promotional Salary Increase

Years of Service	Increase
1	4.00%
2	3.60%
3	3.20%
4	2.60%
5	2.10%
6	1.80%
7	1.60%
8	1.40%
9	1.20%
10	1.00%
11	0.80%
12	0.60%
13	0.60%
14	0.50%
15	0.50%
16	0.50%
17	0.50%
18	0.30%
19	0.30%
20	0.30%
21 and over	0.00%

APPENDIX "B"

Sample Withdrawal Rates

Attained Age	Rate
20	0.077
25	0.063
30	0.051
35	0.041
40	0.033
45	0.027
50	0.022
55	0.000

APPENDIX "C"

Retirement Rates

Attained Age	Reduced Early	90-Point	60/20
50		0.40	
51		0.40	
52		0.40	
53		0.40	
54		0.40	
55	0.046	0.40	
56	0.020	0.40	
57	0.023	0.40	
58	0.026	0.40	
59	0.029	0.40	
60	0.058		0.30
61	0.059		0.20
62	0.061		0.20
63	0.062		0.20
64	0.115		0.20
65	1.000		1.00

Bill Foster.

DEC 20 2013

Ministry of Finance

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COPY

December 18, 2013

Mr. Bill Hatanaka
President and Chief Executive Officer
OPSEU Pension Trust
One Adelaide Street East, Suite 1200
Toronto, Ontario
M5C 3A7

Dear Mr. Hatanaka:

In preparation for the 2014 Ontario Budget, I am writing to request actuarial and financial information as at December 31, 2013 on the Ontario Public Service Employees Union Pension Plan (OPSEUPP). This information is required for calculating the Province's 2013-14 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.

Economic Assumptions (annual rates)	Basis 1	Basis 2	Basis 3
Return on Investment	6.75%	6.50%	6.50%
Inflation	2.50%	2.50%	2.25%
Real Rate of Return	4.25%	4.00%	4.25%
Salary Escalation Rate	3.50%	3.50%	3.25%

Despite the salary escalation rates above, please reflect in the valuation the current OPSEU agreement, which requires a 0% inflation adjustment up to December 31, 2014.

.../2

We also request a calculation using the above Basis 3 assumptions, with the exception of the wage growth assumption. Instead of the 3.25% salary escalation rate (as in Basis 3) please use an annual salary escalation rate assumption of 0% for 2014 and 2.25% for the next four years, followed by a 3.25% annual salary escalation rate thereafter.

We understand the Board may be preparing its financial statements based on International Financial Reporting Standards and Canadian Institute of Chartered Accountants Section 4600. There has not been any change in reporting requirements under PSAB. 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 on the OPSEUPP with one set of calculations for each set of assumptions outlined in the table above. In these calculations, please use the projected benefit method, prorated on services:

1. Actuarial present value of accrued benefit obligations as at December 31, 2013.

2. Actuarial value and market value of pension fund assets as at December 31, 2013. 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, 2013.

4. Contributions broken down by employee contribution, Province of Ontario contribution and other transfers for the year ended December 31, 2013. Please provide the same level of detail as will be disclosed in the "Contributions" note to the plan's 2013 financial statements.

5. Expected average remaining service life of active employees as at December 31, 2013.

6. Return on investment, inflation and salary escalation assumptions that will be used in the plan's 2013 financial statements.

.../3

7. Net gain and loss for the year ended December 31, 2013 that would be subject to smoothing on the same basis as in prior years. Please provide the same level of detail as in prior years.

8. Number of pensioners and active members as at December 31, 2013.

9. Please provide a brief, high level explanation of the source(s) of the actuarial gains and losses for 2013.

10. 2013 financial statements as soon as they are available.

11. The experience gain resulting from the OPSEU salary freeze, broken out separately from the rest of the experience gain/loss during the year ending December 31, 2013.

We require these estimates by **January 31, 2014.** 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 2013-14 *Public Accounts*, I would also ask that you communicate by letter by April 30, 2014 if there are any events between December 31, 2013 and March 31, 2014 that you are aware of, which would in your opinion, affect these valuation results in a material way.

Please forward all the information requested in this letter to:

Mark Rozic, Manager (Acting)
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Office of the Provincial Controller Division
Ministry of Finance
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7 Queen's Park Crescent
Toronto ON M7A 1Y7
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E-mail: mark.rozic@ontario.ca

And to:

Alex Killoch, Director
BPS Pensions Branch
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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

Leah Myers
Assistant Deputy Minister

c: Alex Killoch
Murray Lindo
Mark Rozic
Pauline Fong
Roger Smithies
Rob Pomykacz
Bill Pelow