Letter C Veinot - August 2 2018 re OTPP (with appendix).pdf

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Sent via email

Ms. Cindy Veinot
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02 August 2018

Subject: Ontario Teachers' Pension Plan

Dear Ms. Veinot:

This letter is in follow-up to your July 31, 2018 letter to Mary Cover of the Ontario Teachers' Pension Plan Board requesting confirmation of the key points discussed on the July 26, 2018 call between Mercer and E&Y. Please note that Mary Cover did not participate on the call.

A copy of your July 31, 2018 letter is attached as reference as our comments below relate to the five bullet points in that letter where confirmation and/or amendments were requested.

- We are in agreement with the first two bullet points and have no proposed amendments to those bullet points.

- We are in agreement with the third bullet point but suggest that the first sentence be expanded to read as follows:

  "*There is no requirement under the FMP or otherwise that any contributions continue regardless of any surplus in the plan, where such surplus is calculated based on the FMP and the funding basis determined by the plan.*"

- We are in agreement with the point being raised in the fourth bullet but suggest that the sentences be reworded to read as follows:

  "*The FMP contemplates that the surplus attributable to plan members can be used for various purposes including benefit improvements, payout of surplus and contribution reductions. The FMP also contemplates that the plan sponsors can enter into agreements where the surplus attributable to employers, including the province, can be adjusted to offset any benefit improvements or surplus payouts provided to plan members. The requirement for the province to match employee contributions at 100% may not carry when such agreements are in place.*"

- With respect to the fifth bullet, the possibility of the present value of future employee required contributions being equal to nil was not discussed on the call. This result would be difficult to justify given that employees are currently required to contribute to the plan. However, there was discussion on the call that the level of required employee contributions is not directly tied to the potential use by the province of its share of any usable surplus in the future. As such, we propose that the fifth bullet be replaced with the following:

  "It is reasonable to assume that the province's use of its share of usable surplus in the future is not tied to the level of future required employee contributions. The requirement for the province to match future employee required contributions at 100% may not carry during periods of surplus usage given the different ways in which the plan sponsors can utilize their share of the surplus that may arise in the future."

We note that in a subsequent discussion between Mercer and E&Y, clarification was also requested about whether Mercer's January 26, 2018 letter to Mary Cover included information on "*the minimum contributions the government is required to make regardless of surplus*" under paragraph 057 of PSAS 3250. We confirm that our January 26, 2018 letter included no information on the minimum contributions that the government is required to make regardless of surplus. We were only asked to provide calculations on two of the three items described in paragraph 057 of PSAS 3250: the present value of future accruals for service and the present value of future required employee contributions.

Please do not hesitate to contact us if you require any additional clarification.

Sincerely,

Scott Cla

Scott Clausen, FSA, FCIA
Partner

Attachment
cc: Mary Cover, Ontario Teachers' Pension Plan
Lise Houle, Mercer
Uros Karadzic, E&Y
Elizabeth Doherty, Ministry of Finance
Alex Killoch, Ministry of Finance
Mark Donaldson, Treasury Board Secretariat

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Ontario

July 31, 2018

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

I understand based on discussion with Uros Karadzic from EY, the following bullets reflect the key points discussed on the call between Uros Karadzic, Scott Clausen, Lise Houle and yourself on July 26, 2018 regarding the Ontario Teacher's Pension Plan. Could you please review and confirm that you are in agreement with the bullets, or if not, provide any amendments required to reflect your understanding of the key points of the discussions:

- During the actuarial call on July 26, it was clarified that the present value calculations presented in the letters to Mary Cover on January 26, 2018 and discussed further in July 2018, were calculated under the assumption that the plan terms and the contribution rates remain indefinitely as they currently are today

- Looking longer term, with reference to funding management policy (FMP), it is reasonable to expect that the contribution and benefit levels would change in response to an emerging surplus in the plan. For example, the employees could chose to apply some of the surplus to improving benefits, while the province could chose to reduce contribution rates. The 50/50% sharing mechanism would be maintained.

- There is no requirement under FMP or otherwise that any contributions continue regardless of any surplus in the plan. In other words, if there are surplus assets in the plan, the plan sponsors (employees and the province) can chose to use that surplus, while maintaining 50/50% sharing mechanism, in various ways including reducing contributions. There is no minimum level of contributions that must continue regardless of any surplus.

- The requirement for the province to match employee contributions at 100% may not carry past the point that surplus emerges. FMP also contemplates payout of surplus to the plan members (but likely not the province).

- Therefore, while the above referenced calculations are actuarially correct if one assumed no changes to contribution rates of benefits at any point in the future, if we were to take a broader view of present valuing only those contributions that would have to be made regardless of any surplus in the plan, such present value would be nil (since there is no requirement for any minimum level of contributions even if the plan was already in a surplus position).

We would appreciate if you could respond at your earliest convenience, and if possible by August 3, 2018.

Regards,

Cindy Veinot

Cindy Veinot
Assistant Deputy Minister & Provincial Controller

c. Uros Karadzic, EY
Scott Clausen, Mercer
Lise Houle, Mercer
Elizabeth Doherty, Ministry of Finance
Alex Killoch, Ministry of Finance
Mark Donaldson, Treasury Board Secretariat