FW: Pension Asset Panel

From: "MacIntyre, Kyle (TBS)" <kyle.macintyre@ontario.ca>
To: "Kwamena, Boafoa (CAB)" <boafoa.kwamena@ontario.ca>, "McLean, David (MOF)" <david.mclean@ontario.ca>
Date: Fri, 01 Sep 2017 13:10:07 -0400
Attachments: PA 2016-17_NR_Backgrounder_Acct Changes_v6_DirADM_20170829.docx (50.69 kB); PA 2016-17_Backgrounder_Qualified Opinion_v1.docx (43.01 kB)

Just a FYI.

We're also plugging away on the tech deck, which we hope to share later today.

Pw: Ontario150

From: Sullivan, Bryant (TBS)
Sent: August-31-17 2:29 PM
To: MacIntyre, Kyle (TBS)
Cc: DiMuzio, Sofie (TBS)
Subject: RE: Pension Asset Panel

Hi Kyle,

We're addressing the pension issue in both our proactive media backgrounder and our reactive QsAs (below).

For the backgrounder, there are two options in play – one that speaks to all 4 accounting changes in a neutral, factual way, and another that speaks to the basis of the qualified opinion, and the government's position on those items. We're likely going to combine both backgrounders into one so it speaks to both the changes, and the basis for qualification. This can be used to supplement the technical briefing.

We're also trying to get a copy of the Deloitte summary letter and the EY analysis letter (if there is one). We can also reference the Panel's report on OPSEUPP/OTPP, and the supplemental on HOOPP/CAATPP.

Bryant

Q. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. What was the panel's rationale for its decision?

The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan, confirming the independent panel's recommendation.

Q. The Auditor General was critical of the panel's authority and credibility. What's your response to this?

The panel members are all highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.
- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.
- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.
- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

The panel was completely independent from government, and arrived at its advice based on its own analysis of this complex issue.

Q. How much did you pay the panel members? Do you think that money was justified?

The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

From: MacIntyre, Kyle (TBS)
Sent: August-31-17 8:57 AM
To: DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS)
Subject: Pension Asset Panel

Hi Sof / Bryant –

Can you have one of your peeps send me all the products we are using/developing to address the pension asset issue for the roll out of PA?

thx

K.