

PENSION ASSET EXPERT ADVISORY PANEL

SUPPLEMENTAL REPORT

Mandate of the Panel

The Pension Asset Expert Advisory Panel (the Panel) was formed to consider:

- The requirement regarding control with respect to recognizing a pension asset for joint defined benefit plans.
- The requirement regarding control with respect to recognizing a pension asset for other pension plans.
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- Recommendations to the Employment Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

The Panel issued a report in February 2017 (the “Report”) as a result of reviewing the arrangements relating to two jointly sponsored defined benefit pension plans, specifically the Ontario Teachers’ Pension Plan (OTPP) and the Ontario Public Service Employees’ Union Pension Plan (OPSEUPP). This Supplemental Report considers the recognition and measurement of pension assets for two jointly sponsored multi-employer plans, specifically the Colleges of Applied Arts and Technology Pension plan (CAATPP) and the Healthcare of Ontario Pension Plan (HOOPP) (individually a “Plan” and collectively the “Plans”).

Nature of the pension plans examined

Both plans considered in this Supplemental Report are jointly sponsored defined benefit, multi-employer plans regulated pursuant to the Ontario Pension Benefits Act R.S.O. 1990, c.P.8 (“Ontario PBA”). The relevant legislation and contractual arrangements governing the Plans that were made available to the Panel are listed in Appendix A and key facts have been summarized below for each Plan. The Panel also met with Senior Executives of CAATPP and HOOPP to enhance and clarify its understanding of the arrangements.

CAATPP – structure and organization

Sponsors

CAATPP is jointly sponsored by three organizations:

- the College Employer Council (CEC), as the employer sponsor (representing an employer group of 24 Ontario colleges);
- the Ontario Public Service Employees Union (OPSEU), as an employee sponsor; and,
- the Ontario College Administrative Staff Association (OCASA), as an employee sponsor.

These three organizations appoint members to the Sponsors' Committee and to the Board of Trustees as follows:

- Sponsors' Committee includes 4 employer representatives and 4 employee representatives.
- Board of Trustees includes 6 employer representatives and 6 employee representatives.

Fourteen other employers also currently participate in the plan. These employers are not sponsors and do not participate in decision-making as they do not have any representation on, or power to appoint members to, the Sponsors' Committee or Board of Trustees.

The Board of Trustees is responsible for the administration of the pension plan and investment of the pension fund assets. It develops and implements an investment strategy, pays pension benefits, authorizes the preparation of actuarial valuations and generally manages the pension plan and fund.

Decision making

Decisions over contribution levels, benefit levels and funding decisions are made by the Sponsors' Committee, subject to the Ontario PBA. The Sponsors' Committee created a funding policy consisting of six funding bands. These bands guide decisions on the level of benefits, reserves and contributions. The Board of Trustees makes recommendations to the Sponsors' Committee on the use of funding surpluses or the elimination of funding deficits, but the decisions to change benefits, reserves or contributions levels ultimately rest with the Sponsors' Committee.

The Sponsors' Committee makes decisions by unanimous agreement of all eight members. There is no dispute resolution mechanism. Unanimous agreement between all Sponsors has been achieved to date, based on a mutual understanding of the objectives of the plan.

Funding arrangements

Under the Plan each employer matches its employees' contributions to the plan, which are set out in the Plan text.

The Plan text provides that deficiencies will be funded through increased contributions, and that surpluses will be utilized to increase certain specified benefits and then in any manner directed by the Sponsors' Committee.

There is no pre-determined allocation of surplus to the individual parties. The Sponsors' Committee developed the funding policy in line with the objectives of benefit security, stable contributions and equity among member groups.

The Sponsors are responsible for ensuring the Plan is adequately funded in accordance with the Ontario PBA. The Panel understands that the Ontario Provincial Government has not explicitly guaranteed that the Plan will be able to meet its pension obligations. Any funding of participating colleges by the Ontario Provincial Government is determined based on budgets, separately from and not directly linked to, or dependent on, the level of employer contributions to the Plan.

HOOPP – structure and organization

Sponsors

HOOPP is jointly governed by five settlor organizations:

- the Ontario Hospital Association (OHA), as the employer settlor (representing its members which are hospitals and other health care organizations);
- the Ontario Nurses Association (ONA), as a settlor union representing employees;
- the Canadian Union of Public Employees (CUPE), as a settlor union representing employees;
- the Ontario Public Service Employees Union (OPSEU), as a settlor union representing employees; and,
- the Service Employees International Union (SEIU), as a settlor union representing employees.

These five organizations appoint members to the Board of Trustees as follows:

- Board of Trustees includes 8 trustees appointed by the OHA, and two trustees appointed by each of ONA, CUPE, OPSEU and SEIU.

Other employers, such as some health agencies, also participate in the plan. These employers are not sponsors and do not have a representative organization that participates in decision-making through the power to appoint members to the Board of Trustees.

Decision making

Unlike the other three Plans the Panel has considered, there is only one formally constituted decision-making body for HOOPP. The HOOPP Board oversees all material aspects of the Plan and the Fund. The Board's duties include:

- approving changes to the Plan and benefits;
- setting contribution levels;
- determining how to fund deficiencies or utilize surpluses;
- establishing investment policy;
- monitoring investment performance;
- approving annual operating budgets; and
- paying benefits and performing other administrative functions for the Plan.

Decisions are made by majority decision with at least one Trustee appointed by an employee group voting in favour.

Funding arrangements

Member contributions are set out in the Plan text and employer contributions are determined by applying a funding formula that has been determined by the Board of Trustees, resulting in employer contributions being between 120%-150% of member contributions.

The risk of a decline in the funding status of the Plan is shared between the employers and employees through the contribution levels set in the Plan text, as determined by the Board of Trustees. In making funding decisions the Board of Trustees acts in a fiduciary capacity and makes decisions for the long-term health of the plan, which may include changing contribution levels or benefit levels at its discretion.

The Panel understands that the Ontario Provincial Government has not explicitly guaranteed the Plan will be able to meet its pension obligations. Any funding of participating hospitals by the Ontario Provincial Government is determined separately from and not directly linked to, or dependent on, the level of employer contributions to the Plan.

Relevant accounting guidance applied to multi-employer pension plans

Like both the pension plans discussed in the Report, both CAATPP and HOOPP are jointly sponsored pension plans. However, unlike OTPP and OPSEUPP, the college and hospital employers are collectively represented by the CEC and OHA, respectively, as employer sponsors. The Ontario Provincial Government has no direct involvement in the Plans. Individually, each college or hospital employer is not a plan sponsor. They are participating employers in the Plans. Consequently, the Panel considered guidance within PS 3250 specific to multiemployer plans in addition to the guidance on joint defined benefit plans. PS 3250 defines a multiemployer plan as follows:

A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities. [PS 3250.GLOSSARY]

Various provincially-controlled government organizations contribute to both CAATPP and HOOPP along with other organizations not controlled by the Ontario Provincial Government. Accounts are not segregated for each employer – the assets of each Plan may be used to provide benefits to employees of all of the participating employers. The Panel therefore concluded that both CAATPP and HOOPP meet the definition of a multiemployer plan.

A participating entity that is not a sponsor follows the standards for defined contribution plans in accounting for a multiemployer plan [PS 3250.110]. PS 3250.109 notes that the reason for following defined contribution accounting is that sufficient information to apply defined benefit accounting is not normally available. However, unlike some other accounting frameworks, PS 3250 does not require a non-sponsor participating employer to use defined benefit accounting even in cases when sufficient information to do so is available.

The sponsor of a multiemployer plan follows the standards for defined benefit plans in accounting for its obligation for the plan [PS 3250.108]. While “sponsor” is not defined in PS 3250, guidance indicates that a sponsor is the government entity that has the responsibility to ensure that the defined benefits promised to employees are met. In such cases, the government entity is at risk from future experience gains and losses [PS 3250.107]. Only the sponsor is required to apply defined benefit accounting under PS 3250.

The Panel also considered relevant accounting guidance on financial statement concepts including the definition of an asset, defined benefit pension plans, and joint defined benefit pension plans as included in the Report.

Recognition

Should the Ontario Provincial Government recognize an asset for any net pension surplus in CAATPP and HOOPP?

Historically, the Ontario Provincial Government has accounted for both CAATPP and HOOPP by recognizing a liability that equates to the employers' share of the net pension obligation (based on contribution rates). The employer's share for HOOPP is further pro-rated for the proportion of active plan members that are employed by the hospitals consolidated in the Ontario Public Accounts. In other words, the Ontario Provincial Government has not simply applied the defined contribution accounting used in the financial statements of the individual colleges/hospitals but has made a consolidation adjustment with respect to their portion of the pension obligations of CAATPP and HOOPP.

The Panel's analysis is based on the Ontario Provincial Government's current policy of recognizing the consolidated colleges/hospitals employers' share of the plan deficit or surplus.

Panel view – Recognition

A sponsor or joint sponsor recognizes and measures a defined benefit plan in accordance with PS 3250 regardless of whether the plan is in a net pension asset or a net pension liability position and applies the Asset Ceiling Test to any resulting net pension asset (see *Measurement* below). If a net pension asset results, a sponsor recognizes the net pension asset and a joint sponsor recognizes its portion of a net pension asset, both subject to the application of the Asset Ceiling Test. This is consistent with the analysis of joint defined benefit plans in the Report.

The relationship between the Ontario Provincial Government and the Plans determines whether a net pension asset could be recognized in accordance with PS 3250.

Measurement

How should the Ontario Provincial Government apply the Asset Ceiling Test to any net pension asset recognized in respect of CAATPP or HOOPP?

As discussed in the Report, surplus withdrawals are highly regulated by the Ontario PBA. No future benefit exists in accordance with PS 3250.056 (b) in respect of plan surplus withdrawals for either CAATPP or HOOPP.

In determining the future benefit that is available through a reduction in future contributions, the Panel observed that the Ontario Provincial Government has no decision-making rights regarding contribution levels for either CAATPP or HOOPP.

For CAATPP, the Sponsors' Committee determines the employers' and employees' contributions to the Plan. The employers are represented by CEC on the Sponsors' Committee. However the Ontario Provincial Government has stated that they do not control CEC (it is not consolidated), and therefore cannot control the decisions made by CEC representatives on the Sponsors' Committee.

For HOOPP, the Board of Trustees determines the employers' and employees' contributions to the Plan. The OHA can appoint 8 Trustees. However, the Ontario Provincial Government has stated that they do not control OHA (it is not consolidated), and therefore cannot control the appointments to the Board of Trustees. Further, HOOPP Trustees act primarily in a fiduciary capacity in making decisions regarding contributions, benefits and reserves, not as representatives of the Settlers.

The Ontario Provincial Government does not have control or joint control over the decisions regarding contribution levels or benefit changes. Consequently, it does not have the ability to reduce the contributions made by public sector employers that would support recognition of any future benefit from a plan surplus. Rather, that decision is made by the Sponsors' Committee (CAATPP) or the Board of Trustees (HOOPP). This decision-making process means that the Ontario Provincial Government can benefit from any surplus only indirectly as a result of decisions that are outside its control.

Therefore, a full valuation allowance would be applied to any net pension asset for CAATPP or HOOPP that would be recognized in accordance with PS 3250.

Panel view – Measurement

The Panel concluded that the application of the Asset Ceiling Test in PS 3250 would likely require a full valuation allowance being recorded for any net pension asset recognized in respect of CAATPP and HOOPP in the Ontario Public Accounts. The possibility exists that a full valuation allowance would not be required. This could be the case if, for example, the sponsors entered into a firm multi-year commitment to reduce contributions below the current service cost level.

It is important to note that without such a commitment the Ontario Provincial Government will recognize a benefit if, and when, the surpluses in HOOPP and CAATPP are used to reduce employer contributions. This is because as the surpluses are used, the recognized net pension assets will go down. The valuation allowance will no longer be required so will be reduced by the same amount as the asset, resulting in a reduction of pension expense in the Ontario Public Accounts. It is not that the

Ontario Provincial Government will never benefit from the surpluses; it is the absence of decision-making authority that requires the valuation allowance to be recorded.

Recommendations to PSAB Employment Benefits Task Force

The Panel supports PSAB's initiative to review the current standard on employment future benefits, including the multiemployer guidance. The Panel recommends that the PSAB Employment Benefits Task Force consider the following areas when reviewing the accounting for jointly sponsored multiemployer plans:

- Enhancing the definition of a plan Sponsor and providing guidance as to whether an employer sponsor of a joint defined benefit plan must be a government or can be a broader public sector entity or industry association.
- Considering whether it is appropriate for a participant to use defined benefit accounting if the information to do so is available.
- Clarifying if a plan should be first assessed as a joint defined benefit plan and then as a multiemployer plan or the other way around.

Appendix A – Pension Plan Governing Arrangements

CAATPP

- The *Ontario Colleges of Applied Arts and Technology Act, 2002*, S.O. 2002, c. 8, Sched. F (Link to the [Ontario Colleges of Applied Arts and Technology Act](#));
- The *Pension Benefits Act*, R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the [Pension Benefits Act](#));
- The plan text for CAATPP (Link to the [CAATPP plan text](#)).

HOOPP

- The *Public Hospitals Act*, R.S.O. 1990, c. P.40 (Link to the [Public Hospitals Act](#));
- The *Pension Benefits Act*, R.S.O. 1990, c. P.8 and the regulations thereunder (Link to the [Pension Benefits Act](#));
- The plan text for HOOPP (Link to the [HOOPP plan text](#)).

Appendix B - Accounting references

Canadian Public Sector Accounting Standards - from the CPA Canada Public Sector Accounting Handbook¹

Note: certain sections from Appendix B of the Report have been repeated here for convenience. Please refer to Appendix B – accounting references of the Report for a complete listing of accounting references considered.

PS 3250, Retirement Benefits

PS 3250.50-.59 Limit on the carrying amount of an accrued benefit asset

- .050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.
- .051 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.
- .052 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.
- .053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).
- .054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as

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Appendix A to this Section is intended to set out the relationship between the various defined terms.

- .055 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.
- .056 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; and
 - (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.
- .057 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.
- .058 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.
- .059 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.

***PS 3250.105-.111 Multiemployer and multiple-employer benefit plans -
Multiemployer plans***

- .105 A multiemployer plan is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and thus may be used to provide benefits to employees of all participating entities.
- .106 The federal and most provincial governments sponsor defined benefit plans in which many public sector organizations participate. Many local governments participate in such multiemployer plans. When benefits are provided to employees through a multiemployer plan, the amount for which an individual government is obligated under the plan may not be quantified. Generally, a contribution rate is established for each period to ensure that the plan assets are adequate to cover the plan's future benefit payments.
- .107 When a government sponsors a defined benefit multiemployer retirement benefit plan, it has the responsibility to ensure that the defined benefits promised to employees are met. In that circumstance the sponsoring government is at risk for future experience gains or losses and would account for its related obligation for the entire multiemployer plan as a defined benefit plan.
- .108 When a government sponsors a defined benefit multiemployer retirement plan, the government should follow the standards for defined benefit plans in accounting for its obligation for the plan.
- .109 Although a multiemployer plan may have the characteristics of a defined benefit plan, sufficient information to follow the standards for defined benefit plans is normally not available for each participating employer other than the sponsoring government. For this reason, a multiemployer plan is accounted for by each participating government following the standards for defined contribution plans.
- .110 When benefits are provided to employees through a multiemployer retirement benefit plan, each entity participating in the plan, other than the sponsoring government, should follow the standards for defined contribution plans.
- .111 The government should disclose any available information about any surplus or deficit in a multiemployer plan, the basis used to determine the surplus or deficit and the implications, if any, for the government.