RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

From: "Hosick, Sarah (TBS)" <sarah.hosick@ontario.ca>
To: "Cusumano, Josephine (TBS)" <josephine.cusumano@ontario.ca>, "Bigley, Jane (TBS)" <jane.bigley@ontario.ca>
Cc: "Danek, Mary (TBS)" <mary.danek@ontario.ca>
Date: Fri, 21 Oct 2016 12:57:01 -0400

Hi Josephine,

Cindy has an opening from 10:15-12:45 currently. Please advise if there is a time in that window that will work on your end.

Thanks
Sarah

From: Cusumano, Josephine (TBS)
Sent: October-21-16 12:02 PM
To: Bigley, Jane (TBS); Hosick, Sarah (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Jane and Sarah – thanks for this response.

Kyle would like us to set up a chat with Sebastian in lieu of providing a written response, to ensure he understands the nuances/issues at hand. I think there may be a couple of issues being conflated and we'd like to ensure he understands the details.

Sarah, can you give me any windows om Monday where Cindy could sit on a call with Sebastian and the DMO? Thanks!

From: Bigley, Jane (TBS)
Sent: Friday, October 21, 2016 10:17 AM
To: Cusumano, Josephine (TBS)
Subject: FW: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Morning Josephine,

Just wondering if we can send this response to MO now…
I believe Sebastian needs it today.

Thanks
Jane

From: Smith, Emilie (TBS) <Emilie.Smith@ontario.ca>
Sent: Thursday, October 20, 2016 10:13 AM
To: Cusumano, Josephine (TBS)
Cc: Bigley, Jane (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Josephine,

OPCD has made some adjustment to make the response more appropriate for a media audience and they have confirmed that we have not previously disclosed the funding valuation for the place, but note that it is public information available on the plans' websites. Please let me know if this is ok to share with the MO.

Many thanks,
Emilie

The Province follows Public Sector Accounting Standards (PSAS) in estimating and reporting pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) independently establishes accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada.

An accounting valuation is performed using the Province's best estimate of future events including expected inflation, salary escalation rates and investment returns on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the reporting period or a point in time. The objective of reporting pension expense under PSAB's accrual accounting standards is to report the pension expense attributed to the pension benefit earned over the employees' working life. The discount rate used in estimating the pension liabilities for both the OPSEUPP and the OTPP plans as of March 31, 2016 is 6.25%.

For purposes of assessing funding obligations, the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) use different discount rates of 4.8% and 5.55%, respectively. The objective of the funding based valuation is to calculate the contributions required to ensure sufficiency of funds availability to service future benefits as they come due. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of $13.2 billion, and OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

From: Cusumano, Josephine (TBS)
Sent: October-19-16 4:21 PM
To: Bigley, Jane (TBS)
Cc: Smith, Emilie (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Jane – can you check in with OPCD and confirm that they think this response is appropriate for a media audience? Have we communicated any of this information publically in the past?

I chatted with Sebastian, and we can take until Friday morning to finalize this. Can we receive a revised response or confirmation by 4pm on Thursday.

From: Cusumano, Josephine (TBS)
Sent: Wednesday, October 19, 2016 2:04 PM
To: Bigley, Jane (TBS)
Cc: Smith, Emilie (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

This most definitely addresses my questions – thanks so much. I will share with Kyle and confirm if he has any follow-up questions.

From: Smith, Emilie (TBS)
Sent: Wednesday, October 19, 2016 1:52 PM
To: Cusumano, Josephine (TBS)
Cc: Bigley, Jane (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Josephine,

OPCD has come back with the following. I also confirmed that the $13.2 billion and $8 million are using the discount rates of the plans itself and not the province's rates. The surplus for the plans are based on the plans funding valuation. OPCD does not have the actuarial information to calculate the net pension assets for accounting purposes using the individual plan rates.

Jane in our office will be handling any other revisions you may have as I'm about to leave for the day. I've cc'd her on this email. She will also send the response to Sebastian once you and Kyle are ok with the response.

Many thanks,
Emilie

The Province follows Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. The Public Sector Accounting Board (PSAB) of the Chartered Professional Accounts Canada (CPA) has the authority to set accounting standards for the public sector. PSAB standards represent generally accepted accounting principles (GAAP) for governments in Canada and are the primary source for public-sector accounting guidance in Canada.

An accounting valuation is performed using the Province's best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The purpose of an accounting valuation is to measure the pension benefits obligation at the end of the period or a point in time. The purpose is to attribute the cost of the pension benefit earned over the employees' working life. The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee Union Pension Plan (OSPEUPP) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (https://www.otpp.com/ for OTPP and http://www.optrust.com/ for OPSEUPP). The most recent funding valuation for OTPP (as of January 1, 2016) reported a preliminary funding surplus of $13.2 billion, and for OPSEUPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different, the discount rates and the methodologies used for the valuations differ.

From: Cusumano, Josephine (TBS)
Sent: October-19-16 8:45 AM
To: Smith, Emilie (TBS)
Subject: Re: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Importance: High

My questions are in red - please resend a revised response asap. Kyle will have to review following.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Smith, Emilie (TBS)
Sent: Wednesday, October 19, 2016 7:59 AM
To: Cusumano, Josephine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Originally, Sebastian had asked for the response for 10am this morning. Sebastian asked for the one-liner yesterday in the meantime while the larger response was developed.

He also asked what the assets would look like using the pension fund discount rates. I'll confirm with Sarah that the figures below are in fact using the pension funds discount rate.

-Emilie

From: Cusumano, Josephine (TBS)
Sent: October-19-16 7:56 AM
To: Smith, Emilie (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Thanks, we'll review. When is this due back? I see a yesterday deadline but I'm assuming it's not for this request.

From: Smith, Emilie (TBS)
Sent: 2016-10-19, 7:49 AM
To: Cusumano, Josephine (TBS)
Subject: FW: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline
Hi Josephine,

OPCD provided the below in response to the MO's question regarding Pension Asset Value. Do you have any concerns with sharing the below? I've also included the original ask below as well.

Thanks,
Emilie

From: Hosick, Sarah (TBS)
Sent: October-18-16 3:37 PM
To: Makrigeorgos, Niki (TBS); Smith, Emilie (TBS)
Cc: @TBS-L-Issues and Media; Lin, Kim (TBS); Srimurugan, Liya (TBS); Bissoon, Nadine (TBS)
Subject: RE: New Question RE: MO Question: Pension Asset Value - 10:30 am deadline

Hi Emilie,

Please see below for the response prepared by OPCD:

The Provinces (all of them?) follow Public Sector Accounting Standards (PSAS) in estimating their pension liabilities. (who writes these standards, so we can reinforce legitimacy) An accounting valuation is performed using management's (do we need to say management or can we say: the Province's) best estimate of future events including expected inflation, salary escalation and investment return on plan assets. The accounting valuation measures the pension benefits obligation at the end of the period or a point in time, in order to attribute the cost of the pension benefit obligations to the period related to services that have been rendered. (what does this previous sentence mean, thinking of a public audience) The discount rate used for both of these plans as of March 31, 2016 is 6.25%.

The OTPP (spell out) and OSPEUPP (spell out) discount rates of 4.8% and 5.55% are the discount rate used in their funding valuations. The funding basis valuation is performed to calculate the contributions required to secure the benefits promised. The results of the most recent funding valuations are available on the websites of the plans (do the plans have websites or the pension organizations - what can we call them). The most recent funding valuation for OTPP (as of December 31, 2015) reported a funding surplus of $8 million.

Because the purpose of a valuation for accounting versus funding is different (is this fact mentioned above? If not, should we mention and briefly say why), the discount rates and the methodologies used for the valuations differ.

Thanks,
Sarah

From: Smith, Emilie (TBS)
Sent: October-18-16 7:54 AM
To: Hosick, Sarah (TBS)
Cc: @TBS-L-Issues and Media
Subject: MO Question: Pension Asset Value - 10 am deadline
Importance: High

Hi Sarah,

The MO has a question from the two articles below that appeared in the clips this morning. I've included both articles below. They would like to confirm the rates that we discount our pension liabilities and the rates OTPP and OPSEUPP plans discount themselves. They would also like to know what the pension assets would look like using the pension fund discount rate. I've included the full question from the MO below as well. They've asked if this is readily available they would like it by **10am today**, if this is something that would need to be calculated, tomorrow at 10am would be great.

Can you please confirm if you're able to provide this information this morning or if it will need to be calculated.

Many thanks,
Emilie

> They report that we discount our pension liabilities at 6.25%, and that the OTPP and OPSEUPP plans respectively discount themselves at 4.8% and 5.55%. At least in OTPP's case, I was made to understand that even using the pension plan's own discount rate, the plan was still overfunded.
>
> If that's the case, it somewhat renders much of the hypothetical argument presented moot, and (if it continues) brings us back into a space were we are discussing what discount rate to use, and not if we can consider future contribution holidays as an asset for jointly sponsored pension plans.
>
> Would we be able to find out what the assets look like using the pension fund discount rates?
>
> If the asset value as reported by OTPP and OPSEUPP is something they have on hand readily, it would be great for Question Period today (10:00)
>
> If the number isn't on hand, and it needs to be calculated, then 10:00 would be great.

Wynne government is missing the big picture on Ontario finances (Waterloo Record)

Waterloo Region Record

Tue Oct 18 2016
Page: A6
Section: EDITORIAL
Byline: Ben Eisen and Charles Lammam
The Ontario government is reportedly in a spat with the province's auditor general about the size of last year's deficit. The auditor general pegs the shortfall at $5 billion, whereas the government, using a different accounting method, says it's somewhat lower at $3.5 billion.
It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As we approach the next election, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget. So Premier Wynne's team has a big incentive to push back against dissenting views.
The source of the dispute hinges on the government's desire to use a surplus from public-sector pension plans to cover its operating deficit. The auditor general disagrees.
We hope that proper accounting practices prevail in the end. But in bickering with the auditor general over the precise size of last year's operating deficit, and with its fixation on being able to announce a balanced operating budget next year, the provincial government completely misses the bigger picture. Regardless of the exact size of the government's operating budget balance this year or next, provincial finances are in bad shape and the Wynne government must develop a credible plan to repair them.
To understand why, we first need to distinguish between a government's "deficit" and its "debt." A government's deficit is the difference between its annual revenues and spending (including debt service payments). A government's debt, meanwhile, represents all the outstanding financial liabilities it has accumulated throughout its history.
Even if the government is finally able to claim no deficit next year, the mountain of debt accumulated over the past nine years will still be there. Just how big is this mountain? Since 2007, Ontario has seen its net debt (a measure of debt that adjusts for financial assets) approximately double, climbing from $157 billion to $308 billion. That's about $21,000 per Ontarian. Servicing all of this debt will burden Ontarian taxpayers for many years.
A balanced operating budget next year won't address this debt burden. In fact, the government's own Financial Accountability Office (FAO) projects that provincial debt will continue to climb in years ahead, reaching $350 billion by 2020/21.
How can this be the case? Two reasons.
First, Ontario will accumulate new debt because the Wynne government plans to ramp up capital spending on things such as roads and bridges, which will be financed by more debt. The province can add debt, despite having a balanced operating budget, because its capital and operating budgets are accounted for separately. Indeed, the operating budget can be balanced at the same time the capital budget is in deficit.
Second, the balanced operating budget in 2017/18 may be tenuous. According to the FAO, the government has not done enough to bring spending sustainably in line with revenues. Without policy reform, the province will likely slip back into operating deficits after just one year of a balanced budget.
The Wynne government is nonetheless determined to spin the projected balance budget for 2017/18 as evidence of prudent management of public finances and justification to further loosen the purse strings, especially to provide yet even higher pay to public-sector employees (again, just in time for the election).
It's a politically appealing narrative, but it doesn't withstand scrutiny. The Wynne government has no plan to pay down the debt, and actually plans to pile on more. The work of repairing Ontario's battered finances remains undone.
Ben Eisen and Charles Lammam are analysts with the Fraser Institute (www.fraserinstitute.org).
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Memo to Ontario Taxpayers - Auditor General’s Objections to Ontario’s Pension Accounting are the Tip of a Fiscal Iceberg (C.D.

Howe Institute)

From: Bill Robson and Alexandre Laurin

To: Concerned Ontarians

Date: October 17, 2016

Re: Memo to Ontario Taxpayers - Auditor General's Objections to Ontario's Pension Accounting are the Tip of a Fiscal Iceberg

The release of Ontario's public accounts for the 2015/16 fiscal year in early October featured an unusual tussle between the government and the provincial Auditor General (AG). The AG's unwillingness to approve Ontario's treatment of public sector pensions in its consolidated financial statements prompted the government to issue unaudited statements – an unprecedented move. While Ontario released audited statements shortly afterwards, with a qualified opinion from the AG, issues at stake in this dispute are larger – and more problematic for Ontario taxpayers – than they look.

The dispute over the public accounts centres on the government's treatment of the Ontario Teachers Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its financial statements. The province has been netting pension assets against pension liabilities related to these plans, reducing the reported provincial debt and improving its annual results, lately reducing the provincial deficit. The provincial AG, Bonnie Lysyk, objects to that treatment .

The main issue highlighted in Ms. Lysyk's statement on the dispute is that the province has no certain access to any funding surplus that may arise in these pension plans, which are jointly-governed risk-sharing plans. For taxpayers to benefit from a surplus, the partners governing these plans would have to agree to reduce government contributions. The fact that OTPP is using some of its recorded surplus to partially restore inflation increases for accruing benefits supports the AG's interpretation.

Ms. Lysyk has argued for a valuation allowance annihilating the effect of these surpluses on the balance sheet. And in the documents it has now released, the province did include an allowance related to these plans – increasing the province's reported debt by $10.7 billion, and worsening its annual deficit from $3.5 to $5.0 billion. If the province were to restate previous years' results similarly, it would satisfy Ms. Lysyk's objections. But problems with Ontario's pension accounting are much bigger than this.

The AG's statement does not mention it explicitly, but the province gets these positive pension-related values by understating the value of its pension promises. Private-sector sponsors of defined-benefit pension plans must value their liabilities by discounting future payments at rates reflecting the debt-like nature of these obligations: the yields on bonds of appropriate credit quality. However, Ontario, like governments elsewhere, discounts future pension promises using generous assumed rates of return on assets. This practice understates public-sector pension benefits and the costs of employee compensation .

Ontario discounts OTPP and OPSEUPP liabilities at 6.25 percent for its financial statements. While not as high as the discount rate used by bankrupt Detroit, it is far above Ontario Savings Bonds – currently 2.2 percent . And – a particular sticking point for the AG – it is above the rates the plans themselves use – 4.8 and 5.55 percent. Using a more appropriate discount rate would show not pension surpluses, but deficits – and likely big ones.

Ms. Lysyk has brought part of the problem with Ontario's pension accounting to light. But taxpayers in Ontario, like their fellows elsewhere in Canada, are still exposed to risks much larger than their governments admit.

Alexandre Laurin is Director of Research, and Bill Robson is the President and CEO of the C.D. Howe Institute.

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