Pension Asset Expert Advisory Panel Briefing

January 9 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the ‘Panel’)’s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario’s net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).

- The expert panel (See Appendix A) was established November 10 to review the PSAS accounting for pension assets in jointly sponsored plans and provide advice to the government. (See Appendix B for Terms of Reference)

General

- Panel held four all-day meetings.
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government’s accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG’s accounting conclusions

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear

- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued

- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
  - it exists, and
  - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan
- Unilateral control not necessary for asset recognition:
  - in fact cannot exist in JDBPs
  - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit
  - Each sponsor can recognize an asset relating to its portion of that jointly controlled asset

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements
- Recognizing the asset will provide a faithful representation of the Province's financial position
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes
- Expected future benefit is determined as difference between:
  - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
  - required minimum contributions regardless of surplus in plan

  both on a present value basis

Measurement of asset

- Meaning of "level of minimum contributions required regardless of any surplus" not clear
  - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions

Measurement of asset

Conclusion

- In all analyses with different interpretations of "minimum contributions", present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Recommendations to PSAB Task Force

- Clarify guidance regarding sponsor's ability to access expected future benefits
  - Distinguish requirements for surplus withdrawals from contribution reductions
  - Specifically discuss control requirements in JDBPs

- More guidance needed on determining minimum contributions when future contributions are dependent on funded status of plan and are negotiable

- Deferral accounting can result in recognition of an asset when the plan is in fact in a deficit because of unamortized losses. Inclusion of item in balance sheet that does not represent an economic resource is not representationally faithful

Recommendations to PSAB Task Force

- Task Force should consider:
  - whether the method used to settle an obligation should affect how that obligation is measured, and
  - how the risks inherent in the obligation are best captured either in the discount rate or in other aspects of the measurement of the obligation, i.e., are deterministic single point best estimate assumptions with no provision for risk and a single discount rate providing a realistic measure of the liability?
- May be beneficial ask AcSB to consider including additional disclosures in public pension plan financial statements about how the objectives and assumptions in funding valuations differ from those used in the accounting valuation

Timelines and Next Steps

- January 11th – the Chair will begin drafting the Executive Summary and the Panel will meet to discuss the Health Care of Ontario Pension Plan (HOOPP) and College of Applied Arts and Technology Pension Plan (CAATPP).

- January 16th – Completion of final report and Executive Summary for the OPSEUPP and OTPP.

- January 23rd – Draft supplemental report, on HOOPP and CAATPP, submitted to the Panel by the report writer for comments.

- February 3rd – Completion of supplemental report on HOOPP and CAATPP.

Appendix A – Panel Members

- Patricia O'Malley (Chair) (accountant) – Chair of the Canadian Actuarial Standards Oversight Council, formerly Chair of the Canadian Accounting Standards Board, member of the International Accounting Standards Board and technical partner in KPMG Canada's national office

- Uros Karadzic (actuary) – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting

- Murray Gold (lawyer) – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP

- Paul Martin (accountant) – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

Appendix B – Terms of Reference (Scope)

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan
- 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 Employee Future 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.