Office of the Provincial Controller Division
Financial Reporting and Fiscal Support Branch

Adopting the Accounting Recommendations of the Auditor General – Pension Accounting

Issue:

Describe the options for adopting accounting treatments for jointly-sponsored pension plans as recommended by the Auditor General.

Overview:

Net Pension Assets

The Public Accounts currently recognize a net pension asset from the net surplus for accounting purposes of the jointly-sponsored pension plans -- Ontario Teachers' Pension Plan (OTPP) and the OPSEU Pension Plan (OPSEUPP). The accounting for these plans has been consistent since 2001, and was without qualification by the Auditor General until 2016. In 2016, the Province passed a time-limited regulation which changed the province's accounting to reflect the Auditor General's interpretation of the PSAS accounting standards for pensions (PS3250). This regulation was not renewed for 2017 pursuant to the government's acceptance of the Report by the Pension Asset Expert Advisory Panel, supported by an opinion from Deloitte and further analysis by EY, which supported the government's long-standing interpretation of Canadian accounting standards for pensions.

Note that while OTPP and OPSEUPP have historically been discussed together, the plans are not identical. Of the $12.4 billion in net pension assets recognized for these two plans, $11.5 billion is related to OTPP and $0.9 billion is related to OPSEUPP (at March 31, 2017). According to the OPSEUPP Governance Agreement, each sponsor of the OPSEUPP is free to use its allocation of the funding surplus (50%) for benefit improvements or contribution reductions as its sees fit (confirmed by the report of the Pension Asset Expert Advisory Panel). Therefore, OPCD plans to have another discussion with the Office of the Auditor General (OAG) with respect to why the OAG treats both plans similarly, given that the Province has unilateral control over the use of 50% of the funding surplus of OPSUEPP.

The balance of the discussion is related to OTPP.

For the accounting of net pension assets, the government could consider the following options:

- Amend the governance of the OTPP to remove the government's ability to participate decision-making and any determination of access a future economic benefit

Pros	Cons
- Accounting is aligned with the Auditor General's interpretation	- Government gives up its rights as a joint sponsor of the plan, to

make decisions on contributions rates and benefits

- A change in the governance structure would need to be evaluated to determine if it would trigger any other changes regarding how the plan operates

- Work with co-sponsor to determine if the plan performance supports an additional reduction in contributions (as of January 1, 2018, contributions were reduced by 1.1%) to OTPP

Pros	Cons
• A second reduction in contributions would be further evidence to present to the AG to adjust her view	• In the case of OTPP, joint-sponsor may not agree
• Reducing the plan surplus and realizing the benefit provides further evidence that an asset exists	• Timing issue – announcement in April 2018 that there would be no change in contributions or benefits -- $10.3 billion funding surplus to be held as a contingency reserve; not clear that a change could be made until the January 1, 2019 valuation is complete
	• Long-term impact on plan members

- Introduce a regulation to prescribe the accounting for jointly-sponsored pension plans as a permanent accounting policy. This regulation will be noted in the Public Accounts in Note 1 – Significant Accounting Policies as legislated accounting and an exception to Public Sector Accounting Standards.

Pros	Cons
	• AG is not supportive of the use of regulation to define accounting which, in her opinion, deviates from PSAS
	• Senior officials' reservations to attest to impacts of legislated accounting

Delivery/Timelines:

Legislative and/or policy changes invoked prior to the release of the 2018 Public Accounts and specifically applicable would be reflected in the consolidated financial statements. The *Financial*

Administration Act (FAA) requires that the Public Accounts be released within 180 days after the fiscal year end (March 31).

Other Jurisdictions:

For both of these issues, factual circumstances are unique to Ontario and jurisdictional comparison may not be fully reflective of options available to the government.