Accounting for The Colleges of Applied Arts and Technology Pension Plan (CAATPP) and the Hospitals of Ontario Pension Plan (HOOPP)

Issue: Should the Province report the expense and liability of the CAATPP and HOOPP in the Province's consolidated financial statements as defined benefit plans?

Comments:

- PSAB standards do not specifically address how the government should account for multi-employer defined benefits pension plans where the majority of the participating employers are part of the government reporting entity and that the government has no direct or contractual responsibility to ensure that the defined benefits promised to members of the multi-employer plans are met.

- When the Province consolidates the financial activities of colleges and hospitals in its consolidated financial statements, it also picks up the pension expense recorded in colleges' and hospitals' financial statements.

- Pension expense is recorded in colleges' and hospitals' financial statements as a defined contribution plan. The recorded pension expense represents the amount colleges and hospitals are required to contribute to CAATPP and HOOPP in the accounting period. This is because, even though CAATPP and HOOPP are defined benefit plans, each of the colleges and hospitals does not have information on its share of the pension expense and liability to report as a defined benefit plan in their own financial statements.

- By including colleges' and hospitals' revenues and expenses as reported in their financial statements in the Province's financial statements, the Province will essentially be reporting the pension expense of the CAATPP and HOOPP as defined contribution plans.

- The Province has been recording the Ontario Teachers' Pension Plan (OTPP) in the Province's consolidated financial statements as a defined benefit plan since it adopted PSAB accounting because the Province has a contractual obligation to jointly sponsor the OTPP with the teachers.

- If the Province accounts for CAATPP and HOOPP as defined benefit plans in 2005-06, the opening accumulated deficit will be increased by $12 million, the 2005-06 deficit will be decreased by $1 million.

- There are arguments to support and against reporting CAATPP and HOOPP as defined benefit plans in the Province's consolidated financial statements.

- Given the immaterial difference of reporting these pension plans as defined benefits or defined contribution plans in the Province's financial statements as at March 31, 2006, the Province may have an option to account for these pension plans as defined benefit plans when the impact becomes material. However, there is a risk that the Province will be required to recognize the net opening pension liability/asset as an in-year expense in the fiscal year it implements this change. Based on past experience and precedent, it is unlikely that the Office of the Auditor General will support retroactive adjustment for this change. The Province recorded an opening liability for post employment benefits and compensated absences of $255 million as an in-year expense in 2004-05 when it implemented the new PSAB recommendations.

Arguments for not reporting CAATPP and HOOPP as defined benefit plans

- One may argue that since the Province does not have a direct contractual obligation or commitment to employees of colleges and hospitals to ensure that the defined benefits promised are met, PSAB does not require the Province to report the expense and liability of CAATPP and HOOPP as defined benefit plans in its consolidated financial statements.

- Accounting for a pension plan as a defined benefit plan in the Province's financial statements give the impression that the Province is in substance sponsoring or co-sponsoring the plan. Members of HOOPP include, in addition to hospitals, long-term care facilities, community care access centres and other health related organizations. The non-hospital organizations are not currently considered part of the government reporting entity. Consequently, one may question the appropriateness of reporting, even the hospital portion, the expense and liability of HOOPP as a defined benefit plan in the Province's consolidated financial statements.

- As a general rule, PSAB does not intend governments to apply its recommendations to immaterial or insignificant items. Given that PSAB does not address the accounting of this type of pension plans in the government's financial statements and that the impact of reporting these pension plans as defined benefit plans in the Province's consolidated financial statements is currently immaterial, one may argue that the Province is not required to report these plans as defined benefit plans.

Arguments for reporting CAATPP and HOOPP as defined benefit plans

- In the absence of specific PSAB standards, one may argue that the Province should ensure that the economic substance of these pension plans are fairly represented in the Province's consolidated financial statements.

- PS 3250.005 (the Retirement Benefits section of the PSAB handbook) stated that the Retirement Benefits recommendations are based on the PSAB accounting framework. That framework emphasizes the need to account for all liabilities incurred by a government to help legislators, taxpayers, investors and other users of financial statements assess: a government's future cash requirements from taxes and other revenues; its ability to meet financial obligations, both short-term and long-term; and its ability to maintain current services and finance new programs.

- Though the Province's has no direct contractual obligation to ensure the defined benefits promised in CAATPP and HOOPP are met, the Province provides majority of funding to colleges and hospitals. Provincial funding to colleges and hospitals is based on their budgets, which also include their required contributions to CAATPP and HOOPP. If there is a funding loss in CAATPP and HOOPP and thus requires contribution increase from their employers/members, the Province's funding to colleges and hospitals will likely be increased to cover the additional contribution requirement.

- One may argue that the Province is in essence sponsoring these two pension plans through its funding to colleges and hospitals. The fact that the Province now consolidates the activities of colleges and hospitals in its financial statements provides an even stronger support for accounting these pension plans as defined benefit plans in the Province's financial statements to reflect the economic substance of the Province's ultimate obligations.

- Accounting for CAATPP and HOOPP as defined benefit plans in the Province's consolidated financial statements (same as the OTPP) will result in consistent accounting treatment of pension obligations of the newly consolidated broader public sector organizations.