

Accounting by the Province of Ontario for the CAAT Pension Plan

1.0 Preamble

This document addresses the accounting for a net pension asset under Canadian Public Sector Accounting Standards (PSAS) by the Province of Ontario in relation to the Colleges of Applied Arts and Technology (CAAT) Pension Plan.

CAAT engaged its actuary to perform an actuarial valuation for funding purposes as at January 1, 2016. The results of this valuation indicate that CAAT is 110.4% funded. Furthermore, the excess of the total actuarial value of assets as compared to the total actuarial liabilities is held in a funding reserve as per CAAT's Board of Trustees' Funding Policy. The Plan's reserves have increased to \$1.2 billion (up from \$773 million in 2015). As at March 31, 2016, CAAT was not in an accrued benefit asset position for accounting purposes but it is expected to achieve this position in the near future.

Commented [OPCD1]: Please update for 2017.

2.0 Issue to be considered

This position paper addresses the following three questions in relation to the accounting for CAAT:

1. For accounting purposes, what type of pension plan is CAAT (i.e. how should CAAT be classified under PSAS)?
2. As a result of the classification, how should the Province of Ontario account for a pension surplus of CAAT in the Public Accounts?
3. How should a pension asset of CAAT be measured in the Public Accounts of the Province of Ontario?

3.0 Conclusions

The following conclusions were reached regarding each of the above questions:

1. Classification of CAAT - The Province has concluded that CAAT meets the definition of a multiemployer benefit plan as the plan is a defined benefit plan to which two or more governments or government organizations contribute. Ontario's 24 provincially controlled community colleges contribute along with 14 other employers in the province's postsecondary sector. Contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity. The classification of CAAT as a multiemployer benefit plan for accounting purposes had been consistent for the past 7 years and had been consistently accepted without question by the Office of the Auditor General of Ontario (OAG), including throughout the 2015/16 Public Accounts.
2. Recognition of a pension asset for a multiemployer benefit plan - The Province has concluded that PSAS (Section PS 3250) supports the recognition by a government sponsor of its portion of a pension plan asset/liability in respect of a multiemployer benefit plan. The Province of Ontario is the primary funder of CAAT through its funding of Ontario's 24 provincially-controlled community colleges. The Province's portion of a pension surplus for CAAT meets the definition of an accrued benefit asset under Section PS 3250. For CAAT, the Province's portion as at March 31, 2016 of the pension liability is 50% which is calculated based on the % of members in CAAT from community colleges consolidated in the public accounts.

Commented [OPCD2]: Update for 2017 (I think its in an asset position – also, is the 50% really the number related to the employees in consolidated colleges or is it funding percentage – if the former where is the % funding?

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3. Measurement of a pension asset - The Province has concluded that the attributes of the multiemployer arrangement for CAAT coupled with CAAT's Board of Trustees' Funding Policy do not allow the Province to access its portion of any plan surplus through withdrawal of the surplus or through reduced future contributions. As a result, the Province is not expected to realize any expected future benefit from a plan surplus of CAAT. A 100% valuation allowance would be recorded against the accrued benefit asset by the Province of Ontario.

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4.0 Background information

4.1 Overview of CAAT

CAAT was established on June 1, 1967 with OMERS acting as Trustee, and the CAAT Plan was represented by an advisory committee that provided comments on investments and administration. In December, 1994, a new governance arrangement was formally implemented and CAAT became a Jointly-Sponsored Pension Plan.

CAAT is a contributory defined benefit pension plan with benefits being financed by equal contributions from participating employees and employers, and by investment earnings. The Plan has three key stakeholders: The College Employer Council (previously Colleges Ontario), acting on behalf of the Boards of Governors of the colleges; the Ontario College Administrative Staff Association ("OCASA") and the Ontario Public Service Employees Union ("OPSEU"). These three organizations appoint representatives to the Sponsors' Committee and Board of Trustees.

CAAT operates in accordance with:

- a) *The Income Tax Act* (ITA) and regulations, which set the maximum limits for Registered Pension Plans;
- b) *The Pension Benefits Act (Ontario)*, R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
- c) CAAT Pension Plan Text ; and
- d) CAAT's policies and procedures.

CAAT is governed through a unique joint governance model which includes a:

- Board of Trustees; and
- Sponsors' Committee

The Board of Trustees is a 12 member board with fiduciary responsibility to act in the best interest of all members and beneficiaries. The Board of Trustees is responsible for the day-to-day operations of the Plan including overseeing the operations, including investments and administration. The Board of Trustees is committed to delivering benefit security at stable contribution rates by adhering to the CAAT's Board of Trustees' Funding Policy. Membership on the board of Trustees is equally split between 6 employee representatives and 6 employer representatives.

The Sponsors' Committee is an 8 member group who are responsible for the benefit design and contributions of the Plan including approval of Plan amendments and the filing of actuarial valuations. The 8 member group includes 4 employee representatives and 4 employer representatives. The Committee members can act in the interests of their separate appointing bodies, but their decisions must be

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unanimous.

Members and employers together share the risks to CAAT's defined benefit lifetime commitment. This means members and employers, through their representatives on the Board of Trustees and Sponsors' Committee, must ensure that the Plan is sufficiently funded to pay benefits now and in the future. CAAT's governance structure is designed such that the Province of Ontario does not have direct voting decision making authority on either the Sponsors' Committee or the Board of Trustees and therefore does not appear to have the ability to exercise control or joint control over key decisions such as approving changes to Plan benefits and setting contribution levels.

4.2 Accounting for CAAT by the Province

In accordance with RETIREMENT BENEFITS, Section PS 3250 of PSAS, the Province has accounted for CAAT as a multi-employer plan.

As at March 31, 2016 the Province's consolidated financial statements reported 50% of the net liability of CAAT (the portion of contributions to CAAT made by the employers). The employers for CAAT are government controlled community colleges. The employer contributions for CAAT, in the amount of \$190 million for the year ended March 31, 2016 are included in the Salaries, Wages and Benefits expenses of the colleges sector (Schedule 10) and in the expenses of the Ministry of Training, Colleges and Universities (Schedule 4) in the Province of Ontario's consolidated financial statements.

Commented [OPCD4]: See prior question – given the contributions are 50/50 if all of the members were employees of consolidated entities, the 50% makes sense – if not, is there a further refinement required?

Commented [OPCD5]: This is the accounting at the individual college level (DC accounting), but doesn't reflect the consolidation entry made to transition the accounting to a DB plan.

4.3 Applicability of PS 3250 as primary source of GAAP

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (Section PS 1150 paragraph .04). Primary sources of generally accepted accounting principles (GAAP) are Sections PS 1201-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of GAAP that relate to the transactions or events under consideration, or more specific guidance is needed (Section PS 1150 paragraph .05), does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, also titled Section PS 3250).

There have not been consequential changes to Section PS 3250 since its introduction into the PSA Handbook in 2001.

5.0 Question 1 – Classification of a pension asset

The analysis below addresses whether the Province's share of an accrued benefit asset in CAAT, calculated in accordance with PSAS under Section PS 3250, would represent a reportable asset to the Province of Ontario in the Public Accounts.

5.1 RETIREMENT BENEFITS PSAS 3250

The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

5.1.1 Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

PURPOSE AND SCOPE

.001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250.003 as follows:

.003 Obligations for retirement benefits result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for CAATPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province (funded through its consolidated community colleges) to provide retirement benefits to the members of the plan in return for their services.

5.1.2 PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans,
- defined contribution plans
- multiemployer and multiple-employer benefit plans., and
- joint defined benefit plans.

The definitions of a multiemployer and defined benefit plan are included in the glossary to Section PS 3250 as follows:

A **multiemployer plan** is a defined benefit plan to which two or more governments or

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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.

A **defined benefit plan** specifies either the benefits to be received by employees after retirement or the method for determining those benefits. The most commonly used defined benefit plans are:

Final pay plan — Bases benefits on an employee's length of service and compensation over a specified number of years (usually the years of an employee's highest earnings).

Flat benefit plan — Provides a specified benefit for each year of service rendered; the benefit earned in each period is usually fixed and determinable under the terms of the plan and the amount of benefits to be received varies only with the years of service rendered.

A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:

- (a) The sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
- (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
- (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
- (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

CAATPP specifies the method for determining benefits to be received by employees after retirement in the Plan text. It is a defined benefit plan to which two or more governments or government organizations contribute. For CAATPP, multiple provincially controlled community colleges contribute. Contributions by one participating entity (for example, one specific community college) are not segregated in a separate account or restricted to provide benefits only to employees of the entity.

The classification of CAATPP as a multiemployer benefit plan for accounting purposes by the Office of the Provincial Controller has been consistent for over 7 years and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

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5.2 Conclusion on classification

The Province has concluded that CAATPP meets the definition of a multiemployer benefit plan as the plan is a defined benefit plan to which two or more governments or government organizations contribute. For CAATPP, multiple provincially controlled community colleges contribute along with 14 other employers in the Province's postsecondary sector. Contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity. The classification of CAATPP as a multiemployer benefit plan for accounting purposes has been consistent for over 10 years and had been consistently accepted without question by the Office of the Auditor General of Ontario (OAG), including throughout the 2015/16 Public Accounts.

Commented [OPCD6]: Are these controlled or controlled and consolidated by the province?

6.0 Question 2 – Recognition of a pension asset for a multiemployer benefit plan

6.1 Standards in the PSA Handbook

RETIREMENT BENEFITS, Section PS 3250 paragraphs .105 to .111 provide guidance on the accounting for a multiemployer benefit plan in the financial statements of a government sponsor as follows:

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*

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obligation for the plan. [SEPT. 2001]

.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. [SEPT. 2001]

.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. [SEPT. 2001]

Section PS 3250 paragraph .108 states that “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.” Additionally, paragraph .107 indicates the sponsoring government “... would account for its related obligation for the entire multiemployer plan as a defined benefit plan.” Therefore Section PS 3250 paragraphs .050 to .059 (guidance for defined benefit plans) are applicable to government sponsors in a multiemployer plan. These paragraphs (which also apply to the accounting for joint defined benefit plan) require an accrued benefit asset to be reported net of a valuation allowance.

The term “sponsor” is not defined in PSAS. A common definition of the term per Wikipedia is “a person or organization that provides funds for a project or activity carried out by another, in particular.” Since the participating employers to CAATPP (primarily community colleges) receive the majority of their funding from the Province of Ontario, it can be suggested that the Province of Ontario is the sponsor of CAATPP. The Province is the primary funder of CAATPP through its funding of its controlled community colleges.

This paper discusses the question of measurement separately in Question 3.

6.4 Conclusion on recognition

The Province has concluded that PSAS (Section PS 3250) supports the recognition by a government sponsor of its portion of a pension plan asset in respect of a multiemployer benefit plan. The Province is the primary funder of CAATPP through its funding of its controlled community colleges. The Province’s portion of a pension surplus for CAATPP meets the definition of an accrued benefit asset under Section PS 3250. For CAATPP, the Province’s portion as at March 31, 2016 of the pension liability is 50% which is the portion of contributions to CAATPP made by the employers. The measurement of that accrued benefit asset is determined by reference to the guidance in Section PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, discussed in Question 3 of this position paper.

Commented [OPCD7]: Please update to 2017 and see previous comment re: the 50% number

7.0 Question 3 – Measurement of a pension asset

7.1 Standards in the PSA Handbook

Section PS 3250 addresses how to measure a pension asset. This is a two-step process for CAATPP which is consistent with the calculation for the Ontario Teachers' Pension Plan (OTPP).

Consistent with OTPP, the relevant guidance for CAATPP is Section PS 3250 paragraphs .050-.059 which are included below for completeness and ease of reference:

Limit on the carrying amount of an accrued benefit asset

.50 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 allowances should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]

.51 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.

.52 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.

.53 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).

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

.55 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

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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.

.56 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.

.57 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.

.58 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.

.59 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.

Section 3250 paragraph .052 states that a government may benefit from an accrued benefit asset by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of

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contributions. This is an explanatory paragraph on how a government may benefit from an accrued benefit asset and why a valuation allowance may be needed.

7.2 Calculating the limit on the carrying amount of an accrued benefit asset

Section PS 3250 paragraphs .053 to .058 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in Section PS3250 paragraph .055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus". A valuation allowance is recorded against the pension asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under Section PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as defined in Section 3250 paragraph .56.

Therefore in accordance with Section PS 3250 paragraph .56 the Province calculated the 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.

Each of these is discussed separately.

As mentioned, paragraphs .107 and .108 of Section PS 3250, indicate that only the government's portion of the plan is included in the government's financial statements following the requirements of Section PS 3250 for defined benefit plans (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). While PSAS is not explicit as to how a government sponsor would calculate its obligation or related obligation, if it was intended that no pension asset/liability could be recognized for a multiemployer plan Section PS 3250 paragraphs .107 and .108 would have made this clear. Similarly, if it was intended the government sponsor report 100% of the pension asset/liability, these paragraphs would not have referred to "its obligation" or "its related obligation".

7.3 Considerations re: withdrawal of the surplus (Section PS 3250 paragraph .056 (b))

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, Section 3250 paragraph .059 indicates "The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal."

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According to the CAAT Plan text, there is limited ability for the Province of Ontario to withdraw a surplus from CAATPP. Section 4.10 of the Plan text indicates that a surplus in the plan is to be used for improving benefits or at the direction of the Sponsors' Committee. The Province has not direct membership on the Sponsors' Committee.

Furthermore, the Board of Trustees adhere to a formal funding policy where, at each valuation period, the financial health of CAATPP is measured and the actions required at each level are implemented. See Appendix A for a summary of the funding policy. This funding policy has six distinct levels and dictates the requirements at various levels which essentially require the use of surpluses to build reserves with an overall of providing stability of contributions and inflation protection through the building of reserves.

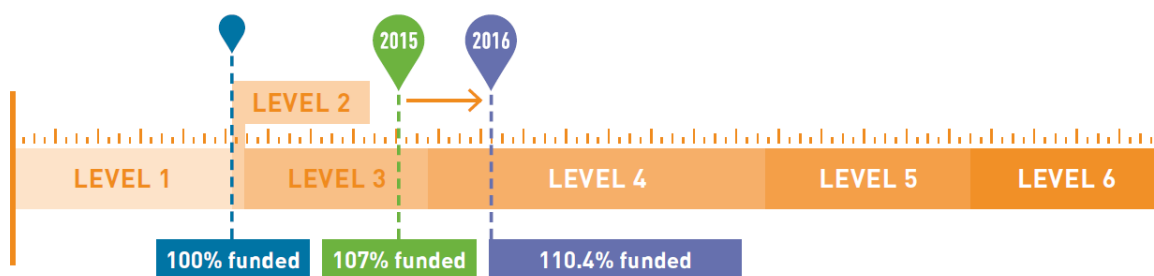
There are limited provisions in the CAAT Plan text to permit the withdrawal of a surplus by the Province of Ontario as this could only occur at the direction of the Sponsors' Committee and is considered to be unlikely given the requirements of CAATPP's formal funding policy.

7.4 Considerations re: reduced future contributions (Section PS 3250 paragraph .056 (a))

Section PS 3250 paragraph .056(a) sets out that the government's calculation of expected future benefit as 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.

In the event of a surplus, the CAATPP Board of Trustees are guided by its prescriptive funding policy in order to fulfill its fiduciary responsibility to make decisions in the Plan members' best interest. As detailed in Appendix A, the Funding Policy highlights the Plan's long term focus of protecting promised benefits and minimizing contribution rate volatility, while recognizing the desire to achieve intergenerational equity. To deliver on these longer term goals while managing through short term volatility a blend of stability contributions, conditional benefits, and reserves are used.

CAATPP's funded status moved into Level 4 based on the January 1, 2016 valuation from Level 3 where it stood with the previous valuation as at January 1, 2015.



Level 4 spans a broad band that allows the Board of Trustees to determine how to best use reserves. At

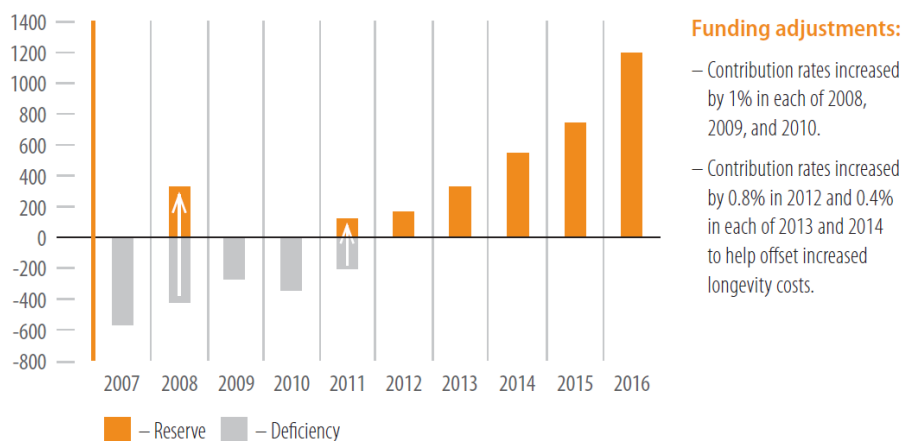
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level 4, the options available are any mix of: reducing stability contributions, building additional reserves, and prefunding conditional inflation protection. On that basis, the Board of Trustees determined that building additional reserves was the most prudent option to further strengthen benefit security and contribution stability. CAATPP's reserves have increased to \$1.2 billion (up from \$773 million in 2015).

The decision by the Board of Trustees in 2016 to increase reserves reaffirms CAATPP's long term focus and the inherent design of the Funding Policy to give preference to the use of surpluses to fund increases to reserves rather than decreases to contributions. This preference is infused throughout the Funding Policy and driven by CAATPP's funding valuation history and related volatility from 2007 to 2016 which is reproduced below. CAATPP's funding history since 2007 indicates that despite surpluses, CAATPP has continued to increase contributions in order to fund reserves to offset future funding risks for CAATPP such as longevity costs.

FUNDING VALUATIONS HISTORY (as at January 1st)

From 2007-2016 (\$ millions) on a going-concern basis



7.8 Conclusion on measurement

The Province of Ontario has concluded that the attributes of the multiemployer arrangement for CAATPP do not allow the Province to access its portion of any plan surplus through withdrawal of the surplus or through reduced future contributions. As a result, the Province is not expected to realize any expected future benefit from a plan surplus of CAATPP. A 100% valuation allowance would be recorded against the accrued benefit asset by the Province of Ontario.

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8.0 Additional Considerations noted by the Pension Asset Expert Advisory Panel

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The Pension Asset Expert Advisory Panel's report noted some additional considerations in relation to the accounting for CAATPP. The following sections are excerpts from the Advisory Panel's report.

8.1 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.

8.2 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.

8.3 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.

Accounting by the Province of Ontario for the CAAT Pension Plan

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.

Appendix A- CAAT Funding policy

Excerpt from <https://www.caatpension.on.ca/en/about-us/funding>

The Funding Policy highlights the Plan's long term focus of protecting promised benefits and minimizing contribution rate volatility, while recognizing the desire to achieve intergenerational equity. To deliver on these longer term goals while managing through short term volatility a blend of stability contributions, conditional benefits, and reserves are used.

Funding Policy, Revised effective December 31, 2012

At each valuation period the financial health of the Plan is measured and the actions required at each level are implemented.

At Level 1

The Plan has a deficit after using all reserves and the 3% stability contributions being paid by active members. Provincial law would require contributions to be increased temporarily and/or that benefits members build in future be reduced. Inflation protection on post-2007 service would not be paid.

At Level 1 – Temp (temporarily in effect until December 30, 2017 and applies only in respect of valuations effective on and after December 31, 2012 and filed on or before December 30, 2017)

The Plan has a deficit after using all reserves and the 3% stability contributions being paid by active members. No increase in contributions (other than those previously provided for under a filed valuation report with a valuation date before December 31, 2012), but to ensure compliance with Provincial law benefits members build in future would be reduced up to the Benefit Reduction Limit.* Once the Benefit Reduction Limit is reached, Funded Level 1 shall apply in respect of any remaining deficit. Inflation protection on post-2007 service would not be paid.

At Level 2

With the 3% in stability contributions being paid by active members and the Plan's funding reserves being fully used, the funding level exceeds provincial minimums, meaning the Plan has a small surplus. The Plan will provide the current period of inflation protection increases to pensions in pay, on the part of the pension that is based on post-2007 service. Any temporary benefit reductions made in respect of a valuation filed on or before December 30, 2017 to be restored.**

At Level 3

3% in stability contributions are required from active members. On the part of the pension in pay that is based on post-2007 service, the Plan will provide increases for the current period of inflation plus make additional increases for past years of inflation missed (if any). Surplus funds over provincial minimums will also be allocated into funding reserves to withstand up to a 0.5% change in the discount rate.

Accounting by the Province of Ontario for the CAAT Pension Plan

At Level 4

Stability contributions of 1% or 2% are required from active members. All periods of inflation protection increases on the part of the pension that is based on post-2007 service have been made. Surplus funds over provincial minimums will also be allocated into reserves to withstand up to a 1% change in the discount rate and build reserves to fund future inflation increases on post-2007 service.

At Level 5

Active members will be contributing at basic contribution levels only, no stability contributions are required. The Plan has the reserves required to fund future inflation protection increases on post-2007 service and withstand a 1% change in the discount rate. Additional funding reserves are being built to withstand up to a 7.5% increase in liabilities as an additional cushion for securing promised benefits.

Commented [OPCD9]: When the plan moves to level 5, the stability contributions cease. We need to determine the impact on the asset ceiling when this occurs as contributions will decrease. Please ask Patricia Ma to make a note of this in her CAATPP pension workbook.

At Level 6

Full funding reserves have been built. The Plan has sufficient surplus to consider any combination of the following changes:

- Provide ad hoc inflation protection increases on the part of pensions based on pre-1992 service
- Put additional funds into reserves – up to the federal tax limit
- Reduce contributions below basic contribution levels
- Improve benefits.

*Benefit Reduction Limit means the aggregate value of benefit reductions made after the December 31, 2011 filed valuation totalling 20% of the present value of the Plan's future benefits measured against the level of benefits in effect on December 30, 2012. Assumption changes that directly relate to the benefit reductions may be considered in calculating the Benefit Reduction Limit.

** While Level 1 –Temp remains in effect, no benefit restoration shall occur unless the Plan can remain at least 100% funded measured on a going concern basis, without the use of asset smoothing, after such benefit restoration.