Note disclosure of the change in pension accounting

PSA Handbook Guidance

ACCOUNTING CHANGES, Section PS 2120

When there is a change in accounting policy between two appropriate methods, the new accounting policy should be applied retroactively.

> .14 When there is a choice from among two or more appropriate principles or methods used in their application and a change is made, the new accounting policy should be applied retroactively, unless the necessary financial data are not reasonably determinable. [SEPT. 1997]

When a change in accounting policy is applied retroactively, comparative figures should be restated.

> .17 *When a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to give effect to the new accounting policy, except in those circumstances when the effect of the new accounting policy is not reasonably determinable for individual prior periods. In such circumstances, an adjustment should be made to the opening balance of the accumulated surplus / deficit of the current period, or such earlier period as is appropriate, to reflect the cumulative effect of the change on prior periods.* [SEPT. 1997]

A description of any accounting change should be disclosed along with the effect of the change on current period and the reason for the change.

> *.18 For each change in an accounting policy in the current period, the following information should be disclosed:*
> *(a) a description of the change;*
> *(b) the effect of the change on the financial statements of the current period; and*
> *(c) the reason for the change. [SEPT. 1997]*

Prior year note disclosure

18. Change in Accounting for Pension Assets of Jointly Sponsored Pension Plans

For the 2015–16 Public Accounts, the government legislated the accounting treatment for pension assets of its jointly sponsored pension plans. The legislation impacts the accounting for both the Ontario Teachers' Pension Plan and the Ontario Public Service

Commented [np1]: Additional implications/considerations related to 2015/16 accounting based on time limited regulation.

OK to restate prior year's results in the Public Accounts where the prior year's accounting was based on regulation?

Also, any additional considerations w.r.t. adjusting 2015/16 results in Q3 (to be released by mid-Feb) in anticipation of retroactively restating the 2015/16 results in Public Accounts?

Employees' Union Pension Plan. The legislation requires a full valuation allowance be recorded against the pension assets, therefore writing off the value of the assets.
As described in Public Sector Accounting Standards (PSAS), a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future. In prior years, the government recorded pension assets to the extent the government expected to benefit from the asset through future reductions in contributions to the plan.

These plans are now accounted for in accordance with PSAS and legislation requiring a full valuation allowance be recorded. The change was made to reflect the Auditor General of Ontario's view that a full valuation allowance is required if the government does not have the legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or in absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions.

Proposed current year note disclosure

18. Change in Accounting for Pension Assets of Jointly Sponsored Pension Plans

The 2016-17 Public Accounts reflect a change in accounting for the Province's jointly sponsored pension plans. The change impacts the Province's accounting for both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan.

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For the 2015-16 Public Accounts, the Province legislated the accounting treatment for pension assets of its jointly sponsored pension plans. The legislation required a full valuation allowance be recorded against the pension assets, therefore writing off the value of the assets.

After significant consultation, the Province has confirmed the accounting for its jointly sponsored pension plans prior to 2015-16 was appropriate and has reversed the impact of the legislation passed in 2015-16. Consistent with prior to 2015-16, the Province recorded pension assets to the extent the government expected to benefit from the asset through future reductions in contributions to the plan.

PSAS requires a change in accounting policy be applied retroactively with restatement. The reversal of the legislation passed in 2015-16 has resulted in a reduction of $10.7 billion to the net debt and accumulated deficit and a decrease in the annual deficit of $1.5 billion in the 2015-16 comparatives.

For 2016-17, the accounting change has resulted in ……….