Office of the Provincial Controller Division

Accounting for Pension Assets

Minister's Office Briefing

December, 2016

For Internal Discussion Purposes Only

Pension Assets - Summary

Risk:	High High profile issue; material forward-looking impact and/or volatility depending on nature and timing of co-sponsor agreements; relationship risk with co-sponsors and AG; audit risk if AG does not accept outcome inconsistent with her interpretation
Impact in 2016-17 (billions):	$ 2.2
Multi-year impact:	Yes -- $2.8B in 2017-18, $3.7B in 2018-19, and $3.9B in 2019-20
Impact included in FES:	Yes
Description of issue:	Accounting treatment for net pension assets of jointly sponsored and multi-employer pension plans -- OTPP, OPSEUPP, HOOPP and CAATPP
Current status/next steps:	• Expert panel has met twice - current focus on OTPP and OPSEUPP; • Anticipated that Chair will be ready to brief OPCD/TBS/MOF/MO in early Jan 2017 and finalize report on OTPP/OPSEUPP by Jan 31, 2017. • HOOPP and CAATPP will be addressed in a supplement after January 31, 2017
Options under consideration:	a) If Panel agrees with Province re: recognition of net asset, Province will use guidance from Panel on measurement and engage a firm to value the asset; need strategy to work with AG on accepting findings of Panel b) If Panel does not agree with Province re: recognition of net asset, Province is assessing alternatives re: approaching OTF to meet the requirements set out by the Panel to recognize an asset (which may differ from the AG's interpretation)
Timing of expected resolution:	• Panel report back – January 9, 2017 • Panel report (OTPP/OPSEUPP) – January 31, 2017 • Asset valuations – February 15, 2017 (target) • Agreement with OTB (if required) – TBD
Province's ability to influence:	Province has ability to influence agreement with OTF should Panel not agree with Province's view.
Role of other ministries:	• EDU -- working through alternatives re: approaching OTF (e.g. changes to funding management policy) • Health & MAESD not currently engaged (not sponsors of HOOPP or CAATPP)

Pension Assets – Asset Recognition Risk

- A time-limited regulation was passed to achieve the fiscal impact reflecting the AG's interpretation of accounting standards for the 2015/16 Public Accounts for OTPP and OPSEUPP
- An Expert Advisory Panel has been established to review the Province's accounting for the OTPP, OPSEUPP, HOOPP and CAATPP
- The results of the Expert Advisory Panel will help to inform the accounting policies of the Province
- Volatility in future financial results could result depending on the recommendations of the Panel and any resulting accounting changes implemented by the Province
- The AG may not accept the Panel's recommendations and/or any changes implemented by the Province's accounting for pensions, resulting in a qualified audit opinion if the difference is material
- Significant communication risks and challenges depending on the outcome of the Panel as well as the AG's reaction

Pension Assets – Fiscal Impact

In 2015-2016

- The change in accounting treatment of OTPP and OPSEUPP for 2015-16 resulted in an additional $10.7 billion being added to the net debt and accumulated deficit and an increase in the 2015-16 annual deficit of $1.5 billion.
- Depending on the outcome of the Panel, an adjustment to prior year's results to reverse these previously regulated adjustments may be possible

In 2016-2017

- The financial results will be impacted by the results of the Panel and/or changes to assumptions adopted by the Province (impacting measurement of the net reported assets)
- The recent FES reflected a cautious impact of $ 2.2B

For 2017-2018 and going forward

- The recent FES reflected cautious impacts of $2.8B in 2017-18, $3.7B in 2018-19, and $3.9B in 2019-20

Pension Assets – Description of issue

- The Province and the AG have differing views of the requirement for recognition of a net pension asset of a jointly sponsored pension plan (OTPP and OPSEUPP).
- The AG believes that recognition of an asset requires:
  - a legally enforceable right to unilaterally access the asset, or in the absence of such a right;
  - an agreement in place at year-end with the Co-Sponsor which addresses reduced future contributions
- The Province considers there needs to be the expectation of benefit from the accrued pension asset through future reductions in contributions to recognize a net pension asset, and that accounting references related to surplus withdrawals are applicable.
- No issues or concerns were raised by the AG with respect to the accounting related to HOOPP and CAATPP, multiemployer plans (CAATPP had a relatively minor reported asset in 2015/16; HOOPP was in a net liability position at the end of 2015/16)
- More background discussion on the issue is included in Appendix 1.

Pension Assets – Current status and next steps

- Expert panel has met twice - current focus on OTPP and OPSEUPP;
- Meeting between the Panel and the AG held on Dec. 16;
- Chair will be ready to brief OPCD/TBS/MOF/MO in early January 2017 and to finalize its report on OTPP/OPSEUPP by Jan 31, 2017.
- HOOPP and CAATPP will be addressed in a supplement analysis after January 31, 2017

APPENDICES

Appendix 1: Background of issue

- For accounting purposes, net pension assets arise when cumulative contributions exceed the cumulative reported pension expense
- During the 2015/16 Public Accounts audit, the AG questioned the Province's historical accounting for assets related to jointly sponsored pension plans, specifically the Ontario Teachers' Pension Plan (OTPP) and the OPSEU Pension Plan (OPSEUPP)
- According to the AG's interpretation of public sector accounting standards (PSAS), no assets should have been reported for these two plans as at March 31, 2016
- The Province disagrees with the Auditor General's interpretation of Public Sector Accounting Board (PSAB) standards
- The Province believes its share of accounting surpluses of joint defined benefit plans should be recognized as an asset. Since 2001-2002, the Province has recorded its portion (50%) of the pension assets of OTPP and OSEUPP in accordance with public sector accounting standards.

Appendix 1: Background of issue (continued)

- OTPP and OPSEUPP meet the definition for joint defined benefit plans as the sponsors are jointly responsible for decision making, share in contributions, and collectively address any plan funding surplus/deficit. Sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process. Unilateral control is not necessary for asset recognition (as also seen with government partnerships); shared control is appropriate for a JDBP.
- Reporting the pension assets reflects the Province's expectation of benefit through reduced future contributions and the measurement of reported assets is supported by the results of a pension asset ceiling test which confirmed that the asset values are not impaired. Uncertainty relating to pension surpluses relates to measurement, not uncertainty regarding expected future benefits for the Province.

Appendix 1: Background of issue (continued)

- Since management did not agree with the AG's interpretation of PSAB standards as related to jointly sponsored pension plans, a regulation was necessary in order to achieve the AG's accounting treatment and to allow management to sign off on the Statement of Responsibility.
- Provinces such as British Columbia, New Brunswick, Manitoba and Nova Scotia do not report assets for their provincial sponsored pension plans or alternatively provide a valuation allowance to reduce the value of a pension asset balance to nil.
- The different accounting treatment in the Province of Ontario (for OTPP and OPSEUPP) reflects the difference circumstances in these other provinces with regards to expected future benefits related to pension surpluses.