TBS

Office of the Provincial Controller

DRAFT- Ontario Teachers' Pension Plan Asset - Options

Objective

- To provide potential options, and related risks and mitigations strategies, relating to the Province's access to the Ontario Teachers' Pension Plan (OTPP) pension asset

Background

- OTPP is a co-sponsorship plan, established in legislation, between the Ontario government (government) and the Ontario Teachers' Federation (OTF). The government has a statutory obligation to match contributions and any changes made would need to be applied equally by the plan members.
- In addition, the Plan's Funding Management Policy (FMP) was designed as a framework to reflect the joint sponsorship and to avoid contentious unilateral funding decisions
- Contribution reductions and/or access to the surplus is negotiated if and when the funded status of the Plan has reached a specific funding zone (FMP)

Options

- The following options are potential strategies, low to high risk, to access the OTPP pension asset:
  - Leverage and/or clarify the existing Funding Management Policy (FMP) side agreement provision
  - Legislative changes
  - Implement a shared asset model
- Each option and related risk will be discussed in more detail in the following slides
- Each option has operational and implementation issues which includes potential lengthy negotiations

Leverage and/or clarify existing FMP side agreement provision

- FMP side agreement (4.06 & 5.05) provide the government with the opportunity to adjust contribution levels when a surplus is distributed if there is written agreement between both sponsors.
- The following options may require legislative amendments to the TPA to clarify that the government can reduced contributions and the OTF improve benefits of equal value.

Leverage and/or clarify existing FMP side agreement provision

- The government could:
  - Negotiate with OTF to strengthen the existing FMP language and explicitly reference the government's right to 50% of the surplus; or
  - Amend the TPA to explicitly reference the government's right to 50% of the surplus.

Leverage and/or clarify existing FMP side agreement provision

Legislative Changes

- Amend legislation to guarantee the government's right to the pension asset
- Fundamentally change the basis on which the OTPP and FMP was built (equal partnership)
- This could end the jointly sponsored arrangement and make the government solely responsible for the Plan as existed prior to 1990.

Legislative Changes

Implement a shared asset model

- Similar to the Ontario Public Service Employees Union (OPSEU), actuarial gains or losses are shared equally between the employer and the members.
- Under the current plan, the government has the option to apply their share of the gains to reduce employer costs (for example, special payments, reduce contributions, contribution holiday) or allocate the gains to the employer reserve fund). This is not considered a payment of the surplus out of the fund which is prohibited by the plan terms.

Implement a shared asset model

Risks

- Legal Risk – the legislative changes may meet resistance from stakeholders who prefer the current plan structure and create a legal issue for the province
- Stakeholder Risk – negotiation is required and any change in the plan may result in resistance by the key stakeholders (employees) and make any future adjustments more difficult
- Accounting Risk (OAGO) – the changes may still not meet the Auditor General's interpretation of the accounting requirements and result in the same current treatment

Risks