Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT February 1, 2017

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.
- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.
- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to $3.5B, from the $5B originally reported in the 2015-16 Public Accounts.
- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.
- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

QUESTIONS & ANSWERS:

1. In layman's terms what does the report mean?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly-sponsored plans should be recognized in Ontario's financial statements.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for two jointly-sponsored pension plans - the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve the concerns, the Province's professional accounting staff and the Auditor General had differences of opinion.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

Ontario is committed to acting on all of the panel's recommendations. We will prepare future financial statements based on the panel's advice.

Questions and Answers
Pension Asset Expert Advisory Panel Report

2. **What is the Province's new deficit figure for 2015-16? In the 2015-16 Public Accounts you said it was $5 billion based on the Auditor General's math.**

   By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to $3.5B, from the $5B originally reported in the 2015-16 Public Accounts.

3. **Are you saying the Auditor General is wrong?**

   Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

   The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

4. **The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it?**

   At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

   The panel's recommendations provide additional advice on how public sector accounting standards are interpreted as they apply to jointly-sponsored pension assets and we thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

   We have also shared the panel's advice with the Auditor General and we look forward to further discussions in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

5. **Have you spoken to the Auditor General about the panel's findings?**

   The panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also shared a copy with the Auditor General's office and met with her to review their findings. Also, the Ministry spoke with the Auditor General after the Panel's briefing to discuss the panel's findings.

6. **What will the government do if the Auditor General does not accept the panel's recommendations?**

   At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's advice will help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will provide input through the process set out by the board.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice. We believe the Panel's advice is consistent with Public Sector Accounting Standards.

7. **The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that?**

Commented [CV1]: Where did she use the term "creative"

That is simply not true. For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General.

If pressed about Ontario's plans compared to other jurisdictions:

Pension accounting is a complex issue. Research and analysis has been done internally comparing Ontario's plans to other jurisdictions. It should be pointed out that the pension plans for New Brunswick and British Columbia are different than Ontario's; therefore the accounting treatment is different.

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans in Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality reporting.

8. **The government picked the panel members and paid for their services. Some would say you simply bought the advice you wanted, when you didn't like what the Auditor General had to say. How do you respond?**

   At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

   The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

   The panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards:

   - Tricia O'Malley is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board (AcSB), and was a member of the International Accounting Standards Board (IASB) from 2001.
   - Murray Gold is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
   - Uros Karadzic is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting, and
   - Paul Martin is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

   Per the terms of reference, the panel was also supported by a small group of civil servants which provided information related to the pension plans sponsored by the Province of Ontario.

9. **The Auditor General says she has a number of accounting opinions supporting her position. How do you respond to that?**

   We don't know who provided those opinions, what questions they were asked or what information they based their assessments on, so I can't comment on it. In forming an opinion however; we can't overstate how important it is to consider all relevant facts. In that regard, we are pleased that the panel's report is being made public so that others will also have access to the same set of facts for further consideration.

   The government has been fully transparent about the Pension Asset Expert Advisory Panel and how it arrived at its conclusions.

10. Was there something wrong with the accounting rules the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It had also been accepted by three previous Auditors General.

Ontario's strong track record of producing high-quality financial reports is also evidenced by the fact that the Province had clean audit opinions for 22 years before 2015-16.

We understand that the Auditor General's interest in the Province's accounting for net pension assets arose last summer as part of her review of pension related assumptions and the significant impact that the net asset position of the plans on the Province's fiscal results.

11. How did the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards, which would have impacted the Province's accounting for net pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, according to the Auditor General, where there was no agreement in place to the contrary, the Auditor General believed that the net pension asset should be removed from the Province's balance sheet.

Since the difference of opinion could not be resolved, the government passed a regulation to allow us to report the net pension assets for jointly-sponsored pension plans consistent with the Auditor's interpretation of the accounting standards.

12. The Auditor General has said the government needs to have unilateral control in order to recognize a pension asset for a jointly-defined benefit plan. What did the panel recommend?

This was one of the issues on which the panel was asked to provide advice and recommendations to the government.

The panel's report aligns with the Province's position that unilateral control for jointly-defined benefit plans is not required in order for the net pension assets to be recognized in the Province's financial statements.

13. If the jointly-sponsored plans are in surplus, is there a plan to reduce member contributions?

Reducing member contributions is something that would require discussion and agreement between both plan sponsors. In addition, the complexity of pension accounting includes that valuations completed for decisions related to contributions, which are often referred to as funding valuations, are different from those prepared for the province's financial statements.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

14. Will you continue to accept qualified opinions in the future?

We will continue to move forward and present the Province's finances fairly and accurately. We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her.

However, we would like to remind you that the audit opinion for 2015-16 was not qualified with respect to the 2015-16 results, but rather with respect to the 2014-15 comparative results which did not reflect the regulated accounting.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

15. Is the government going to restate the 2015-16 Public Accounts?

The 2015-16 Public Accounts were issued and reflected the regulated accounting treatment which was applicable to that year only.

We plan to restate these amounts in the 2016-17 Public Accounts so that the net pension assets are presented on a consistent basis.

16. What does this mean for the upcoming Budget?

Commented [CV2]: For MOF to confirm

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. We will have more details to share about the Budget in the coming weeks.

17. It sounds like the government is fighting with the Auditor General again. What do you say to this?

This is not true from the government's perspective. In fact, we look forward to resolving our difference of opinion between the Province's professional accounting staff and the Auditor General's Office.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If asked to explain the history of this issue:

Questions and Answers
Pension Asset Expert Advisory Panel Report

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly sponsored pension plans.

From the government's perspective, the accounting treatment for jointly sponsored pension plans that was initially adopted in 2001 was and is still appropriate. Given the difference of opinion at the time, the Province filed a time-limited regulation, which legislated the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts only. This was consistent with the fiscal outcome proposed by the Auditor General.

Since the release of the Public Accounts, the government established a Pension Asset Expert Advisory Panel to provide independent advice on the interpretation of the accounting standards to Ontario's defined benefit pension plans. This panel has now provided its report on jointly-sponsored pension plans to the government and it has been shared with the Auditor General and the public.

The government will continue to present the Province's finances fairly and accurately.

18. **What do you say to the credit rating agencies who are watching all of this unfold?**

Commented [CV3]: For OFA to review.

We have been impressed with the level of cooperation and understanding of the credit rating agency community.

I would say we have achieved clarity on this complex accounting issue.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

19. **How will skyrocketing executive pay in the college sector affect the government's path to balance?**

Commented [CV4]: No comment on this one – assuming someone else is reviewing.

Ontario has implemented a framework for broader public sector executive compensation, including capping salary and performance-related payments.

The Executive Compensation Framework regulation came into force on September 6, 2016 and applies to all designated employers under the Broader Public Sector Executive Compensation Act, 2014 (BPSECA).

The Executive Compensation Framework is designed to ensure transparency and accountability in how broader public sector employers set executive compensation. Under the framework, designated employers must seek public comment as part of developing their executive compensation program.

The Executive Compensation Framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of appropriate comparators and prohibits signing bonuses, retention bonuses, cash housing allowances and pay in lieu of perquisites.

These requirements will ensure that broader public sector organizations are accountable for compensation decisions and are able to attract and retain the necessary talent to deliver high quality public services while managing public dollars responsibly.

20. How long have you had the report?

The panel submitted its report in late January. We've used this time to analyze the recommendations, and prepare it for public release.

21. When you announced the panel in October 2016, you said the report was due to the President of the Treasury Board and the Auditor General of Ontario is due by the end of 2016. What happened?

When the panel was announced in October 2016, we had not yet identified the members. Once the panel was established, it was determined by the members that they would need additional time to conduct a thorough review of the issues at hand.

22. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

23. Would you still have accepted the panel's recommendations if they weren't favourable to you?

I'm not going to speculate on something that didn't happen.

What I will say is that the panel took every effort to ensure that it had a complete understanding of the facts and studied this complex issue extensively. We are pleased that the panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans and should continue to be recognized in the Province's financial statements, as they as they have been for the past 14 years.

24. Your government keeps establishing panels to resolve your issues. Why can't you just make a decision?

Pension accounting is a complex issue. We need the best advice in order to make well-informed decisions. Sometimes this means seeking independent expertise.

The Pension Asset Expert Advisory Panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans.

Questions and Answers
Pension Asset Expert Advisory Panel Report

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

25. What is a jointly-sponsored pension plan?

A joint defined benefit plan is a contractual arrangement between the government and another sponsor or sponsors representing plan participants

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.

The panel:

26. What did the Pension Asset Expert Advisory Panel do?

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards (PSAS) to Ontario's net pension assets for two joint defined benefit pension plans – Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan.
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The panel agrees that the net pension asset for each plan should be recognized as part of the Province's financial position.

Recognizing the asset will provide a faithful representation of Ontario's financial position.

27. How did the panel reach its conclusions?

The panel received and reviewed background information, including the governing documents of the plans and related agreements. It also received analyses from both the government and the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with both the government's professional accounting staff and the Auditor General and her Public Accounts staff responsible for the pension issue to ensure the panel fully understood their thinking. The panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members.

28. Who was on the panel?

The membership of the Pension Asset Expert Advisory Panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

The panel included:

- Tricia O'Malley (Chair)
- Murray Gold
- Uros Karadzic and
- Paul Martin.

29. How much will they be paid? What was the total cost spent on this report?

The Chair will be compensated at $2,000 per diem and $1,900 per diem for the other members.

Panel members will also be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

The total amount the panel will be paid will be determined once their work is complete. According to the panel terms of reference, this is scheduled to end on March 31, 2017.

IF ASKED ABOUT PAUL MARTIN:

As a member of the public service of the Province of New Brunswick, Mr. Martin did not receive compensation. He was only eligible for expense reimbursements.

Ontario's Financial Position:

Commented [CV5]: Assuming MOF/OFA is confirming this content

30. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

The government is projecting a balanced the budget by 2017-18, and remaining balanced in 2018-19.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- Managing compensation costs
- Maintaining tax fairness and a level playing field for business
- Strengthening government transparency, financial management and fiscal accountability

31. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more

challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

32. **How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?**

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Legislated Accounting:

33. **Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?**

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.