

PENSION ASSET ACCOUNTING

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.
- As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue.
- The Panel concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) should be recognized in Ontario's financial statements.
- The 2016-17 Public Accounts include these pension assets, and the province continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used consistently since 2001. In addition, the 2015-16 Public Accounts were restated to include these assets.

SUPPLEMENTAL REPORT: HOOPP & CAATPP

- The panel also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and

OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.

CURRENT STATUS:

- May 3, 2018 – The Standing Committee on Public Accounts (SCOPA) tabled their report on their review of Chapter 2 – Public Accounts of the Province, of the Auditor General's 2017 Annual Report. The report made two recommendations:
 - 1. Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.
 - 2. The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.

A response to the recommendations is due from Treasury Board Secretariat (TBS) to the Committee by August 30, 2018.

- February 28, 2018 – TBS, alongside the Secretary of the Cabinet, Ministry of Finance, Ontario Financing Authority, Ministry of Energy, Independent Electricity System Operator, and Ontario Power Generation, appeared before SCOPA for the Committee's review of Chapter 2 – Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- December 6, 2017 – the Office of the Auditor General released their 2017 Annual Report. Chapter 2 – Public Accounts of the Province of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."

BACKGROUND:

- During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.
- This conclusion is supported by:
 - The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.
 - The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS. The report summarizes the key terms in each plan.
 - Two key findings of the panel were:
 - There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and
 - Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.
 - An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the OTPP. The opinion, which was dated October 2,

2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.
- After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets. In addition, the 2015-16 financial statements were restated to include these assets.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in PSAS.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the \$11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.
- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On November 10, 2016, the province established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

The following four members were appointed to the Panel:

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

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

COSTS

	Actuals		
Panel Member	Per Diem	Travel	Total
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	183,700	4,955	221,113

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