RE: Provincial Pension Plans MRVA Analysis

From: Christina Chan <christina.chan@ca.ey.com>
To: "Ma, Patricia (TBS)" <patricia.ma2@ontario.ca>
Cc: Shayan Jafrani <shayan.jafrani@ca.ey.com>, "Sun, Alicia (TBS)" <alicia.sun@ontario.ca>
Date: Tue, 28 Feb 2017 17:19:22 -0500

Hi Patricia,

The Market-Related Value of Assets ("MRVA") is determined as the Market Value of Assets ("MVA") with a smoothing adjustment, that defers the recognition of the actuarial gains/losses on the return on assets, over a period no greater than five years.

The standard does not explicitly state how the actuarial gains/losses related to assets should be determined. It is most common to determine the actuarial gains/losses as the differences between (i) actual return during the year and (ii) the expected return on assets, determined based on the Province's long-term return assumption (or discount rate) at the beginning of the period. This approach is consistent with the MRVA determination for the OTPP.

For OPSEU, CAAT, and HOOPP, the MRVA calculation is based on gains/losses as the difference between the (i) actual return during the year and (ii) the expected return on assets, determined based on the actuary's long-term return assumption (rather than the provinces assumption) at the beginning of the period. Given that the actuary's long-term assumption is broadly similar to that of the Province, the impact of the proposed change to these Plans is less significant than the impact of the proposed change to the PSPP.

For the PSPP, the MRVA calculation relies on the gain/loss provided by OPB. Based on recent correspondence with OPB, it is our understanding that the gain/loss provided by OPB relates to actual realized and unrealized returns on assets (i.e. total return less interest and dividend income). Determining the MRVA using this amount from OPB would tend to overstate gains (any positive return on equities would result in a gain) and understate the MRVA. While PSAB does not prescribe a single approach for determining the MRVA, we have not seen such an approach being applied by any other plan sponsor.

In order to be consistent with common practice, we suggested that the gains and losses used to determine the MRVA be updated to be consistent with the approach used for OTPP.

Let us know if you would like to further discuss.

Regards,
Christina
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From: Ma, Patricia (TBS) [mailto:Patricia.Ma2@ontario.ca]
Sent: Tuesday, February 28, 2017 10:01 AM
To: Christina Chan <Christina.Chan@ca.ey.com>
Cc: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>; Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>
Subject: Provincial Pension Plans MRVA Analysis
Importance: High

Hi Christina,

As you know we've made a refinement in the estimates for the MRVA used in our pension plan calculations based on E&Y's review of the pension forecasts. Would you be able to provide an explanation of the rationale for the change and validate the relatively larger change in the MRVA for the Public Sector Pension Plan, which I can forward to our ADM and Provincial Controller Cindy Veinot? In the interest of time, if you can provide a reply through email by end of day today that would be great and much appreciated.

Thank you,

Patricia

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