What issue does this report address?

The Panel was appointed to provide advice and recommendations to the Ontario government on the application of public sector accounting standards to Ontario's pension plans. The need for this advice arose as a result of a difference of professional opinion between the government's professional accounting staff and the Office of the Auditor General of Ontario during the 2015-16 Public Accounts audit.

What is the report's conclusion?

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. The Province looks forward to receiving the panel's results on two additional pension plans under review.

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 since 2001 when the accounting standard was first adopted.

What resources were used to arrive at this conclusion?

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 Office of the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with the government's professional accounting staff, other staff familiar with the two jointly sponsored pension plans, and the Auditor General and her Public Accounts staff to ensure the panel fully understood their understanding of the facts and accounting. 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.

The report supports Ontario's interpretation of the PSA standards. Why?

The report agrees with the province's application of the PSA standards regarding the recording of the net pension assets for the jointly sponsored plans. The Panel concluded that an asset exists because a resource exists with future economic benefit, the government controls access to that resource and the resource exists as a result of past transactions and events.

The report disagrees with the Auditor General's interpretation of the PSA standards. Why?

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. The panel does not specifically address the AG's interpretation of PSA standards; however, its conclusions are different based on its assessment and understanding of the facts.

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.

Is the report's conclusion based on an accounting standard that hasn't come into effect yet?

While the Canadian public sector accounting standard addressing pension plans was introduced in 2001, not every possible situation can be covered by this accounting standard. In such cases, it is important to reference the conceptual framework and other standards both in Canada and internationally which may provide guidance. The supplementary sources referenced by the panel, including PSAB's recent standards on Assets, Contingent Assets and International Accounting Standards have all proven relevant to the issue being considered. The Province appreciates the thoroughness of the panel in conducting its analysis of the pension asset recognition and measurement issue. The Panel's reference to recent Canadian standard setter guidance, and international standards is absolutely appropriate in this circumstance.

The panel used a different methodology from Ontario to arrive at their conclusion. How do the methodologies differ and is the conclusion different?

The findings of the panel are consistent with the position taken by the government's professional accounting staff during the 2015-16 Public Accounts and consistent with the accounting treatment originally adopted by the Province in 2001 when the accounting standard was first implemented. Although the panel arrived at its conclusion by first looking at how the accounting standards applied to the plan as a whole and then at the share of assets that the government reports on its books, the end result is the same and supports the government's historical accounting treatment for the net assets for the two jointly sponsored pension plans.

Why is there a supplemental report to review other pension assets like HOOPP and CAATPP?

The AG only raised concerns with the OPSEUPP and the OTPP during last year's audit. However, both the HOOPP and the CAATPP which are multiemployer pension plans, are expected to reach net surplus positions over the coming years and the government felt it was prudent to also review the accounting for such surpluses on the Province's books at this time.

The Province will continue to review its accounting treatment as PSAB standards change in the future.

The Auditor General says we should recognize a net pension liability, but not the asset. Is this accurate?

For the Province to recognize a liability for its portion of a net pension liability but unable to recognize an asset for its portion of a net pension asset would not faithfully represent the economic substance of a joint defined benefit plan whereby the risks and rewards of the plan are shared equitably between the joint sponsors. That said, you are correct that the AG's position would result in only the liability being reported except in very restrictive circumstances.

What does it mean that a future benefit is available to the government?

The essence of assets are their future economic benefits. Assets embody future economic benefits that allow a government to achieve its objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce cash outflows.

Please explain in more detail the concept of unilateral control.

By definition, a joint sponsor of a joint defined benefit plan cannot have unilateral control or unilateral rights over for example the surplus of the plan.

In a joint defined benefit plan, the sponsors share the risks and rewards. Key characteristics are: mutually agreed funding contributions, shared control over decisions related to the level of benefits and contributions and the equitable sharing of both positive and negative risks associated with the plan. The contractual arrangements for OTPP and OPSEUPP set out how that shared control is exercised, including how surpluses and deficits are dealt with. Any changes to the contractual arrangements must be agreed to by both joint sponsors.

The effect is that each sponsor individually has a veto right for fundamental changes to the plan or decisions that are made under the existing plan arrangements. As a result, each sponsor can deny the other sponsor access to a plan surplus which gives it control in accordance with the definition of an asset.

Unilateral control of the timing and amount of surplus utilization for a joint defined benefit plan is not a requirement for asset recognition. An asset subject to joint control can be recognized under PSA standards. The joint sponsors jointly control the entire net pension asset, and each can recognize its portion of that jointly controlled asset.

The province does not have unilateral control but does have control over its portion of the net pension asset either directly for OPSEUPP or via a veto for OTPP. That said, the panel has confirmed that unilateral control is not envisioned as a requirement under the accounting standards, and should not restrict the government from reporting its portion of the net assets for the jointly sponsored pension plans.