Pension Asset Expert Advisory Panel

Briefing

February 13, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel's advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

Panel members

- Patricia O’Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB’s Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB’s Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel was provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to understand the basis for the OAG's accounting conclusions.

General

- Panel performed its own independent analysis of the documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
  - guidance in PSAS specifically on Retirement Benefits
  - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where that standard is not clear

Nature of Plans

- Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP). This accounting has been applied since 2001 when the PSAS retirement benefit standard was issued.
- In joint plans, risks and rewards are shared between joint Sponsors. The joint Sponsors must agree on all important features of the plan, including how deficits are to be made up and how surpluses are to be shared.
- The PSAS standard applies defined benefit pension accounting to the JDPB as a whole, and then the Province recognizes (records) its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
  - accounting surplus exists, and
  - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
  - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
  - sponsors jointly control the total net pension asset and must agree on how it will be used
  - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
  - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Recognition of asset

Panel conclusions:

- Net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Measurement of asset

- Standard notes sponsor can benefit by taking assets out of plan or by reducing future contributions
- Contribution reductions are not the same as surplus withdrawal:
  - legal requirements for surplus withdrawal and contribution reductions are very different
  - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
  - no third-party approvals needed for contribution reductions

Measurement of asset

- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
  - agreements in place already sufficient
  - standard says benefits need only be reasonably expected
- Standard defines expected future economic benefit as difference between:
  - future costs to the plan: pension benefits to be earned + any expenses to be paid from the plan, less
  - future contributions required to be made regardless of any surplus in plan

Measurement of asset

- Meaning of “minimum contributions required regardless of any surplus” not clear:
  - Government analyses of both OTPP and OPSEUPP performed using various interpretations
  - Panel used the interpretation most commonly observed in practice
- If there is a contractual or legal requirement to continue to contribute to the plan despite the existence of a surplus, these contributions could impact the asset ceiling
- If no minimum contributions required when there is already a surplus in the plan, then the existing surplus can be used to pay for expected future service or plan expenses

Measurement of asset

Panel conclusions:

- There are no minimum required contributions that need to be made regardless of any surplus
- No valuation allowance is required for either Plan's accrued benefit asset recognized in the Public Accounts

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized.