TBS

OPCD

Detailed analysis of pension accounting for FES

October 23, 2016

OTPP and OPSEU – Expected change in net pension asset & impact on Fiscal 2016-17

Employer contributions
$1.9 Billion

No impact on annual deficit initially

+

Expected pension recovery
$0.3 Billion

Reduces annual deficit initially

=

Increase in pension asset
$2.2 Billion

The AG requires a valuation allowance for the full increase in the pension asset unless the Province has: (a) unilateral control of the asset or (b) an agreement with the co-sponsor to reduce contributions.

Net pension asset (prior to valuation allowance)
$ 2.2 Billion
= increase in pension asset

+

Valuation allowance
($2.2 Billion)

Increases annual deficit

=

Net pension asset after valuation allowance
$0

Valuation allowance – Fiscal 2015-16 Public Accounts and 2016 FES

Balance of net assets before impact of regulation @ 31-Mar-15		9,154
Write down of assets based on regulation (AG's interpretation)		(9,154)
Revised net asset value based on regulation (write off directly to accumulated deficit)		0
Pension expense/recovery in fiscal 2015-16		(298)
Contributions to plans in fiscal 2015-16		1,812
Pension asset prior to valuation allowance	31-Mar-16	1,514
Valuation allowance, based on regulation (AG's interpretation)		(1,514)
Revised net asset value based on regulation		0
Pension **recovery** (term change) estimated for fiscal 2016-17 **(shouldn't this be negative expense = recovery?)**		317
Contributions to plans in fiscal 2016-17		1,901
Impact of HOOPP plan (not included elsewhere as immaterial)		22
Pension asset prior to valuation allowance @ 31-Mar-17		2,240
Valuation allowance based on AG's interpretation (**no regulation --- assumes we would agree? Vs. placeholder)**		(2,240)
Revised net asset value based on AG's interpretation ~~regulation~~		0

2015-16 Public Accounts

In 2015-16, the increase in the pension asset for OTPP and OPSEU of $1.514 (?) prior to the regulation resulted from the **net** of:

1) Pension **expense** (reduces net asset)

2) Contributions from the Province to the plan (increases net asset)

2015-16 actual fiscal impact of full valuation allowance

2016-17 FES

In 2016-17, the estimated increase in the pension asset for OTPP and OPSEU results from the **sum** of:

1) Pension **recovery** (increases net asset) – see next slide

2) Contributions form the Province to the plan (increases net asset)

2016-17 estimated fiscal impact of full valuation allowance

Why does expense pension expense become a recovery in 2016-17?

The pension recovery estimated for fiscal 2016-17 for OTPP and OPSEUPP is:

	($ millions)
OTPP -- Pension recovery	(452)
OPSEUPP -- Pension expense	135
OTPP and OPSEUPP – net pension recovery	(317)

Why is OTPP in a recovery position?

The pension recovery is made up of:

Current period benefit cost	1,512
Expected interest on accumulated obligation (6.25%)	3,617
Expected return on assets (6.25%)	(4,871)
Amortization of net actuarial gains	(682)
Other adjustments	(27)
Pension recovery	(452)

Two key issues:

- The assets exceed the obligation in the plan (measured using a discount rate based on the long-term rate of return on assets -- 6.25%), therefore, the expected return on the assets exceeds the interest on the obligation
- The **actual** performance of the assets has exceeded the **expected** performance, therefore leading to net actuarial gains that are being amortized over time, also offsetting the benefit cost