

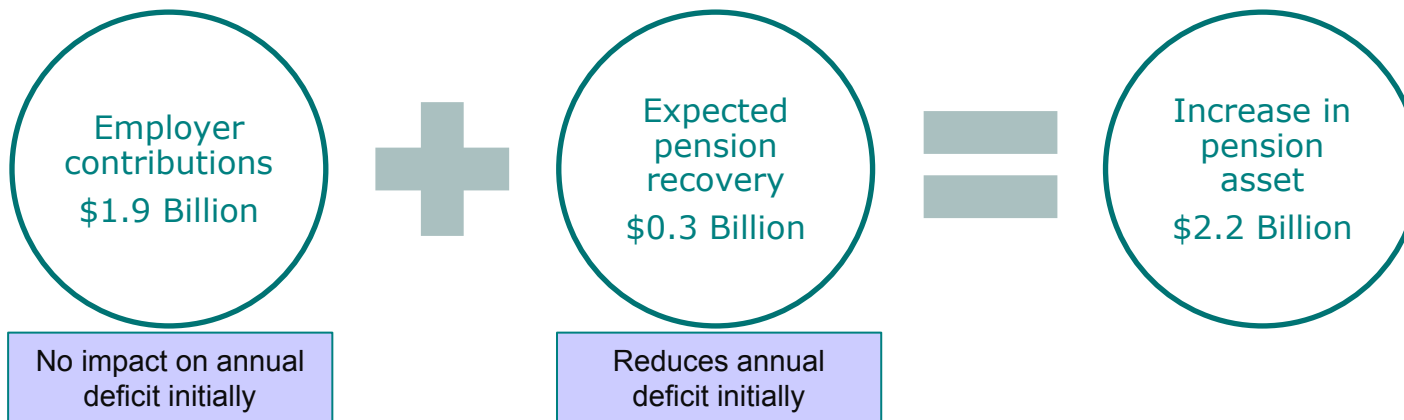


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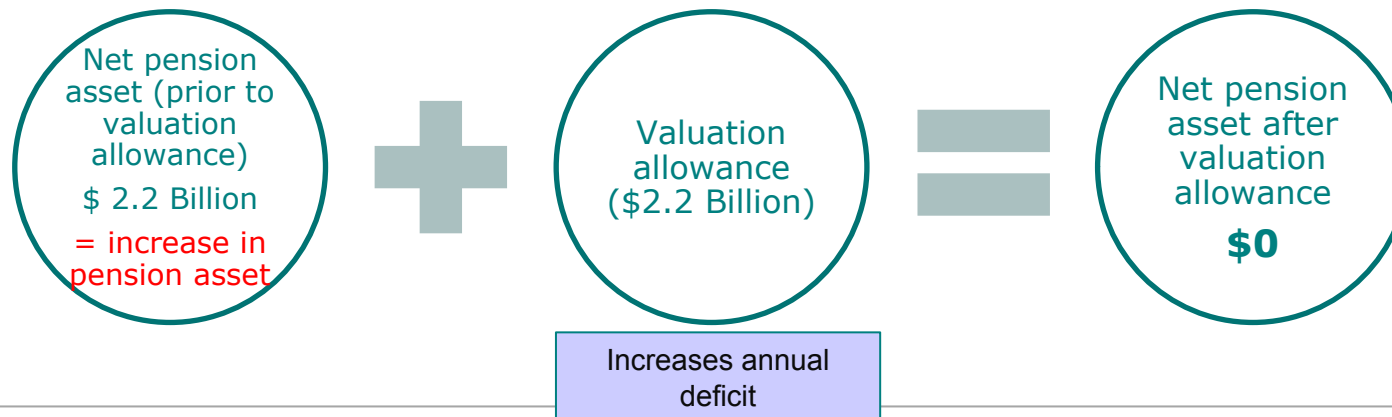
Detailed analysis of pension accounting for FES

October 23, 2016

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



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.



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 from 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