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2016: SB06

MEMORANDUM TO: Secretary Treasurers of School Authorities (Isolate Boards)

FROM: Anthony Yeung
Acting Director
Financial Analysis and Accountability Branch

DATE: **March 04, 2016**

SUBJECT: **Retirement Gratuity – Early Payout Option**

The purpose of this memorandum is to provide more details on the Retirement Gratuity – Early Payout Option negotiated between the Ministry of Education and the federations and unions.

In the 2014-17 Central Collective Agreements for teachers and education workers, a provision allows employees eligible for a retirement gratuity to elect to receive an early payout of their gratuity at a discounted rate by September 30, 2016 or to receive an undiscounted payout on their normal retirement date. This is a one-time voluntary option for members and cannot be exercised at any other date in the future.

The early payout to eligible employees will be processed by school authorities no later than August 31, 2016 for all bargaining groups except for Canadian Union of Public Employees (CUPE) and Educational Workers of Ontario (EWAO). The payments for CUPE and EWAO members will take place on the first pay in the 2016-17 school year.

Certain of the plans and proposals set out in this memo can take effect only if regulations are made by the Lieutenant Governor in Council under section 234 of the Education Act. Such regulations have not yet been made. Therefore the content of this memo should be considered to be subject to such regulations, when and if made.

Background

The 2012-14 labour agreements made changes to sick leave accumulation, retirement gratuities and post-retirement health, life and dental benefits. These changes reduced the Employee Future Benefits obligations, which resulted in one-time curtailment gains that were reported in the 2011-12 Financial Statements.

Upon retirement, employees eligible for a retirement gratuity as at August 31, 2012 would receive a payout based on their accumulated vested days, years of service and salary at that date. In addition, effective September 1, 2012, all accumulated non-vested sick days were eliminated.

Calculation of Early Payout of Retirement Gratuities Reporting Template

An excel tool has been developed to support school authorities in calculating and communicating the amount of the early retirement gratuity payout to teachers and education workers. The tool offers school authorities two options for communicating the information:

- 1) 1-page template which can be distributed to teachers and education workers. The template contains the early payout amount as well as the date when the election must be made to the school board.
- 2) 2-page letter which can be distributed to teachers and education workers providing the same information noted in 1) above as well as an overview of the early payout provision, contact information, and an area for the teacher or education worker to sign should they wish to opt for the early payout.

The above two methods of communication are optional and boards may choose to adapt their communication of the payout to teachers and education workers as they see appropriate, however including as a minimum, the early payout amount, and the election date.

Eligible members must declare their intention to receive the early gratuity payout to the school board by June 30, 2016.

The excel tool also includes a "Data" tab designed to collect school authorities' actual retirement gratuity cash payout of teacher and education workers by bargaining group. This will support the cash flow payment to school authorities. A set of instructions is provided in the template to assist boards in populating the cash payout costs accurately.

The completion of the "Data" tab is mandatory and must be returned to the Ministry no later than July 31, 2016 to the following mailbox: Benefits@ontario.ca.

Funding to support early payout of retirement gratuities

To help school authorities meet this requirement, one-time funding will be provided for 2015-16 and will be based on the amount that the board's retirement gratuity early payout exceeds the board's funded retirement gratuities liability as at August 31, 2016.

The funded employee retirement gratuity will be calculated as follows:

Total retirement gratuity liability as at August 31, 2016 (before payout) less the unfunded retirement gratuity liability as at August 31, 2016 (before payout)

An illustrative example of the calculation of the one-time funding and the funded employee retirement gratuity is included in *Appendix A*.

Upon submission and review of the excel template, the ministry will provide payment to the school board for the one-time funding in September 2016, using information from the 2014-15 financial statements to calculate the funded retirement gratuities liabilities. The ministry will adjust the payment, if applicable, after the submission and review of the 2015-16 financial statements and related actuarial reports.

Future reductions to Grants for Students' Needs (GSN) funding will be made to the extent that the one-time actuarially determined gain and Ministry funding for the early payout reduces the amount of the unfunded liability that the boards will amortize into compliance. The funding adjustment in the out years will start in 2016-17 and will be calculated by dividing the one-time funding for the retirement gratuity payout and the one-time gain reported, by the board's Employee Average Remaining Service Life (EARSL) as of the 2015-16 financial statements. School Authorities will also be required to continue to manage, for budget compliance purposes each year, a portion of their remaining unfunded retirement gratuity liability.

Financial Statement Implications

2015-2016

The retirement gratuity early payout will result in changes to Schedule 10G in the 2015-16 financial statements in order to calculate:

- the one-time ministry funding amount,
- the actuarially determined gain resulting from the early payout,
- the future annual GSN adjustments.

The ministry recommends that school authorities consult with their actuaries with regards to the reporting of the retirement gratuity liability as a result of the retirement gratuities early payout.

A sample Schedule 10G for the 2015-16 financial statement forms has been included in *Appendix A* to demonstrate the financial statement and funding implications mentioned above. Please note that the form is in draft format and may be subject to change.

One-time gain on early payout

According to the provisions in the 2014-17 central collective agreements, the payout for eligible members electing this provision will be discounted using an annual factor of 7.87% over the number of years remaining until the member reaches the average retirement age of 58 for teachers and average retirement age of 61 for education workers. A discount factor of 2.0% will be used for members having reached their average retirement age. As the discount factor used in the calculation of the early payout is generally higher than the actuarial rate, the payout for members will generally be less than the value of the retirement gratuity liability, creating a one-time gain. This will be reported by school authorities in the 2015-16 financial statements.

Contacts

For any questions you may have on the retirement gratuity early payout option in the collective agreements, I would encourage you to contact your School Board Trustee Association. For any questions on the early payout template, please contact:

- Doreen Lamarche at 416-326-0999
- Romina Di Pasquale at 416-325-2057

Original signed by

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