1240/5(1809)

QUESTION TO BE ASKED OF THE PRESIDENT OF THE POLICY AND RESOURCES COMMITTEE ON TUESDAY 18th MARCH 2003, BY SENATOR LEONARD NORMAN

Question

(a) What, if any, is the current and projected funding deficit of the Public Employees Contributory Retirement Scheme?

(b) If there is a current or projected deficit, how is it to be funded?

(c) What assumptions are made when calculating the surplus or deficit in terms of investment returns from the fund, longevity of members and the rate of inflation?

(d) What are the current employee's and employer's contributions as a percentage of total States payroll costs and as pure annual cash amounts?

(e) Does the Committee consider the scheme to be sustainable in its current format, given its defined benefits, and if the answer is in the negative, what action does the Committee plan to take?

(f) How is the Committee currently able to take informed decisions regarding the scheme when the last available valuation is five years out of date, and the next available valuation will be at least two years out of date?

Answer

(a) The last published valuation was at 31st December 1998, when a funding deficit of £22.2 million was shown. As this was a relatively small deficit it was agreed to carry it forward until the next triennial valuation as at 31st December 2001. The results of that valuation have not yet been finalised, but preliminary indications are that it is likely to reveal a significant deficit.

(b) Officers of the States Human Resources Department and the Treasury have already met on a number of occasions with the Actuaries to consider a variety of ways of addressing the likely deficit, including a possible new scheme for future employees. Once proposals have been approved by the Policy and Resources Committee they will be put to the PECRS Joint Negotiating Group which consists of representatives of current employees and pensioners under the scheme. A paper on this subject is to be considered by the Policy and Resources Committee's Human Resources Sub-Committee on 21st March, 2003.

(c) The current assumption which the Actuaries adopt regarding investment returns on the fund is that they will exceed inflation by 3.75 per cent per annum averaged over the long term future.

With regard to longevity, the Actuaries base their assumptions on the mortality experience of the scheme membership, but prudent allowances are made for future improvements in longevity. The longevity assumptions are reassessed by the Actuaries at each triennial valuation to ensure that they reflect the most up to date experience of the scheme.

The rate of inflation is not considered to have a significant impact on the results of a valuation because it is the difference between the projected investment returns and projected inflation which is of key importance. Having said that, it is worth noting that allowance is made for inflation in Jersey to exceed inflation in the UK.

(d) In 2002, the employees' contribution to the scheme was slightly under £8 million, which was approximately 3.2 per cent of total States' payroll costs. In the same year, the employer's contribution was just over £22.2 million, which was approximately 8.9 per cent of total States' payroll costs.

(e) The Committee believes that if agreement can be reached with the Joint Negotiating Group and Committee of Management of PECRS on ways of addressing the likely deficit, the scheme can be sustainable for the foreseeable future. It is important to note that this is not a scheme where the States meets the balance of costs. An increase in the employer's contribution rate can only come about with the approval of the States. In this respect the scheme is different from defined benefits schemes generally. In the final analysis, if the States and the Committee of Management are not able to agree on ways of addressing a deficit, pensions in payment are reduced accordingly to dispose of the deficit.

(f) As I said in my answer to question (a), we have already received preliminary results for the fund as at December 2001. Those results are subject to further discussion with the Actuaries before being finally published. However, I understand that the Actuaries in formulating their advice take into account changes in financial markets since the due date of the valuation.