WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY SENATOR B.E. SHENTON

ANSWER TO BE TABLED ON TUESDAY 6th JUNE 2006

Question

Would the Minister inform members of the following information in relation to 2005 –

(a) the total pension deficit or surplus, calculated under FRS17, for all public employees pension schemes including the Public Employees Contributory Retirement Scheme and the outstanding pre-1987 debt?

(b) the amount of money transferred into pension schemes during the calendar year with a complete breakdown between schemes, regular employee contributions, and additional payments, (for example funds transferred from the former Education, Sport and Culture Committee's budget to cover pension shortfalls)?

(c) a comparison of employer contribution rates against both the private sector average and U.K. local government pension schemes?

(d) the current method of calculation for the pre-1987 debt, whether the liability for the debt lies solely with the taxpayer, and whether the actual debt quoted is an estimate and whether the actual amount payable by future generations will be significantly higher than the indicated figure?

Answer

(a) The total pension deficits, calculated under FRS17 as at 31st December 2005, for the Jersey Teachers' Superannuation Fund (JTSF) and Jersey Post Office Pension Fund (JPOPF) can be found on Page XXVI of the States 2005 Financial Report and Accounts.

The total deficit, calculated under FRS17 as at 31st December 2005, for the Public Employees' Contributory Retirement Scheme (PECRS) was £281,593,000. This sum is inclusive of the pre-1987 debt, valued at £123,152,000, as calculated by the method explained in answer (d) below.

(b) The amount of money transferred into the pension schemes during 2005 was as follows-

	PECRS £'000s	JTSF £'000s	JPOPF £'000s
Employer Contribution	34,137	4,341	26
Pension Increases Funded by Employer	-	2,382	-
Employer Additional Voluntary Contributions	3	-	-
Voluntary Early Retirement Contributions	201	-	-
Employer Augmentation	140	-	-
Total included in States Accounts	**34,481**	**6,723**	**26**
Employee Contributions	10,656	2,618	1
Employee Additional Voluntary Contributions	501	17	-
Total Employee Funded Contributions	**11,157**	**2,635**	**1**
Total transfers to Pension Schemes	**45,638**	**9,358**	**27**

(c) Comparative Employer Contribution Rates are as follows:

PECRS RATES
Employer Contribution rate 13.60%*
(Employees Contribution - New Members Rate 5.00%)
(Employees Contribution - Existing Members Rate 6.25%)
(Employees Contribution - 1967 Members Rate 6.00%)

* An additional payment is made by the employer in respect of the Pre-1987 debt repayment (approximately 2% at present), as detailed in the 2005 Financial Report and Accounts and answer (d) below.

JTSF RATES
Employer Contribution rate 9.95%
(Employee Contribution rate 6.00%)

JPOPF RATES
Employer Contribution rate 26.60%
(Employee Contribution rate 1.50%)

COMPARATIVE INFORMATION
2005 NAPF (National Association of Pension Funds) survey showed average employer contribution for open defined benefit pension schemes as 16% of pensionable pay. This will no doubt include an element relating to past service surplus or, more likely, deficiency.

U.K. Local Government Pension Scheme; employer contribution is approximately 13.8% plus significant additional payments in respect of past service deficiency.

U.K. Principal Civil Service Scheme; the effective employer contribution calculated on like for like basis is approximately 18.3%.

(d) THE PRE-1987 LIABILITY

(i) The current method of calculation for the pre-1987 liability is as follows –

To place a value on the future debt repayments due from the States over the period to 31st December 2083, the actuary has projected forward each year's repayment in line with assumed pay increases. In accordance with the Regulations the debt repayments due from the States will increase each year in line with the average pay increases of Scheme members. The annual debt repayment due from the States during 2005 was £3,004,321. To place a present value on the future repayments the actuary has discounted back each repayment over the period from the date each repayment is due to be paid to the certification date in line with the assumed discount rate (or interest rate). The value placed on the outstanding debt is the sum of these discounted future debt repayments.

The financial assumptions used to calculate the outstanding pre-1987 debt due from the States as at 31st December 2005, were the assumptions used for the actuarial valuation of the Scheme as at 31st December 2004. The key assumptions used for this purpose are –

the average pay increases of Scheme members are assumed to be 1.25% per annum above U.K. inflation; and,

the discount rate is assumed to be 3.75% per annum above U.K. inflation.

(ii) The States liability -

The States in agreeing P.190/2005 on 27th September 2005, have confirmed responsibility for the past service liability and agreed to repay this debt over an 82 year period commencing 1st January 2002.

(ii) Total value of repayments to be made and 'estimation' clarification -

As explained above, the present value of the debt has been calculated as the expected present value of the future debt repayments. The debt repayments are dependent on future levels of pay, which cannot be known in advance. As such, assumptions have been used to place a value on these payments. To that extent, the quoted value of the payments can be described as an estimate. The actual future debt payments will differ from those assumed in calculating the value of the payments to the extent that experience differs from the assumptions, for example if actual salary increases differ from those assumed in the calculations.

The debt works in a similar way to a mortgage. The debt repayments are made up of two elements, interest on the debt and capital payments to reduce the amount of debt outstanding. As with a mortgage, the balance of the repayments changes over time so that, in the later years of the repayment schedule, the capital payment becomes the major part of the repayment. However, unlike a mortgage, which tends to have level repayments, the repayments for this debt are projected to increase with pay increases over the repayment period. This means that repayments are projected to be higher in the later years of the repayment schedule. The capital repayments are, therefore, biased towards the later part of the repayment period. Each year, the value of the debt will increase with interest, and reduce by the amount of payments made.

Again, as with a mortgage, the sum of total projected payments to be made will exceed the current present value of the debt because the projected payments will include the future interest on the debt. However, if the future payments are discounted back at the rate of interest charged on the debt, the discounted value will equal the capital amount of the debt.

To explain why this is the case, imagine a separate fund set aside of equal value to the debt, from which the debt repayments are made, and on which interest is earned at the same rate of interest as is charged on the debt. Over the debt repayment period, the fund will increase with the interest earned, and this will be just sufficient to make up the difference between the debt amount, and the sum of the projected repayments.