STATES OF JERSEY

DRAFT PUBLIC EMPLOYEES (PENSIONS) (JERSEY) LAW 201- (P.28/2014): AMENDMENT (P.28/2014 Amd.) – AMENDMENT

Lodged au Greffe on 24th April 2014
by Deputy E.J. Noel of St. Lawrence

STATES GREFFE

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In substituted Article 7(2), for the words “16.5% of pensionable earnings” substitute the words “16% of pensionable earnings”.

DEPUTY E.J. NOEL OF ST. LAWRENCE

REPORT

It is clear that the current states employee final salary pension scheme (PECRS) needs to be replaced.

What I hope to demonstrate to Members is that we need to replace it with a scheme that is sustainable, affordable and fair – not only to the members of the scheme, but also to those taxpayers who are not parties to the scheme.

The proposed Career Average Revalued Earnings (CARE) scheme is a viable solution, but equity and fairness does not only have to apply to those participating in the scheme. The so called "traditional" or "normal" risk-sharing arrangements such as the ratio of 2:1 (employer/employee) needs to be challenged. There has to be certainty on behalf of all taxpayers going forward, which is why SEB are in agreement that the employer cap should be in the primary Law.

Throughout the negotiations between the JNG and officers (on behalf of SEB), I have challenged (along with the other political members of SEB) the proposed replacement CARE scheme, arguing that the 3 core values of sustainability, affordability and fairness also need to apply to those taxpayers who are not involved in the scheme, as well as those who are in the scheme.

From the beginning of the negotiations, SEB set a maximum total contribution envelope of 24%, split at a maximum of 16% for the employer's contribution and 8% for employees (non-uniform). My amendment is attempting to uphold the employer element of the maximum limit which was communicated at the outset. By adjusting the cap from 16.5% to 16%, we will deliver the fundamental maximum payable by the employer – our "line in the sand" on behalf of those taxpayers not involved in the scheme.

The public are generally expecting us to replace the final salary scheme with a more affordable scheme. Many would want us to introduce a defined contributions (DC) scheme, which gives certainty as to the costs, but increases uncertainty for the participants within the scheme. A DC scheme would make recruitment of certain States employees more difficult, particularly in the Health and Social Services Department, where the vast majority of off-Island recruits will be transferring from UK employers with Defined Benefits (DB) schemes. However, to offer 2 different types of scheme – one DC and the other DB – would not be practicable, as it would hinder the transfer of staff from one area to another, and would ultimately cause a rift within the public sector.

The CARE scheme being proposed is a reasonable solution. But let us be clear it is not going to reduce the cost of providing a workable pension scheme to States employees. The arrangements around the pre-1987 PECRS debt and the fact that for new entrants the current scheme is already, according to independent actuarial reports, underfunded, means the overall cost to taxpayers is actually going to increase.

Through negotiations with officers (on behalf of SEB) and the JNG, the employer has been flexible, and this flexibility was based on the foundation that the maximum liability to the employer would be capped at 16% (being the employer's proportion of the overall 24% cap). However, there is no bottomless "pot" of taxpayers' money available to fund States employees' pensions. We are facing many calls on tax receipts

in terms of maintaining and improving services to Islanders. The initial growth bids for the next MTFP are not insignificant.

To illustrate SEB's flexibility, since 1988 all new (non-uniform) entrants into the current scheme have been on an accrual rate of 80ths. SEB's straw man proposed an accrual rate of 70ths which SEB reluctantly agreed could, with compensating measures, be further reduced to 66ths. SEB were reluctant to agree to this because the compensating measures were simply not fair to all employees, but overall they were cost-neutral to the employer. After reaching agreement with the JNG, and after lodging the main proposition to introduce the CARE scheme, SEB were advised that the JNG wanted to reduce the accrual rate down again to 60ths. At the time of lodging this amendment, this late in the day, suggested alteration has yet to be discussed or indeed resolved by SEB because of its unfairness between different employees.

The current final salary scheme could be described as being an 18ct gold-plated pension scheme which is simply unaffordable in the world we now live in.

The proposed CARE scheme is still gold-plated, but it is plated in 9ct gold and not 18ct gold.

Those in the private sector, if they are fortunate enough to be in a part-funded employer scheme, will most likely be in a DC scheme, where the employer contributes typically around 10% of their pensionable pay. What is being proposed, unamended, is a future possible contribution rate of 16.5% of pensionable pay.

For many, particularly those not employed in financial services, or those who are self-employed, is that they are not in a scheme at all.

As a Government, we must encourage all Islanders to save during their working lives to fund their retirement years if we are to avoid increased income support costs and also to allow individuals to have sufficient funds to actually enjoy a reasonable quality of life in their retirement years.

It can be argued that the employer pension contributions are a form of deferred remuneration, and as such what is being proposed is in fact a 2.4% increase in remuneration levels for States employees.

The slide on the next page attempts to show how this 2.4% increase has arisen.

States Members Presentation - 3rd March 2014

States of Jersey

Employee Pension Scheme Review
Sustainable. Affordable. Fair.

States of Jersey PECRS Obligations (Agreed 1987)

	1987	2002	2003-2014
1. Pay Employer Contribution to fund benefits	15.6%	13.6%	Costs of benefits have increased
2. Repay Pre-1987 Debt		2%*	
	15.6%	15.6%	

*2% employer contributions are required to be used to fund scheme benefits once pre-1987 debt is repaid

EMPLOYER PYMENTS ARE NO LONGER SUFFICIENT TO MEET THE OBLIGATIONS AGREED IN 1987

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The employer currently contributes a total of 15.6% into PECRS of pensionable pay of which, by agreement with the Committee of Management, 2% is being used to repay the pre-1987 PECRS debt, and 13.6% is used to fund the remainder of the scheme. We already know that this 13.6% is not enough to fund the future pensions of new entrants into the current scheme along with the current employee contribution rate (typically 5% for non-uniform employees).

The new proposals are suggesting that the employer makes a contribution set initially at a rate of 16% (with a 16.5% cap), but this excludes any contribution to paying off the pre-1987 PECRS debt. Therefore to keep the repayment of the pre-1987 PECRS debt at current levels, a further 2% will have to be found, which is actually an increase from the current employer rate of 15.6% to 18% (hence the 2.4% remuneration increase). It is proposed that this additional 2% pre-1987 PECRS debt repayment will be paid *pro rata* from departmental cash limits and not from growth.

The slide on the next page illustrates that the employer cap will only be increased to the maximum after steps 1 and 2 have been implemented, and that there will still remain a funding shortfall.

SEB Presentation

States of Jersey

Employee Pension Scheme Review
Sustainable. Affordable. Fair.

A funding ratio for Post-2015 benefits of 100% or more (after pension increase reductions) is expected 95% of the time

Defined procedure in regulations	Deficits will be funded from :- 1. Previous surpluses and then, if no previous surpluses, 2. Benefit reductions to include – Reduction in pension increases for pensioner and deferred members (to a minimum of 50% of inflation) – Reduction in revaluation increase for active member (to a minimum of 50% of inflation +1%) and then, if it is still unaffordable to pay 50% inflation, 3. Contribution increase up to the contribution cap and then, if it is still unaffordable,
Negotiation	4. a reduction in benefits for future service Or An increase in the Employee only contribution rate

(If no agreement within 6 months then the accrual rate will be reduced as advised by the scheme Actuary)

SUSTAINABLE, AFFORDABLE AND FAIR

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However, SEB have been advised that the new CARE scheme would have to be at a funding level of some 60% to 65% of what is required if level 3 is reached. To put it simply, the CARE scheme would at this point be broken and would need significant amendment or indeed replacement. So one can argue this in 2 ways. First, that a cap of 16.5% is acceptable because we may not increase the employer contribution to 16.5% as we may have to revise or replace the scheme. The flip-side is to say that because the scheme would be in effect broken, then setting the cap at 16% is perfectly acceptable for the same reasons. However, the significant argument in favour of setting the cap at 16% (and not at 16.5%) is that it is compliant with our "line in the sand" by setting the employer contribution at a maximum of 16%, in that it sends a strong message to all taxpayers that the employer's maximum liability is certain. We have not managed to reduce the cost to the Public because of some very strong practical reasons, but we have avoided future employer liabilities. In doing so, we have also provided adequate funding at an appropriate level for State employees' pensions.

The proposed scheme attempts to strike a balance between public sector staff and the taxpayer, ensuring that the States' staff continue to have good pensions, while taxpayers benefit from a meaningful cap on their exposure to current and future costs.

What I am proposing continues to be fair to all parties, and I hope members will see that this is a small but significant amendment which sends out an important message to all concerned: a message that we have an obligation to provide an appropriate level of funding for States employees' pensions, but that we also have to be mindful to the exposure of taxpayers.

Financial and manpower implications

There are no additional financial or manpower implications arising from this amendment.