Submission from the Joint Negotiating Group to the Corporate Services Scrutiny Panel considering proposed reforms to PECRS

The Joint Negotiating Group (JNG)

Since 1989, responsibility for negotiating proposed pension changes for States employees has rested with the Joint Negotiating Group. It is made up of representatives from the following recognised trade unions/staff associations:

Jersey Civil Service Association/Prospect
Unite
ACTS
Royal College of Nursing
Jersey Nursing Association
GMB
Hospital Consultants & Specialists Association
British Medical Association
Jersey Fire and Rescue Service Association
Jersey Police Officers' Association
Jersey Prison Staff Association
Communication Workers' Union

The JNG was created to avoid the employer from having to negotiate separately with a multitude of trade unions/associations over pension provision. Membership is not fixed in terms of numbers or specific attendees although most of the time the same individuals attend. Any full-time official from a trade union has an open invitation to attend. The JNG has only two elected officials – a Chairman and a Secretary. Decisions are based around consensus – votes are generally not taken – and each member union retains its autonomy. Sometimes the JNG divides into uniformed and non-uniformed groupings when issues specific to one of these groups are being discussed. The Chairman and Secretary would attend such meetings to maintain the JNG remit.

Employee representatives of the PECRS Committee of Management (COM) are drawn from members of the JNG. There are currently six employee representatives on the COM.

The JNG's role in the review of PECRS

Following the 2007 scheme valuation and the employer's refusal to enter into meaningful negotiations on how to deal with the deficit, the default provisions set out in the scheme Regulations came into effect for the first time. This meant the rate of annual pension increases was cut back for the first time. Great concern was expressed by the JNG at this turn of events, which showed how the employer could force members to shoulder all scheme deficits by essentially refusing to negotiate.

At this point, the JNG also highlighted that contributions into the scheme were insufficient to meet future benefits and that alongside the greater likelihood of future deficits, increased longevity and more challenging investment returns, there was little prospect of the employer reviewing its contribution. The JNG position was that a review of PECRS should be sought. JNG members put this to the COM and the COM initiated its own independent actuarial review of the scheme – the Lane Clark and Peacock review of PECRS written by Martin Slack and completed in December 2011.

The Slack Report

One of the most potent observations for the JNG in the Slack report is at point 5.6 which states that: ‘It is relevant to note that the States contribution rate has effectively remained between 15% and 15.6% of salary since 1988. I am not aware of any other funded pension scheme where the employer contribution has been unchanged over this period.’

Another observation is at point 13.11, where Martin Slack comments: ‘I would note…that the benefits currently provided under the new Member Regulations are already materially lower than those provided by UK public sector schemes.’

Technical Working Group

Informed by the Slack report, a review of PECRS by the employer’s actuary and the Hutton Report on UK public service pension provision, the Technical Working Group was set up to consider and report on options for change to PECRS. Two JNG members of the COM were members of the TWG and played a full part in its work. The TWG report set out various options for change and developed a straw man approach as a basis for consideration of the future benefit design.

The negotiations

During the course of 2013/14 the JNG has been involved in negotiations with the Treasurer and her team on the provisions of the new scheme. Meetings have generally been held on a monthly basis and have, for the most part, been conducted in a positive spirit. At the same time there has been heated debate around particular issues.

The adoption by the employer of the TWG straw man proposals as its starting point was viewed by the JNG as positive. A line in the sand for the JNG was a requirement to retain a defined benefit (DB) scheme in order to avoid the inefficiencies and uncertainties that afflict money purchase/defined contribution schemes. With CARE meeting this DB stipulation the JNG accepted this change at an early stage.

During the negotiations the JNG has secured a number of important objectives and has improved the offer in a number of ways, which are summarised briefly below.

1. The employer is increasing its contribution into the scheme from 13.6% to 16% and costs are being shared in the ratio of 2:1.

2. Accrued rights have been protected.

3. The new higher contributions on the part of employees, while unwelcome, are to be phased in over a longer period for lower- paid employees (four years) and over five years for uniformed employees. At the JNG's suggestion, these contributions have so far as possible been equalised over the relevant time period

4. The JNG has made some progress towards its objective of attaining an accrual rate of 1/60th. The 1/66th accrual currently offered has been secured at the cost of a lower revaluation rate linked to RPI +1% rather than earnings.

3. One aspect not covered in the TWG report and not included in the costings attached to the 'straw man' benefits was the JNG's desire to secure protection for active scheme members within a certain number of years of their normal pension age. In the negotiations the JNG has secured broadly similar but not quite as advantageous arrangements to those applying to UK public sector schemes. Members seven years from their normal retirement age at 31 December 2014 are to be offered a one-off option to remain on the current scheme. Similar arrangements will also apply to the small number of employees on a 45th accrual.

4. One of the most unpopular aspects of the employer's proposals remains the automatic linking of the PECRS pension age to the Jersey pension age. However, while the original proposal was for the uniformed services' pension age to increase to 62, the proposal is now that this will rise from 55 to 60 – in line with their counterparts in the UK. For uniformed services, their pension age will not be automatically linked to any change in the Jersey pension age, but will be subject to review in the future.

5. When employees retire, the option to take a proportion of their pension as a lump sum is popular with employees and the JNG has maintained the current exchange rate of £13.50 per £1 of commuted pension.

6. The JNG welcomes other aspects of the new scheme which represent modernisation of the current arrangements – the inclusion of nominated partners, an increase in the death in service lump sum, the removal of age restrictions on membership, the removal of vesting periods for eligibility to receive benefits and flexible retirement options, for example.

The JNG's concerns

There is general consensus across the JNG that it has obtained the best possible deal it can through negotiation. This is not to say that all JNG members are of one mind. While we have much in common, each employee group has its own concerns and priorities and the extent to which these have been met will vary. Across the JNG, a number of concerns remain.

1. When negotiations commenced, the discussion was around an ultimate contributions cost cap of 27%, with 18% from the employer and 9% from employees. Following resistance from the SEB this has now been watered down to a cap of 24.75% (0.5% employer/0.25% employee). We are very disappointed about this reduction.

2. The seven years' protection offered to employees in the negotiations around the UK pension schemes was funded from outside any cost envelope. Here the cost is included within the overall 24% cost envelope, which has limited the opportunity to secure further adjustments or improvements. Linked to this is the recognition that the costs attached to protection will, by definition, be time limited and will ultimately end. The JNG is clear that this funding so released (from the employer and employee) should remain in the scheme to help future funding.

3. We welcome the fact that the risk-sharing arrangements that will apply going forward will be more balanced vis a vis employers and scheme members. Pensioners no longer face the risk of pensions in payment being reduced, and surpluses will remain within the scheme. However, we have concerns over some other elements – we see it as important that reductions in pension increases as a result of a deficit in the pre-2015 section of the scheme should be restored in the event of a surplus i.e. pensioner increases go back to RPI.

4. The increase in pension age for uniformed services from 55 to 60 in one step, has led to concerns around the fitness to work of employees in this age group. The employer has proposed arrangements to safeguard those who find themselves unable to continue in their current role. This includes an employer-initiated 'unfit for work test'. Ultimately, such employees should be able to retire from age 55 with no actuarial reduction, funded by their respective department. It is important that the spirit of these arrangements is not stymied by a reluctance to fund such retirements. We need to see how this is reflected in the Regulations.

5. There are concerns about middle and senior doctors' ability to practise safely if they are expected to work to 67. Efforts to tackle this are being considered, but have yet to be agreed.

6. The JNG looks forward to playing a full role in reviewing the Regulations that give effect to the pension proposals. It is essential that JNG members have enough time to review them in a meaningful and effective way. We must have the opportunity to comment and suggest changes where appropriate, especially to ensure the Regulations reflect the detail and spirit of what we understand to have been agreed during the course of the negotiations.

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