STATES OF JERSEY

PUBLIC SECTOR PENSION REFORM 2015 (PHASE 2) (S.R.8/2015): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Presented to the States on 9th December 2015
by the Minister for Treasury and Resources

STATES GREFFE

PUBLIC SECTOR PENSION REFORM 2015 (PHASE 2) (S.R.8/2015): RESPONSE OF THE MINISTER FOR TREASURY AND RESOURCES

Ministerial Response to:	S.R.8/2015
Ministerial Response required by:	29th December 2015
Review title:	Public Sector Pension Reform 2015 (Phase 2)
Scrutiny Panel:	Corporate Services

INTRODUCTION

The States agreed to make sustainable public finances a priority as part of the Strategic Plan in April 2015. The final-salary public service pension scheme is unsustainable in its current form. It is funded on a "best-estimate" basis, and the contributions are insufficient to fund the benefits being promised to new and existing employees. The proposed Career Average Revalued Earnings (CARE) Scheme was developed to provide a sustainable, affordable and fair scheme for the long term. The CARE Scheme has been costed using "prudent" assumptions, and for the first time will fix the maximum that the States can be asked to pay to the pension scheme at an employer contribution cost cap of 16.5% of pensionable earnings.

It is reassuring that the Corporate Services Scrutiny Panel have reviewed the proposals and concluded that the rationale for a move from a final salary scheme to a CARE Scheme is compelling, and that the risk-sharing arrangements provide a robust mechanism for controlling the cost of pension provision to the employer. The second phase of the Panel's review and support of the Regulations is welcomed.

The Panel have requested that the long-term sustainability study of the Fund is presented to the States Assembly before the end of this term of office. This will be delivered by the completion and presentation to the States Assembly of the next Actuarial Valuation Report, which will include an assessment of any long-term trends that may impact on sustainability of the Scheme.

FINDINGS

	Findings	Comments
1	The Panel, in agreement with its advisers, question whether the cap of 16.5% is affordable in the long term.	Funding for the current level of employer contributions is included within base budgets, and any additional employer contributions up to 2019 are included within the MTFP 2016 – 2019 agreed by the States in October 2015. The phasing of the employer contribution rate increase for existing employees over the period 2019 to 2021 enables costs to be managed, and the contribution cost cap provides certainty that can be incorporated into longer-term financial plans. A greater concern would be if we had not made these changes – there is currently insufficient funding going into the Scheme to fund the benefits being promised, and there is no formal employer cost cap within the current Regulations. The employer cost cap will provide certainty to the States and is set as a percentage of pensionable earnings. Therefore, if the States employs less people in the future, the cost of providing pensions will be less.

RECOMMENDATIONS

	Recommendations	To	Accept/ Reject	Comments	Target date of action/ completion
1	The Panel request a long-term sustainability study of the fund is presented to the States Assembly by the end of this term of office.	T&R	Accept	The Scheme is required to undergo an actuarial valuation every 3 years. This provides an assessment of the funding position of the Scheme. The Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015, adopted by the States on 17th November 2015, include a new requirement for actuarial valuation reports to contain an assessment of whether any change in funding level is due to long-term trends of a demographic, investment or other nature. In this way, actuarial valuations will, in future, contain an assessment of the long-term sustainability of the Fund. The next actuarial valuation is to be undertaken at the end of December 2016. Under the Regulations adopted by the States, there is a requirement that valuations must be presented within 15 months; and so the outcome of the 2016 actuarial valuation, which will include an assessment of any long-term trends and affordability of the benefit package, will be presented to the States Assembly within this term of office. This recommendation will be met by the presentation of the 2016 actuarial valuation report to the States in early 2018.	March 2018

CONCLUSION

The second phase of the Corporate Services Scrutiny Panel's review of the Public Sector Pension Reform provides a welcome review of the detailed Regulations for the CARE pension scheme for public sector employees. It is reassuring that Scrutiny's adviser has concluded that the Regulations are consistent with the benefit structure expected at the time of the first phase of the review in 2014.

It is also reassuring that Scrutiny's adviser has concluded, during their reviews, that the rationale for a move from a final salary scheme to a CARE Scheme is compelling, and that the risk-sharing arrangements provide a robust mechanism for controlling the cost of pension provision to the employer.

The Panel's recommendation for a long-term sustainability study will be achieved by the completion and presentation to the States of the next actuarial valuation report which, under the Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015, is required to contain an assessment of any long-term trends of a demographic, investment or other nature which may impact on the sustainability of the Scheme.