



## **Corporate Services Scrutiny Panel**

### **Public Sector Pensions**

#### **Public Hearing with Chief Minister**

**TUESDAY, 22nd APRIL 2014**

**Panel:**

Senator S.C. Ferguson (Chairman)  
Deputy J.G. Reed of St. Ouen  
Deputy R.J. Rondel of St. Helier  
Ms. M. Galpin (BWCI Consulting Limited)

**Witnesses:**

Senator I.J. Gorst (The Chief Minister)  
Ms. L. Rowley (Treasurer of the States)  
Mr. J. Richardson (Chief Executive Officer)  
Ms. M. Byron (Project Director, Pensions)  
Mr. M. Pinel (Human Resources Senior Advisor)

[14:02]

**Senator S.C. Ferguson (Chairman):**

Welcome to this hearing of the Corporate Services Scrutiny Panel regarding the draft Public Employees Pensions (Jersey) Law. There is a health warning there which includes all the privileges appertaining to the hearing for anyone who has not been before. On the seats for the public there are notices about the conduct of the meeting. For the purposes of the transcription people, if you can say who you are and what your position is, please. Thank you for sparing your holiday to come in and see us.

**The Chief Minister:**

It is a pleasure. It is like a holiday.

**Senator S.C. Ferguson:**

If we look at the general costs and affordability of P.E.C.R.S. (Public Employees Contributory Retirement Scheme) - I am sorry, for the benefit of the public, we tend to refer to it as P.E.C.R.S. rather than go through the whole title - what will be the costs to the States of implementing these proposals?

**The Chief Minister:**

When you say "costs", Chairman, do you mean the administrative costs or do you mean the extra costs overall of running the pension over the medium term?

**Senator S.C. Ferguson:**

I think both.

**The Chief Minister:**

Both, okay. I suspect that the administrative costs will remain the same. There is a special unit in the Treasury Department that is responsible for administering pension issues and, of course, there is Maureen in the H.R. Department as well. I do not have the budget in front of me but it is my understanding that that is largely met from the costs of the pension and so is managed by I think it is a service level agreement - I am having to build on knowledge from a number of years ago when I was on the Committee of Management - with the Treasury for the running of that particular administrative function of delivering the pension. Of course that is not the only cost of running a pension. There is the cost of the chairman; there is the cost of the secretary; there is the cost of legal advice; there is the cost of accounting; there is the cost of actuarial advice; there is the cost of investment advice. So running pensions are very costly items. I do not know if the Treasurer or Maureen have the detailed budget for running the pension administratively as it currently stands.

**Senator S.C. Ferguson:**

Can we perhaps skip to will there be increases in the admin costs and will there be increases to the cost of pensions for the States?

**The Chief Minister:**

Let us take the administrative costs. I do not see that there should be any need for an increase in administrative costs of running the pension. When it comes to obviously the cost of the pension there is proposed to be an increased cost to the taxpayer, as we have been very clear from the start. One of the reasons that we set out on this particular journey was that it was considered that the sustainability of the current inputs into the scheme would not mean that the scheme was sustainable into the future. By that we mean that the contributions into the fund were not going to be meeting the future expected outgoings from the fund and therefore we considered what changes we needed to make to ensure that it was into the future. In broad picture, we are asking in these proposals that the employees pay extra. We are also proposing that when the scheme was last reorganised and it was agreed that, in effect, the States would put in the 15.6 per cent, some of that, i.e. the 2 per cent, was not put into the scheme but was used to pay off or deal with the pre-1987 debt. So it is probably more helpful to try and separate out what should be put into the scheme and what is the pre-1987 debt. If we say that the 2 per cent that was initially intended could have gone into the scheme but was used for the pre-1987 debt, if that keeps going into the scheme, which is what we are, in effect, proposing, the shortfall then is the 2 per cent going into the pre-1987 debt. So the taxpayer or the States are going to have to find the extra 2 per cent to cover the payment into the pre-1987 debt, which is what we are proposing to happen. So you could say that there is a cost of 2 per cent, which I think is what your question was initially, that we are going to have to find. What we have said to departments, and departments have agreed, is that we will ask them to fund that 2 per cent from within their existing budgets. So there is an increased cost to the members of the scheme. Broadly that is 3 per cent and that is going to change over a period of time, although for uniformed services it is greater. There is an increased cost for the States as well, which is, as I have said, the 2 per cent.

**Senator S.C. Ferguson:**

It will carry on, in fact, with the ... I forget how many years, 78 years or thereabouts to pay off the 1987 debt. There was a plan at one stage to pay it off over 12 years.

**The Chief Minister:**

Sorry, Chairman, could you just say that again, please?

**Senator S.C. Ferguson:**

At the moment we are paying off the 1987 deficit over 82 years, something like that. Is there going to be any change to the length of time to pay it off?

**The Chief Minister:**

Yes, that is also proposed. You will be aware that in the last Medium Term Financial Plan we put money aside to pay it off earlier, which would, in effect, reduce the payment time. We have also asked Treasury to come forward with a proposal to increase that payment to the pre-1987 debt, which would reduce it even further. Have you had a copy of the slides that Treasury have provided in the past? Yes, that is right. If you have them in front of you ...

**Senator S.C. Ferguson:**

I do not think it was too clear about the pre-1987 debt. So, basically we will be paying more for the pre-1987 debt. I think it was about £12 million a year we were talking at the time of the Medium Term Financial Plan. What is it going up to?

**Treasurer of the States of Jersey:**

Chairman, in the slide pack that we sent you, page 12 of the smaller of the 2 slide packs covers the point. As the Chief Minister has said, the 15.6 per cent contribution into the scheme, for a number of years now 2 per cent, as you rightly say, has been ...

**Senator S.C. Ferguson:**

I have just asked a simple question. How much a year are we going to be paying to pay off the pre-1987 debt?

**Treasurer of the States of Jersey:**

I am trying to explain that, Chairman.

**Senator S.C. Ferguson:**

It was a simple question. Can I have a simple answer?

**Treasurer of the States of Jersey:**

You can.

**Senator S.C. Ferguson:**

Thank you.

**Treasurer of the States of Jersey:**

It is 2 per cent of the 15.6 per cent has been applied to repay the pre-1987 debt hitherto, for a number of years now. In addition to that, in the last Medium Term Financial Plan we provided an extra £1.5 million a year for each of the 3 years 2013 to 2015.<sup>1</sup> Then what we also plan to do, and we have it in draft at the moment in our long-term revenue plan, is to increase that repayment faster for 2016 and beyond. Obviously that is a very draft proposal at the moment but it is in our thoughts and in our longer-term planning. As the Chief Minister has explained, we now need the whole of that 15.6 per cent to go into the fund, not just 13.6 per cent.

**Senator S.C. Ferguson:**

Yes, I understand that. I asked a simple question, Treasurer.

**Treasurer of the States of Jersey:**

I am answering it, Chairman. That is what we would then seek to replace, so we have to replace that 2 per cent, as the Chief Minister has explained.

**Senator S.C. Ferguson:**

I am just saying how much in money terms.

**The Chief Minister:**

I think what the Chairman is trying to ask, which I thought was in the slide, is how much on top of the money that we have put in are we proposing in draft M.T.F.P. 2 (Medium Term Financial Plan 2).

**Chief Executive Officer:**

On top of the funding that the Treasurer has identified, which is up to £4.5 million by the end of this Medium Term Financial Plan, if that level of funding is increased in the second Medium Term Financial Plan - I think it is £12 million if I remember correctly - then that effectively reduces the term to 25 years, is it, Laura?

**Treasurer of the States of Jersey:**

Providing we replace the 2 per cent that the Chief Minister has referred to.

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<sup>1</sup> An additional £1 million per year for each of the years 2013 to 2015 was agreed in the Medium Term Financial Plan, as clarified in a subsequent statement of the Treasurer of the States on page 6.

**Chief Executive Officer:**

Two per cent. In addition to that, it brings the repayment period from the 80-something years. If that is then increased in the second Medium Term Financial Plan to £12 million a year, that repayment term comes down to 25 years. Can I just confirm that 25 years is correct?

**The Chief Minister:**

This is important because when we were agreeing, as the States Employment Board, to make changes to the pension scheme and thereby, in effect, replace P.E.C.R.S. with the career average scheme, we were also concerned about the liability of the pre-1987 debt. We did not just want to correct one issue without trying to improve the other and correct that one as well, which is why the Treasurer is right. She is factoring in changes to the M.T.F.P.2 as well, although we have gone some way to dealing with it in the one, to make sure we are addressing both issues, because they are both of concern to us.

**Deputy R.J. Rondel:**

Just to be clear, you have got £1.5 million a year in this next Medium Term Financial Plan. Did you just say - correct me if I am wrong - in the following one it would be £12 million?

[14:15]

**Chief Executive Officer:**

It is £1.5 million a year for these 3 years<sup>2</sup>, which takes us to £4.5 million, and then that would need to increase over the next Medium Term Financial Plan to £12 million.

**Deputy R.J. Rondel:**

In total?

**Chief Executive Officer:**

In total. The effect of that will then be to reduce the repayment period from 82 years, is it, Laura, to 75?

**Treasurer of the States of Jersey:**

We have already reduced the current repayment period from 82 to 40-something years by speeding up the repayments, which are actually £1 million a year extra in 2013, 2014 and 2015. The 2 per cent did equate to about £4.5 million or £5 million a year and then with the extra £1 million year that takes it up to £7.5 million a year. Then with a further 3 lots of £1.5 million that is

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<sup>2</sup> An additional £1 million per year for each of the years 2013 to 2015 was agreed in the Medium Term Financial Plan, as clarified in a subsequent statement of the Treasurer of the States on page 6.

what would take us up to the £12 million. The key point, in response to your question, is that we have to replace the 2 per cent in order to sustain that.

**Senator S.C. Ferguson:**

Yes, absolutely.

**The Deputy of St. Ouen:**

Just a couple of quick questions. Can you first of all confirm that the cost to the taxpayer of the new scheme is going to be an additional 2 per cent that is going to be paid to deal with this pre-1987 debt?

**The Chief Minister:**

When you say it is an additional cost to the taxpayer - and I think the actual is 2.4 per cent to take it up to 16 per cent - what we, as the States Employment Board, said to departments is: "You have to meet that from your existing budgets." So, yes, it is an additional cost for the scheme, so that is right and we have been quite clear about that, so the employer will be paying in to deal with this issue, that additional cost, but we have said to departments: "You must fund it from within your existing budgets."

**The Deputy of St. Ouen:**

Can you just also confirm when you talk about 2 per cent, it is 2 per cent of the total paid?

**The Chief Minister:**

They are 2 different things, are they not? All pay is not pensionable, so it is what is pensionable.

**The Deputy of St. Ouen:**

Can you just clarify that? What does that leave out?

**The Chief Minister:**

I do not have all the exact details of salary figures but Maureen might.

**Treasurer of the States of Jersey:**

Pensionable pay is around £260 million a year as against around £350 million for total pay. The difference includes things like overtime and a range of other allowances that are not pensionable.

**Senator S.C. Ferguson:**

You mentioned somewhere along the way new computer systems for this particular development with the pension fund. What is going to be the cost of those?

**The Chief Minister:**

My understanding is that the system that has already been introduced will be able to deal with that, and obviously that system is driven by, as I said, I think a memorandum of understanding or service level agreement with the Pensions Unit and the Committee of Management. We were in the process of considering it when I was on the Committee of Management, but I understand it has been introduced and it will be able to deal with the changed arrangements.

**Senator S.C. Ferguson:**

Excellent.

**Deputy R.J. Rondel:**

Have you had any indication of how each department will be making the savings? Will it be by reduction in services to the public?

**The Chief Minister:**

We hope that there will be no need for reduction in services, but we have just got the in principle agreement that departments will meet it from their existing budgets and we will work through that during the course of the spending in coming years.

**Senator S.C. Ferguson:**

The report with the draft law says that it will not result in any additional financial costs but the financial implications will be agreed when finalising negotiations. When will the negotiations be completed?

**The Chief Minister:**

That is a very good question. I understand that you will be speaking to the Chairman of the Joint Negotiating Group later. I do not know if that is today or tomorrow. I cannot second guess when their side of the negotiations will take place. I understand some might go out to ballot, others may not, but that is very much in the hands of the union side. I have just got back from my vacation today. The letter has been sent, so hopefully the formal side of the negotiation from our perspective has been concluded but now we need to wait and hopefully look for the support of the unions.

**Senator S.C. Ferguson:**

The problem for us, as the scrutiny people, is that we are being asked to vote on something, on the draft law in the Assembly, without knowing what the total cost implications are going to be. Is it normal policy?



**The Chief Minister:**

You are right in some respects. What we are asking the States to agree is that largely we move from the current system to a career average system and all the details thereon of that. Some of the changes that you will have seen in the presentations and heard reported on, of course are still subject to this agreement by the union side. So we cannot give those firmly to you until we have got those agreed, but I do not think that anyone will say that we can carry on with the system that we have got and that we should make the change to the career average scheme, which is what we are asking the States to agree to.

**Senator S.C. Ferguson:**

The States Employment Board has lodged an amendment that would enshrine the cap on employer contributions of 16.5 per cent of pensionable earnings in the law. What evidence do you have that a 16.5 per cent cap is affordable in the long term?

**The Chief Minister:**

It is all tied in with the sort of pension that we wish to provide for our staff. When you say affordable in the long term, I am not sure whether you are asking is it affordable from the taxpayers' and employees' perspective or is it going to provide a sustainable, affordable pension for staff into the future. I am hopeful and believe that the changes that we are proposing with such a cap will in effect mean that the pension is sustainable for the next 20 or 30 years. When we are talking of pensions, I think that is the timeframe that we need to be working towards.

**Senator S.C. Ferguson:**

How do you define affordable, or on what standard are you defining affordable?

**The Chief Minister:**

If we are saying that the cost that we are going to have to put into the scheme can be met from within existing budgets - and I have no reason to doubt that because departments say it can be done - and we make the changes to the scheme which we think also deliver affordability, then I think we can see that it is. We were absolutely keen and committed to putting in place a scheme that meant that we did not want, in 20 or 30 years' time, to have difficulties and deficits so that we had to do something, I suppose, too radical. We know that pensions are an important part of remuneration, deferred remuneration. We know that staff appreciate those pensions. We know that responsible governments should be ensuring that there is an appropriate pension in place and we believe that that is what this scheme does and that is how we, I suppose, set the parameters around affordability. We could have chosen and said that we are not going to propose a fully-funded scheme, we are only going to propose a scheme that might be 80 or 90 per cent funded,

but we did not feel, as a responsible employer, that that was the thing to do. Yes, it would have reduced the cost of contributions on both sides but is that the right thing for a government to be doing, putting in place a changed scheme which it knows from the outset is not going to be sustainable?

**Senator S.C. Ferguson:**

But we have not done the long-term plan yet.

**The Chief Minister:**

With regard to ...?

**Senator S.C. Ferguson:**

Surely all these things fall out of the long-term plan.

**The Chief Minister:**

I do not think they necessarily fall out of the long-term plan. I think they are important components of it.

**Senator S.C. Ferguson:**

You get the long-term plan in place and all these things grow out of it.

**The Chief Minister:**

I am not sure that they ... I can see the point, Chairman, that you are trying to make. I suppose I would say that these are components of the long-term plan, so we cannot just say we are not going to deal with the problem that we have with pensions until we have more details on the long-term plan in a couple of years' time, when we know that there are some urgent and important issues around funding that need to be dealt with now and are being dealt with by this particular change. There are only so many choices you can make with a pension. You can have the defined benefits or you can have defined contributions. They are your big choices. Then when you have made that decision, which I suppose you could think was a long-term plan issue - we have made that decision and we believe it is the right decision at this moment in time to stay with the defined benefit proposal - then you have to ask yourselves how you are going to deliver that. We think that a career average scheme is fairer to all and helps mitigate some of the costs associated with the current final salary scheme. I think we have gone through that long-term planning process as we have moved forward.

**Senator S.C. Ferguson:**

So why have we put the limit in primary legislation for 16.5 per cent instead of putting it in the regulations as you would expect?

**The Chief Minister:**

One thing that we wanted to do was make it clear that, as you have been questioning me about, there are increased costs in this scheme, but at the same time we wanted to make sure that from the employers' perspective this was the money on the table, this was what we think is appropriate to deal with the issues that we have just referred to. We did not want to make it easier for somebody else to come along and perhaps they might have been pressured one way or the other or feel that it was easier to make a change to a particular way. We wanted to make sure it was in primary legislation so that everyone was clear that that was the commitment that the employer and government were going to make to contributions to the scheme over that medium-term period and not that that was up for negotiation.

**Senator S.C. Ferguson:**

In other words: "That is it, folks. That is the limit." The 31st December actuarial valuation report was not signed until 23rd May 2012, which was 17 months after the valuation date. The 2007 report was not signed until July 2009. In the U.K. (United Kingdom) the statutory time limit for completing such valuations is 15 months, with many being completed more quickly. What was the reason for the delay and what steps are you going to be putting in place to ensure that we get valuations on a more timely basis in future, particularly if we are going to have to make adjustments for shortfalls?

**The Chief Minister:**

Can I, first of all, thank you for congratulating us for speeding up the process.

**Senator S.C. Ferguson:**

I did not do that.

**The Chief Minister:**

Secondly, you make a very good point and I think that in the regulations it will be provided for a statutory period in which the actuarial valuation has to be completed.

[14:30]

I have to say, from my days at Social Security, it takes far too long, but I understand why it does, to get actuarial valuations of pension schemes. I cannot just recall what the timescale will be that was put in the regs.

**Treasurer of the States of Jersey:**

Fifteen months.

**Senator S.C. Ferguson:**

The risk-sharing arrangements document runs to 16 pages, including 4 pages of flowcharts to explain the process. Why is it so complex and do you think the average employee is going to understand it?

**The Chief Minister:**

That is a very good question, Chairman. I live with one of the average employees, who receives a letter from the pension scheme every so often, and I think you make a very good point. Communication about pensions to the average employee is very difficult and they do not always understand what it is that is being communicated to them. But, equally, we know that pensions are complex instruments and are not necessarily always easily explained. I know that the Committee of Management themselves did, and I am assuming they still do, have a publications and communications subcommittee and I know that when I sat on the Committee of Management one of the things that they were very keen to do is look at improving the communications that they have with staff. While the communications that historically they have had have been technically brilliant, they have not necessarily communicated the basic fundamental messages of what is going on with the pension. But you asked me specifically about the flowchart.

**Treasurer of the States of Jersey:**

Chairman, the risk-sharing arrangements are set out in page 60 and thereafter in the detailed slides that we have provided and the reason that they are complicated ...

**Senator S.C. Ferguson:**

Looking at the risk-sharing arrangements in this particular hand-out, it is fairly ...

**Treasurer of the States of Jersey:**

It is complicated, Chairman. The reason for that is that we need to distinguish as between the risk-sharing arrangements pre-2015 and the risk-sharing arrangements post-2015. The risk-sharing arrangements pre-2015 will remain as they are presently, so the risk of underfunding is borne by the members of the scheme. Notwithstanding that the opportunity exists for the States to be asked to make an additional contribution, fundamentally the risks pre-2015 are with the scheme

members and that remains the case. We have made one small change to that, which is that pensioners pre-2015 would not receive less than their current cash payment. So if it were necessary in order to carry out risk-sharing pre-2015, if it were necessary to reduce inflation provisions for example, the pensioners in payment would be guaranteed at least the same cash amount as they currently get. So that is a slight improvement for those pensioners in payment pre-2015. In all other respects, the risk-sharing arrangements are exactly as they are presently, which essentially is that the risk falls on the scheme member. Post-2015 we have a number of ways in which we would manage any shortfalls in the scheme and those are set out in some detail in the slides. Essentially what we would seek to do is to operate within a corridor for sharing risk. Always our aim would be to be 100 per cent funded and if we were 105 per cent funded or 95 per cent funded then we would live with that fluctuation as part of normal fluctuation arising from variations in investment returns. However, if the scheme were to be more than 105 per cent funded then what we would seek to do there is to reserve within the fund that money. If, at a future time, the scheme were to be less than 95 per cent funded, the first thing we would do is to use any surpluses built up within the fund in order to correct that position. The next thing we would do is to reduce the inflation provision that is affordable to be applied to the career average revalued earnings parts for each individual scheme member. Beyond that, we would seek to reduce benefits, but first we would consult with the trade unions to see whether the trade unions, rather than see a reduction in benefits, would prefer to see an increase in the employee-only part of the benefits. I hope that is clear, Chairman, but that is how it would be intended to work.

**Senator S.C. Ferguson:**

Yes. That is for the post-2015?

**Treasurer of the States of Jersey:**

For post-2015, Chairman, yes.

**Senator S.C. Ferguson:**

But the pre-2015 people ...

**Treasurer of the States of Jersey:**

For pre-2015, Chairman, the risk remains with the current scheme members as presently, with one small exception that for pensioners in payment we would seek to protect them such that they would never have a cash reduction in their pension. For instance, if they were receiving the median pension this year, which is around £8,600 year - that is the median pension paid out of the scheme - and the following year there would need to be a change because the scheme was significantly underfunded, we would seek not to reduce their cash amount to less than £8,600.

**Senator S.C. Ferguson:**

Which is not quite what you sent out in your letters to members. "There will be no change", it said. It might be worth looking at.

**The Deputy of St. Ouen:**

The pre-2015 arrangements, what sort of financial liability is there likely to be linked to that?

**Treasurer of the States of Jersey:**

To risk-sharing pre-2015?

**The Deputy of St. Ouen:**

Yes.

**Treasurer of the States of Jersey:**

Chairman, in response to Deputy Reed, the liability, whatever that turned out to be, any underfunding level would be determined by reference to an actuarial valuation. That underfunding would be the responsibility of the scheme members not the States.

**The Deputy of St. Ouen:**

So the States have not agreed to underwrite the pre-2015 agreement?

**Treasurer of the States of Jersey:**

Correct. That is the position as currently.

**The Deputy of St. Ouen:**

That is different to the agreement that was reached for the pre-1987 debt where we acknowledged that there was a commitment value that had to be funded.

**Treasurer of the States of Jersey:**

That is right.

**The Chief Minister:**

That was as part of the reorganisation of the scheme at that point. The then States, or whoever was the body, agreed to meet that liability.

**The Deputy of St. Ouen:**

If you are saying that the States are not responsible, are not liable for the increased funding that is likely to result from the pre-2015 agreement, are the employees acceptant and agreed and have been party to that agreement?

**Treasurer of the States of Jersey:**

Chairman, as long as the Chief Minister wants me to answer that ...

**The Chief Minister:**

Yes, carry on.

**Treasurer of the States of Jersey:**

... the answer is that that is the position as it pertains at the moment. It is not changing. The only small change is that there would be an extra protection in there. In extremis it is possible that pensioners in payment could get paid less than they are currently in cash terms and we have just added a provision that that should not happen, but in all other respects there is no need for consultation. It is the same as the current arrangements.

**Senator S.C. Ferguson:**

But if inflation carries on it is, in effect, a reduction in real terms.

**Treasurer of the States of Jersey:**

If no inflation were applied to pre-2015 pensions in payment, that would indeed represent a cut in real terms and that is one way in which the paying of any underfunding can be shared between pensioners in payment and employees who are still employed.

**Deputy R.J. Rondel:**

Sustainable, affordable and fair. How is the concept of sustainability being interpreted for a period of 25 years?

**The Chief Minister:**

It is not really any different from how I answered the question on affordability. They are connected together, are they not? That both employee and employer can afford it and that the changes have a life cycle of that length of time. When we look at the projections, the employees actuary has looked at the scheme and said that the assumptions therein are reasonable and therefore that translates into if they are reasonable going into the future then it is sustainable.

**Deputy R.J. Rondel:**

What risk is there that future changes in the U.K. could impact upon the sustainability of the current proposals for 25 years?

**The Chief Minister:**

When you use the word “sustainability”, I am not sure that changes in the U.K. would impact upon the sustainability of it. Of course, one of the issues for the employer is that we recruit a number of professionals from the U.K. and therefore, equally, one of our concerns was that we are broadly (and I use that word carefully) equivalent to what the U.K. is doing. We do not want to be too much out of kilter one way or the other. If the U.K. changes its system then we would, I think, as an employer but also being responsible for the taxpayers’ money, want to consider that and consider if any changes were necessary. Do not forget the U.K. have had the Hutton report and they are in the process of dealing with that. It may be, but as we sit here today it would seem unlikely, that they might propose anything that is too wildly different from what is being considered and suggested by us.

**The Deputy of St. Ouen:**

In what circumstances would the sustainability of the scheme be affected over a period of 20, 25 years?

**The Chief Minister:**

Sorry, what do you mean by ...?

**The Deputy of St. Ouen:**

You claim that the scheme is sustainable. I am now asking you what are the circumstances in which the scheme may not ... or when you have considered how sustainable it is, what issues have you considered in coming to the conclusion?

**The Chief Minister:**

You are largely asking me to do some crystal ball gazing. I am not a qualified actuary and I have to rely on experts to advise me on whether what is being proposed is sustainable or not. Of course, I suppose the thing it would appear to me, as a layman, that would impact upon that sustainability is investment returns and investment performance.

**The Deputy of St. Ouen:**

You talk about crystal ball gazing and yet you seem to be quite happy to sit there today and claim that the scheme is sustainable for the next 25 years.



**The Chief Minister:**

Yes, because I have had expert advice from actuaries that indicate to me that that is the case. As I said, one of the issues that might throw that in future is investment returns. You will also be aware that one of the things that the Treasurer, when she first came to us, was very keen on seeing changed in the scheme was the basis of the assumptions and moving to more prudent assumptions, which I think is an important element in us being able to say that we think the scheme is sustainable. If you are using more prudent assumptions you are more likely to perform to that level, or outperform, and that obviously is part of sustainability. If we had not changed those assumptions then I suspect that both the actuary and myself would be more concerned about sustainability.

[14:45]

**The Deputy of St. Ouen:**

For argument's sake, if a decision was made to reduce the cost of government to the taxpayer and thereby reduce the number of States employees, what impact would that have on the sustainability of the scheme?

**The Chief Minister:**

I am going to ask the Treasurer to deal with that.

**Treasurer of the States of Jersey:**

Sorry, Deputy Reed, would you mind asking that question again?

**The Chief Minister:**

If we reduced the number of employees.

**The Deputy of St. Ouen:**

If the States made a decision to reduce the number of States employees and reduce the area that we currently provide services for, what would be the impact on the sustainability of the scheme, if any?

**Treasurer of the States of Jersey:**

Deputy Reed, that would depend upon the extent to which that happened. In the past the States has, for instance, transferred employees into other separate bodies like Jersey Post, Jersey Water, Jersey Telecom and so on. At the time each of those decisions has been made, a decision has been made alongside as to how the pensions matters would be dealt with. I would see no difficulty in applying the same sort of approach should the States decide, for instance, to transfer

other employees. Most recently we have been in discussion with colleagues in Housing about the treatment of the Housing share of the pre-1987 debt, for example, and Housing propose, as some other bodies have done in the past, to repay their share of the pre-1987 debt from the outset. So, where there are substantial transfers of people from the States into other bodies, we take account of the pensions implications for each one at the time.

**The Deputy of St. Ouen:**

So what you are saying is basically the sustainability of the scheme would not necessarily be affected by a reduction in States employees per se so long as you still provided for them and allowed for them within the current States pension scheme. Is that what you are saying?

**The Chief Minister:**

Well, yes and no. Yes, we would consider it each time, but you again are, with respect, crystal ball gazing because you would have to pick a number, then you would have to get the actuary to run it through the assumptions and see what effect it had. The current approach is as the Treasurer has explained: each time that there has been a transfer of staff it has been taken on its own merits. They may have closed it down after they departed ... J.F.S.C. (Jersey Financial Services Commission) are no longer members of the scheme but I do not know whether they were on transfer or not. I think they probably were and then they took the decision to close down. But as the Treasurer says, Housing will be, Ports will be, so each case is considered on its own merits.

**Deputy R.J. Rondel:**

If we look at the protection of fairness of the scheme, and some of this you have already covered, what protection is to be provided in the scheme and how has the fairness of that protection been decided?

**The Chief Minister:**

I shall let the Treasurer deal with that.

**Treasurer of the States of Jersey:**

There are 2 sorts of protection provided for within the scheme. The first is that all scheme members have their accrued rights protected. For the sake of argument, if you have 20 years in the scheme up to the end of December 2014, your 20 years in the final salary scheme is protected, and that applies to all employees. There then is a second sort of protection that is provided for within the scheme and it does bring up issues of fairness which we have discussed within the S.E.B. (States Employment Board). The second sort of protection is protection for those who are within 7 years of their normal retirement age. If your normal retirement age is 65, if you are 58 by the time we get to 1st January 2015 you could have a second sort of protection which is

to make a once and for all choice to stay within the final salary scheme. In so doing, you have to have the terms and conditions of the final salary scheme, warts and all and benefits and all. There will be no cherry picking. The new scheme has some advantages. We have just been talking about one of them around risk sharing, but also it has other advantages. For instance, nominated partner benefits apply in the career average revalued earnings scheme post-January 2015 and that could be very advantageous for people who are not married. Staff who are within 7 years of normal retirement age - and just to illustrate, for civil servants that would be aged 58 by December 2014 - can make that once and for all choice. That choice was something that the trade unions, I think it is fair to say, were very strong on. The most important thing that the trade union side asked us for was to give that extra second sort of protection for those nearest to retirement. The reason that the Technical Working Group did not include that was precisely for Deputy Rondel's point about fairness, because it carries a cost of 0.8 per cent of the contribution rate and it does not benefit everyone, so in that sense it is not fair. It just benefits those who are nearest to retirement, 7 years in advance of normal retirement age. As a consequence, it was something that was much discussed within the S.E.B. As it was a point that had been raised strongly by the trade unions and the trade unions came up with a proposal for how the cost of 0.8 per cent could be offset, it was one of the things that was discussed and traded in the negotiation period but still stayed within the overall cost envelope. I hope that is clear, Chairman.

**Senator S.C. Ferguson:**

How was the cost offset?

**Treasurer of the States of Jersey:**

We have provided a slide, Chairman, which summarises the changes that the trade unions requested. If you will forgive me, I will just go through my slides and get that in front of me. It is page 11 in the short set of slides. It was offset by the introduction of ill health pensions, a 2-tier approach for ill health pensions, and by reducing the allowance for death in service. Under the current scheme, a family would get twice the salary of the member of the scheme who had died. The Technical Working Group had proposed to increase that to 4 times the salary. It is important to bear in mind that thankfully it only applies to about a dozen cases a year. What the Joint Negotiating Group said was that they would be happy with 3 years death in service. It was still a bit of an improvement on the previous version but it was a saving on what the Technical Working Group had requested. So those 2 measures taken together amount to 0.7 per cent saving and the cost of phasing of protections was 0.8 per cent, so they are broadly balanced out.

**Deputy R.J. Rondel:**

Is there a risk that such a measure could, inadvertently, amount to some form of age discrimination, indirectly or directly?

**Treasurer of the States of Jersey:**

We have discussed with Law Officers issues to do with discrimination and we do not believe that it does give rise to any problems later in that regard.

**Deputy R.J. Rondel:**

The measures you have taken to mitigate that are through the Law Officers?

**Treasurer of the States of Jersey:**

We have taken advice on it, Deputy Rondel.

**The Deputy of St. Ouen:**

I am rather surprised at the comment that the Law Officers believe that you can pick an arbitrary number, 7, and select an age group, identify a group of people that would benefit differently to others and yet that is not considered to be discriminatory.

**The Chief Minister:**

It is, of course, what the U.K. are doing and proposing. I would reiterate what the Treasurer has said very well. We did have very robust discussion at States Employment Board around this particular issue because we initially considered it in the terms that you are questioning us on this afternoon. The Joint Negotiating Group were very clear, in their response to our questioning, that this was very important to them and, after reflection and debate, we accepted that. But, as I say, I know that you are seeing the Chairman of the Joint Negotiating Group later so you may wish to explore that matter further.

**Deputy R.J. Rondel:**

How is the protection of those within an accrual rate of one-forty-fifth deemed to be fair when they already have a much higher accrual rate on that than employees without protection?

**Treasurer of the States of Jersey:**

That is a very fair point, Chairman. There are so few people on a one-forty-fifth accrual rate and two-thirds of them, I think I am right in saying, are entitled to protection anyway. In order to be on a one-forty-fifth accrual rate you have to have been employed for an awful long time and it therefore follows that you are most likely to be one of those who are within 7 years of your normal retirement age. I think we counted 6. That may not be precisely the right number but it was a very small number of people who are on the one-forty-fifth accrual rate but were not quite within that 7-year barrier, within that 7-year limit. On that basis, we did not want to upset the apple cart for literally a handful of people when we are trying to deal with a scheme with 6,500, or thereabouts,

current employees in it. For the sake of literally a handful of people on one-forty-fifth who would not be entitled to protection, we decided just to leave the one-forty-fifths alone. As a general principle, I should say that one of the things that we have tried to do throughout is to treat like employee groups the same. We have tried to treat the uniformed services the same, the civil servants the same and so on. We did not want to depart from that general principle around the employee groups that have one-forty-fifth. There are so few of them as well that it really was not worth the candle to.

**Deputy R.J. Rondel:**

Have you given us details on the numbers at all?

**Treasurer of the States of Jersey:**

I can provide that. I do not think you will have it within your papers.

**The Deputy of St. Ouen:**

Just to confirm, we are talking about a previous commitment made to a group of employees that link this one-forty-fifth accrual rate to their ultimate pension, are we?

**Treasurer of the States of Jersey:**

Yes.

**The Deputy of St. Ouen:**

This is not a specific uniform group. This is just a general group of people that were employed with the States and are now coming to pensionable age.

**Treasurer of the States of Jersey:**

They would have been uniformed services, Chairman.

**The Deputy of St. Ouen:**

They would have been in uniformed services?

**Treasurer of the States of Jersey:**

Yes.

**The Deputy of St. Ouen:**

When would this agreement have been reached with them, the one-forty-fifth? In 1987, would it be?

**Project Director, Pensions:**

Prior to 1987.

**The Deputy of St. Ouen:**

So this is one of the arrangements that was put into place.

**Human Resources Senior Advisor:**

It would have been, I think, when the scheme was first introduced back in the 1960s, Maureen?

**Project Director, Pensions:**

Yes.

**Human Resources Senior Advisor:**

I do not know which but in the 1960s, Deputy.

**The Deputy of St. Ouen:**

I am just interested because we noticed that some would argue that the scheme has become more generous because, whereas new employees were based on an accrual rate of one-eightieth, it has now been reduced, I believe, to a lesser number and yet those employees who signed up and agreed to the one-eightieth are seeing a direct benefit to a reduced accrual rate. Am I right?

[15:00]

**The Chief Minister:**

Offset by other changes.

**The Deputy of St. Ouen:**

Offset by what?

**The Chief Minister:**

Offset by other assumptions within the scheme.

**The Deputy of St. Ouen:**

So the other assumption is offset by it, which means you are more generous to the employee but

...

**The Chief Minister:**

If you have the balancing table in front of you, you will see the amount of money that the Treasurer went in to negotiate for us with and what we initially thought sounded sensible and with the employers coming back and saying: "We would like that accrual rate changed but we are prepared to accept a different average earnings uprating rate."

**The Deputy of St. Ouen:**

Sorry, Chief Minister, maybe I did not make myself clear.

**The Chief Minister:**

It is important because you cannot just take one without the other, because they work together.

**The Deputy of St. Ouen:**

Maybe I have not made myself clear because I understood that we were not currently working on one-seventieth, for new employees we were working on one-eightieth.

**Senator S.C. Ferguson:**

That was a final salary setup. We are going on to a career average.

**The Deputy of St. Ouen:**

I appreciate that, but the accrual rates have changed. We were just told that it is important that people are protected with the lower accrual rate because obviously there is a personal benefit to them. If you moving from one-eightieth to one-seventieth or to one-sixty-sixth, whichever number has been agreed upon, there is a benefit to those currently employed that have got an agreement that says one-eightieth.

**The Chief Minister:**

There is a benefit in the accrual rate but there are other offsetting indexation elements which would offset it and do not forget we are also asking employees to pay an extra 3 per cent.

**Project Director, Pensions:**

And work longer.

**The Chief Minister:**

And work longer, so it has very much been - I should not say this with some people in the room - give with one hand and take a bit back with the other until we could find a balance that the employer was broadly in agreement with and the employees were broadly in agreement with. We cannot just take one element and say: "You have improved the scheme because you have done

this” and at the same time we have said: “We are going to ask for more money for you. You are going to have to work longer. Okay, we will let you have a better accrual rate, but we are going to change the indexation and earnings rate as well.”

**Human Resources Senior Advisor:**

Chairman, on the issue of protection, the pensions are deferred pay, and whenever an organisation, especially a large organisation, changes a pay structure or a job evaluation structure, it is very, very normal to agree with the trade unions’ transitional arrangements in order to facilitate agreement with those trade unions. As the Chief Minister said before, protection is what has happened in the U.K. with the U.K. Government with all the different various public sector groups. I think when you meet with the J.N.G. (Joint Negotiating Group) people who we negotiated with, they will probably tell you that they were influenced, heavily influenced, by what had happened in the U.K.

**Senator S.C. Ferguson:**

Yes, because we have got to have our people being able to move backwards and forwards in certain professions, have we not?

**Human Resources Senior Advisor:**

Yes.

**Deputy R.J. Rondel:**

If we move on to the Government, Chief Minister, it is proposed that the Government’s arrangement around the operation of the Committee of Management is strengthened. What particular concerns of the new Government’s arrangement are you seeking to address?

**The Chief Minister:**

I think that the views of the employer are appropriately represented on the Board of Committee of Management is the primary issue.

**Deputy R.J. Rondel:**

Sorry, continue.

**The Chief Minister:**

There is another point the Treasurer is just making and she is right, but I suppose from the employers’ perspective, it is that we have appropriate representation on the board. Of course, the other changes, as the Treasurer was just saying, the admitted body rep, that gives confidence to admitted bodies. It may be, I think, as was acknowledged by the questioning about employees in



the scheme, we may see more of those required in the future, as we know that Housing are going and the Ports are going, and so it seemed appropriate to have a rep for them as well, but from any States Employment Board, it is that.

**Deputy R.J. Rondel:**

That is the main concerns?

**The Chief Minister:**

The strengthening of that representation.

**Deputy R.J. Rondel:**

What is the C.I.P.F.A. (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework and how will this enable the Committee of Management members to keep up to date with any pension developments?

**The Chief Minister:**

I do not have a copy of it in front of me, but I can only assume that ... yes, I was just going to say I could not remember the name of the body from the initials that you gave me, but it is about understanding what is going on in the pension world and understanding responsibilities of in effect de facto trustees, members of the Committee of Management, and what their responsibilities and accountabilities and skills should be. I know that is something that the Chairman in particular has raised on a number of occasions in the States in the past.

**Deputy R.J. Rondel:**

In the interests of transparency, will all of the scheme government documents be publicly available? Is there any reason why they should not be?

**The Chief Minister:**

I am just trying to think whether any of them are not available now, and I think they are, and if they are not, we should be making them available. Maureen will be able to tell you whether they ...

**Project Director, Pensions:**

I do not think the minutes are available.

**The Chief Minister:**

Oh, okay.

**Project Director, Pensions:**

But they publish the investment strategy, the annual accounts, all those sorts of things are available on the website.

**Deputy R.J. Rondel:**

Is there any reason why minutes should not be made available?

**Project Director, Pensions:**

I have no idea. You would need to talk to the Chairman.

**Treasurer of the States of Jersey:**

We can certainly talk to the Chairman about that, Chairman.

**Senator S.C. Ferguson:**

I think that would be a good thing.

**Treasurer of the States of Jersey:**

What I would say is that from time to time, although we seek to avoid this, the Committee of Management does occasionally deal with individuals and individual cases. We would have to manage that.

**Senator S.C. Ferguson:**

That would have to be presumably under part B, yes.

**Treasurer of the States of Jersey:**

I cannot see any reason why the substantive decisions of the Committee of Management cannot be made public. In addition to the things that Maureen has mentioned, we also publish the ministerial decisions when we are appointing, for instance, investment managers or changing investment managers, so those decisions are made by the Minister for Treasury and Resources and we publish as a ministerial decision in the usual way. So there is an awful lot of information that is open and transparent, not least the accounts, as Maureen said, the investment strategy. The appointments process recently for the new chairman was done through the Appointments Commission and so it is a very open and accountable body.

**The Chief Minister:**

But it is a very good suggestion. I cannot, sitting here, think of any reason why it should not be made public.

**Senator S.C. Ferguson:**

Excellent. James.

**The Deputy of St. Ouen:**

Mention was made earlier about the Pension Fund. Could you tell us what investment arrangements will be put in place when the proposals are implemented in January 2015?

**The Chief Minister:**

Probably the Treasurer is in the best position to talk about the current investment strategy.

**Treasurer of the States of Jersey:**

We do not plan to change the investment strategy, Chairman, in response to Deputy Reed's question. We do not plan to change the investment strategy immediately. What we do expect to happen over time - and this is something that we are happy to discuss in detail with your independent adviser - is that the investment strategies for the pre-2015 part of the fund and the post-2015 part of the fund may need to change, but we will consider that in the fullness of time, and there is no need for any short-term changes in the investment strategy as a result of the changes that we are making.

**The Deputy of St. Ouen:**

Sorry, can you just explain why the investment strategy might need to change when you take it into account?

**Treasurer of the States of Jersey:**

Certainly. The investment strategy might need to change because, as time goes on, the people in the older part of the scheme, the liabilities will become more certain, and in the new part of the scheme, post-2015, we are always having to project future liabilities when we are doing scheme evaluation and we are always having to project how many employees might we have in future. Going back to your earlier question, we are having to project what they might be paid and so on, so future projections of future liabilities are fraught with difficulty because we are having to make all sorts of assumptions. As a consequence, when we look at pre-2015, however, we will have a fixed and known number of people in the scheme, and largely on a fixed and known set of terms and conditions, so then you can do more to try and more closely match your assets and liabilities. In so doing it is possible, over time, that the investment strategy for the pre-2015 part of the scheme may be possible to become more prudent, to be less targeted on risk-seeking assets like equities and more targeted towards bonds and other securer assets like property, whereas for the post-2015 part of the scheme, because you are dealing with so much uncertainty and also because the scheme has got a long life, it is possible to take a greater risk and to have a higher

allocation to risk-seeking assets like equities. So that would be the reason, because there could be 2 different attitudes to risk being taken for the pre-2015 and the post-2015 parts of the scheme.

**The Deputy of St. Ouen:**

Is that reflected in the current arrangements for the pre-1987 debt?

**Treasurer of the States of Jersey:**

The pre-1987 debt is quite separate. The pre-1987 debt is valued according to a set of principles which were set out in an agreement reached back in about 2006 called the 10 Point Agreement, and at the time of striking that agreement, there was an agreement made as to how that pre-1987 debt would be valued. We still apply those principles when valuing that pre-1987 debt.

**The Deputy of St. Ouen:**

So this pre-2015 debt has not been valued?

**Treasurer of the States of Jersey:**

We will not be crystallising the debt in the way that was done in pre-1987, when those changes were made at that point, so we will not be crystallising the debt in the same way.

**The Deputy of St. Ouen:**

If you say you are not crystallising the debt, I suppose my question has got to be why are you not?

**Treasurer of the States of Jersey:**

Because it makes much more financial sense to go forward with the proposals that we have and to continue the scheme with a pre-2015 and a post-2015 part of it. It makes more financial sense to do that and it is much more manageable for employees and for the employer to take that step, rather than to crystallise the debt in the way that was done for pre-1987.

**Senator S.C. Ferguson:**

Have you looked at what the crystallised debt might amount to? Was your decision based on that?

**Treasurer of the States of Jersey:**

Only briefly, Chairman, because it will be a horrifying number, Chairman.

**The Deputy of St. Ouen:**

So basically you are saying that not crystallising the debt benefits both the employer and the employee?

**Treasurer of the States of Jersey:**

Yes. What we have come up with is a better solution, Chairman, for managing current and longer-term liabilities.

**The Deputy of St. Ouen:**

Will the necessary administrative systems be in place for the proposed implementation of the new scheme in January 2015?

**Treasurer of the States of Jersey:**

In a word, Chairman, yes. We already have a new system for managing our pensions function, because frankly the old system was not up to it, and we changed the system anyway to manage the current scheme more efficiently. We are already in discussions with a software supplier to make the necessary changes. We may have some issues, say, in early 2015 where we need to do some manual calculations just for a few people, but we do anticipate that we can manage those and we do not anticipate they will cause us a particular problem.

[15:15]

So it may take us a little longer than 1st January 2015 to have completely changed our electronic systems to cope with both the old terms and conditions pre-2015 and the new terms and conditions post-2015, but we do have a strategy for managing that intervening period, so we are ...

**Deputy R.J. Rondel:**

Are you saying a new software system and a completely new system? What is the cost?

**Treasurer of the States of Jersey:**

No, we already have a new system in place and we have had it in place for about 2 years now, because our old system was just not up to it.

**Deputy R.J. Rondel:**

So there is no financial implications?

**Treasurer of the States of Jersey:**

No. Well, there are some modest ones, because we will need some amendments to the current software package, and we are already in discussions with our software supplier, but those costs do not fall upon the States, they fall upon the Pension Fund, so those costs are properly attributable to the Pension Fund. That is how we have always done it, and that is what you would

find in other places as well, the Pension Fund consumes its own smoke with its administrative costs.

**The Deputy of St. Ouen:**

What would potentially delay the implementation of the new scheme in January 2015?

**Treasurer of the States of Jersey:**

Only the decisions of the States, Chairman. There are no practical ... we will manage the practical issues.

**The Deputy of St. Ouen:**

I am interested: I have got to ask, Treasurer, you say a decision of the States, but as I understand it, there is quite a period of negotiation still to be gone through with the employees and unions around the regulations and what is included in the regulations.

**The Chief Minister:**

I would not describe it in those terms, as in "quite a period." Yes, there is still the agreement of the particular unions to be reached, and that of course may take time, but I think that there has been a lot of consultation and discussion and negotiation with the Technical Working Group, with the Joint Negotiating Group, and therefore I think - I might be speaking out of turn - it will be now for unions to say broadly yes or broadly no to the changes, then those regulations will need to come before the States, so you are right to highlight there is still the issue with the union bodies to finally reach agreement and it might be that there are some small changes that they suggest, but we will have to wait and see, but it will be getting the regulations, getting these changes through the States and then getting the regulations through the States, as you may wish to scrutinise those regulations again, albeit the detail really of what the regulations will contain is largely in the detail of the proposals, even though it is not in the draft law, so hopefully it will keep moving forward.

**The Deputy of St. Ouen:**

Sorry, just to confirm, we are going to be debating the law and then following that the regulations will come?

**The Chief Minister:**

There will be regulations, yes.

**The Deputy of St. Ouen:**

Are you telling us that both the Committee of Management and the Joint Negotiating Group have fully considered all of the regulations that you are planning to introduce following the introduction

of the law and that they are in agreement as laid out in the report that accompanied the proposition on the law?

**The Chief Minister:**

That is largely my understanding, that those who have attended the meetings will be able to tell you from the horse's mouth, as it were.

**Treasurer of the States of Jersey:**

I think it is fair to say, Chairman, that the Joint Negotiating Group and the Committee of Management have fully considered all the matters that are to be in the regulations. We are still in a process of consulting on the law drafting of those, but I think it would be fair to say that all the matters that are in the regulations have been fully considered by all the parties. We have not yet shared all the drafting with the Joint Negotiating Group or the Committee of Management, but we are doing so in batches because it makes sense to do that. So that is a process that we are still working through. It is not that we have held anything back, we have not, it is just that that is where we are in our work. So we do expect every detail of the regulations to go to the Joint Negotiating Group and to the Committee of Management and to work through that, but all of the matters that we are now reflecting in the regulations have been the subject of considerable discussion.

**The Deputy of St. Ouen:**

Can you just confirm, have certain unions already balloted their members on this particular proposal?

**The Chief Minister:**

No.

**The Deputy of St. Ouen:**

No. Is it their plan to ballot their members?

**Human Resources Senior Advisor:**

Yes, probably all of them. They are not all bound to by their constitutions, but on something as big as this, probably all of them will ballot their members.

**The Deputy of St. Ouen:**

When would you expect to have the results or know the results of those ballots?

**Human Resources Senior Advisor:**

I would expect about the end of May.

**The Deputy of St. Ouen:**

End of May.

**Human Resources Senior Advisor:**

Could I say one other point, Chairman, on this point of consultation on the regulations with the unions, we have been doing this for years and years and years on P.E.C.R.S. matters and we have never really had a problem. Obviously this is particularly big, as it was in the late 1980s, but we have always consulted with the unions and it has always been done in a very positive way and there has never ever been a breakdown that I can recall.

**The Deputy of St. Ouen:**

Thank you. Could you just confirm whether or what additional resources are likely to be required post-implementation? I know you might have answered it earlier on, but just to confirm, very briefly.

**The Chief Minister:**

As I understand it, there will be some temporary staff required. These are obviously operational matters, so do not expect me to be fully up to speed on them. I am not sure whether it is 2 or 3 and whether that temporary period is up to 12 months and then it will be business as usual, as I understand it ...

**Treasurer of the States of Jersey:**

That is right, Chief Minister.

**The Chief Minister:**

... but again, Treasury have the service level agreement with the Committee of Management.

**Treasurer of the States of Jersey:**

We do. It is 3 members of staff. We have agreed with the Committee of Management at a recent meeting 3 additional members of staff for a period of a year to help with the transition. Those costs, again they fall upon the fund and not upon the States.

**The Deputy of St. Ouen:**

So it is 3 staff for a period of a year to help with the transition and you would expect the administration then to reduce back to what is the current level, and just to remind us ...



**The Chief Minister:**

That is my understanding, yes.

**The Deputy of St. Ouen:**

... the cost of administrating the fund comes out of the fund?

**The Chief Minister:**

Yes.

**Deputy R.J. Rondel:**

Are you satisfied enough law drafting time has been allowed for this to be implemented, given all the other laws?

**The Chief Minister:**

Yes.

**The Deputy of St. Ouen:**

Given the discussions we have just had around regulations and obviously the need for the States as well as the employees to approve them, when are the States likely to see and be presented with the regulations?

**The Chief Minister:**

It is Treasury here mainly, law drafting. I think they are in a good form currently and I am sure when they are in that presentable draft form, they could come to the panel. We can provide copies to the panel. When they are going to be lodged, I do not have the date.

**Treasurer of the States of Jersey:**

Middle of May.

**Project Director, Pensions:**

I think it is a little bit later than that.

**Treasurer of the States of Jersey:**

Towards the end of May, Chairman, is our target for lodging the regulations.

**Senator S.C. Ferguson:**

With a view to debating when?

**Treasurer of the States of Jersey:**

In July, middle of July, Chairman.

**Senator S.C. Ferguson:**

Where is the Scrutiny time?

**Treasurer of the States of Jersey:**

When we met with your adviser last week, we have already offered to share the regulations in draft as they presently exist so as to give you a quick start.

**Senator S.C. Ferguson:**

Thank you.

**Treasurer of the States of Jersey:**

We have about 80 per cent ... we have got about four-fifths of it drafted at the moment.

**Senator S.C. Ferguson:**

Excellent, thank you.

**The Chief Minister:**

Of course, the important thing which maybe we overlooked from the Treasurer, who - as you have said - then has a whole host of other things is what is in the regulation, the matters in the regulations are largely what you are aware of and largely what we have spoken about today. We not have not really spoken about the career average scheme. We have spoken about the details that will be in the regulations, so there should not be any surprises in that regard, same with the Committee of Management and the Joint Negotiating Group. While we have a tight timetable, I think it is only fair to say that obviously the unions have got to do their work and the results of their ballot are going to be end of May, beginning of June, and we are going to have to consider our timetable in light of the election, so we are pushing ahead to try and meet the timetable, but there are some decisions which are outside of Government and the employers' control and we need to allow ...

**Senator S.C. Ferguson:**

Exogenous factors, I think they are called.

**The Chief Minister:**

That is right. We do need to allow unions the appropriate time to reach their decisions.

**The Deputy of St. Ouen:**

Maybe Mr. Pinel will be able to confirm that the unions are going to be balloting their members on the new terms of the scheme, which I presume will be reflected in the regulations.

**Human Resources Senior Advisor:**

That is right, Chairman, but the final offer is a very, very long document with very detailed provisions and those will be the details that are incorporated in the draft regulations.

**The Deputy of St. Ouen:**

We will obviously need to be aware of what risks there are if - and we are just saying "if" - certain union bodies and employees choose not to support some of the terms of the new scheme. What then, because presumably your regulations will have to either be negotiated or you will take a view?

**The Chief Minister:**

That is a good question that we will have to consider what the issues are that come out of any particular ballot that might say no to them, and we would have to understand why and then we would have to consider actions arising from that.

**The Deputy of St. Ouen:**

All right, so there is still flexibility with the timetable and the process that will enable further discussion to take place, given that there is an issue that is being raised?

**The Chief Minister:**

If it is a substantial issue ... I do not want to second guess what the issues might be, but we will need to wait and see. If that arises, then it would be remiss of me not to say to you that the timetable as we currently propose, it will be under extreme pressure and probably could not be met, but we just have to wait and see.

**The Deputy of St. Ouen:**

But presently, Chief Minister, you are pretty confident following the discussions that you have had with the Joint Negotiating Group and the Committee of Management and other employee representatives that the scheme is not only fit for purpose, but will be acceptable to our employees?

**The Chief Minister:**

There are 2 answers to that question. The first is yes, I am advised that those negotiations went well. As a States Employment Board, we have questioned the members of the Technical Working

Group, we have questioned members of the Committee of Management and we know that Mick and the Treasurer have been dealing with the Joint Negotiating Group, so the advice we have is that we are in a good place, but equally, you would not expect me to second guess or to say what the unions are going to decide. It is now right that the process is handed over to them and they make an unfettered decision about their futures as well and then it will come back to us and we will deal with the implications of that, but we stand by the belief that - to use the 3 words that we have used throughout this process - these changes are sustainable, they are affordable and they are fair, not only for employees, but also for the employers and also for taxpayers.

**Deputy R.J. Rondel:**

If your proposed timescale is not met, does that mean a 12-month delay or can it be ...

**The Chief Minister:**

I do not believe it means 12 months' delay. I think we would just probably go to the next quarter date or something like that.

**Deputy R.J. Rondel:**

Okay.

[15:30]

**Human Resources Senior Advisor:**

Chairman, can I just say on Deputy Reed's last question about the employees and the unions and whether we feel we have got a very good likelihood of an agreement, I think we have, but I think it is only fair to tell you that the uniform services representatives on the J.N.G. have told us that they feel they are going to have a very hard time selling it to their members. You will know that they are the ones that get - if it is the right word - the worst deal out of this, in the sense that their retirement age is going up by 5 years, their contribution is going up by 5 per cent and they are moving from a 60 to a 66, so they have said it is going to be very hard.

**The Chief Minister:**

That is called government spin in action, that is.

**Senator S.C. Ferguson:**

Yes, we have seen the level of salaries in Jersey compared with metropolitan London and I think we have drawn our own conclusions. Just one small point before we finish: valuations are going to be undertaken on a prudent basis rather than a best estimate one.

**The Chief Minister:**

Yes.

**Senator S.C. Ferguson:**

Who decides on what "prudent" means? We are a bit sensitive after prudence on selling the U.K. gold holdings.

**The Chief Minister:**

Yes, I do not think that was ever prudent, was it? I think it is - I am going to say this - largely a 3-way consideration, so it is the actuaries, it is basically the employers and the Committee of Management. Obviously the employer has its own actuary as well, the Committee of Management have their actuary, so it is facilitated by Treasury.

**Senator S.C. Ferguson:**

Yes, because how is this sort of anticipated level of prudence going to be reflected in the law and the regulations?

**The Chief Minister:**

Yes, if you could.

**Treasurer of the States of Jersey:**

We would not try and prescribe within the regulations, Chairman, what we mean by prudent assumptions and what we mean by best-estimate assumptions, but to give you an idea - and I think we have discussed this at a previous meeting, where we discussed earlier drafts of these proposals - the way in which the actuary describes it is the actuary describes best-estimate assumptions as being 50:50 right, so they have got a 50 per cent chance of being right with their assumptions, whereas with the prudent assumptions, they expect to be 80 per cent right with those assumptions. What that necessarily means is that if the actuary were looking at something like equity returns, if they wanted to be right half the time, they could make a racier assumption, a more optimistic assumption, as to what the equity returns might be. With the prudent assumption, when they want to be right 80 per cent of the time, they would take a less optimistic view about what equity returns might be, so that gives you an idea of how we would be changing, so the best-estimate assumptions would still apply to the pre-2015 scheme and the prudent assumptions will apply to the post-2015 part of the scheme.

**Senator S.C. Ferguson:**

So the prudent assumptions very much depend on the view taken by the actuaries and investment advisers?

**Treasurer of the States of Jersey:**

When the actuary does the valuation, the actuary would have regard to the fact that our policy overall is that for post-2015 we would have for prudent assumptions and for pre-2015 we would have best-estimate assumptions, so we ...

**Senator S.C. Ferguson:**

Then how are you going to keep your prudent and consistent? If everybody, in sort of running of the final, changes or the actuaries change, then the degree of prudence will change perhaps. How do you keep it consistent?

**Treasurer of the States of Jersey:**

We keep it consistent by ... although we have individual actuaries - and you have met our actuaries as part of this process, Chairman, previously - the actuaries operate within a set of house rules. Aon Hewitt are our current actuaries. Although we have individual members of staff who come and advise us, they will be operating within boundaries which are set by Aon Hewitt as a house, so we will be assured of consistency of approach by the fact that the company, Aon Hewitt, will have its overall guidelines, and those overall guidelines are operating within a wider framework, so the actuaries will work together to have a reasonably consistent view in the U.K., for instance, between Mercers, Aon Hewitt. Those are the 2 main actuaries in the U.K. - there are others, obviously - but you would not find that they would depart very far from one another on key aspects of their valuations. You would not find one taking a much more optimistic view of equity returns than another. As a house, they would operate within ... typically they operate within broadly the same parameters. The reason for that is because they are working on the same underlying data, so if you were to take something like longevity, they will all be looking to government-produced tables which illustrate expected longevity in the long term, so all the actuaries will use some of the same underlying data as part of their assumptions and they are using the same market data to inform the house assumptions, so you do get a reasonable degree of clustering between the actuarial advisers like Aon Hewitts and Mercers and Hymans Robertson. Those are the 3 main ones in the U.K., so by choosing a respectable house like Aon Hewitt, the States will get some consistency between one actuarial valuation and the next, because actuaries are not renowned for diverging that much.

**The Chief Minister:**

Being optimistic.

**Senator S.C. Ferguson:**

Are they the ones that find accountancy too exciting?

**Treasurer of the States of Jersey:**

They are.

**Senator S.C. Ferguson:**

With apologies. Okay.

**Ms. M. Galpin:**

I think, first of all, that the firms that you have named in the U.K., there are other big firms as well, but I think you are under an illusion that all actuaries have a very narrow range of assumptions that they would consider to be best estimate and prudent. In practice, the range could be quite divergent in some situations, particularly over what they would consider best estimate, and also the degree of prudence. You were talking about 50:50 being best estimate and I think all actuaries generally would agree with that. But the degree that you move above that 50 per cent, so whether you pick 80 per cent as being prudent or 95 per cent or 99 per cent, it is that sort of measure, anything above 50 per cent can be called prudent. To what extent do you go up that scale between 50 per cent and 100 per cent? I think, Chairman, that is probably what you were aiming at; how you keep that degree of prudence consistent?

**Treasurer of the States of Jersey:**

Through our policy, Chairman, by saying that we are looking for 80 per cent as our degree of prudence.

**Ms. M. Galpin:**

Right. So are you going to reflect that in the regulations?

**Treasurer of the States of Jersey:**

We had not thought of so doing, but I will give it further consideration as it has been raised here today, Chairman.

**Senator S.C. Ferguson:**

Thank you. Yes, because I think most risk estimates can be quantified to a degree, can they not?

**Ms. M. Galpin:**

Yes.

**Senator S.C. Ferguson:**

I am very fond of having things quantified.

**The Chief Minister:**

As I say, we can go away and think about how we could best deal with that, because it is a legitimate point, but of course the underlying point is that we are moving from best estimates to prudent, so even if there is a divergence, we are trying to eliminate risk as much as we can. I think what you are saying and suggesting to us is we could perhaps even go a bit further and try and quantify percentage-wise what we want to be targeting.

**Senator S.C. Ferguson:**

Yes, because if you quantify it, you can keep it consistent. Thank you very much indeed, Chief Minister, ladies and gentlemen.

**The Chief Minister:**

Thank you.

**Senator S.C. Ferguson:**

I am sorry, yes, the meeting is closed.

[15:40]