States of Jersey
States Assembly

États de Jersey
Assemblée des États

Corporate Services Scrutiny Panel

Public Sector Pension Reform 2015 (Phase 2)

States of Jersey

Presented to the States on 16th November 2015

S.R.8/2015

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1. PANEL MEMBERSHIP, TERMS OF REFERENCE AND EVIDENCE CONSIDERED

Panel Membership and Terms of Reference

The Corporate Services Scrutiny Panel comprised the following Members:

Deputy J.A.N. Le Fondré, Chairman

Deputy S.M. Brée, Vice-Chairman

Connétable C.H. Taylor

Deputy K.C. Lewis

The following Terms of Reference were agreed for the review:

1. To examine Draft Public Employees (Pensions) Regulations and the sustainability, affordability and fairness of the proposed reforms to public sector pension provision, with particular regard to the following:
    a) Contribution rates;
    b) Indexation of benefits;
    c) Risk-sharing;
    d) How the proposed reforms would affect different classes of PECRS member;
    e) Governance of the Scheme; and
    f) Resource requirements to operate and administer the new pension scheme.
2. To consider the future liability of the States within the proposed revised public sector pension scheme.
3. To consider how the costs to the States of the proposed Career Average Revalued Earnings (CARE) scheme compare with current costs.
4. To consider how the proposed pension provision would compare to current pension provision within the private sector.

Evidence Gathered

The following documents were considered by the Panel during its review:

a) S.R.4/2014 – Public Sector Pension Reform

b) S.R.13/2014 – Public Sector Pension Reform – Supplementary Report

c) *Draft Public Employees (Pensions) (Jersey) Law 2014*

d) *Draft Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 201-*

2. INTRODUCTION

On 21st May 2014, the States Assembly adopted *Draft Public Employees (Pensions) (Jersey) Law 201-* (P.28/2014). Its adoption was the first legislative step towards reform of public sector pension provision in the Island and it was a Law reviewed by the previous Corporate Services Scrutiny Panel. The previous Panel's report, *Public Sector Pension Reform* (SR4/2014) was presented to the States on 12th May 2014.

It was the States Employment Board's initial intention that, following the Law's adoption, Draft Regulations would be lodged for debate prior to the end of the current Assembly. The Draft Regulations would provide the detail of the proposed new public sector pension scheme. It had been the plan of the previous Corporate Services Panel to continue its review by examining those Draft Regulations however, the Draft Regulations were not lodged before the end of the previous Assembly and as a result, the existing Corporate Services Panel decided to undertake Phase 2 of this review.

The Panel engaged the services of BWCI Consulting Limited to provide it with a report to on the Draft Regulations. BWCI Consulting Limited were used as expert advisors by the previous Panel for the first phase of the review and it seemed sensible to continue with them for this phase. The Panel engaged BWCI to undertake a desk top review of the Draft Regulations and their report is attached.

Although the Panel is supportive of the Draft Regulations it would like to note the following:

<u>Cost</u>

The financial and manpower implications in the proposition P97/2015 states that by 2021 the employer contributions in respect of existing members will require estimated additional funding of £6 million per annum. "…*These additional costs in the period to 2021 will enable the Employer to contain the long-term costs of increasing longevity and achieve a contribution cost cap on employer contributions to public service pensions…"*[1]

<u>Comparison with the Private Sector</u>

The advisors have performed a comparison with the private sector and note the following:

"…The average employer contribution rate in our survey was 10% of salaries and the average member contribution rate was 5% of salaries. Therefore both the employer and employee contribution rates in PEPS are higher than the average rates payable in the Channel Islands…"[2]

[1] P.97/2015
[2] BWCI Report – November 2015

Affordability

The Panel shares the comments of the advisors regarding the affordability of the scheme with a cap of 16.5%. The advisors have questioned this and stated *"…We have not seen any evidence to confirm that either 16% or 16.5% is affordable in the long term. Indeed, in the short term 16% is not affordable since the full employer contribution rate of 16% to PEPS will only be paid for new employees from 1 January 2016…"*[3]

This concern is part of the Panel's recommendation which is detailed below.

Finding

The Panel, in agreement with its advisors, question whether the cap of 16.5% is affordable in the long term.

Recommendation

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.

[3] BWCI Report – November 2015

3. EXPERT ADVISOR'S REPORT

BWCI Consulting Limited

Independent Review of the Proposed Reforms to the Public Employees Contributory Retirement Scheme (PECRS)

Phase 2

Prepared for

The States of Jersey Corporate Services Scrutiny Panel

Prepared by

Mrs M Galpin, FIA

13 November 2015

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Executive Summary

We have reviewed the draft regulations and our principal findings are that:

- the draft regulations are consistent with the benefits structure expected, however;
    - the implementation of the new CARE scheme ("PEPS") for new staff has been deferred until 1 January 2016
    - existing members of PECRS will not join PEPS until 1 January 2019; the estimated cost of this delay is approximately £2 million
    - the long-term non-uniformed member contribution rate is 7.75% of pensionable earnings, rather than 8% as initially proposed and communicated to members
- the requirement to publish a funding strategy statement should ensure transparency over the funding basis of PECRS and PEPS going forward. In addition, it should ensure that PEPS is funded on prudent assumptions
- it is unclear whether the long-term employer contribution cap of 16.5% of pensionable earnings is affordable in the long-term
- the administration systems are being upgraded to accommodate PEPS benefits. We have not identified any concerns with this project. The cost of the first phase of this upgrade is £135,000
- three additional staff will be required to administer PEPS at a cost pf £140,000pa. They have been closely involved with the development of PEPS and so will already be fully trained.
- accordingly to a BWCI survey of Channel Island employers, more than two thirds of respondents provide a defined contribution pension for their staff
    - the average employer pension contribution rate in the private sector is 10% of salary
    - the average employee pension contribution rate in the private sector is 5% of salary

Recommendations

We recommend that the Panel consider

- whether they would wish to review the funding strategy statement when it is first published and each time it is updated
- whether to seek evidence that the employer contribution cap of 16.5% of pensionable earnings is affordable in the long-term
- whether to request that the "new joiners pack" for employees joining PEPS from 1 January 2016 makes it clear that the accrual rate in PEPS could reduce under the risk-sharing arrangements
- what the implications would be if not all of the union ballots accepted the proposals.

1. Introduction

1.1 Overview

BWCI Consulting Limited ("BWCI") was initially engaged in April 2014 as an independent expert advisor by the Corporate Services Scrutiny Panel of the States of Jersey ("the Panel") to assist them with their review of the reforms to the Public Employees Contributory Retirement Scheme ("PECRS") and the related draft legislation.

While described as the reform of PECRS, the new pension arrangements are to be provided through a separate scheme called the Public Employees Pension Scheme "PEPS".

1.2 Structure of Review

The legislation to introduce changes to the public employees' pension arrangements is being introduced in two stages:

- Stage 1 - the high level primary enabling legislation
- Stage 2 – regulations specifying the detailed pension arrangements

The Panel's review has also been broken down into two phases, reflecting the two stages of the legislative process.

1.2.1 Phase 1 of Panel's review

Phase 1 was completed in 2014. BWCI's report, our "First Report", was published as part 3 of the Panel's report dated 12 May 2014.

The primary focus of this first phase of the review was the consideration of the affordability, sustainability and fairness of the proposed changes to the pension arrangements. It also looked at the draft primary legislation. In addition, the Panel asked BWCI to comment on any other potential areas of risk identified while considering the evidence presented. As a result, we also commented on the governance and administration arrangements and member communication.

We referred to the new pension arrangements as the "CARE" scheme in our First Report. However, now that the legislation to establish the Public Employees' Pension Scheme is approved, in this report we refer to the CARE scheme as "PEPS"; the two terms are interchangeable.

1.2.2 Phase 2 of Panel's review

Phase 2 commenced when the draft regulations were lodged in August 2015. These set out, in detail, the benefits to be provided under PEPS and how it would be operated. As well as reviewing the draft regulations, Phase 2 of the review also considers the other areas previously identified in Phase 1 as requiring further consideration.

Details of the Panel's Terms of Reference for Phase 2 of the review are set out in Appendix A of this report.

1.3 Draft legislation

There are four separate sets of inter-related regulations covering different aspects of the new pension arrangements. One set of regulations focuses on the membership and benefit structure; one on the administration of PECRS and PEPS, one on the funding and valuation of the schemes and the fourth set of regulations covers the transitional provisions. In addition there is an Appointed Day Act, which is designed to bring the primary legislation into force.

1.4 Evidence considered

In order to assist the Panel we have been provided with information from a number of sources. In addition, we have also drawn on additional information that is available online. The documents that have been considered are listed in Appendix B.

1.5 Operation of PECRS

Before considering the detailed proposals, it is helpful to provide a brief summary of the parties involved in the operation of the public employees' pension arrangements.

The current scheme is known as the Public Employees Contributory Retirement Scheme "PECRS". The Committee of Management "COM" has overall responsibility for the operation of PECRS. Their role is broadly equivalent to that of a trustee of an occupational pension scheme in the private sector.

The States Employment Board "SEB", as employer of the public employees, ultimately determines the structure of the benefits.

The Technical Working Group, "TWG", which consists of members of the COM and representatives from the Treasury, have been working on the technical aspects of the new pension arrangements.

The Public Employees Pension Scheme Joint Negotiating Group "JNG" is the collective group comprised of representatives from unions and staff associations who have been involved with the negotiations around the changes to the pension arrangements on behalf of the public employees.

PECRS is administered by the Dedicated Pensions Unit "DPU" on behalf of the COM under a formal administration agreement. The DPU handles members' pension enquiries, calculates benefit entitlements and pays benefits. The DPU uses a pensions administration platform called Compendia.

As well as permanent employees of the States of Jersey, a number of other organisations are permitted to participate in PECRS and will also be able to participate in PEPS. These are organisations are known as Admitted Bodies. According to the PECRS 2014 Annual Report there were 25 Admitted Bodies as at 1 July 2014.

1.6 Limitations of review

BWCI are not legal advisers and we have not carried out a legal review of the regulations. Further details of the limitations of this report are provided in Appendix C.

1.7 Abbreviations

There are a number of abbreviations and technical pension terms that are used throughout the evidence considered and for ease of reference we have included the most frequently used terms in the box below.

Key Abbreviations	
CARE	Career Average Revalued Earnings
COM	Committee of Management
DC	Defined Contribution
DB	Defined Benefit
DPU	Dedicated Pensions Unit
JNG	Joint Negotiating Group
PECRS	Public Employees Contributory Retirement Scheme
PEPS	Public Employees' Pension Scheme
SEB	States Employment Board
SPA	State Pension Age
TWG	Technical Working Group

2. PEPS benefit structure

2.1 Introduction

The new pension arrangements are to be provided through the Public Employees Pension Scheme "PEPS", rather than through modifying PECRS. Therefore, in future, many of the public employees will receive benefits from both PECRS and PEPS when they retire. The regulations considered in this phase of the review largely relate to PEPS, but there are some consequential changes to PECRS as a result of the transitional arrangements for existing PECRS members on 31 December 2018.

2.2 Benefit provision

We confirm that the PEPS benefit provisions set out in the regulations are in line with the high level summary of CARE style benefits that was provided to the Panel in Phase 1 of their review. The only differences which we have identified are in relation to the implementation date of the new pension arrangements and members' contribution rates.

2.3 Phased implementation

When the primary legislation was agreed by the States in May 2014, it was anticipated that the new arrangements would come into force from 1 January 2015. However, due to the extended negotiations over the change in the benefit structure and the complexity of the project to draft the regulations, the commencement date was deferred by a year. In addition, the implementation of the new benefit structure is also to be phased in.

New public employees will join PEPS from 1 January 2016. However, none of the existing members of PECRS at 31 December 2015 will be affected until 1 January 2019. This is some four years later than was anticipated when the primary legislation was approved last year. We discuss the cost implications of this delay in section 4.7.

2.4 Protection

Members' accrued benefits in PECRS in respect of service up to 31 December 2018 will be fully protected when the PEPS changes are introduced. As noted in our First Report, the starting point for the proposed reforms from the Technical Working Group's (TWG) perspective was that there should be no exemptions from the changes for any of the members of PECRS. However, some protection was subsequently introduced through the negotiation process with the Joint Negotiating Group (JNG).

2.4.1 Members covered

There are two categories of members with protection, who can continue accruing final salary benefits in PECRS if they so wish from 1 January 2019. These two categories are:

- those within 7 years of normal retirement age on 31 December 2018
- those with a 45th accrual rate

2.4.2 Numbers with protection

Initially it was expected that approximately 1,200 members would be eligible for protection (based on an implementation date of 1 January 2015). As a consequence of the deferral of the implementation date by 4 years this has potentially increased the numbers expected to benefit from protection up to a maximum of 1,700. However, it should be noted that around 50 of these members are understood to have accepted voluntary redundancy or voluntary severance and are therefore expected to leave service during 2015. The numbers with protection are likely to reduce further between 2016 and 2019 as a result of other leavers. The Scheme Actuary has estimated that the number with the protection option in at 31 December 2018 is likely to be just over 1,200.

Members with the protection option might still choose to join PEPS. In particular, some members of PECRS might choose to waive their right to protection in order to take advantage of the benefit improvements in some areas, such as the better death benefits provided under PEPS. The key areas where the benefit structure is likely to be more attractive in PEPS than PECRS are highlighted in blue in the table in section 2.5.

2.5 Comparison of Benefits

The table below compares the benefits that will be provided from 1 January 2019, as set out in the draft regulations, for those who opt for protection and remain in PECRS and those who join PEPS.

	PECRS From 2019 onwards under protection	PEPS
Type of Scheme	**Final Salary**	**Career Average Revalued Earnings (CARE)**
Pensionable Earnings	Contractual earnings + any pensionable pay elements agreed by the SEB	Contractual earnings + any pensionable pay elements agreed by the SEB
Accrual rate	1/80, 1/70, 1/60 or 1/45	1/66 (maximum could be reduced)
Normal Pension Age • Non-uniformed • Uniformed	 60 or 65 55	 Linked to State Pension Age 60
Eligibility • Permanent staff • Fixed term contract	 Compulsory Optional	 Compulsory Optional
Minimum Age of joining	None[1]	None
Maximum Age of joining	None[2]	None
Final Pensionable Earnings	Best 365 days in last 3 years	Best 365 days in last 10 years for PECRS benefits
Member contribution rates • Non-uniformed • Uniformed	 7.75% 10.1%	 7.75% 10.1%

[1] Previously 20, but minimum age limit was removed in September 2015
[2] Previously 60, but maximum age limit was removed in September 2015

	PECRS From 2019 onwards under protection	PEPS
Phasing in period of new contribution rates • **Non-uniformed <£30K pa** • **Non-Uniformed > £30K pa** • **Uniformed**	 4 years 3 years 5 years	 4 years 3 years 5 years
Target pension increase	100% of RPI	100% of RPI
Minimum Pension increase	0%	50% of RPI
Lump Sum on death in service	2 x Pensionable Earnings	3 x Pensionable Earnings
Dependants' pensions	Spouse/civil partner	Spouse/ civil partner/nominated Co-habiting partner
Ill health retirement	1 tier approach	2 tier approach
AVCs	Permitted	Permitted
Lump sum at retirement	25% increasing to 30% Conversion rate £1 pa → £13.50 Lump sum	30% Conversion rate £1 pa → £13.50 Lump Sum
Flexible retirement	Not permitted	Expected to be permitted[3]

2.6 Members' contribution rate

The initial member communications in 2014 indicated that the members' contribution rate for non-uniformed staff would increase by 3% from 5% to 8% of pensionable earnings over a three year period. In the draft regulations the 8% has been amended to 7.75%. We have been advised that this change was required to maintain the overall 2:1 cost sharing ratio between employer and employee. This appears to have been an oversight initially, rather than a rounding issue, since the uniformed member rate of 10.1% is unchanged from the rate previously communicated to members.

The table below indicates how the non-uniformed member contribution rate will now be phased in from 2019. As anticipated at the time of the Phase 1 review, those earning less than a full-time equivalent salary £30,000 pa will have their increase in contribution rate phased in over an additional year.

Year	FTE salary less than £30,000 pa on 31/12/2018	FTE salary £30,000 pa or more on 31/12/2018
2019	5.75%	6.0%
2020	6.50%	7.0%
2021	7.25%	7.75%
2022	7.75%	7.75%

[3] Not reflected in current regulations. It is understood that further regulations will be required once the approach to flexible retirement is considered in detail.

3. Comparison of Costs

3.1 Introduction

In this section we consider the relative costs of the benefits provided under PECRS and PEPS, based on information provided by the Scheme Actuary.

A key finding of the Panel in Phase 1 was:

"Further information and analysis is required in respect of the cost comparison between PECRS and the proposed CARE scheme; the sensitivity of the results to the assumptions underlying the calculation of the anticipated contribution rates; and the quantification of risks of underfunding within the CARE scheme."

3.2 Background

In our Phase 1 report we highlighted the difficulties in comparing the actual difference in the cost of providing the PECRS benefits and the PEPS benefit. This was because the costings for each scheme provided by the Scheme Actuary were not based on the same assumptions. Therefore, in order to make a like for like comparison, the Panel requested that some additional calculations were produced on a range of financial assumptions. These were provided in Aon Hewitt's report dated 20 June 2014. The key results are reproduced in the table in section 3.2.3.

3.2.1 Additional figures requested

The Panel asked for the following additional information to be provided following their Phase 1 review:

1. What investment strategy was expected to be implemented for PEPS?

2. What would be the best estimate[4] valuation assumptions, based on this proposed investment strategy, as well as prudent[5] assumptions, based on three different levels of prudence.

3. Details of the future service contribution rates for each of these four sets of assumptions, to compare the cost of the PEPS benefits on the target and minimum levels of pension increases with the target PECRS benefit structure.

3.2.2 Degree of prudence

The Scheme Actuary has reflected the prudence in the investment return element of the assumptions, with all of the other assumptions being kept as best estimate across the scenarios. The investment return has been expressed in terms of a return in excess of the yield on UK Government bonds (Gilts), as illustrated in the table below.

The Scheme Actuary has advised that these assumptions are based on an investment strategy consisting of 65% growth assets and 35% bond-like assets and reflect his views and market conditions at 31 March 2014. In order to quantify the degree of prudence, the Scheme Actuary has

[4] Best -estimate assumptions are assumptions that, if a scheme continues on an ongoing basis, are equally likely to overstate as understate the amount of money actually required to meet the cost of the benefits.

[5] Prudent assumptions are assumptions that, if a scheme continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.

expressed the chance of the cost being overstated as 50% for best estimate and 60%, 70% and 80% for the three levels of prudence. We have not considered the appropriateness of these assumptions as this falls outside the scope of this report.

Chance of cost being over-stated	Assumed investment return over Gilt yield %pa
50% (best estimate)	4.0
60% (some prudence)	3.4
70% (more prudence)	2.8
80% (most prudence)	2.0

3.2.3 Joint contribution rates

The figures represent the **combined** employer and employee contribution rates under the best estimate and three increasingly prudent investment return assumptions. The Scheme Actuary has pointed out that these costs exclude transition costs associated with the introduction of the pension changes, which he had separately estimated as being 0.8% of pensionable earnings spread over a 10 year period, in his paper of 11 April 2014 for the TWG, on the assumptions used for that paper.

• Future Combined Employer and Employee Future Service Rate % of salary	Best Estimate 50% chance of overstating cost	Prudent 60% chance of over-stating cost	Prudent 70% chance of over-stating cost	Prudent 80% chance of over-stating cost
PEPS – Target 100% RPI pension increases	15.2%	17.5%	20.2%	24.7%
PEPS – Minimum 50% RPI pension increases	10.0%	11.3%	12.7%	15.1%
PECRS - Target	16.3%	18.5%	21.2%	25.6%

3.2.4 Employer cost reductions

The cost saving to the employer of moving from PECRS to PEPS will be the reduction in the employer's element of the joint contribution rate.

We have been advised that the weighted average uniformed and non-uniformed member contribution rates in PEPS is expected to be 8% of pensionable earnings. We have assumed that this same average rate would apply in PECRS for those members who opt for protection, when the full increase in member contributions takes effect.

3. Comparison of Costs (continued)

The first three rows in the table below set out our estimate of the effective cost to the employer of providing the benefits, after deducting the 8% member contributions. The last two rows illustrate the employer's savings.

Future Combined Employer and Employee Future Service Rate % of salary	Best Estimate 50% chance of overstating cost	Prudent 60% chance of over-stating cost	Prudent 70% chance of over-stating cost	Prudent 80% chance of over-stating cost
PEPS – Target 100% RPI pension increases	7.2%	9.5%	12.2%	16.7%
PEPS – Minimum 50% RPI pension increases	2.0%	3.3%	4.7%	7.1%
PECRS - Target	8.3%	10.5%	13.2%	17.6%
Savings of PEPS target benefits over PECRS target benefits	1.1%	1.0%	1.0%	0.9%
Saving of PEPS minimum benefits over PECRS target benefits	6.3%	7.2%	8.5%	10.5%

3.2.5 Comments on savings

While the absolute employer contribution rate figures are dependent on the assumptions used, the differences in the contribution rates between the target 100% RPI pension increases and the minimum 50% RPI increases for PEPS, within each investment return assumption set, illustrate the flexibility around the employer cost which has been built into the benefit design and risk sharing arrangements in PEPS.

For example, considering an assumed rate of investment return which is expected to be achieved 80% of the time, the theoretical cost to the employer of providing the full target PEPS benefits is 16.7% of pensionable earnings whereas under the minimum level of pension increases, the cost reduces to 7.1% of pensionable earnings.

When costed on the same assumptions, the figures illustrate that the reduction in the cost to the employer of providing the target level of PEPS benefits and the target level of PECRS benefits is only around 1% of pensionable earnings. However, when the average increase in the members contribution rates, of approximately 3% of pensionable earnings, is taken into account (which is being phased-in when the PEPS changes are introduced), the overall employer cost saving relative to the target benefits in PECRS before the changes is around 4% of pensionable earnings. Based on a pensionable earnings payroll of around £250 million pa, this is a reduction in cost of the order of £10 million pa.

4. Affordability

4.1 Introduction

In this section we consider the affordability of the pension arrangements from the States Employment Board's perspective.

One of the Panel's key findings in their Phase 1 report was:

"Further evidence is required in respect of the affordability of the proposed employer's contribution cap in the long term."

4.2 Current employer contributions

From the information in the 2014 PECRS report to members, employer ordinary contributions in 2014 were £33.4 million (payable at the rate of 13.6% of pensionable earnings). In addition, Pre 87 Debt reduction contributions of £7.3 million were also paid in 2014.

4.3 Pre 87 Debt Contributions

The Pre 1987 Debt within PECRS relates to the liability that PECRS took on in 1987 to provide the pension increases on benefits in respect of service accrued before this date. These pension increases had not been previously funded and a funding plan was put in place to meet the liability by 2083. This was to be achieved through the payment of additional employer contributions at the rate of 2% of pensionable earnings. However, as 2083 is after all of the benefits giving rise to the pre 1987 debt are expected to have been paid out, the Medium Term Financial Plan (MTFP) 2013-2015 proposed that these debt repayments be accelerated by additional debt repayments of £1 million in 2013, £2 million in 2014 and £3 million pa from 2015 onwards.

Due to subsequent financial constraints, it has not been possible to pay all of these accelerated contributions in 2014 and 2015, with just an extra £1 million being paid in each of these 2 years. Under the MTFP 2016-2019, it is anticipated that these additional debt payments will be returned to £3 million pa. Under these accelerated debt repayment proposals, the pre 1987 debt is scheduled to be repaid by 2053.

4.4 Contribution Cap

The primary legislation that provides for the establishment of PEPS includes a cap on the level of employer contributions to the pension arrangements of 16.5% of pensionable earnings. Based on the information in the actuarial valuation report as at 31 December 2013, the total pensionable earnings of PECRS members at that time was approximately £250 million. Therefore, the cap is broadly equivalent to a maximum contribution of around £41 million (in 2013 terms).

The employer contribution cap will limit the risk to the States of Jersey. We understand that this cap is intended to apply to the combined contributions required for future service benefits, in both schemes, together with any contributions needed to meet past service deficits in relation to either PECRS or PEPS scheme benefits, to the extent that such deficits cannot be eliminated through the other mechanisms available, such as lower pension increases.

The Draft Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations provide clarification that the employer's contribution cap does not include:

- Contributions towards the Pre 1987 Debt
- Costs payable by Admitted Bodies leaving the schemes
- Any other Admitted Body costs

4.5 Phased employer contributions

Initially it was expected that the employer's contribution rate would increase from 13.6% to 16% of pensionable earnings when the new pension arrangements were introduced. While the employer will pay 16% of pensionable earnings for new joiners to PEPS from 1 January 2016, the introduction of the higher contribution rates has been delayed for the existing PECRS members. In particular, the increase in the employer's rate is now being phased in over 3 years at 0.8% pa for those employees who were members of PECRS immediately prior to 1 January 2019. These phased contribution rates are set out in the table below:

Year	Employer Contribution rate for PECRS Members on 31 December 2018
2019	14.40%
2020	15.20%
2021	16.0%

4.6 Affordability of the cost cap

We have been advised that there is some provision within the MTFP 2016-19 for the cost of pension changes. However, since the pension changes will only largely relate to new staff over this period, the full impact of the increase in the cost of funding the benefits on a "prudent" rather than "best estimate" approach will not emerge until 2021; this is beyond the term of the MTFP.

The MTFP 2016-2019 is being presented in two parts. The first part, which was agreed by the States in October 2015, sets out the total States income and expenditure targets for the period up to 2019, and detailed allocations for 2016. An addition to the MTFP is due to be presented to the States by the end of June 2016. This will set out the detailed allocations for 2017-2019 within the agreed expenditure limits.

We have not had sight of any evidence that would indicate that the long term contribution cap of 16.5% is affordable in the longer term, beyond the term of the MTFP 2016-19. Indeed, the need to phase in the increase in the employer contribution rate from 2019 to 2021 suggests that 16%[6] employer contributions are not affordable in the medium term.

4.7 Cost implications of the delay

The cost of the delay in the implementation of PEPS from 1 January 2016 to 1 January 2019 has been estimated by the Scheme Actuary to be around £2 million. We have been advised that this additional cost is to be met as part of the transitional costs that are being spread, within the 16.5% cost cap, over the period to 31 December 2032. We note that it has been necessary to phase the transitional costs in over a 14 year period from the date that the majority of employees are expected to join PEPS. In our view this is a long period, which again casts some doubt over the affordability of the arrangements.

[6] The draft regulations would not allow employer contributions to increase above 16% prior to 1 January 2024.

5. Risk-sharing arrangements

5.1 Overview

The complexity of the risk-sharing arrangements around the costs of both PECRS and the PEPS were highlighted in our First Report. From the employer's perspective, the overarching risk control measure in place is the employer's contribution cap of 16.5% of pensionable earnings. The cap is applied, as a whole, to the total cost of providing benefits in PECRS and PEPS.

The cost of providing the benefits in each of the schemes will be determined by an actuarial valuation once every three years. This will assess:

- the funding level
- the cost of future benefit accrual

5.2 Funding level flexibility

The target funding level is 100%. When a scheme is 100% funded the value of the assets exactly matches the value of the liabilities. In practice, the funding level will fluctuate over time, due to investment performance and scheme experience being different from the assumptions made.

Under the risk-sharing arrangements, where a scheme is in surplus (over 100% funded) the surplus will be retained in the scheme. Where it is in deficit, the regulations provide for the benefits to be reduced, through reducing the pension increases to restore the funding to 100%. Where this is still not sufficient, there is also provision within the regulations to reduce the future benefit accrual within PEPS or to increase the joint employer and employee contributions up to the cap of 24.75% of pensionable earnings.

This approach to risk-sharing could potentially see pension increases and the accrual rate in PEPS being adjusted following each actuarial valuation. In order to avoid this volatility, the regulations also provide for a 10% funding corridor to be operated. Consequently if the funding level of a scheme falls within the range 95% -105% the COM, subject to the agreement of the Minister for Treasury and Resources, can decide not to take any immediate action.

5.3 Prudent assumptions

One way to minimise the risk of a scheme being underfunded is to use "prudent", rather than "best estimate" assumptions in the valuation (see section 3.2.2 for definition). This reduces the risk that the investment return will be less than expected. We highlighted the importance of the commitment that PEPS should be funded on prudent assumptions in our First Report. This resulted in one of the Panel's recommendations:

"The States Employment Board should ensure that the Regulations underpinning the proposed CARE scheme incorporate the concept of prudence being used within the funding assumptions."

Within the funding and valuation regulations the actuary is required to prepare a written funding strategy statement. The regulations provide a list of the matters that need to be covered by this statement and it specifically requires "*the use of prudent assumptions in relation to the costs of funding benefits under the Scheme"* [ie PEPS].

5. Risk-sharing arrangements (continued)

The regulations then go on to require the actuary to specify *"the degree of prudence*". The statement must be agreed by the COM and the Minister for Treasury and Resources and published no later than 31 December 2017. Consequently there should be transparency over the funding basis used for both PEPS and PECRS going forward. The actuary has confirmed in his written evidence to the Panel that he has commented on this aspect of the draft regulations. He also confirmed that he believes that the regulations are coherent and workable from an actuarial perspective and that the detailed framework for risk-sharing and valuations delivers what is intended.

We recommend that the Panel consider whether they would wish to review this funding strategy statement when it is first published and each time it is updated.

5.4 Further information requested

In our First Report we asked for some additional modelling to be carried out by the Scheme Actuary to provide an indication of the probability that the funding level (on the minimum pension increases) could fall below 100% in future if joint contributions of 24% of pensionable earnings were paid. This modelling has been done by the Scheme Actuary for both PECRS and PEPS and the results are illustrated in the tables below.

5.4.1 Probability of PECRS funding falling below level indicated over the next 25 years

The Scheme Actuary has assumed that the funding position at the start of the projections is the same as the funding position in PECRS as at 31 March 2014, using assumptions consistent with the 2010 valuation basis.

Probability of funding level being below x% on minimum benefits when a 24 % joint contribution rate has been paid continuously	31/12/2020	31/12/2025	31/12/2030	31/12/2035	31/12/2040
x = 100%	10%	14%	16%	16%	15%
x = 95%	7%	11%	14%	13%	12%
x = 90%	5%	8%	11%	10%	9%
X = 80%	3%	5%	6%	6%	4%

The results of these projections will be dependent on the starting point assumed and could be quite different if a more up to date funding position had been used. In particular, the SEB has advised the Panel in their written evidence that as at September 2015 the estimated funding position in PECRS had fallen to 93% with a deficit of £139 million. This compares with a surplus of £93 million as at 31 December 2013. It should however be noted that the updated funding position is only an estimate and therefore should be treated with appropriate degree of caution.

5. Risk-sharing arrangements (continued)

5.4.2 Probability of PEPS funding falling below level indicated over next 25 years

Probability of funding level being below x% on minimum benefits when a 24% joint contribution rate has been paid continuously	31/12/2020	31/12/2025	31/12/2030	31/12/2035	31/12/2040
x = 100%	0.4%	1.4%	2.7%	3.5%	4.2%
x = 95%	0.3%	1.0%	1.9%	2.7%	3.3%
x = 90%	0.2%	0.6%	1.4%	1.8%	2.3%
X = 80%	0.0%	0.2%	0.7%	0.7%	1.3%

5.4.3 Comments on projections

While the chance of either PECRS or PEPS falling below 100% funded in future very much depends on the assumptions used by the Scheme Actuary to model the schemes, these projections show that, on equivalent assumptions, the risk of PECRS being under-funded is somewhat higher than PEPS. This would suggest that the additional flexibility built into the design of PEPS, through the risk-sharing arrangements appears to make it more sustainable than PECRS.

5.5 Admitted Bodies

In our First Report we highlighted that it was not clear what the mechanism would be if one of the Admitted Bodies participating in the PEPS wished to leave the scheme. This led to the Panel's recommendation:

"The States Employment Board should ensure that the draft Regulations make appropriate provision for the mechanism which would apply if one of the Admitted Bodies to the CARE scheme wished to leave the scheme."

We confirm that the issue has been addressed in section 8 of Schedule 1 of the Membership and Benefits Regulations. This requires that an Admitted Body gives the COM and the Minister for Treasury and Resources 6 months' notice if it wishes to leave either PEPS or PECRS. The regulations set out how the termination contribution which may be required from the Admitted Body should be calculated by the Scheme Actuary, by reference to the assumptions used for the most recent actuarial valuation of the relevant scheme. The regulations also set out the options for how these liabilities may be discharged.

6. Scheme Governance

6.1 Introduction

The governance arrangements for the two schemes are set out in the Draft Public Employees (Pension Scheme) (Administration) (Jersey) Regulations. These regulations seek to formalise and build on the existing PECRS governance arrangements.

The principal changes, relative to the current arrangements, relate to:

- the composition of COM
- determination a draft annual budget for the COM
- the requirement to publish a Statement of Investment Principles (“SIP”)
- the requirement to publish a pension administration strategy
- the introduction of a requirement to provide members with an annual benefit statement

6.2 Composition of the COM

The COM will continue to have 12 members and an equal balance between employer and employee representatives. However, one of the employer representatives will now be from one of the Admitted Bodies. In addition, two of the member representatives will be pensioners. Each member will be appointed for a 5 year term, with a maximum of 2 terms. The terms will be staggered to avoid significant change to the COM over a short period of time and all of the appointments will be made in line with the Jersey Appointments Commission guidelines.

The draft regulations also provide for the possibility of reducing the number of members in the COM from 12 to 10 or 8 and how the mix of employer and employee representatives would be determined in those circumstances.

6.3 COM budget

The COM will be required to produce an annual draft budget and this will need to be agreed with the Minister for Treasury and Resources. In this way, the costs of operating the pension arrangements can be monitored.

6.4 New documents

The draft regulations require the COM to agree and publish the following:

- statement of investment principles
- pension administration strategy
- annual benefit statements

6.4.1 Statement of Investment Principles (SIP)

The SIP will set out the investment strategy for the assets of the schemes. While we understand that a SIP is already produced for PECRS, the requirement to do so has been formalised in the regulations. The SIP will need to be agreed by the Minister for Treasury and Resources and published. The SIP will be the starting point for consideration of the appropriate discount rate to be used for the actuarial valuations of each scheme and the degree of prudence reflected in the funding of PEPS.

6.4.2 Pensions Administration Strategy

This document will set out the policies and procedures around the communication between the administrator and the employers participating in PECRS and PEPS. We understand that historically there had been some delays on occasions where some of the Admitted Bodies had not advised the DPU of membership changes on a timely basis; this document seeks to address that. For example, interest will be charged on any employer contributions that are outstanding for a month.

The strategy will also set out performance targets for the administrator.

6.4.3 Annual benefit statement

While we understand that annual benefit statements are already provided to members, there is no formal requirement to do so. This will now be introduced in the new regulations. It is our understanding that the intention would be for a member to receive a single statement showing both their PECRS and PEPS benefits, rather than two separate statements. A single statement will be simpler for members and help them understand their combined pension benefits from the two schemes.

6.5 Comments on governance arrangements

The draft regulations reflect the strengthening of the governance arrangements that were indicated in Phase 1 of the review and should ensure that PECRS and PEPS will be operated in accordance with good practice going forward.

7. Administrative resources

7.1 Introduction

The Panel's key finding from Phase 1 of their review in relation to the administration of the new pension arrangements was:

"There needs to be clarity regarding the administration costs arising from implementation of the CARE scheme and confidence that the staff resources would be sufficient and adequately trained. These are matters which will be pursued during Phase 2 of the Scrutiny Review"

7.2 Current administration arrangements

7.2.1 Overview

The pensions administration function for PECRS is undertaken by the Dedicated Pensions Unit ("DPU") under an administration agreement with the Committee of Management ("COM"). The DPU also administer the Jersey Teachers Superannuation Fund "JTSF" and they will also become responsible for the administration of PEPS from 1 January 2016.

We understand that the DPU's annual budget is approximately £1 million and it has 12.5 full-time equivalent staff at the current time.

7.2.2 Administration platform

The DPU uses Compendia, a pensions administration platform provided by Equiniti, for the administration of both PECRS and the JTSF. Compendia is being extended to accommodate the additional functionality required to administer PEPS.

From the information on the Equiniti website, Compendia is able to support a range of different types of pension arrangement (including CARE). It also offers a range of functionality including:

- Calculations
- Management reporting
- Pensions payroll
- Workflow and document management
- Case management

We visited the DPU on 11 August 2015 and met with the Director of Accounting Services and members of the DPU team. We also observed the operation of the current systems and processes.

7.3 Implementation of PEPS administration

7.3.1 Project team

A project team, including a representative from the systems provider Equiniti, has been formed. The team meets regularly to monitor and manage the implementation of the PEPS administration systems and processes.

7.3.2 Timescale

At the time of Phase 1 of the Panel's review it was anticipated that PEPS would have been implemented for all employees with effect from 1 January 2015 and we highlighted this as being a very optimistic timeframe. In particular, we had severe reservations that a robust administration system and adequate staff training could be implemented in time for the launch of PEPS.

It was subsequently recognised that the initial timeline was indeed unrealistic and changes have been made. In particular, the implementation of PEPS has been deferred for a year to 1 January 2016. In addition, only new employees will join from this date. The existing members of PECRS, other than those who opt for "protection" within PECRS, will join PEPS from 1 January 2019. These changes in the timeframe should now provide sufficient time for the new systems to be developed and tested fully, before going live.

7.3.3 Software update

The programme to upgrade the administration system has been broken down into separate smaller projects as follows:

Stage 1 Project – Requirements for new PEPS members from 1 January 2016		
	Objective	**Progress**
Phase 1	Ensure all benefit calculation features working for CARE benefits.	On schedule to be delivered for testing by DPU by first week of November 2015.
Phase 2	Set up workflows and controls associated with administering CARE benefits, eg automatic generation of letters.	Specification being drafted. It is not essential that this be completed by 1 January 2016 and is scheduled to be completed during 2016.
Stage 2 Project – Requirements for members joining on 1 January 2019		
	Integration of PEPS and PECRS benefits.	No specification exists yet for this project which will commence in 2017.

7.3.4 Comments on existing arrangements

From our observation of the DPU in August 2015, the existing administration arrangements appear to be robust and working efficiently. For example, there are procedures in place to verify that membership data is complete and accurate before calculations are undertaken. The progress of calculations for individual members was well-documented on the workflow system. In addition, there appeared to be robust controls built into the system, with a manager sign-off being required at each stage of the calculation process before it was progressed to the next stage.

7.4 Staff training

The three additional staff who have been recruited to the DPU to administer PEPS, have all been closely involved with the development of the new pension arrangements. Therefore they will not require any additional staff training prior to the launch of PEPS in January 2016.

7.5 Implementation Costs

The cost of these additional staff and the software upgrade will be met from PECRS and so there is no additional external cost. The budgeted cost for the first phase of Stage 1 of the systems upgrade is £135,000 pa. In addition, the additional staff costs are expected to be £140,000pa in current terms. As discussed in section 6.3, the ongoing costs of the operation of PECRS and PEPS will be monitored explicitly going forward through the annual budget to be agreed with the Minister for Treasury and Resources.

7.6 Conclusions

We believe that the concerns that we raised in Phase 1 of the review, in relation to the upgrading of the new administration system, have all been addressed by the steps that have already been taken or are planned. In addition, the experience gained of the PEPS benefits through the developmental stage of the new pension arrangements means that the newly recruited staff in DPU do not require any additional training.

8. Impact on PECRS members

8.1 Overview

A detailed discussion of the proposed benefit structure was provided in our First Report. Since the time of Phase 1 of the Panel's review, there have been some refinements to the members' contribution rates, as well as the deferral of the implementation date. We are not aware of any changes to the benefits. However regulations amending PECRS, which were accepted by the States in September 2015, effectively removed the minimum age of 20 for joining PECRS and the maximum age for joining of 60. As a consequence of this, public employees who were previously unable to join PECRS on grounds of age, have been given the opportunity to do so before it is closed to new members from 1 January 2016. This change to PECRS falls outside the scope of this report and it is not known how many public employees might join PECRS as a result of this or the additional costs involved.

8.2 Benefit projections and comparisons

The extent to which an existing PECRS member will be affected by the introduction of PEPS will depend on their own individual circumstances, including their anticipated career progression.

The protection given to certain members, principally those who are within 7 years of their normal pension age on 31 December 2018, means that a different group of PECRS members will have protection compared to the position under the original proposals, when the 7 year protection period was expected to run from 1 January 2015.

As identified in our First Report, an online calculator was made available to members in 2014 to provide an illustration of how their pension expectations might change under the existing and new PEPS benefits. We understand that this calculation tool has now been withdrawn, since it did not reflect the revised commencement date of 1 January 2019. However, we have been advised by the Director of Accounting Services that this calculation tool will be updated and made available to PECRS members during 2018, so that members will be able to compare their benefit expectations under PECRS and PEPS. It will also help those with the protection option to make an informed decision regarding whether to remain in PECRS or join PEPS.

8.3 Union ballots

The JNG have advised the Panel that not all of the unions have balloted their members on the proposed changes. However, where ballots have been held and the results published, the proposals have been accepted. The JNG also commented that the turnout for the ballots was not high.

The JNG also highlighted that hospital consultants have yet to be balloted. It is understood that they have expressed concerns over patient safety as a result of the increase in pension age for doctors. It is unclear what the implications would be for the pension changes if one or more of the union ballots were to reject the proposals.

8.4 Member Communications

We have had sight of working drafts of the information pack for new joiners to PEPS from 1 January 2016, as well as the more detailed PEPS members' guide. Both documents make it clear that the rate of pension increases is subject to the scheme's ability to pay these benefits and that members' contribution rates may also be subject to change. The detailed guide also indicates that the PEPS accrual rate of 1/66th could be varied; however, the variable accrual rate does not appear to be covered within the version of the new joiners pack that we have seen. We recommend that the Panel request that this be rectified before the documents are finalised.

9. Comparison with the private sector

9.1 Introduction

We have been asked to compare the PEPS benefits with those typically provided in the private sector in Jersey. To do this we have drawn on the results of a pension provision survey we conducted amongst Channel Island employers.

9.2 Types of pension scheme

Essentially there are two types of pension arrangement found in the private sector in Jersey:

- Defined contribution (DC or Money Purchase)
- Defined benefit (DB or Final Salary)

We have outlined the key features of both types of scheme below. Where a scheme has elements of both types of pension scheme it is known as a hybrid scheme.

9.3 Defined contribution schemes (“DC”)

In a defined contribution scheme the employer and the members pay a specified contribution rate into a "pot" for each individual the member. The retirement benefits available to a member will depend on the value of the funds in that individual member's pot. This in turn depends on the contributions paid into the scheme and the investment return achieved. At retirement the member has the option to choose the type of pension that best suits their individual circumstances.

From an employer’s perspective, the contribution rate is known and because the benefit is always equal to the value of a member’s pot, there are no surpluses or funding deficits to be addressed.

From the member's perspective, defined contribution provides flexibility, allowing them to select the form of pension that best suits their personal circumstances. It also gives them some choice around how the contributions are invested. However, the members bear all of the risks associated with poor investment returns and improving life expectancy.

9.4 Defined benefit schemes (“DB”)

The benefits payable from a defined benefit scheme are calculated by applying a set of rules. Normally the benefit is calculated as a proportion of salary for each year of service, according to the particular formula for an individual scheme. The benefits are independent of both the investment performance of the scheme’s assets and the contributions paid.

9.4.1 CARE Scheme

A CARE scheme is a Career Average Revalued Earnings scheme and in many ways it is similar to the traditional defined benefit final salary scheme. The one key difference is that the pension "earned" during each year of employment increases in the same way for all members, rather than in line with an individual's salary increases during their working life.

9.5 Trends in private sector pension provision

Historically most companies, which provided pension benefits, did so on a DB basis. However, over the last 20 years or so, in view of the increasingly volatile costs associated with DB schemes and a change in accounting practice which required the funding position to be shown as part of part of the company's balance sheet, private sector employers began to close their DB scheme to new entrants. Instead new employees were enrolled into DC schemes.

As well as closing to new entrants, many private sector employers have now taken a further step and also ceased accrual of further benefits for existing employees. In these circumstances, future provision would typically be provided on a DC basis.

9.6 PECRS and PEPS

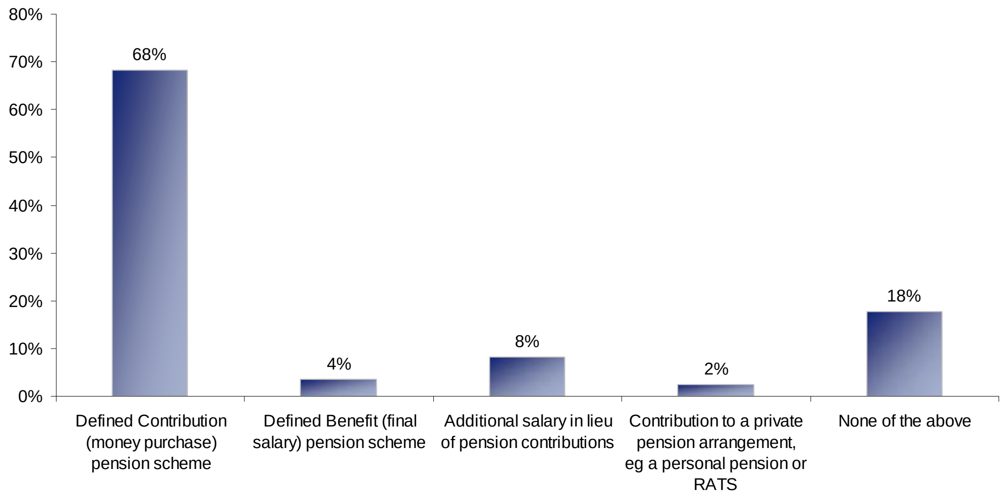
Both PECRS and PEPS have the appearance of being defined benefit in nature, since they provide a pension linked to salary, either close to retirement or averaged over a person's career. However, as a result of the risk sharing arrangements discussed in section 5, both PECRS and PEPS are effectively "hybrid" schemes. This is because there are mechanisms in place to limit the benefits, if the financial condition of the schemes were to deteriorate below a certain level or the costs would otherwise go outside of the joint employer/employee cost envelope of 24.75% of pensionable earnings.

9.7 BWCI Survey

BWCI periodically monitors occupational pension provision in the Channel Islands to identify trends. We have highlighted some of the results of a survey that we carried out within the last 5 years, to provide an indication of the level of pension provision. 85 Channel Islands employers responded to our survey. We would point out that our survey does not necessarily represent an unbiased survey of pension provision in the Channel Islands. In practice, we expect that pension provision generally could be lower than our survey results suggest, as we expect our survey respondents to be more likely to provide a pension.

The chart below illustrates the pension provision available to new joiners.

Type of Pension Provision for New Staff

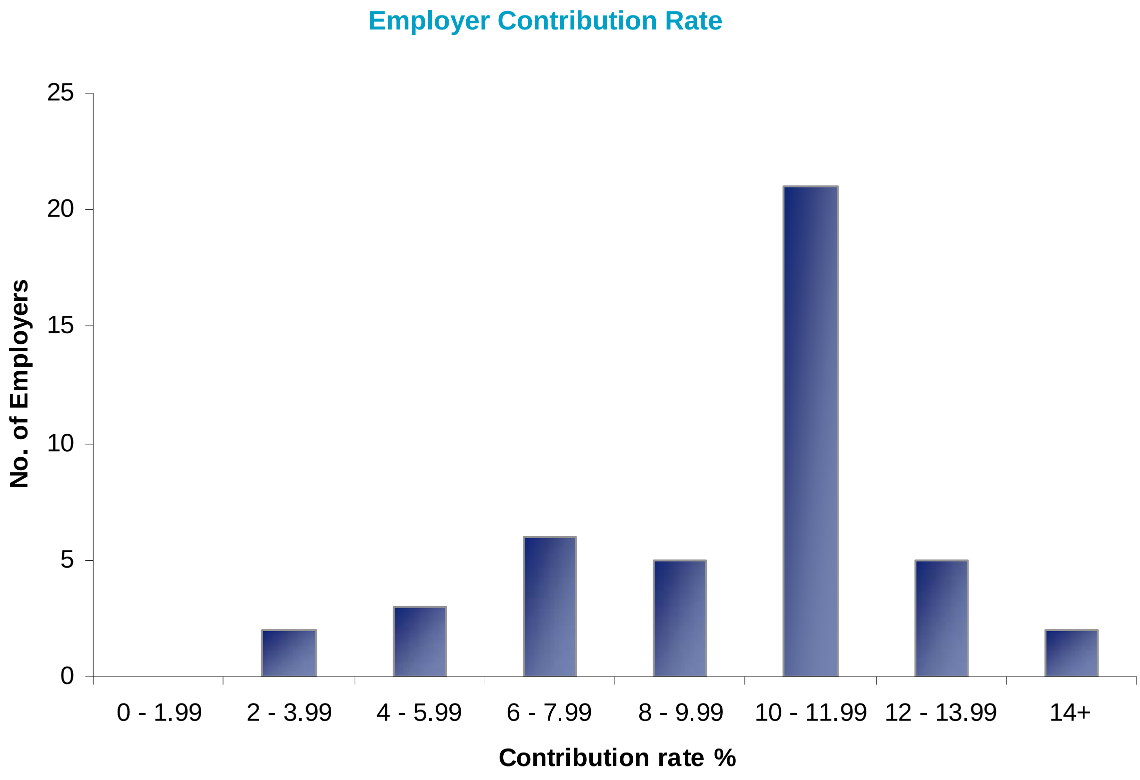


9. Comparison with the private sector (continued)

The results of our survey indicate that over two thirds of respondents provide pension benefits on a DC basis and just 4% on a DB basis.

9.8 Employer's contributions

We also asked employers about how much they contribute to the scheme. Where the contribution was not the same for all of the members, we asked for an estimate of the average employer's contribution rate for the membership as a whole. The results are illustrated in the chart below.

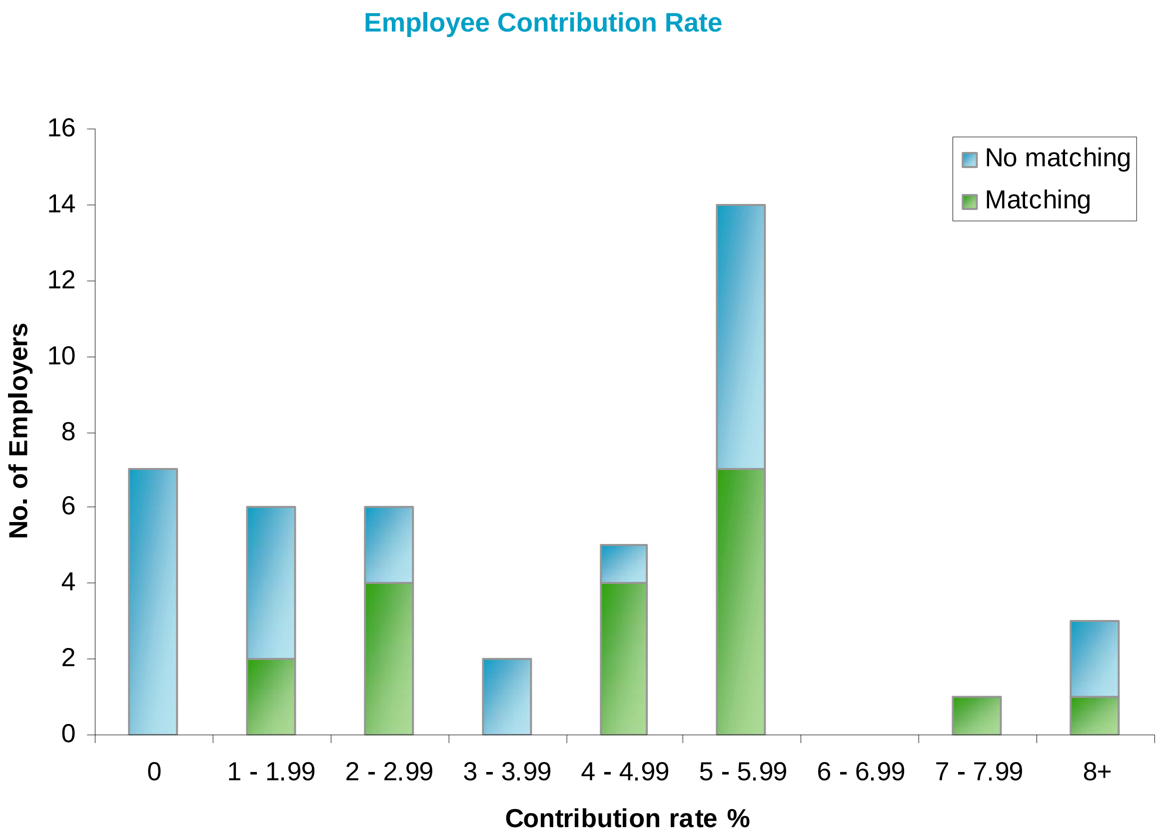


The results show a clear majority of employers with contributions in the 10% to 11.99% band, with the average contribution being 10% of salaries. Very few employers in our survey provide contributions in excess of 12% of salaries.

9.9 Employee contributions

We asked about the average employees' contribution rate to their DC scheme. The results below have been broken down further to show the number of schemes with a matching contribution structure and those without matching.

Under a matching contribution approach, the employer will typically pay a core contribution rate for all employees and will then match every 1% of salary that the member pays in on a voluntary basis, up to a certain limit. For example, an employer might pay a core contribution rate of 5%, and agree to match any employees' contributions up to a further 5%. Consequently, the employer would be paying contributions of between 5% and 10% of each employee, depending on what rate the member chose to pay.



The distribution of employee contribution rates shows that the level of employee contributions is generally lower than the employer's contribution rate, with an average of 5% of salary. The peak in the 5% to 5.99% range is less pronounced than the peak in employer contributions. There is also a narrower spread of contribution rates. The results of our survey show that those schemes offering some form of matched contribution structure tend to have higher employee contribution rates than those where there is no direct incentive for members to contribute to the scheme.

9.10 Conclusions

The predominant form of pension provision in the private sector in the Channel Islands is DC. Both PECRS and PEPS have the appearance of providing DB type benefits, since they both provide benefits reflecting a member's length of service and salary. However, since the rates of pension increases in PECRS and PEPS are not guaranteed, nor the accrual rate in PEPS, they are effectively hybrid schemes, where there is mechanism for the employer to control the costs.

The employer contribution cap of 16.5% of pensionable earnings is somewhat higher than the average rate of employer contributions in the private sector, of 10%. The employee contribution cap of 8.25% of pensionable earnings is higher than the average contribution rate of 5% in the private sector.

10. Recommendations and Conclusions

10.1 Introduction

We have reviewed the draft regulations setting out the detailed benefit structure for the new PEPS scheme and we confirm that the proposed benefit structure is as anticipated at the end of Phase 1 of the Panel's review.

10.2 Implementation date

Initially it was expected that PEPS would be introduced for all public employees from 1 January 2015 and we had highlighted this as being an extremely optimistic timeframe. The introduction of PEPS is to be delayed by a year to 1 January 2016 for new employees and delayed by four years to 1 January 2019 for existing members of PECRS on 31 December 2018.

10.3 Member contribution rate

The member contribution rate for non-uniformed staff is 7.75% of pensionable earnings, rather than 8% as initially communicated to members and the Panel during Phase 1. We have been advised that the 0.25% reduction is due to the need to maintain the overall 2:1 cost-sharing ration between employer and employee. There has been no change to the rate for uniformed staff which remains at 10.1% of pensionable earnings.

10.4 Comparison of costs

The additional figures produced by the Scheme Actuary indicate that, when considered on the same actuarial assumptions, the cost of providing the target PEPS benefits is around 1% of pensionable earnings less than the cost of providing the target PECRS benefits. However, when the increase in the members' contributions is taken into account, the cost to the employer of providing PEPS target benefits is around 4% of pensionable earnings per annum less than under the current PECRS contribution and benefit structure. This is of the order of £10 million per annum if the costs of each scheme were assessed on the same assumptions.

10.5 Affordability

The employer's contribution to the pension arrangements is capped within primary legislation to 16.5% of pensionable earnings. The draft regulations limit this to 16% of pensionable earnings until 1 January 2024. We have not seen any evidence to confirm that either 16% or 16.5% is affordable in the long-term. Indeed, in the short-term 16% is not affordable since the full employer contribution rate of 16% to PEPS will only be paid for new employees from 1 January 2016. The increase in the employer's contribution rate for other employees (from 13.6% to 16%) will be phased in over a 3 year period commencing from 2019.

10.6 Risk-sharing

The risk-sharing arrangements reflected in the draft regulations appear to be consistent with the proposals presented to the Panel in Phase 1 of their review. While complex, they should provide a robust mechanism for controlling the cost of pension provision to the employer.

10. Recommendations and Conclusions (continued)

10.7 Scheme Governance

The regulations set out in detail the structured governance arrangements that are to be put in place. These should ensure that PEPS is funded on a prudent basis and that the valuation is completed within 15 months of the valuation date. In addition, any changes to the contribution rates, pension increases and accrual rate must be introduced within a specified timeframe.

10.8 Administrative resources

The delay in the implementation of PEPS has meant that there is now a significantly longer period over which to prepare for its introduction. The programme to make the necessary changes to the pensions administration platform appears to be well-managed and progressing well. In addition, the three staff who have been working on the development of the PEPS changes will become part of the DPU when PEPS goes live and will be responsible for the administration of PEPS.

10.9 Impact on PECRS members

All members' benefits accrued in PECRS up to 31 December 2018 will be protected. However, all members will be required to pay higher contributions to the pension schemes with effect from 1 January 2019. Some members, largely those within 7 years of their normal retirement date, will have the option to remain in PECRS. However, they may not all necessarily choose to do so, since they may wish to take advantage of the better death benefits within PEPS.

It is anticipated that the online benefit projection tool, that was made available to members in 2014, will be updated and relaunched in 2018.

10.10 Comparison with the private sector

Both PECRS and PEPS are effectively hybrid schemes; they have the appearance of defined benefit schemes, but the contribution cap and the ability to adjust a number of the characteristics of the benefit structure if the financial condition of the fund deteriorates means that the benefit structure is not guaranteed. By contrast, BWCI's survey of pension provision in the Channel Islands indicated that the majority of respondents to the survey provided pension benefits for new staff on a defined contribution basis.

The average employer contribution rate in our survey was 10% of salaries and the average member contribution rate was 5% of salaries. Therefore both the employer and employee contribution rates in PEPS are higher than the average rates payable in the Channel Islands.

10.11 Recommendations

Following our review of the draft regulations, discussions with members of the pension project team and consideration of the written evidence submitted to the Panel, recommend that the Panel consider:

- whether they would wish to review the funding strategy statement when it is first published and each time it is updated

- whether to seek evidence that the employer contribution cap of 16.5% of pensionable earnings is affordable in the long-term

- whether to request that the “new joiners pack” for employees joining PEPS from 1 January 2016 makes it clear that the accrual rate in PEPS could reduce under the risk-sharing arrangements

- what the implications would be if not all of the union ballots accepted the proposals.

Appendix A Panel's Terms of Reference

PECRS Reform - Terms of Reference for Phase 2

1. To examine Draft Public Employees (Pensions) Regulations and the sustainability, affordability and fairness of the proposed reforms to public sector pension provision, with particular regard to the following:

    a) Contribution rates;

    b) Indexation of benefits;

    c) Risk-sharing;

    d) How the proposed reforms would affect different classes of PECRS member;

    e) Governance of the Scheme; and

    f) Resource requirements to operate and administer the new pension scheme.

2. To consider the future liability of the States within the proposed revised public sector pension scheme.

3. To consider how the costs to the States of the proposed Career Average Revalue Earnings (CARE) scheme compare with current costs.

4. To consider how the proposed pension provision would compare to current pension provision within the private sector.

Appendix B Information Considered

This appendix sets out the documents that we have considered as part of the review in addition to the draft regulations and the documents listed in Appendix B of our Phase 1 report.

AonHewitt Documents

PECRS Proposed scheme changes – cost comparisons and funding projections	20 June 2014
PECRS Actuarial valuation at 31 December 2013 scheme funding report	31 October 2014
Comments on 2013 Valuation of the PECRS	18 November 2014
Letter from Jonathan Teasdale	19 October 2015

PECRS Member Communications

Annual Report 2014	July 2015
PECRS pension review (employee information)	online
PEPS New Member Information Pack	Draft
The full PEPS members' guide	Draft

Treasury and Resources Documents

Response of States Employment Board S.R.4/2014	May 2014
Response of States Employment Board UPDATE S.R.4/2014	23 July 2014
Emails from Director of Accounting Services	2 October 2015
Project team responses to Panel questions	19 October 2015
States Employment Board responses to Panel questions	19 October 2015

Other Information

BWCI's Channel Islands pension benefits survey	July 2010
Letter from COM	19 October 2015
Letter from JNG	21 October 2015

Appendix C Technical Details

This report is produced in accordance with the terms of the Client Agreement of 30 July 2015 between BWCI Consulting Limited and the States of Jersey Corporate Services Scrutiny Panel on the understanding that it is solely for the benefit of the addressee.

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