STATES OF JERSEY

PUBLIC EMPLOYEES CONTRIBUTORY RETIREMENT SCHEME: ACTUARY’S VALUATION REPORT

Presented to the States on 27th January 2004
by the Policy and Resources Committee

STATES GREFFE

REPORT

1. Article 3(3) of the Public Employees (Retirement) (Jersey) Law 1967 (L.11/67) requires the appointment of an Actuary to review the operation of the Public Employees' Contributory Retirement Scheme. Under Regulation 6(1) of the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989 (R & O 7956) the Scheme's Committee of Management has obtained a report from the Actuary for the period to 31st December 2001.

2. In accordance with Regulation 6(2) of the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989, this accompanying report from the Policy and Resources Committee presents to the States the Actuary's report.

3. The Scheme's Committee of Management and the Policy and Resources Committee have formally accepted the Actuary's report. In particular, the Actuary has concluded that the Scheme has a deficiency.

4. The deficiency is £120.6 million based on the provisions of the Scheme at the valuation date. After allowing for –

   (a) arrangements relating to the admission of Jersey Telecom Limited to the Scheme as from 1st January 2003, and

   (b) actions agreed between the Policy and Resources Committee and the Committee of Management for dealing with the Scheme's pre-1987 debt (see below).

   the deficiency reduces to £78.1 million.

5. The Actuary's report has been delayed by the desire to resolve discussions over the important issue of the pre-1987 debt and to reflect the outcome of those discussions in the valuation, as referred to in the Committee of Management's annual reports for 2000, 2001 and 2002 to members of the Scheme and the States. The matter of the pre-1987 debt is covered in detail in section 9 and Appendices C and M of the report, some key points of which are summarised below.

The pre-1987 debt

6. When the PECRS arrangements were restructured with effect from 1st January 1988, the employers' contribution rate to the Scheme was determined on the basis that it would remain a stable percentage of members' salaries.

7. From the mid 1990s, concern was expressed by the Committee of Management and by certain States Committees about this contribution framework. In particular, there was a concern that the shortfall transferred to the Scheme arising from the changes made to the Scheme in 1987 ("the pre-1987 debt") should not be allowed to have an adverse impact on the benefits or contribution rates of Scheme members.

8. Discussions between representatives of the Committee of Management, the Human Resources Committee (more recently, the Policy and Resources Committee) and the Finance and Economics Committee have now been concluded. Agreed arrangements for dealing with the pre-1987 debt were approved by the Policy and Resources Committee and the Committee of Management, for inclusion in the valuation and endorsement by the States.

9. The detail of the agreed arrangements is documented in Appendix M of the Actuary's report. Notably, the provisions include an increase in the employers' contributions equivalent to 0.44% of members' pay as from 1st January 2002, restoring the overall employers' contribution to the original 15.6% that applied from 1st January 1988 to 31st December 1992, when it was reduced to the 15.16% held until 31st December 2001. On that basis the pre-1987 debt of £192.1 million will have been paid off over an 82-year period.

10. The Policy and Resources Committee will be promoting amendments to the Regulations of the Scheme to put the provisions into legal effect.

Making good the deficiency

11. The treatment of the deficiency disclosed at 31st December 2001 is covered by Regulation 6(3)(d) and (e) of the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989.

12. The Regulation allows a valuation deficiency to be carried forward in circumstances where it appears to be of a temporary nature. However, taking into account also an anticipated worsening of the Scheme's financial position after the effective valuation date of 31st December 2001, the Actuary's advice is that the deficiency should not be seen as "temporary". Therefore, the Actuary's recommendation is that action should be taken to deal with the deficiency.

13. The Scheme is not a conventional final salary scheme where the employers have responsibility for meeting any deficiency. In principle, the deficiency could be made good by increases to the contributions of employers, or by increases to the contributions of current or future members, or by reductions in future pension increases, or by reductions in the benefits of current or future members, or by a combination of more than one of these things. The Policy and Resources Committee has made it clear that it is not supporting an increase in the employer's contribution rate, even though this is one of the available options.

14. The Policy and Resources Committee is required to submit proposals for making good the deficiency within three months of this report being laid before the States.

15. Negotiations between representatives of the Policy and Resources Committee and the Public Employees Pension Scheme Joint Negotiating Group have reached agreement on how the major part of the deficiency should be dealt with, and negotiations on the remainder of the deficiency are proceeding. Once agreement is completed, the Policy and Resources Committee will present it to the Committee of Management for endorsement and to the States for approval.

16. The Actuary has advised that, if no agreement has been reached between the Policy and Resources Committee and the Committee of Management on proposals for dealing with the deficiency within six months of this report being laid before the States, they would recommend in accordance with the Scheme's Regulations that future pension increases should be restricted to a level of 0.26% per annum below the increase in the Jersey Cost of Living Index, subject to review at future valuations. Members who are subject to the Public Employees (Contributory Retirement Scheme) (Jersey) Regulations 1967 (R & O 5010) and the Public Employees (Contributory Retirement Scheme) (Former Hospital Scheme) (Jersey) Regulations 1992 (R & O 8443) will continue to benefit from full increases in line with the Jersey Cost of Living Index as they are protected by a States guarantee.

Note: The Actuary's Valuation Report is published separately.