STATES OF JERSEY

PUBLIC EMPLOYEES CONTRIBUTORY RETIREMENT SCHEME: ACTUARY'S VALUATION REPORT

Presented to the States on 20th July 2004
by the Policy and Resources Committee

STATES GREFFE

REPORT

1. The Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989, made in accordance with the Public Employees (Retirement) (Jersey) Law 1967, require an Actuarial Valuation to be undertaken at least every 5 years. It is the policy of the PECRS Committee of Management (COM) to have such valuations once every 3 years in order to keep the finances of the Scheme under more frequent scrutiny. The most recent valuation was signed off by the Scheme Actuaries on 15th December 2003 and laid before the States on 27th January 2004. It shows the Scheme as having a deficiency of £78.1 million as at 31st December 2001. This took into account the arrangements agreed in principle between the Policy and Resources Committee (PRC), as Principal Employer under the Scheme, and the COM, to be submitted for endorsement by the States, dealing with the pre-1987 debt as described in the valuation concerned.

2. Under the PECRS (General) Regulations a deficiency can be carried forward if it appears to be of a temporary nature. The Actuaries' professional opinion, having regard also to movements in investment markets since 31st December 2001, was that the deficiency disclosed at that date should not be seen as temporary and should be dealt with, advising that this could be done –

   (a) By increases to the contributions of employers, or
   (b) By increases to the contributions of current or future members, or
   (c) By reductions in future pensions increases, or
   (d) By reductions in the benefits of current or future members, or
   (e) By a combination of more than one of these things.

3. Under the Regulations, proposals for dealing with a deficiency need to be agreed between the PRC and the COM before being submitted to the States according to the following timetable –

   (a) If agreement is reached within 3 months of the Valuation being laid before the States, then the PRC submits the agreed proposals to the States;

   (b) If no agreement has been reached on proposals within 3 months of laying the Valuation before the States, then the PRC submits a progress report noting its own proposals;

   (c) If within 6 months of laying the Valuation before the States the PRC and COM have reached agreement then the PRC submits the agreed proposals to the States;

   (d) If no agreement has been reached on proposals within 6 months of laying the Valuation before the States, then after a further period of 3 months the COM must reduce the level of pension increases for the future.

   Of the above, 3(a) was not achieved, 3(b) was fulfilled by the Report presented to the States on 27th April 2004, and the present Report addresses 3(c). There will therefore be no action required under 3(d).

4. In accordance with normal practice, representatives of PRC have throughout been negotiating on possible solutions with the Public Employees Pension Scheme Joint Negotiating Group (JNG) which represents the interests of all members of the Scheme.

5. Whilst negotiations were in progress a further development was the decision by the States on 8th June 2004 to restore the obligatory PECRS entry age to 20 from the previous obligatory entry age of 30. The Actuaries have advised that this amendment to the eligibility criteria effectively reduced the deficiency of £78.1 million by £8 million to £70.1 million. A significant part of the remaining deficiency was due to a recognised statistical trend towards greater longevity and therefore greater pension costs in respect of future members.

6. Agreement has now been reached on ways to address the remaining deficiency of £70.1 million and approved by the COM and the PRC. The agreement will have no impact on the benefits or contributions

of the Scheme's present active members, pensioners or deferred pensioners. However, for **future** entrants the benefit structure will be modified as follows –

(a) Pension Ages will be introduced which are equal to the current Normal Retiring Age, i.e. –

- 55 – Category A members*
- 60 – Category B members**
- 65 – Non-uniformed members;

* Category A member means a front-line officer of the uniformed services such as the States of Jersey Police Force, the States of Jersey Fire Service, the States of Jersey Prison Service, the States of Jersey Airport Fire Service and the States of Jersey Ambulance Service.

** Category B member means a Chief Officer of the States of Jersey Police Force, the Prison Governor, a Chief Officer of the States of Jersey Prison Service, the Chief Fire Officer, the Chief and Deputy Chief of the Airport Fire Service or the Chief or Assistant Chief Ambulance Officer or an Air Traffic Control Officer.

(b) The earliest age at which future entrants will have the option to retire will be the same as for present members (subject to meeting the service requirements specified in the Regulations), i.e. –

- 50 – Category A members
- 55 – Category B members
- 60 – Non-uniformed members.

(c) On retirement from active service prior to Pension Age, reduced benefits will be payable, with a reduction factor set at 2.4% for each year that retirement precedes Pension Age (pro rata for part year effects).

As an example, a future Category A member retiring at the age of 50 will receive 88% of accrued benefits, as will a future Category B member retiring at 55, and a future non-uniformed member retiring at age 60. This differs from the position of present members retiring in these circumstances who receive 100% of their accrued benefits.

(d) The Regulations implementing the Agreement will be worded in such a way that the reduction factors applied on early retirement of future entrants, whilst initially set at 2.4% p.a. as noted above, will be capable of being adjusted with changing circumstances.

It is envisaged that, in practice, the reduction factors would be routinely reviewed under each triennial actuarial valuation. Any proposals for varying the reduction factors could then be taken into account in the negotiations for dealing with a surplus or deficiency revealed by the valuation.

7. The Actuaries have confirmed that the proposals outlined above have the effect of meeting the remaining deficiency brought out by the valuation. A report and proposition covering amendments to the Regulations will be lodged by the PRC as soon as possible.

8. The position for those future members who may become entitled to a deferred pension at Pension Age will include an option for a pension to be payable for up to 5 years prior to Pension Age but it is envisaged that this will involve the use of reduction factors larger than the 2.4% p.a. noted above.