

Table of Contents

SECTION ONE ~ INTRODUCTION	3
Background.....	3
Structure of the report.....	4
Contributors	4
SECTION TWO ~ SUMMARY OF FINDINGS.....	5
General principles.....	5
The PECRS.....	5
The TSF.....	6
Other matters	6
SECTION THREE ~ CRITERIA FOR ASSESSMENT	7
Assessment	7
Difficulties of assessment.....	8
Comparable employers	9
Approach in this report.....	10
SECTION FOUR ~ THE PECRS AND THE TSF.....	11
Introduction	11
The PECRS.....	11
The TSF.....	11
Contribution rates	12
Most recent actuarial valuations.....	13
SECTION FIVE ~ BENEFITS PROVIDED BY UNITED KINGDOM PUBLIC SECTOR EMPLOYERS.....	14
Introduction	14
LGPS	14
Evolution of the PCSPS.....	16
Firefighters and Police Schemes	18
New Firefighter Scheme.....	18
New Police Scheme.....	19
Teachers' Pension Scheme (TPS).....	19
Public sector cost comparison	19
SECTION SIX ~ PENSION BENEFITS PROVIDED BY PRIVATE SECTOR EMPLOYERS IN THE ISLAND.....	21
Introduction	21
Evidence of Island private sector practice.....	21
SECTION SEVEN ~ CONTRIBUTION RATES.....	23
Introduction	23
Cost of the PECRS	23
Private sector defined benefit costs: published surveys	23

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

Private sector Defined Benefit costs: summary.....	25
Private sector Defined Contribution costs.....	25
Summary of contribution costs.....	26
Trends in private sector pension provision.....	26
SECTION EIGHT ~ OVERALL ASSESSMENT OF THE PECRS.....	28
Introduction	28
Benefits: non-uniformed staff.....	28
Benefits: uniformed staff.....	28
Members' contributions: non-uniformed staff	29
Members' contributions: uniformed staff.....	30
Observations: general	30
Observations: the policy of the States	30
Cost for the employer	32
SECTION NINE ~ OVERALL ASSESSMENT OF THE TSF.....	38
Introduction	38
Benefits.....	38
Observations	38
APPENDIX ONE ~ TERMS OF REFERENCE	42
APPENDIX TWO ~ LIST OF ABBREVIATIONS USED IN THIS REPORT...43	
APPENDIX THREE ~ GLOSSARY OF TERMS USED IN THIS REPORT....44	
APPENDIX FOUR ~ BENEFITS PROVIDED BY THE PECRS.....45	
APPENDIX FIVE ~ BENEFITS PROVIDED BY THE TSF	48
APPENDIX SIX ~ COMPARISON OF BENEFITS OF THE PECRS.....52	
APPENDIX SEVEN ~ COMPARISON OF BENEFITS OF THE TSF..... 53	
APPENDIX EIGHT ~ SUMMARY OF MOST RECENT ACTUARIAL VALUATIONS.....	54

SECTION ONE ~ INTRODUCTION

1. This paper is one of a series of reports arising from a study of the two major pension schemes provided by the States for its employees: the Public Employees Contributory Retirement Scheme (the PECRS) and the Teachers Superannuation Fund (the TSF). These reports are the outcome of a review of these two schemes which was announced in November 2006. The terms of reference for this review are reproduced as Appendix One to this paper.
2. This report is being published in conjunction with the other two reports. The first report examines the governance of the two pension schemes and the third report examines the legal status of the two pension schemes.

Background

3. The review was undertaken because the pensions schemes form a significant part of the remuneration and benefits packages made available to the States' staff and thus of the cost of employing the people whom the States need to provide services to the Island. This overall employment cost is the most significant cost incurred by the States.¹ At the same time, the extent of the States' obligation to finance the two pension schemes is one of the larger financial obligations of the States.²
4. The scale of the States' obligations to the PECRS and the TSF has attracted public attention. In recent years, the cost of providing pension benefits world-wide for employees has risen and at times has appeared to threaten the financial stability of major private sector businesses and also of public sector institutions. This has happened for a number of reasons:
 - (1) There have been changes affecting technical terms and the cost of making pension provision (e.g. the fall in discount rates).

¹ The 2006 accounts of the States of Jersey showed that the total cost of the salaries and wages paid to the States' staff was £218.5 million and that the cost of pension contributions for the States' staff was £24.6 million. In addition, the States made contributions amounting to £5.2 million to fund a pre-1987 liability within the PECRS. This amount included arrears of contributions paid in respect of 2002-2005: current annual repayments of the States amount to about £3.6 million. The total Net Revenue Expenditure of the States in 2006 was £559.6 million.

² The PECRS was last valued actuarially as at 31 December 2004. The States have acknowledged a debt to the scheme in respect of pre-1987 liabilities which they were meeting by a stream of payments amounting in capital cost terms to £115.1 million as at 31 December 2006. Although there is provision in the legislation for the employer's contribution to be increased the States do not have a financial obligation to the scheme beyond the settlement of this balance. The TSF was last valued actuarially as at 31 December 2001.

- (2) Realisation has grown that life expectancy (and the recent improvement in life expectancy) has been under-estimated. In consequence, the cost of providing future pension benefits also appears to have been under-estimated.³
 - (3) As far as public institutions are concerned, increases in public sector pay have on occasion been higher than was initially assumed in planning the financing of pension schemes with the result that the cost of providing pension benefits have proved to be higher than expected.
 - (4) There have been increases in the number of public sector workers.
5. Whilst many of these factors have affected both the private and public sector, public concern about public sector pension schemes (and their cost) has been heightened by a suspicion that private sector employers have moved more quickly to manage their financial exposure to pension scheme costs.

Structure of the report

6. The structure of the report and the criteria that I have used in assessing the PECRS and the TSF are described in Section Three. However, in Section Two I summarise my findings and my recommendations.
7. In Appendix Two, I set out a list of the abbreviations that are used in this report. In Appendix Three, I set out a glossary of technical terms used in this report.

Contributors

8. In preparing these three reports, I have been greatly assisted by a large number of people both within and outside the States. In particular, I have been aided by the Committee of Management of the PECRS, the Dedicated Pension Unit of the Treasury & Resources Department and the BWCI Group. I am grateful to them all for their considerable assistance.

As at that date, the actuarial deficit taking account of all benefits which the States as employer had agreed to provide was £64.4 million.

³ For several years, the Committee of Management of the PECRS and the Scheme's Actuary have been actively addressing the aspects mentioned in paragraphs 4(1) and 4(2).

SECTION TWO ~ SUMMARY OF FINDINGS

General principles

9. The test of whether the States' staff pensions schemes are appropriate to their purpose is whether they have contributed in a broad sense to the States being able to recruit and retain the staff which the States need and at a reasonable cost.
10. To this end it is in the States' interests to offer terms of employment that:
 - (1) are comparable with terms available for certain categories of staff in mainland authorities; and
 - (2) assist and do not inhibit transfers to and from mainland authorities.
11. It is important however that in adopting these principles, the States do not expose themselves to unreasonable levels of cost.

The PECRS

12. In my view, this scheme:
 - (1) provides benefits that are broadly comparable with those available from equivalent mainland public sector schemes;
 - (2) has been managed so that the States are not exposed to unlimited risks; and
 - (3) incurs costs which are generally lower than those for equivalent mainland schemes.
13. The costs of the PECRS are higher than the costs of many private sector schemes. However, for significant categories of employees (e.g. people with central and local government experience), private sector pension schemes do not provide relevant comparisons.
14. In my report, I set out various considerations that should be borne in mind by the States in the future management of the PECRS and of the States' financial obligations to the PECRS.

The TSF

15. In my view, this scheme:
- (1) now provides benefits that are broadly comparable with those available from equivalent mainland public sector schemes; and
 - (2) has now been reformed so that the States are not exposed to unlimited risks.
16. However, the costs incurred by this scheme are higher than those the PECRS; in part because the far-sighted reforms of the PECRS in the late 1980's were not matched at the time by equivalent reforms of the TSF.
17. The costs of the TSF are also higher than schemes available to employees in the Island's private sector. However, this fact does not seem significant since the private sector is not a significant competing employer of teachers.
18. In my report, I set out various considerations that should be borne in mind by the States in the future management of the TSF and of the States' financial obligations to the TSF.

Other matters

19. The contrasting histories of the management of the States' exposure to the liabilities of the PECRS and of the TSF emphasises the importance of strong central financial management of the States' liabilities and also of strong central management of the States' human resources.
20. Finally, as the rules of mainland public sector pension schemes change, it will be necessary on a regular basis to review the rules of both the PECRS and the TSF to ensure that the Island's schemes match the mainland experience.

SECTION THREE ~ CRITERIA FOR ASSESSMENT

Assessment

21. The States do not provide pension benefits for their staff as an exercise of social policy. Benefits form a part of the remuneration package made available to staff whose purpose is to secure for the States the services of enough people with appropriate skills and experience to provide the services which the States are committed to provide. This may not just be a simple question of recruiting new members of staff. It may assist the States to develop skilled and experienced staff if it were possible for staff to gain experience by transferring to and from employment with local authorities within the United Kingdom. Inflexible staff terms and conditions of employment which make such transfers difficult would not assist the States in managing its human resources.
22. Thus the test of whether the States' staff pensions schemes are appropriate to their purpose is whether they have contributed in a broad sense to the States being able to recruit and retain the staff which the States need and at a reasonable cost.
23. Whether the States' schemes pass this test cannot be assessed by looking at the schemes in isolation. If the States were not able to recruit necessary staff and that failure could be attributed to inadequate pension provision, this might be evidence that the schemes were not appropriate. However, the reverse would not hold. In other words, if the States could show that they were able to recruit and retain necessary staff, this would not on its own demonstrate that the pension schemes were appropriate and, in particular, cost-effective. Both recruitment and retention might be assisted by the States offering unduly generous pension schemes.
24. Thus, assessment of the States' staff pension schemes and their cost involves not merely an assessment of the States' ability to recruit and retain staff but also a comparison of the schemes with pension arrangements offered by competing employers. In principle, if the States' schemes appear to achieve the States' employment objectives and at a cost that seems comparable with that incurred by competing employers, it may be reasonable to conclude that the States' schemes are appropriate.
25. A further consideration is that for many years (and currently) transfer values to and from comparable United Kingdom public service schemes have been conditioned by what is known as the Transfer Club, membership of which is determined by the provisions of the schemes

transferring in or out being acceptably compatible with those of the United Kingdom schemes. More recently in wider United Kingdom legislation incorporating new regulations (effective from 6 April 2006) in respect of Qualifying Recognised Overseas Pension Schemes (QROPS) HM Revenue & Customs (HMRC) has added related requirements (eg minimum pension age) which have to be taken into account limiting the degree of allowable divergence form the relevant United Kingdom schemes.

Difficulties of assessment

26. Having said this, the process of assessment is fraught with difficulty:

- (1) An employer may employ many staff who work in many different occupations. The pensions benefits made available by competing employers may differ between these various occupations. If the employer only offers one scheme covering all employees, it may be difficult to identify a single competing employer as a comparator.
- (2) The nature of pension provision and the way in which it is financed may differ widely and are essentially private matters. It can be difficult to obtain the detailed information necessary to make appropriate comparisons.
- (3) Pension schemes are long term arrangements. The costs of a scheme have therefore to be assessed in the long term. The information which is publicly available about pension schemes will not always provide a good basis for long term comparisons.
- (4) Assessment of the long term cost of a pension scheme involves judgements about the future liabilities of schemes (e.g. judgements about future investment returns, future pay increases, future inflation, life expectancy and so on). These judgements may be made in different ways by different people at different times and these variations can materially affect the assessment one makes of the solvency of a pension scheme and the cost that it imposes on an employer.

27. The effect of these difficulties is that in making comparisons one must apply a degree of caution.

Comparable employers

28. As far as the States are concerned, assessment of the two principal pensions schemes offers additional challenges.
29. Most of the States' employees are members of the PECRS and its members therefore are involved in a wide range of activities. As a result, it is not easy to choose a single industry as the basis for comparison of the scheme's benefits and costs:
- (1) Many of the members of PECRS may be recruited within the Island from the private sector. This might suggest that general practice within the Island's private sector might provide a good comparison for the benefits and cost of the PECRS.
 - (2) However, many of PECRS' members hold qualifications and experience which cannot easily be found among recruits from the Island's private sector. This is, for example, the case for any member holding a qualification that cannot be obtained within the Island (e.g. town planners, meteorological officers) or for any member having experience that could not be gained within the Island (e.g. experience of senior management in a local government authority). In such cases, a comparison with the Island's private sector would be inappropriate since the competing employers are on the mainland of the United Kingdom.
 - (3) Further, many of the members of the PECRS are involved in occupations that do not have a precise equivalent within the private sector (e.g. police officers or fire-fighters). In such cases, a comparison with the Island's private sector would be inappropriate.
30. Similar considerations apply to any assessment of the TSF, membership of which is open to teachers within the Island. Many teachers are recruited to the Island from the mainland of the United Kingdom. Thus in considering competing employers, it is the schemes available in the United Kingdom's public sector that must be considered.

Approach in this report

31. Bearing in mind these difficulties, I have employed the following approach:

- (1) I have identified the benefits packages offered by the PECRS and the TSF. These are described in Section Four.
- (2) I then identified the benefits packages made available by competing employers within the public sector in the United Kingdom. These are described in Section Five.
- (3) I then attempted to identify the benefits packages that are made available by private sector employers within the Island. The result of this work is set out in Section Six.
- (4) I have then compared these various benefit packages. The result of this comparison is set out in Section Seven.
- (5) Finally, I have compared the long term costs of these various arrangements. The result of this comparison is set out in Section Eight.

SECTION FOUR ~ THE PECRS AND THE TSF

Introduction

32. In this section of the report, I will set out a brief summary of the benefits provided by the PECRS and the TSF and of the costs of these schemes.

The PECRS

33. The PECRS provides different benefits for:

- (1) Different classes of members (e.g. members of the uniformed services); and
- (2) Members who joined at different times.

34. The differences between members joining at different times arise from the basis on which the PECRS is financed. Before 1988, the States undertook to bear the full cost of providing the benefits offered by the schemes to the extent that it was not met from contributions made by members of the schemes. With effect from 1 January 1988, as part of the revisions negotiated with staff representatives, this obligation ended for all except staff who exercised an option to remain under the previous provisions. Since that time, whenever an actuarial valuation of the PECRS has reported a significant deficit, the benefits available to all of those members open to adjustment have been adjusted so that the cost of providing benefits fell within the money due from contributions by employees and the States. The result has been a limitation of the States' exposure and differences between the benefits packages available to different groups of employees.

35. The table set out in Appendix Four summarises the available benefits showing those available to 'Existing Members' (i.e. those who became members on or before 1 January 1988 but before 1 January 2006) and 'New Members (2006)' (i.e. those becoming members on or after 1 January 2006).

The TSF

36. The TSF provides benefits for teachers in the Island. Originally, teachers were members of the mainland pension scheme for teachers. A separate pension scheme for teachers in Jersey was created by legislation in 1979, at which point a transfer value was received for teachers

who transferred to the Island's scheme from the mainland. The 1987 reforms of the PECRS were not matched by similar reforms of the TSF. Eventually the scheme was reformed with effect from 1 April 2007 at which point the benefits of the TSF and the funding basis were rendered as similar as possible to the PECRS arrangements.

37. A summary of the benefits provided by the TSF (both before and after the reforms) is set out in Appendix Five.

Contribution rates

38. Members coming into both the PECRS and the TSF now make contributions equal to 5% of their pensionable pay.

39. The States make contributions to the PECRS at a rate of approximately 15.6% of pensionable pay. This is split into two parts:

- (1) payments of 13.6% of pensionable pay; and
- (2) annual debt repayment contributions originally set at 2% of pensionable pay as at 31 December 2001, converted to a cash amount which is then increased each year in line with the average pay increase of members of the PECRS. This element is paid to reduce the outstanding debt in respect of pre-1987 liabilities.

40. So the States are not liable for any actuarially assessed deficit in the fund in respect of the members joining since then. It is expected that the States' contributions to the PECRS will reduce from 15.6% of pensionable pay to 15.16% of pensionable pay after 2084.

41. With effect from 1 April 2007, the States has made contributions to the TSF at a rate of 16.4% of pensionable pay. This rate is higher than the rate of contributions paid to the PECRS in large part because the Education Committee continued to guarantee members' benefits entitlements after the late 1980s when the States ceased to guarantee the indexation of pensions in payment to Jersey RPI to members of the PECRS.

42. I have read the minutes of Education Committee meetings during the 1990s at which discussions about the TSF took place. It is clear from these minutes that the growing liabilities of the TSF were appreciated by the mid-1990s as was the need to find some way to limit the States' exposure to these liabilities.

43. For many years, it was thought that the need to limit this exposure could be met by transferring the TSF into the PECRS. In the meantime no steps were taken to increase contribution rates to prevent the exposure growing. Finally, this prospect was dashed by the PECRS Committee of Management maintaining its view in accordance with its fiduciary duty that a transfer could only take place if the TSF funding deficiency were made good by a cash payment so that the position of members of the PECRS was not weakened.
44. In place of the abortive merger, it was decided to reform the regulations applying to the TSF so that they reflected as closely as possible the regulations which apply to the PECRS. It was these new regulations which took effect from 1 April 2007 which introduced financing the indexation of pensions from within the Scheme.

Most recent actuarial valuations

45. A summary of the most recent actuarial valuations of the PECRS and the TSF is set out in Appendix Eight.

SECTION FIVE ~ BENEFITS OFFERED BY UNITED KINGDOM PUBLIC SECTOR EMPLOYERS

Introduction

46. In this section of the report I will describe the benefits available for new members of the mainland public sector pension schemes equivalent to the PECRS and the TSF including the Local Government Pension Scheme (LGPS), the Principal Civil Service Pension Scheme (PCSPS) and the Teachers' Pension Scheme (TPS).
47. United Kingdom public sector pension schemes are currently undergoing significant change. The civil service scheme (PCSPS) changed significantly a few years ago but the local government scheme (LGPS) is changing significantly during the current year. The schemes for police and fire fighters have also recently changed. These changes, including changes to minimum pension ages, are significant to the PECRS and the TSF because both of the States' schemes need to comply with the mainland's Qualifying Recognised Overseas Pension Scheme Regulations. The evolution of these schemes is briefly summarised below.

LGPS

48. For many years, the characteristics of this scheme were, in outline, as follows:
- (1) LGPS was a 'final salary scheme' (ie the benefits paid were calculated by reference to the member's salary at retirement).
 - (2) The member's entitlement to pension accrued at a rate of 1/80th of final salary per year of service.
 - (3) The member also became entitled to a cash sum payable on retirement which accrued at the rate of 3/80th of final salary for each year of service.
 - (4) The effective Normal Retirement Age (NRA) was subject to the Rule of 85 (i.e. a member was entitled to retire and receive a pension when the member's age plus service equalled 85) subject to a minimum age of 60 years.
 - (5) The member's contributions amounted to 6% of pensionable pay.
49. In October 2004, the United Kingdom Government published a document entitled 'Facing the Future – Principles and Propositions for an Affordable and Sustainable Local Government

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

Pension Scheme in England and Wales'. That document set out the following policy context and aims for the scheme arrangements in the following way:

- (1) The scheme should be comprehensive in its overall provision.
- (2) It should be flexible and responsive to the needs of stakeholders.
- (3) It should be equitable from the points of view of all stakeholders in terms of the balance between provision and costs.
- (4) It should be efficient and cost effective in terms of delivery.
- (5) It should provide fully transferable rights.
- (6) It should provide the security of a guaranteed pension promise for all scheme members.

50. The policy document identified a need to modernise the scheme as a result of:

- (1) Elements of the scheme becoming inflexible and unattractive to certain groups of employees.
- (2) The scheme having become proportionately more expensive for employers giving rise to concerns about affordability and sustainability.
- (3) Government policy changes regarding broader pension provision have created the need for public sector schemes to adapt accordingly.

51. During 2006 further consultations were held regarding possible new benefit structures. More recently the range has narrowed to one proposed benefit scale which is currently being consulted with a view to implementation during 2008. This has the following key characteristics:

- (1) The scheme will remain a 'final salary scheme'.
- (2) Pension benefits will accrue at a rate $1/60^{\text{th}}$ per year of service. In other words, the accrual rate has changed from $1/80^{\text{th}}$ to $1/60^{\text{th}}$
- (3) On retirement, members may opt to commute a part of their pension into a lump sum at a rate of 12:1. In other words, the automatic cash sum benefit in addition to the pension entitlement has been withdrawn, but the possibility of commutation remains as an option in association with a lower pension.
- (4) The effective NRA is to be 65 years with early retirement factors to be applied for early retirement. The 'rule of 85' provisions continue to apply for all past service and for older members' service.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

- (5) Survivor benefits for life would be payable to spouses, civil partners and 'nominated' dependent partners (opposite and same sex) accruing at a rate of 1/160th per year of service.
- (6) A death in service tax free lump sum would be paid amounting to 3 times salary.
- (7) Members' contributions are to be tiered (5.5% for pay up to £12,000 of pensionable pay, 7.5% above £12,000). These rates of contribution are estimated to produce an average rate of 6.3%.

Evolution of the PCSPS

52. Before reform, the principal characteristics of the PCSPS could be described in the following way:

- (1) The scheme was a 'final salary scheme'.
- (2) Entitlement to pension benefit accrued at a rate of 1/80th of final salary per year of service.
- (3) Entitlement to an additional cash sum payment on retirement accrued at a rate of 3/80th per year of service.
- (4) The NRA was 65 years but members had the right to retire from age 60 on an unreduced pension.
- (5) Members contributed 1.5% of pensionable pay

53. The scheme underwent significant changes in 2002 and four different levels of arrangements and benefits were created:

- (1) Premium benefit scale.
- (2) Partnership arrangement.
- (3) Classic Plus arrangement.
- (4) Classic arrangement.

54. The Premium arrangement was, in effect, a new final salary scheme, open to new entrants after 1 October 2002. The principal provisions were:

- (1) The NRA was defined as 65 years but members have the right to draw unreduced pension from age 60.
- (2) Pensionable Service was the member's period of service as a member of the scheme.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

- (3) The pension entitlement at retirement accrued at a rate of 1/60th of final salary per year of service.
 - (4) A lump sum would be paid on retirement by commutation of part of the pension entitlement.
 - (5) Members contributed 3.5% of salary.
55. The Partnership arrangement was a new defined contribution arrangement only open to new employees after 1 October 2002. The member contribution rate was optional. The employer paid contributions which depended upon the age of the employee and ranged from 3% of pay for staff under age 21 years to 12.5% for staff over age 46 years. Additional matching contributions were payable to a maximum of 3% of pay. This was in principle a straightforward money purchase scheme.
56. The Classic Plus arrangement was in essence a combination of the old PCSPS scheme for pre 1 October 2002 service and the new Premium scale for post 1 October 2002 service.
57. The Classic arrangement was the new name for the old PCSPS scheme.
58. The Classic Plus and Premium arrangements were open to members in service before 1 October 2002. The Premium and Partnership arrangements were open to members joining after 1 October 2002.
59. With effect from 30 July 2007, these arrangements have been superseded. Two arrangements were from that date available to new members: Nuvos and Partnership. The Partnership arrangement is a money purchase scheme as before. The Nuvos arrangement has the following principal characteristics:
- (1) Member contributions amount to 3.5% of pensionable salary.
 - (2) The NRA is 65 years.
 - (3) The pension entitlement is calculated by reference to the member's average career salary.
 - (4) The member's pension entitlement accrues at a faster rate of 2.3% (i.e. 1/43rd) of salary per year of service. The maximum entitlement is 75% of pensionable earnings.
 - (5) Arrangements have been agreed by which the costs of the scheme will be shared between the employer and the members once the actuarially assessed contributions rates exceed a specified level.

60. The intention of these new arrangements is to cap the Government's contribution to 20% of pensionable earnings.

Firefighters and Police Schemes

61. Before recent changes, the principal characteristics of these two schemes could be described in the following way:

- (1) They were 'final salary schemes'.
- (2) Pension entitlement accrued at a rate of $1/60^{\text{th}}$ of final salary per year of service for the first twenty years of service, $1/30^{\text{th}}$ of final salary for the subsequent ten years of service. This produced an entitlement of $2/3^{\text{rds}}$ of final salary after thirty years of service.
- (3) The effective NRA was between ages 50 and 55 years or 55 and 60 years (depending on rank) on completion of thirty years' service.
- (4) Members' contributions amounted to 11% of pensionable pay.

62. New schemes have been introduced for both police and firefighters. These new schemes are applicable to new entrants who join after 6 April 2006. Existing members have the option to accrue benefits in the new scheme or contribute in the old scheme. The benefit structure of the two new schemes differ and are summarised below.

New Firefighter Scheme

63. The main characteristics for the New Firefighters Pension Scheme (NFPS) are as follows:
- (1) It is a 'final salary scheme'.
 - (2) Pension entitlement accrues at a rate of $1/60^{\text{th}}$ of final salary per year of service.
 - (3) An optional cash sum may be payable on retirement by commutation of the pension entitlement at a commutation rate of 12:1.
 - (4) The NRA is 60 years if the member remains in active service.
 - (5) Members contributions amount to 8.5% of pensionable pay
64. In effect, whilst member's contributions have decreased, the rate of accrual of entitlement to a pension has been reduced and the Normal Retirement Age has increased.

New Police Scheme

65. The main characteristics of the New Police Pension Scheme (NPPS) are as follows:
- (1) It is a 'final salary scheme'.
 - (2) Entitlement to pension accrues at a rate of $1/70^{\text{th}}$ of final salary per year of service.
 - (3) On retirement, cash sum will be payable amounting to $4/70^{\text{th}}$ of final salary per year of service.
 - (4) The NRA is 55 years if the member remains in active service.
 - (5) Members' contributions amount to 9.5% of pensionable pay.
66. In effect while members' contributions have decreased (but not quite as much as in the case of the NFPS), there has been a reduction in the rate of accrual of pension entitlement and an increase in the Normal Retirement Age.

Teachers' Pension Scheme (TPS)

67. The principal characteristics of the TPS may be described in the following way:
- (1) The NRA is 65 years (formerly 60 years) for new employees.
 - (2) Entitlement to pension accrues at a rate of $1/60^{\text{th}}$ of the average salary for each year of pensionable service. This rate was formerly $1/80^{\text{th}}$ of the average salary for each year of pensionable service.
 - (3) On retirement, a cash lump sum may be payable in commutation of pension benefit (to a limit of 25% of that benefit) at a rate of 12:1. Formerly an additional lump sum was payable, entitlement to which accrued at a rate of $3/80^{\text{th}}$ per year of pensionable service.
 - (4) Arrangements have been agreed by which the costs of the scheme will be shared between the employer and the members once the actuarially assessed contributions rates exceed a specified level.

Public sector cost comparison

68. Having set out the evolution of various mainland public sector schemes and brief details of the benefits which they provide, I now turn to the costs of the schemes. In this I have been assisted by calculations undertaken by Hewitt, the appointed actuaries who advise the States of Jersey.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

69. As far as possible, the actuaries' calculations have stripped out the effect of different methods of valuation, assumptions and membership profiles. The purpose was to calculate values which would primarily reflect differences in the benefit structures of the schemes and which would be comparable with the costs for new entrants to the PECRS as calculated in the 2004 actuarial valuation of the PECRS.

70. The results are shown in the following table which, as the LGPS and PCSPS do not include uniformed members, apply only to non-uniformed members:

<i>Scheme</i>	<i>Overall new entrant cost of benefits (% of salaries)</i>	<i>Average member contribution rate (% of salaries)</i>	<i>Employer contribution rate (% of salaries)</i>
PECRS	18.07	5.00	13.07
LGPS	19.10	6.00	13.10
PCSPS	24.90	3.50	21.40

71. Similar calculations were carried out in respect of uniformed members. The results of these calculations are set out in the table below. As will be seen, the calculations took account of what was known at the time of the United Kingdom Government's proposals with regard to the New Police Pension Scheme (NPPS) and the New Fire-fighters Pension Scheme (NFPS). These calculations are only approximate but serve to give some indication of the relative costs of the PECRS arrangements for uniformed members.

<i>Scheme</i>	<i>Overall new entrant cost of benefits (% of salaries)</i>	<i>Average member contribution rate (% of salaries)</i>	<i>Calculated employer cost (% of salaries)</i>
PECRS Category A uniformed males ⁴	28.1	5.0	23.1
PECRS Category A uniformed females	25.6	5.0	20.6
PECRS Category B uniformed males	25.5	5.0	20.5
PECRS Category B uniformed females	22.1	5.0	17.1
PECRS Overall uniformed	27.5	5.0	22.5
NPPS	27.2	9.5	17.7
NFPS	21.9	8.5	13.4

⁴ For Category A members the NRA is 50 years and for Category B members, 55 years.

**SECTION SIX ~ PENSION BENEFITS PROVIDED BY PRIVATE SECTOR
BUSINESSES IN THE ISLAND**

Introduction

72. It is difficult to obtain reliable information about the pension benefits made available to employees by private sector employers in the Island. This is essentially private information so that information must either be gathered by direct enquiries (which were beyond the means available to me) or by way of surveys carried out by others. For the information set out in this section of the report, I am indebted to BWCI Group, Guernsey, who have undertaken surveys of pension practice in the Channel Islands in 1995, 1999, 2002 and 2006. The 2006 survey report is based upon 58 employers' responses to questionnaires sent to Channel Island employers.

Evidence of Island private sector practice

73. The 2006 survey indicates that:
- (1) Channel Island employers offer a wide range of pensions schemes.
 - (2) Of the Defined Benefit schemes which were reported, 67% were closed to new members and the majority (72%) had been restructured during the five years before the survey.
 - (3) Where Defined Benefit schemes had been closed in the previous five years in respect of both past and future accruals and a new scheme had been established, the most common structure (in 61% of cases) for the existing scheme members was to offer an opportunity to transfer to the new scheme (generally a Defined Contribution Scheme) on enhanced terms.
 - (4) Where a Defined Benefit scheme had been closed to future benefit accruals only and a new scheme was established, the existing members have generally been given the opportunity (in 62% of cases) to take a transfer value to the new scheme on enhanced terms.
 - (5) The retirement age for Defined Benefit or Defined Contribution schemes is generally 60 (11/58 employers for male employees, 12/58 employers for female) or 65 years (20/58 employers for male employees, 19/58 employers for female).

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

- (6) In the great majority (90%) of Defined Benefit schemes included in the survey, there were increases made to pensions in payment. In the majority of Defined Benefit schemes (60%) the increases made to pensions in payment were guaranteed by the scheme rules. The most common (in 46% of cases) annual rate of increase was the 'lesser of RPI and 5%'. In cases where increases were made to pensions in payment but were not guaranteed by the scheme rules, ranged from 2.5% in 2002 to 4.0% in 2001.
- (7) The majority (90%) of the Defined Benefit pension schemes provide a pension to the member's surviving spouse.
- (8) The majority of the Defined Benefit schemes either never pay a pension to a member's nominated non-spouse (36%) or pay only at the trustee's discretion (46%).
- (9) The majority (57%) of the Defined Benefit schemes allow post-retirement marriages to qualify for the surviving spouse's pensions.
- (10) In the majority (54%) of the Defined Benefit pension schemes, there is provision to pay children's pensions in addition to the spouse's pension.
- (11) In the majority of cases (67%) the scheme members have not been required to make employee contributions to their pension scheme. Where the Defined Benefit scheme is contributory for members, the most common member contribution rate is 5.0% of pensionable salary. In the great majority (95%) of Defined Benefit schemes, the member contribution rate had not changed during the five years before the survey.

SECTION SEVEN ~ CONTRIBUTION RATES

Introduction

74. In this section of the report I compare the costs of contributions paid to PECRS and the costs of contributions paid into private sector schemes by private sector employers.

Cost of the PECRS

75. The States of Jersey as employer currently pays a contribution rate for the PECRS of 13.6% (plus additional contributions of approximately 2% in respect of the financing and repayment of the pre-1987 debt). This contribution rate is set to revert to 15.16% of member salaries from 1 February 2084.⁵ Members pay 5% of their salary as pension contributions. The rates are payable irrespective of the grade of the employee, so that one common rate applies to both uniformed and non-uniformed members.

Private sector defined benefit costs: published surveys

76. Information about the United Kingdom private sector costs of defined benefit pension provision has been made available by the actuaries of the States of Jersey on the basis of at least two published surveys:

- (1) The Employers' Pension Provision Survey 2005 conducted by Stephen McKay of the University of Bristol on behalf of the Department for Work and Pensions (DWP).
- (2) The Annual Survey 2005 – the State of Britain's Pensions conducted by the National Association of Pension Funds (NAPF).

⁵ The agreement for payment of the pre-1987 debt was approved by the Policy and Resources Committee on 20 November 2003. The debt amounted to £192.1 million as at 31 December 2001 and is being repaid over a period of 82 years. The repayment amount was initially equivalent to 2% of total annual pensionable payroll of the payroll, re-expressed as a cash amount. In each year, the repayment amount increases in line with the average pay increase of scheme members. The agreement includes provisions requiring renegotiation in the event that the scheme's actuary determines that the debt cannot continue to be accepted as an asset of the scheme.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

77. As I have indicated in previous sections of this report, I am also indebted to BWCI Group, Guernsey, for their assistance in providing me with access to their 2006 survey of Channel Island pension arrangements.
78. In comparing employer contribution rate data from these surveys it should be borne in mind that there is scope for material inconsistency in the way the data is reported. In particular rates given may include substantial elements in respect of past service deficiencies (or, less likely, at present surpluses) and may also vary due to different valuation bases and approaches. The survey data on contribution rates may therefore not give a good indication of the underlying cost of the benefit scales on offer.
79. The DWP survey was based on a representative sample of around 2,400 private sector employees in Great Britain. According to the DWP report, the overall average employer contribution rate to defined benefit schemes in the last two years was 10% of salaries. However, the average employer contribution rate for schemes of more than 5,000 members was slightly higher, at 11% of salaries. This is the category into which the PECRS would fall. The survey also revealed a wide range in employer contribution rates in different industries, ranging from 7% of salaries for construction to 17% of salaries for financial.
80. The average employee contribution rate was 6.9% for open defined benefit schemes and 4.4% for closed defined benefit schemes.
81. According to this survey the average employer contribution rate is lower than that for the PECRS and the average employee contribution rate (for open schemes) is higher than that for the PECRS.
82. The NAPF survey was smaller, covering 1,117 pension schemes.
83. The average contribution rate to open defined pension schemes was 16% of pay (based on 46 responses). For closed defined benefit schemes (based on 55 responses), the mean contribution rate of the defined benefit schemes included in this survey was 19% and the median was 18%. These figures are higher than the average employer contribution rate from the DWP survey and indeed are higher than the contributions paid to the PECRS.
84. The contribution rate for closed schemes may be higher relative to open schemes due to higher average age/or use of a different actuarial method to set contributions.

85. The 2006 survey of Channel Island practice prepared by BWCI Group suggests that between 2000 and 2004, the average rate of employer contributions increased by 6.1% from 12.6% to 18.7%. the large increase in employer contribution rates was a contributory factor to the restructuring of some Defined Benefit schemes.

Private sector Defined Benefit costs: summary

86. As I have explained, any direct comparison between employer contribution rates is difficult. This is partly because of the many factors affecting the contribution rates of defined benefit schemes including:

- (1) The financial conditions at the calculations date;
- (2) The method and assumptions used in setting contribution rates;
- (3) The size of any deficit in the scheme;
- (4) The period over which any deficit is paid off;
- (5) The benefits of the scheme;
- (6) The membership profile of the scheme; and
- (7) The employee contribution rate.

Private sector Defined Contribution costs

87. The Employer's Pension Provision Survey 2005 also contained information regarding the cost of Defined Contribution scheme provision. The average employer contribution rate was 6% for open schemes and 12% for closed schemes. The average employee contribution rate was 5%.

88. Comparison of Defined Contribution rates is more straightforward as they are not affected by valuation methods, assumptions or market conditions. To a certain extent there may still be differences due to the membership profile (e.g. age and/or service-related contributions) although these are likely to be less common in the future due to anti-discrimination measures.

89. The BWCI Group 2006 survey of Channel Island practice does not provide information about the level of employer contribution rates but does provide the following information:

- (1) In the majority of schemes (77%) employers did not make level contributions in respect of all scheme members. The variables which were used by employers in

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

respect of members were diverse, with age of member being the most common (25% of cases), followed by seniority (21% of cases) and then length of service (18% of cases).

90. These figures show that the average employer contribution rate to open defined contribution schemes in the United Kingdom is significantly lower than the employer contribution rate to the PECRS. Note also that this comparison takes no account of the transfer of risk to the employee under the defined contribution provisions.

Summary of contribution costs

91. The following table summarises the information about costs set out above:

	<i>Employer contributions (% pay)</i>	<i>Member contributions (% pay)</i>	<i>Total (% pay)</i>
PECRS	13.6 ⁶	5.0	18.6
DWP survey: DB schemes	10.0	6.9	16.9
NAPF survey: open DB schemes	16.0		
NAPF survey: closed DB schemes	19.0		
BWCI survey: open and closed DB schemes ⁷	18.7		
DWP survey: open DC schemes	6.0	5.0	11.0

Trends in private sector pension provision

92. The above comparisons provide a snapshot of relative levels of pension provision around the period 2005 to 2006. However, further information is available concerning trends in pension provision. Key indicators have been:

- (1) Closure of defined benefit schemes and replacement with lower value defined benefit schemes or defined contribution schemes. The NAPF survey showed that only 50% of schemes covered are still open to new members (down from 97% in 1995) while 93% are still open to future accrual.
- (2) Increasing retirement ages and greater flexibilities. The NAPF survey shows that 78% of open private sector schemes now have a retirement age of 65. It also notes that the Pension Commission's report of November 2005 estimated that the

⁶ Debt repayments are paid by the States in addition to the rate of contribution noted here.

⁷ The survey report does not report rates of employee contributions.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

average retirement age for men had increased from 63.1 to 64 between 1995 and 2005. Some 70% of schemes offer some form of additional benefit for late retirement.

- (3) Increasing member contributions. The NAPF survey showed that 11% of respondents to its survey had increased member contributions during the past year almost all by 2% of pay or less.

SECTION EIGHT ~ OVERALL ASSESSMENT OF THE PECRS

Introduction

93. Inevitably drawing comparisons between the PECRS and pension arrangements offered by other public sector employers and private sector employees is fraught with difficulty. Circumstances differ widely and are changing.

Benefits: non-uniformed staff

94. The principal retirement benefits provided by the PECRS since 1987 are lower than the unreformed benefits of equivalent public sector schemes on the mainland of the United Kingdom. A table comparing the principal benefits is set out in Appendix Six.

95. The changes recently made to United Kingdom public sector schemes have tended to reduce the extent to which the benefits provided by the PECRS are lower than the equivalent benefits.

96. One mainland scheme, the PCSPS, is now based on the member's average career salary.

97. The evidence (admittedly slender) suggests that the principal retirement benefits provided to new members by the PECRS are in general higher than those available within the Island's private sector.

Benefits: uniformed staff

98. The entitlement of uniformed fire-fighters who are members of the PECRS is broadly more advantageous than the entitlement of members of the mainland's New Fire-fighter Scheme (see Section Five). In both schemes the benefit accrues at a rate of 1/60th per year of service but in the PECRS the NRA is 55 (NFS: 60) and the contribution rate is 5% (NFS: 8.5%).

99. Comparison of the benefits provided by the PECRS for the police and the entitlement of members of the mainland New Police Scheme (see Section Five) is more complicated:

- (1) The entitlement to pension under the PECRS accrues at a rate of $1/60^{\text{th}}$ of final salary for each year of service. Under the mainland New Police Scheme, the pension entitlement accrues at a rate of $1/70^{\text{th}}$ of final salary for each year of service.
- (2) Under the PECRS, a cash sum may be taken on retirement by way of commutation of pension benefit (to a limit of 25% of pension benefit). Under the mainland New Police Scheme, a cash sum entitlement accrues in addition to the pension entitlement at a rate of $4/70^{\text{th}}$ of final salary for each year of service.
- (3) Under the PECRS, the NRA for uniformed members is 55, but the Minimum Retirement Age (which is optional) is 50⁹. Under the mainland New Police Scheme, the Minimum Retirement Age is 55.

100. There is no straightforward comparison for the PECRS provisions applicable to uniformed members.

Members' contributions: non-uniformed staff

101. The contributions paid by non-uniformed members of the PECRS were of the same order as contributions paid by members of the Local Government Pension Scheme on the mainland (i.e. 5% for New Members and 6.25% for Existing Members of the PECRS compared with 6% under the LGPS (see Section Five). Under the new arrangements for the LGPS, the contributions payable by members will be higher (i.e. 5.5% for pay up to £12,000 and 7.5% above £12,000).

102. The member's contributions under the PECRS will remain higher than contributions payable under the PCSPS (see Section Five).

103. The (admittedly slender) available information on members' contribution rates in the Island's private sector suggests that contribution rates under the PECRS are broadly comparable (i.e. at 5%).

⁸ This is the rate of accrual for fire-fighters 'New Members' of the PECRS. The rate for fire-fighters who are 'Existing Members' (ie who became members for the reforms of the PECRS in the late 1980s) is $1/45^{\text{th}}$. The rate of accrual for 'New Members' of the PECRS who are not fire-fighters is $1/80^{\text{th}}$.

⁹ Pension reduction factors are applied to pension benefit payable to members who opt to retire the NRA.

Members' contributions: uniformed staff

104. Under the PECRS, uniformed members pay contributions at the same rates as non-uniformed members. Under the new mainland schemes for fire-fighters and for police, members will continue to pay contribution rates that are significantly higher than those specified by the PECRS. For example, under the PECRS, the members' contribution rate for police is 5%. Under the mainland New Police Scheme, the member's contribution rate is 9.5%.

105. There are no straightforward comparators in the Island's private sector.

Observations: general

106. It is difficult to make reliable comparisons between different pension schemes which place appropriate relative weights on all of the relevant factors. These comparisons suggest the following broad observations:

- (1) for many years, the benefits available to non-uniformed members under the PECRS have been either equal to or less generous than the benefits provided by equivalent mainland schemes.
- (2) the benefits available to uniformed members under the PECRS have been either equal to or less generous than the benefits provided by equivalent mainland schemes.
- (3) however, as the mainland schemes are reformed (to reduce the cost for employers), so the margin between the PECRS and the equivalent mainland schemes is being eroded.

Observations: the policy of the States

107. I infer that the States' policy has for some time been that the benefits available under its pension schemes for employees should be broadly equivalent to but not in excess of the benefits available from equivalent mainland schemes. The purpose of this has been to ensure that pension benefits should not be a factor that inhibits either recruitment from the mainland of specialist staff needed by the States or transfer to the mainland of staff with experience within the States' departments.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

108. Inequalities between pension arrangements may constitute such an inhibiting factor if either:
- (1) they contribute to the remuneration package available for employees of the States being significantly less attractive than the packages available for employees in comparable positions elsewhere.
 - (2) they restrict an employee's transferability (i.e. the pension entitlements created whilst a person is in the employment of the States cannot be transferred at minimal cost to alternative employment elsewhere because they are not equivalent to the benefits available under the pension schemes applying to that alternative employment).
109. This concern over transferability and recruitment applies most directly to people whom the States would aim to recruit from the mainland's public sector. For example, it applies to potential recruits with experience of central and local government.
110. To achieve the objective, the States is obliged to ensure that the PECRS must maintain the status of a Qualifying Recognised Overseas Pension Scheme (QROPS) with HM Revenue & Customs (HMRC) in order to be a member of the Transfer Club.
111. From the observations I have made above, it would appear that the States have broadly achieved the objective. The PECRS has QROPS status.
112. However, it also appears that there is a risk that in coming years, the reform of mainland schemes may result in the PECRS being in some limited respects more generous than mainland schemes. Admittedly, this process will take some time as the mainland reforms are being introduced prospectively (i.e. in respect of new members) as has been the practice within the States.
113. This suggests that the States should be alert to this possibility and should seek to take opportunities to revise the provisions of the PECRS to ensure that they are no more generous to members than is necessary to achieve the States' objectives.
114. For example, it is evident from the comparisons that I have set out above, that, in some respects, the PECRS is now more generous towards uniformed members than the equivalent mainland schemes. Consideration should therefore be given to ways of reducing this

difference: for example by seeking changes in the arrangements within PECRS relating to retirement ages for uniformed members.

Cost for the employer

Inherent difficulty in making comparisons of costs

115. Simple comparisons between the contributions made by various employers are distorted by factors such as the funding assumptions underlying the calculations of contribution rates and the extent to which these assumptions are disclosed. The principal factors to be borne in mind are these:

- (1) The contributions made by private sector employers to Defined Benefit schemes regulated in the United Kingdom will be affected by the statutory requirement that schemes should aim to be fully funded. In the event that an actuarial valuation reports a deficit, then the financial position must be recovered by further contributions within a short period. The costs of such recoveries can be material and may or may not be included within an employer's regular contribution rates.
- (2) The overall contribution rate paid by the States to the PECRS (approximately 15.6%) incorporates a payment broadly equivalent to 2% to deal with the pre-1987 liability over a period of 82 years. This should lead over that time to the PECRS being fully funded. Thus the States' contributions include all agreed deficit funding but the period over which those payments are being made is much longer than would be permitted to private sector schemes regulated in the United Kingdom (i.e. the payments are correspondingly lower).
- (3) The contribution rates paid by United Kingdom public sector employers are materially affected by the character of the pension schemes concerned (i.e. whether they are funded or pay as you go schemes) and the extent to which the schemes are fully funded. For example, the Local Government Pension Scheme is a funded scheme (i.e. it is backed by an independent fund) but the rates of contribution paid are not intended to ensure that the scheme is fully funded (i.e. as a result of central government constraints through the annual Rate Support Grant settlement, the contributions are not designed to finance all of the liabilities in the short term).

Observations

116. When these factors are taken into account, the following observations appear appropriate.
117. Firstly, the contributions paid by the States to the PECRS are lower than the contributions paid by private sector employers to Defined Benefit (DB) schemes and higher than the contributions paid to Defined Contribution (DC) schemes. The moves by private sector employers to close DB schemes and to replace them with DC schemes appear to be a reflection of the relative costs of DB schemes (both now and in the long term). This would suggest that, to the extent that the States recruit staff from the same market as private sector employers and pensions scheme arrangements are critical to the States' success in recruitment, the PECRS is a more expensive pension scheme offering better benefits than would be necessary to secure the recruitment of appropriate staff.
118. Secondly, the contributions paid by the States to PECRS are significantly lower than the contributions paid by mainland public sector employers. This would suggest that the PECRS is (from the States' point of view) a more cost-effective arrangement than the mainland schemes. This advantage appears to be the result of far-sighted management decisions made by the States in the late 1980's as a result of which the excess cost of providing agreed benefits has to date been borne by members of the PECRS rather than the States. Equivalent changes have been commenced in stages by the United Kingdom schemes during recent years.
119. Thirdly, while it is fair to acknowledge the far-sighted management of the PECRS, it remains the case that the scheme is more expensive than the arrangements provided by private sector employers. Whether this additional cost is justified depends upon a judgement of the States' competitiveness as an employer attempting to recruit staff both in the Island and off Island. As the United Kingdom's public sector schemes are reformed, it will be important to monitor the reforms and to review the benefits provided by the PECRS to ensure that they are no more generous than is required to enable the States to recruit necessary staff.
120. Fourthly, the PECRS remains exposed to the risks of future experience (e.g. future investment returns may not equal those which have been assumed by the scheme's actuaries in assessing the scheme and members may live longer, and thus draw pensions for a longer period than the actuaries currently assume). The protection for the States against these risks rests in maintaining the current rate of the employer's contribution at 15.6% so that any deficiency in the scheme is met either by adjustment of benefits or by adjustment of the members'

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

contribution rate. It will be important for the States to preserve this arrangement and to ensure that the members of PECRS understand its implications.

Assumptions

121. The current beneficial position is subject to a number of key assumptions.
122. Firstly, the current contribution rates paid by the States assume that the number of people employed by the States remains broadly at the current level. In the event that the number of employees falls materially, then the total contributions will not be sufficient to meet the funding requirement.
123. Secondly, if life expectancy continues to increase at the rate that has been experienced in recent years, the actuarial assumptions underlying the current contribution rates will require adjustment and future rates will require to be increased. If past practice were to be followed, the effect would be that benefits for new members would be reduced rather than contribution rates being increased. This would also be the consequence if the investment returns achieved by the Fund fail to reach the levels assumed in the actuarial assessment of necessary contribution rates.
124. Thirdly, the present funding basis assumes that it will be possible to continue the practice of adjusting new members' benefits to subsidise the benefits payable to existing members. If this were to lead to a position in which the benefits available to new members were not sufficient to support the recruitment of necessary staff then it would be necessary to employ a different approach. It may however be thought that the risk of this happening is remote in view of the attempts being made by the United Kingdom Government to reduce the benefits provided by mainland schemes.

Alternative approaches

125. The observations that I have set out above raise the possibility that the cost to the States of making pension provision for employees could be reduced if a different approach were adopted. For example:
- (1) the PECRS might be terminated and replaced with a DC scheme, or
 - (2) the PECRS could be divided so that the existing terms would continue to be available to employees for whom considerations of competition over recruitment

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

are material and other terms were available to employees for whom such considerations are inappropriate.

126. I have not attempted to compute all of the consequences which would flow from decisions to adopt one or other of these approaches, but the main financial implications would be as follows.

Termination of PECRS: financial implications

127. If PECRS were to be terminated the States would have to decide whether this meant merely that no newly recruited employees would be admitted to membership or whether it also meant that accrual of pension entitlements by existing members would be terminated. In either event, the principal financial implications would be:

- (1) a reduction in contributions payable in respect of current employees might be achieved. The extent of this reduction would depend upon the agreed rate of contribution to be paid by the States as employer to whatever replacement DC scheme were created. Whilst there is evidence that many private sector employers pay contributions at a rate of about 10% of pensionable salary, it is likely that the rate paid by the States would be higher (at least for some employees such as members of the uniformed services). A superficial comparison might suggest that it would be possible to reduce the employer's contribution rate from 13.6% (i.e. the current contribution rate of 15.6% less the amount of about 2% which is related to clearance of the pre-1987 liability) to about 10% possible. In practice, the reduction could be expected to be smaller.
- (2) unless the PECRS were terminated completely (i.e. in the sense that accrual of pension entitlement were to be terminated) the immediate cost saving for the States would be limited (i.e. existing members at termination would continue to accrual pension entitlement and, presumably, the States would continue to make contributions in respect of such employees at the current rates).
- (3) termination of the PECRS would lead to a negotiation over the way in which the States funded its existing obligations to the members of the PECRS. Firstly, the States would be expected to agree how the pre-1987 liability would be financed. I understand that as at 31 December 2007, the capital value of that debt was

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

calculated to be of the order of £120 million.¹⁰ Secondly, the States would need to agree how the obligations to post-1987 members were to be financed. If the PECRS were to be terminated completely (i.e. all accrual of pension entitlement were to be terminated) there might be pressure for the States to take financial responsibility for ensuring that all pension entitlements as at the date of termination were fully funded.

- (4) assuming that the States are correct in their judgement that recruitment to certain States' positions requires the provision of a pension scheme that is broadly equivalent to mainland public sector pension schemes, a termination of the PECRS could be expected to lead in the long term to an increase in salaries of States employees. In other words, for categories of employment where considerations of competing pension schemes are important, salaries paid by the States would have to rise to counteract the relative unattractiveness of the States' pension scheme benefits.
- (5) the termination of the PECRS would be expensive, although the cost of administration is currently borne by the scheme itself. It appears to me probable that in negotiations over the termination of the PECRS, the States would need to consider whether the costs of termination should be borne by the States as employer.

Division of the PECRS: financial implications

128. For the purpose of this analysis, I assume that the rules of PECRS were changed so that, the pension entitlement of employees for whose recruitment competing pension provision is not a material consideration, is limited to the benefits that can be financed from the contributions that are actually made (both employers' and employee's contributions). Such a change would be significant for, since the inception of the scheme, the aim has been that, as far as possible¹¹, the basic provisions of the scheme should be applied equally to all of the States' employees. The financial implications might be as follows:

- (1) the extent of any cost reduction achieved by the States would depend upon:
 - (a) the number of employees to whom the reduced provisions were to be applied, and

¹⁰ This amount of £120 million was calculated by the scheme's actuary on the basis of the formal actuarial valuation as at 31 December 2004.

¹¹ In practice this has meant that the only 'special' arrangements are those made for uniformed members in recognition of the different lengths of expected service.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

- (b) the contribution rates that were agreed.
- (2) the extent of any immediate cost reduction achieved by the States would depend upon whether the new arrangements were to be applied to existing members. If the new arrangements were to be applied only to new member so that existing members continued to accrue benefits under the existing arrangements any reduction would only be realised slowly as the proportion of new employees grew.
- (3) any cost reduction would be limited by any consequent adjustment of salary levels to take account of the reduced benefits.
- (4) a change of this type would involve a re-negotiation of the future funding arrangements for the pre-1987 liability which are based on the assumption that an additional contribution of about 2% for all members will be paid for a period of about 80 years.
- (5) the cost of management of the PECRS would increase although this is currently borne by the PECRS.

SECTION NINE ~ OVERALL ASSESSMENT OF THE TSF

Introduction

129. Inevitably drawing comparisons between the TSF and pension arrangements offered by other public sector employers and private sector employees is fraught with difficulty. Circumstances differ widely and are changing.

Benefits

130. The principal retirement benefits provided by the TSF since 2007 are lower than the unreformed benefits of equivalent public sector schemes on the mainland of the United Kingdom. A table comparing the principal benefits is set out in Appendix Five.

131. The changes recently made to United Kingdom public sector schemes have tended to reduce the extent to which the benefits provided by the TSF are lower than the equivalent benefits.

132. The evidence (admittedly slender) suggests that the principal retirement benefits provided to new members by the TSF are in general higher than those available within the Island's private sector.

Observations

133. These simple comparisons are distorted by factors such as the funding assumptions underlying the calculations of contribution rates and the extent to which these assumptions are disclosed.

134. The full contribution rate paid by the States to the TSF is 16.4%¹² and is thus 0.8% higher than the contribution rate paid by the States to the PECRS. This rate was calculated on the basis of an actuarial valuation of the TSF as at 31 December 2001 and the difference between the rate required for the TSF and the rate required for the PECRS was explained in a report to the States Assembly in 2006 in the following way:

¹² Report RC 36/2006.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

“Under the existing provisions of the Fund as at 31 December 2001, i.e. no widower’s benefits in respect of post-1988 service and pension increases funded from the Committee’s revenue budget rather than the Fund, there was a valuation surplus of £16.6 million.

However, the former Education, Sport and Culture Committee has made changes to the Teachers’ Superannuation (General Provisions)(Jersey) Order 1986, in order to provide for widowers’ benefits in respect of post-1988 service and had been reviewing how future pension increases may be funded from the Fund to reduce the increasing demands on the Committee’s revenue budget. Including these provisions in the valuation as at 31 December 2001, there was a deficiency of £64.4 million . . .

. . .the former . . .Committee agreed, in principle, to provide for a Teachers’ Scheme similar to the . . .PECRS, subject to the necessary approvals . . . The cost of this proposal would be an employer’s contribution rate of 16.8% ¹³. . .this can be explained by the cost of the delay in increasing employer’s contributions since 1996 (Current employer’s contribution rate is 9.95%). Existing members will retain existing benefits, but pension increases from 1 January 2007 will be met from the Fund. New Members for 1 January 2007 will receive benefits in line with the [PECRS New Members benefits].”

135. The effect of this explanation is that for a long period:

- (1) The TSF had been providing benefits to members whose cost had not been included within the contribution rates that were being paid by the employer to the scheme (i.e. benefits for widowers).
- (2) The employer had been paying increases in pensions in payment from the current budget of the States rather than providing the additional funding necessary for the Fund to meet such increases either currently or in the future.
- (3) There had been no reform of the provisions of the TSF to match the late 1980s reform of the PECRS. In other words, the States guaranteed the payment of benefits to members of the TSF and the States’ liability to the TSF was not limited.
- (4) Notwithstanding the potential extent of this liability, the rates of contribution being paid were inadequate to ensure that the liability was funded with the consequence that the States accounts in any year did not bear the full employment cost of the staff employed by the Department of Education Sport and Culture.

136. Whilst the position has now been rectified, this passage of events raises questions about the States’ control over the financial liabilities which the States create and demonstrates the need for strong central financial management of the States’ liabilities.

¹³ I understand that, subsequently, the employer’s contribution rate was reduced to 16.4%.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

137. In these circumstances, the following observations appear appropriate.
138. Firstly, the contributions paid by the States to the TSF are lower than the contributions paid by private sector employers to Defined Benefit schemes and higher than the contributions paid by private sector employers to Defined Contribution schemes. The moves by private sector employers to close DB schemes and to replace them with DC schemes appear to be a reflection of the relative costs of DB schemes (both now and in the long term). This comparison may not be unduly significant in the case of the TSF as it is more likely that the States will recruit teachers from the mainland public sector than from the Island's private sector.
139. Secondly, the contributions paid by the States to the TSF are higher than the contributions paid by mainland public sector employers (16.4% in the case of the TSF compared with 14.1% for the TPS). It should be remembered, however, that the TSF contribution rate includes a significant amount to fund the pre-2007 liability whereas the TPS contribution rate appears not to include any equivalent contribution. This additional contribution in the case of the TSF appears to explain a large part of the difference.
140. Thirdly, the contributions paid by the States to the TSF are higher than the contributions paid to the PECRS (16.4% in the case of the TSF compared with 15.6% for the PECRS). A part of this difference appears to reflect the fact that the TSF was not reformed until 2007 as I have explained.
141. Fourthly, it remains the case that the TSF is more expensive than the arrangements provided by private sector employers. Whether this additional cost is justified (to the extent that it does not result from funding decisions that in retrospect may appear imprudent) depends upon a judgement of the States' competitiveness as an employer attempting to recruit staff both in the Island and off Island. The discussion of this issue in the previous section of this report in respect of the PECRS is also relevant here. As the United Kingdom's public sector schemes are reformed, it will be important to monitor the reforms and to review the benefits provided by the TSF to ensure that they are no more generous than is required to enable the States to recruit necessary staff.
142. The current position is subject to a number of key assumptions.
143. Firstly, the current contribution rates paid by the States assume that the number of people employed by the States remains broadly at the current level. This is the case because the annual contribution to fund the pre-2007 liability is expressed as a percentage of current pensionable

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

pay. In the event that the number of employees falls materially, then the total contributions will not be sufficient to meet the funding requirement.

144. Secondly, if life expectancy continues to increase at the rate that has been experienced in recent years, the actuarial assumptions underlying the current contribution rates will require adjustment and future rates will require to be increased. As far as post-2007 members are concerned, if past practice were to be followed, the effect would be that benefits for new members would be reduced rather than contribution rates being increased. This would also be the consequence if the investment returns achieved by the Fund fail to reach the levels assumed in the actuarial assessment of necessary contribution rates.

145. Thirdly, the present funding basis assumes that it will be possible to continue the practice of adjusting new members' benefits to subsidise the benefits payable to existing members. If this were to lead to a position in which the benefits available to new members were not sufficient to support the recruitment of necessary staff then it would be necessary to employ a different approach. It may however be thought that the risk of this happening is remote in view of the attempts being made by the United Kingdom Government to reduce the benefits provided by mainland schemes.

APPENDIX ONE ~ TERMS OF REFERENCE

1. This review is commissioned in accordance with the powers of the Comptroller & Auditor General as set out in the Public Finance (Jersey) Law 2005 to take place in the light of:
 - (1) interest in the costs incurred by the States in making appropriate pension provision for States' employees, and
 - (2) concern about the future management of the States' liabilities in this respect.

2. The purpose of the review is to examine:
 - (1) the development, constitution and governance arrangements of the two principal pension schemes concerned (i.e. Public Employees Contributory Retirement Schemes and the Teachers' Superannuation Fund);
 - (2) the current financial condition of the two schemes;
 - (3) the States' future liability in respect of the two schemes; and
 - (4) any other detailed matters that appear relevant to items (1) to (3) above and the issues to which paragraph 1 above refers.

3. The outcome of the review will be a report prepared and published in accordance with the provisions of the Public Finance Jersey Law 2005.

APPENDIX TWO ~ LIST OF ABBREVIATIONS USED IN THIS REPORT

BWCI	Bacon & Woodrow Channel Islands
DB	Defined benefit
DC	Defined contribution
DWP	Department of Work and Pensions (UK)
Jersey RPI	Jersey Retail Prices Index
LGPS	Local Government Pension Scheme (UK)
NAPF	National Association of Pension Funds
NPPS	New Police Pension Scheme (UK)
NRA	Normal retirement age
PCSPS	Principal Civil Service Pension Scheme
PECRS	Public Employees Contributory Retirement Scheme
QROPS	Qualifying Registered Overseas Pension Scheme
TPS	Teachers' Pension Scheme (UK)
TSF	Teachers' Superannuation Fund

APPENDIX THREE ~ GLOSSARY OF TERMS USED IN THIS REPORT

Defined benefit scheme	Scheme in which the benefits to be paid by the scheme are defined without reference to the contributions paid by the employer and the employees.
Defined contribution scheme	Scheme in which the total of the employers' and employees' contributions paid to the scheme are defined and in which the benefits that can be paid are limited by reference to the contributions.
Final salary scheme	Scheme in which the member's entitlement to pension is calculated by reference to the member's salary at or near retirement.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

APPENDIX FOUR ~ BENEFITS PROVIDED BY THE PECRS

	<i>PECRS New Member¹⁴</i> <i>(non-uniformed member)</i>	<i>PECRS Existing Member</i> <i>(non-uniformed member)</i>
Pension accrual rate	1/80	1/60
Spouse's pension accrual rate	1/160	1/120
Employee's contribution rate	5%	6.25%
Earliest age for retirement in normal health	Age 60 (subject to two years' service) (subject to reduction in benefits) ¹⁵ .	Age 60 (subject to two years' service)
Normal retirement age (NRA)	65	65
Pensionable service (PS)	Service as a member of the scheme.	Service as a member of the scheme.
Additional pensionable service in respect of transfer from UK schemes	Calculated in accordance with the UK public sector transfer arrangements to give benefits of equivalent capital value.	Calculated in accordance with the UK public sector transfer arrangements to give benefits of equivalent capital value.
Average salary (AS)	Best consecutive 365 days in the last three years.	Best consecutive 365 days in the last three years.
Pension on retirement in normal health	$(AS \times PS) / 80$	$(AS \times PS) / 60$
Cash at retirement	Optional commutation of up to 25% of the pension for a tax free lump sum on the basis of £13.50 cash for every £1 p.a. of pension exchanged.	Optional commutation of up to 25% of the pension for a tax free lump sum on the basis of £13.50 cash for every £1 p.a. of pension exchanged.
Ill health benefits	Subject to two years. qualifying service. Pension (with optional commutation) based on enhanced PS. No enhancement if less than five years' qualifying service.	Subject to two years. qualifying service. Pension (with optional commutation) based on enhanced PS. No enhancement if less than five years' qualifying service.

¹⁴ New members who first entered Public Service on or after 1 January 2006 and who choose to retire before normal retiring age will relinquish an appropriate proportion of annual pension as calculated by the Scheme's Actuary for each year of the earlier retirement.

¹⁵ With effect from 1 January 2006, the pension payable to a member joining (for the first time) after 1 January 2006 and choosing to retire up to five years before the NRA is subject to a discount factor which is currently 2.4% for each year before the NRA.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

DEATH IN SERVICE		
(1) Cash sum	<p>Less than five years' qualifying service $\frac{2}{5}$ x annual rate of salary at death for each year of service.</p> <p>More than five years' qualifying service 2 x annual salary at death.</p>	<p>Less than five years' qualifying service $\frac{2}{5}$ x annual rate of salary at death for each year of service.</p> <p>More than five years' qualifying service 2 x annual salary at death.</p>
(2) Spouse's pension	<p>Widows and widowers for all service.</p> <p>Subject to two years' qualifying service: 50% of pension payable on retirement in normal health based on salary at death and potential PS up to NRA (accrual rate $\frac{1}{160}$ths).</p>	<p>Widows and widowers for all service.</p> <p>Subject to two years' qualifying service: 50% of pension payable on retirement in normal health based on salary at death and potential PS up to NRA (accrual rate $\frac{1}{120}$ths).</p>
(3) Dependent's pension	<p>Subject to two years' qualifying service.</p> <p>An amount equal to widow/widower's pension paid to financially dependent adult.</p>	<p>Subject to two years' qualifying service.</p> <p>An amount equal to widow/widower's pension paid to financially dependent adult.</p>
(4) Children's pension	<p>Subject to two years' qualifying service.</p> <p>For each child (maximum two) 50% of spouse's/dependent's pension.</p> <p>Doubled if no one entitled to receive widow's/widower's/dependent's pension.</p>	<p>Subject to two years' qualifying service.</p> <p>For each child (maximum two) 50% of spouse's/dependent's pension.</p> <p>Doubled if no one entitled to receive widow's/widower's/dependent's pension.</p>
DEATH AFTER RETIREMENT		
(1) Spouse's pension	<p>Widowers for all services.</p> <p>Subject to two years' qualifying service: 50% of member's pension at death as if no commutation had occurred (accrual rate $\frac{1}{160}$ths).</p>	<p>Widowers for all services.</p> <p>Subject to two years' qualifying service: 50% of member's pension at death as if no commutation had occurred (accrual rate $\frac{1}{120}$ths).</p>
(2) Dependent's pension	<p>An amount equal to widow/widower's pension may be paid to financially dependent adult.</p>	<p>An amount equal to widow/widower's pension may be paid to financially dependent adult.</p>

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

(3) Children's pension	For each child (maximum two) 50% of spouse's/dependent's pension. Doubled if no spouse's dependent's pension payable.	For each child (maximum two) 50% of spouse's/dependent's pension. Doubled if no spouse's dependent's pension payable.
(4) Deficiency payment	Not available.	Not available.
LEAVING SERVICE	For members with less than two years' qualifying service, a refund of contributions with 3% pa interest (less tax at 10%) or a transfer value payable to a new employer's pension scheme or personal pension scheme. For members with two or more years qualifying service, a deferred pension payable from age 60 (subject to reduction of benefits) or a transfer payment to a new employer's pension scheme or a personal pensions scheme.	For members entering the scheme before 1 August 2000 a refund of contributions with 3% p.a. interest (less tax at 10%) or a transfer value payable to a new employer's pension scheme or a personal pension. For members with two or more years qualifying service a deferred pension payable at 60 (with no reduction). For members post 1 August 2000 with less than two years qualifying service a refund of contributions with 3% interest (less tax at 10%) or a transfer value payable to a new employer's pension scheme or personal pension. For members post 1 August 2000 with more than two years qualifying service, a deferred pension payable from 60 (with no reduction) or a transfer value payable to a new employer's pension scheme or personal pension.
PENSION INCREASES	Index linking allowed for in contribution rate but not guaranteed by the States. Payment dependent upon the performance of the PECRS.	Index linking allowed for in contribution rate but not guaranteed by the States. Payment dependent upon the performance of the PECRS.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

APPENDIX FIVE ~ BENEFITS PROVIDED BY THE TSF

	<i>TSF ~ new members from 1 April 2007</i>	<i>TSF ~ existing members</i>
Pension accrual rate	1/80	1/80 In addition a 3/80ths cash sum accrues.
Spouse's pension accrual rate	1/160	1/160 (for service qualifying for 'family benefits').
Employee's contribution rate	5%	6%
Earliest age for retirement in normal health	Age 60 (subject to two years' service) (subject to reduction in benefits)	Age 60 (subject to two years' service) Before 1 April 2007: subject to five years service.
Normal retirement age (NRA)	65	Not defined in the regulations.
Pensionable service (PS)	Services as a member of the scheme.	Service as a member of the scheme. Widows' benefits: qualifying service from April 1972. Widowers' benefits: qualifying service from April 1988.
Additional pensionable service in respect of transfer from UK schemes	Less than year for year but calculated in accordance with the UK public sector transfer arrangements to give benefits of equivalent capital value. Can also transfer from approved private sector schemes.	Year for year with respect to Teachers Pension Scheme. Transfer from other public sector schemes will be in accordance with UK public sector transfer arrangements. No transfer from private schemes.
Average salary (AS)	Best consecutive 365 days in the last three years.	Best consecutive 365 days in the last 1095 days (can be more than 3 years' elapsed time).
Pension on retirement in normal health	$(AS \times PS) / 80$	$(AS \times PS) / 80$
Cash at retirement	Optional commutation of up to 25% of the pension for a cash sum on the basis of £13.50 cash for every £1 p.a. of pension exchanged.	Payable in addition to a pension, a cash sum is calculated as: $(3 \times AS \times PS) / 80$

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

Ill health benefits	Subject to two years qualifying service. Unreduced pensions (with optional commutation) based on enhanced PS. No enhancement if less than five years' service.	Subject to two years qualifying service. Before 1 April 2007: five years qualifying service required. Unreduced pensions and cash sum based on enhanced PS.
DEATH IN SERVICE		
(1) Cash sum	Less than five years' service 2/5 x annual rate of salary at death (for each year of qualifying service). More than five years' service 2 x annual salary at death.	Maximum of: (1) 1 x AS (2) Cash sum payable as is retired due to ill health at date of death. (3) Refund of contributions plus 3% pa interest.
(2) Spouse's pension	Widows and widowers for all service. Subject to two years' service: 50% of pension payable on retirement in normal health based on salary at death and potential PS up to NRA (accrual rate 1/160ths).	Widows: for service after April 1972. Widowers: for service after April 1988 Subject to two years' service (five years before 1 April 2007): 50% of the ill health pension payable as if the member had retired on the date of death (accrual rate is 1/160ths). Plus: Short term pension based on members salary at death payable for up to six months.
(3) Dependent's pension	Subject to two years' service. An amount payable to widow/widower's pension paid to financially dependent adult.	Subject to five years' service. An amount equal to widow/widower's pension paid to financially dependent adult.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

(4) Children's pension	<p>Subject to two years' service.</p> <p>For each child (maximum two) 50% of spouse's/dependent's pension.</p> <p>Doubled if no one entitled to receive widow's/widower's/dependent's pension.</p>	<p>Subject to five years' service.</p> <p>For each child (maximum two) 50% of widow/widower's pension or if no widow 1/3 of ill health pension payable as if the member had retired on the date of death.</p> <p>Plus (if there is no widow):</p> <p>Short term pension based on member's salary at death payable for up to four months.</p>
DEATH AFTER RETIREMENT		
(1) Spouse's pension	<p>Widows and widowers for all service.</p> <p>Subject to two years' service: 50% of member's pension at death as if no commutation had occurred (accrual rate 1/160ths).</p>	<p>Widows – for service after April 1972.</p> <p>Widowers – for service after April 1988.</p> <p>Subject to two years' service (five years before 1 April 2007): 50% of member's pension at death (accrual rate is 1/160ths).</p> <p>Plus:</p> <p>Short term pension payable for three months.</p>
(2) Dependent's pension	An amount equal to widow/widower's pension may be paid to financially dependent adult.	An amount equal to widow/widower's pension may be paid to financially dependent adult.
(3) Children's pension	<p>For each child (maximum two) 50% of spouse's/dependent's pension.</p> <p>Doubled if no spouse's dependent's pension payable.</p>	Payable as for death in service except that pension is based on member's pension at death.
(4) Deficiency payment	Not available.	<p>Less than ten years' service Five times annual rate of pension at death less amount of benefits previously paid.</p> <p>More than ten years' service. As less amount of benefits previously paid.</p>

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

LEAVING SERVICE	Refund of contributions plus 3% pa interest or deferred pension payable from age 60 (two years' service) or transfer payment.	<p>Member can opt to be treated as requiring five or two years qualifying service. If the member opts for two years they cannot take a refund.</p> <p>Less than five years' service: Refund plus 3% pa interest or a transfer payment.</p> <p>More than five years' service Deferred pension payable from age 60 or a transfer payment.</p>
PENSION INCREASES	Index linking allowed for in contribution rate but not guaranteed by the States. Payment dependent upon the performance of the TSF.	<p>From 1 April 2007: Index linking allowed for in contribution rate but not guaranteed by the States. Payment is dependent upon the performance of the TSF.</p> <p>Before 1 April 2007: Guaranteed by Committee linked to rises in Jersey Cost of Living. Not payable from the Fund.</p>

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

APPENDIX SIX ~ COMPARISON OF BENEFITS OF THE PECRS

	<i>PECRS¹⁶</i>	<i>LGPS</i>		<i>PCSPS</i>	
		<i>Before reform</i>	<i>Latest version</i>	<i>Before reform</i>	<i>Latest version</i>
Final salary scheme?	Yes	Yes	Yes	Yes	Average career salary
Pension accrual rate	1/80 th	1/80 th	1/60 th	1/80 th	2.3% (i.e. 1/43 rd)
Additional cash sum?	No	Yes	No	Yes	No
Cash sum accrual rate	n.a.	3/80 th	n.a.	3/80 th	n.a.
Cash sum by commutation	Yes	No	Yes	No	Yes
Commutation rate	13.50:1 to a limit of 25% of pension	n.a.	12:1 to a limit of 25% of pension	n.a.	12:1 to a limit of 25% of pension
NRA	65	60 (subject to rule of 85)	65	60	65
Members' contributions	5% of pensionable pay	6% of pensionable pay	5.5% for pay to £12,000 and 7.5% above £12,000	1.5% of pensionable pay	3.5% of pensionable pay

¹⁶ The benefits described are for new members, non-uniformed joining from 1 January 2006.

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

APPENDIX SEVEN ~ COMPARISON OF BENEFITS OF THE TSF

	<i>TSF</i>		<i>TSP (UK)</i>	
	<i>Before reforms in 2007</i>	<i>After reforms in 2007</i>	<i>Before reforms</i>	<i>After reforms</i>
Final salary scheme	Yes	Yes	Yes	Yes
Pension accrual rate	1/80 th	1/80 th	1/80 th	1/60 th
Additional cash sum?	Yes	No	Yes	No
Cash sum accrual rate	3/80 th	n.a.	3/80 th	n.a.
Cash sum by commutation?	No	Yes	No	Yes
Commutation rate	n.a.	13.50:1 to a limit of 25% of pension	n.a.	12:1 to a limit of 25% of pension
NRA	Not defined in the regulations	65	60	65
Members' contributions	6%	5%		6.4%

Pension schemes for States' employees ~ liabilities
Report by the Comptroller & Auditor General
March 2008

APPENDIX EIGHT ~ SUMMARY OF MOST RECENT ACTUARIAL VALUATIONS

This table sets out a brief summary of the position of each of the States' two principal pension schemes as at the date of the most recent actuarial valuations. As the valuations were prepared by different actuaries, working under separate instructions, the assumptions on which the two valuations were based and in some respects the valuation methods applied differ from each other.

	<i>PECRS</i>	<i>TSF</i>
Date at which the last actuarial valuation report was prepared	31 December 2004	31 December 2001
Responsible actuaries	Hewitt	Government Actuary's Department
Active members	6,200	1,044
Average age of active members	44.53 years	
Deferred pensioners	946	690
Pensioners	2,713	501
Actuarial valuation of the liabilities of the scheme – in respect of past service	£929,400,000	£212,500,000 (including the cost of increases of pensions in payment)
Actuarial value of assets	£889,600,000 (including the value of the States pre-1987 debt contributions)	£154,900,000
Actuarial deficit in respect of past service	£39,800,000 (after taking account of the actuarial value of the States pre-1987 debt contributions)	£57,600,000
Actuarial valuation of the liabilities of the scheme – in respect of future service	£354,500,000	£82,500,000 (including the cost of increases of pensions in payment)
Actuarial value of future contributions	£376,900,000	£75,200,000
Actuarial deficit/(excess) in respect of future service	£(22,400,000)	£7,300,000 (including the actuarial cost of increases of pensions in payment)
Overall actuarial deficit	£17,400,000	£64,900,000