States of Jersey

PUBLIC EMPLOYEES CONTRIBUTORY RETIREMENT SCHEME

ANNUAL REPORT 2015

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Contents

INTRODUCTION

Welcome to the twenty-sixth annual report and Financial Statements for the Public Employees Contributory Retirement Scheme (“PECRS” or “the Scheme”).

OVERVIEW

Overall Scheme membership numbers continue to grow. As at 31 December 2015, there were 14,896 employees and former employees with benefits in PECRS, up from 14,708 at the end of 2014.

The Scheme’s investments continued to grow with the pleasing result of an overall return of 5.7% in 2015 compared to a benchmark return of 2.1%. At the year end, the investments had a market value of just over £1.8 billion.

The Scheme undergoes an actuarial valuation every three years. The last valuation was conducted by the Scheme Actuary as at 31st December 2013 and the results were presented to the States in early 2015. At the end of 2013 the Scheme Actuary determined that the Scheme had a funding level (the relationship between estimated future pension payments and the funds held to pay for those pensions) of 105.5%. The Scheme had a surplus of £92.7 million part of which has been used to restore pension increases to the full annual increase in Jersey All Items Retail Prices Index (Jersey All Items RPI). After full restoration of the pension increase the Scheme had a surplus of £54.6 million which was retained as a prudent reserve against possible future adverse experience. The Scheme will continue to pay pension increases equal to the full annual increase in Jersey All Items RPI until the result of the next triennial valuation is known.

In November 2015, the States Assembly agreed changes to the Scheme which introduce a Career Average Revalued Earnings (CARE) Scheme. With effect from 1st January 2016 new employees are admitted into the CARE Scheme which is to be known as the Public Employees Pension Scheme (PEPS). Existing employees will also transfer into PEPS on 1st January 2019 with the exception of members who are within 7 years of their normal retirement age on 31 December 2018 who will have the option to remain in the final salary pension scheme (PECRS).

The Dedicated Pensions Unit has worked hard during the year to ensure that the membership has been kept up-to-date with the changes to the Scheme. Where possible the Administrator is using electronic communication channels to distribute information to the membership and employers. The website has also been updated to provide information on the new scheme. We hope that the membership has found this material useful.

These topics are explained in more detail throughout this Annual Report of the Scheme.

MEMBERS, MANAGERS AND ADVISORS

Members of the Committee of Management (COM)

Mr G Pollock (Chairman)	**Mr G Birbeck***
Mr S Laing+	**Mr JR Fosse***
Mr TA Le Sueur OBE+	**Mr M Johnson***
Mr SA Lusby+	**Mr T Querns***
Mr J Mills CBE+	**Mr MAQ Richardson***
Mr SM Patidar+ (Resigned 25 March 2015)	**Miss B Ward***
Mr S Warner+	**Mr J Moynihan+**(Appointed 8 March 2016)

Committee members are appointed by the States of Jersey for terms of three years; the current term ends on 31 December 2015. The Chairman is appointed by the States of Jersey on the recommendation of the Minister for Treasury & Resources for separate five-year terms; his current term ends on 30 June 2019.

Under the Regulations six of the members of the Committee of Management are nominated by the Chief Minister and Minister for Treasury and Resources (see + above) and six from the Unions and Staff Associations representing the Public Employees Pension Scheme Joint Negotiating Group (see * above).

Secretary	Mr RJ Raggett	**Independent Auditors**	PricewaterhouseCoopers LLP[1]
Actuary	Aon Hewitt Limited	**Investment Consultants**	Mercer Limited
Legal Advisors	Carey Olsen Nabarro LLP	**Custodian**	J P Morgan (terminated 31 July 2015)
Bankers	HSBC Plc		Northern Trust (appointed 1 August 2015)

Investment Managers

Arrowgrass Capital Partners LLP	
Baillie Gifford & Co	
CQS	
Hayfin Capital Management	
Investec Asset Management	
Legal and General Investment Management	
Landsdowne Partners Limited	
Mirabaud Investment Management Limited	Terminated January 2015
Odey Asset Management LLP	
Pramerica Real Estate Investors Ltd	
Veritas Asset Management (UK) Limited	

Scheme Administrator	The Treasurer of the States

[1] With effect from 9 October 2015 Deloitte LLP were replaced as Independent Auditors to the Scheme and PricewaterhouseCoopers LLP were subsequently appointed. The following statement has been received from Deloitte, “There are no circumstances connected with our resignation which we consider should be brought to the attention of the members or creditors of the Scheme”.

PARTICIPATING EMPLOYERS

The Principal Scheme employer is the States of Jersey. Permanent employees of the States of Jersey are automatically admitted to the Scheme from age 20. In addition to the States, there are under the Regulations other organisations which participate in the Scheme. They are known as Admitted Bodies who join the Scheme with the consent of the Chief Minister.

Scheme Employer
States of Jersey
Admitted Bodies
Andium Homes Limited
Beaulieu Convent School Limited
Brig-y-Don Children's Home
Comite des Connetables
Office of the Information Commissioner
Family Nursing & Home Care (Jersey) Incorporated FNHC)
Jersey Gambling Commission
Jersey Advisory and Conciliation Service (JACS)
Channel Island Competition & Regulatory Authority (CICRA)
Jersey Employment Trust (JET) (including Workforce Solutions Limited)
Jersey Financial Services Commission (JFSC)
Jersey Heritage Trust
Jersey Post Limited
Jersey Overseas Aid Commission (JOAC)
JT (Jersey) Limited
Les Amis Limited
Parish of St Brelade (including Maison St Brelade)
Parish of St Clement
Parish of Grouville
Parish of St Helier
Parish of St Lawrence
Parish of St Martin
Parish of St Ouen
Parish of St Saviour
Ports of Jersey Limited (Admitted 1 October 2015)
States of Jersey Development Company Limited (formerly Waterfront Enterprise Board (WEB))

GOVERNANCE ARRANGEMENTS

Summary of Governance Arrangements

The Scheme is governed by Regulations made under the Public Employees (Retirement) (Jersey) Law, 1967 (as amended). Under these Regulations the Committee of Management has trustee responsibility which extends to establishing the investment strategy of the Scheme, appointing and instructing the Scheme actuary, custodian and investment managers, and ensuring benefits are paid to members in accordance with the Regulations. Under General Regulation 4(3), the Minister for Treasury and Resources must approve particular investments and the appointment and removal of investment managers. A number of Subcommittees are charged with particular aspects of the work and report to the Committee of Management.

The table below sets out the Subcommittees and their membership as at the year end. Each Subcommittee is assisted by the Secretary, Officers and Advisors as appropriate.

Subcommittee:	Investments	Ill Health and Death Benefits	Communications	Audit
Number of meetings in 2015	**6**	**meets as required**	**meets as required**	**3**
Committee member				
Mr G Pollock (Chairman)	●			
Mr G Birbeck	●			
Mr M Johnson		●	Chairman	
Mr S Laing	●			
Mr TA Le Sueur OBE				●
Mr S Lusby				Chairman
Mr J Mills CBE	Chairman	●		
Mr J R Fosse			●	
Mr MAQ Richardson	●			
Miss B Ward				●
Mr S Warner		Chairman	●	
Mr T Querns		●		

Committee of Management (COM)

The Committee of Management is responsible for the governance of PECRS in accordance with the powers, authorities and discretions vested in it by the Regulations.

COMMITTEE OF MANAGEMENT REPORT 2015

Since 1967 the Public Employees Contributory Retirement Scheme has developed from a Scheme that provided pensions to full-time civil servants and manual workers only, to today's Scheme which provides pensions for all qualifying members, spouses and civil partners, and children. It also offers ill health and death in-service cover.

REVIEW OF THE YEAR

During 2015 the reform of the pension scheme was agreed by the States of Jersey. The changes include the introduction of a Career Average Revalued Earnings (CARE) Pension Scheme where pensions are based on an individual's average salary over their career rather than their final-salary as is currently the case. Members' accrued rights are protected including the linking to final salary at the end of career for any service accrued up to the date of change. There are also protections for those closest to retirement.

The Committee of Management welcomes the changes to the Scheme. From the Committee's perspective, the changes will address the rising cost of providing final salary pension benefits which have risen by as much as 30% over the last 30 years, mainly because people are living longer and expected investment returns are lower than they have been in the past. The overall rate of contributions will increase as a result of the agreed changes and in future the normal retirement age will be linked to the Jersey State Pension Age.

In March 2015, it was announced that the implementation date of 1st January 2016 would apply only to new employees commencing employment after this date, and that the implementation date for existing employees would be 1st January 2019.

SUMMARY OF THE CHANGES

- **A CARE scheme** – A pension scheme where benefits are built up for each working year and then "revalued" annually by an agreed index.
- **Normal Retirement Age** – Linking the normal retirement age to the Jersey State Pension Age.
- **Contribution rate** – An increase in the contribution rate for both members and employers to reflect the fact that people are living longer and drawing their pension for longer than when the current contribution rate was set in 1988.
- **Fairness and equality** – Changes to the Scheme to ensure there is fairness and equality between the various employee groups.
- **Accrued benefits** – Protection of pension benefits accrued up to the date of any change.
- **Risk Sharing** – Changes to the current risk sharing agreement between members and employers.

For more information please visit www.gov.je/pensionreview

INVESTMENTS

Strong performance from our investment managers in difficult markets has seen our investments grow by 5.8% over the year. As at 31 December 2015 the value of the Scheme's investments was £1.8 billion (2014: £1.7 billion). The Investment Subcommittee works closely with the States Treasury and Mercer, the Investment Consultant, to monitor and manage the Scheme's investments. The Investment Subcommittee meets at least quarterly; each investment manager presents to the Subcommittee once a year when performance, developments and holdings are reviewed. Annually the Subcommittee hosts an asset allocation debate where investment managers across different asset classes discuss where they think future asset growth will occur; this informs the Subcommittee when reviewing the investment strategy. For more detail on the Scheme's investments, see pages 12 – 16.

ACTUARIAL VALUATION

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS102), the Financial Statements do not include Liabilities in respect of promised benefits.

An actuarial valuation is completed by the Scheme Actuary every three years. A valuation shows the relationship between the Scheme's liabilities, i.e. pensions and other Scheme benefits, and the assets held to pay for the benefits. The Actuary uses a range of assumptions in order to assess the financial position of the Scheme including the average life expectancy of Scheme members, investment returns, inflation and interest rates.

The most recent valuation has been completed as at 31st December 2013. The main conclusions from the valuation were that:

There was a past service surplus of £93.7 million as at 31 December 2013, consisting of past service benefits of £1,689.6 million and assets of £1,783.3 million.

- The anticipated future contributions were less than the value of future benefits in respect of active members as at 31 December 2013. Assuming the proposed scheme changes are implemented with effect from 1 January 2016 as planned, the future service deficiency is £1.0 million.
- Putting these two elements together, the Scheme's overall surplus, as at 31 December 2013, using best estimate assumptions, was £92.7 million, equivalent to a funding ratio of 105.5%.

The funding position at the end of 2013 has enabled the COM to restore the annual increase in pensions and deferred pensions back to the Jersey All Items RPI. This will continue until the results of the next actuarial valuation are known when this will be reviewed again. The next actuarial valuation will be undertaken as at 31st December 2016.

The funding surplus after the restoration of the previous pension increase reductions was £54.6 million, equivalent to a funding ratio of 103.2%. This surplus will be retained in the Scheme as a prudent reserve against any future adverse experience. A copy of the valuation is available on the Scheme's website (www.gov.je/statesemployeespension).

The following table includes the key financial assumptions used in the valuation

	2013 valuation %
Discount rate – period to retirement and future service contributions	7.3
Discount rate – period after retirement	5.6
Discount rate – valuing pre 87 debt	6.06
Jersey RPI	3.4
Increases to pensions in payment and deferred pensions	3.25
General salary increase	4.4

ADMINISTRATION

RUNNING THE SCHEME

The Scheme is administered by the Dedicated Pensions Unit (DPU) on behalf of the Treasurer of the States (the Administrator of the Scheme). This service is provided to the Committee of Management under an Administration Agreement. The DPU reports to the Committee of Management quarterly on how it is performing against agreed service standards.

The DPU is responsible for providing information to employers, employees and other interested parties. In order to administer the Scheme benefits, the DPU is reliant on the information provided by the States of Jersey and the 26 Admitted Bodies within the Scheme. During the year, DPU staff have visited Admitted Bodies to provide training and advice on scheme data requirements.

Scheme members are increasingly aware of the value of their pension benefits and over the last year work has progressed to ensure that systems, literature and letters meet members' requirements. Increased use of modern communication channels is being made to provide information in a manner requested by scheme members. Delivering communications electronically is also much more cost effective for the Scheme, enabling more of employee and employer contributions to be invested to fund future benefits.

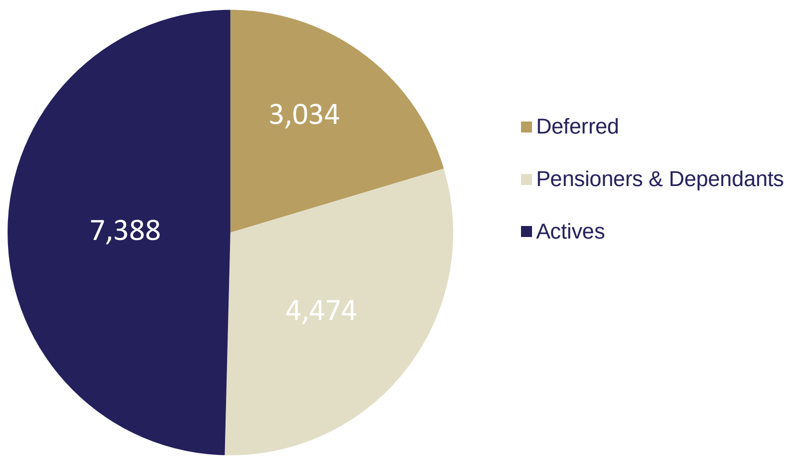
During 2015 the DPU made increasing use of the functionality available within the pension administration system to process benefits efficiently and accurately. It is important that the Scheme is administered using appropriate operational controls and significant work has been undertaken in the last year to make better use of the system to progress tasks to the administration targets. This has resulted in an increase in the proportion of tasks completed within 5 days.

In the last year the Scheme has joined the States of Jersey Tell Us Once initiative. This means that when relatives notify a scheme member death to the States via Tell Us Once the Dedicated Pensions Unit are automatically notified. This enables the Dedicated Pensions Unit to deal sensitively with any death and to put in place any survivor benefits that are due.

During 2015 the DPU once again made use of the UK Audit Commission's National Fraud Initiative which is able to confirm the continued benefit entitlement of UK resident pensioners. Using this service together with the Tell Us Once Initiative has enabled the DPU to provide additional reassurance to the Committee of Management that scheme benefits are being correctly paid to eligible scheme members.

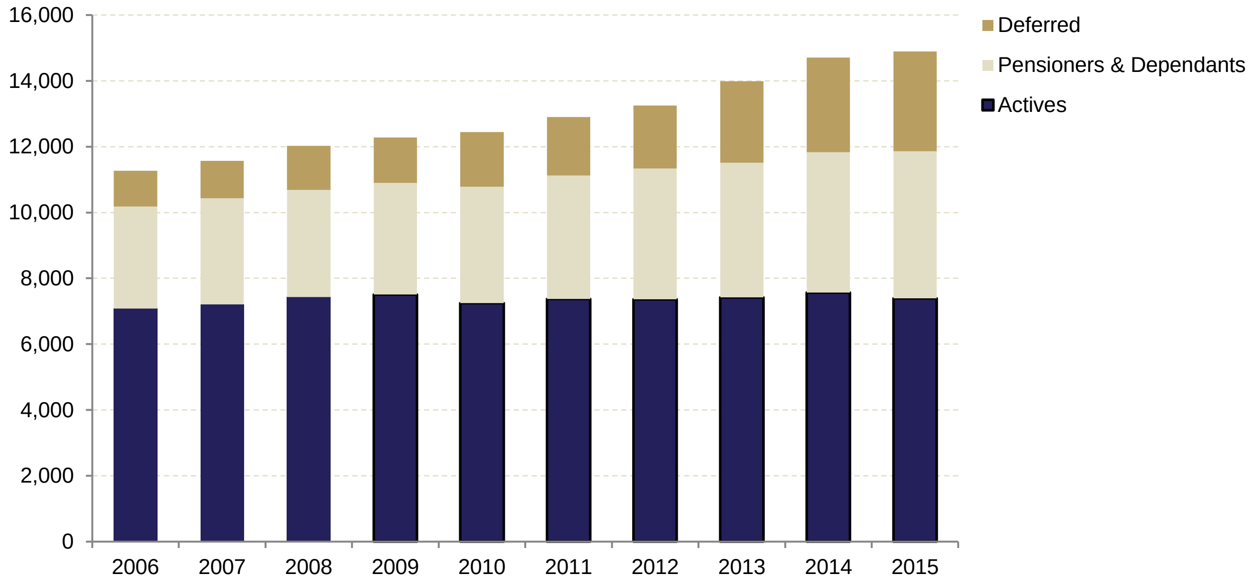
MEMBERSHIP

Total membership of the PECRS continues to grow as the proportion of Pensioners and Deferred members continues to increase. As at the end of December 2015 the Scheme had 7,388 active members, 3,034 deferred beneficiaries and 4,474 pensioners and dependants (with pension payment), making 14,896 in total (2014: 14,708).

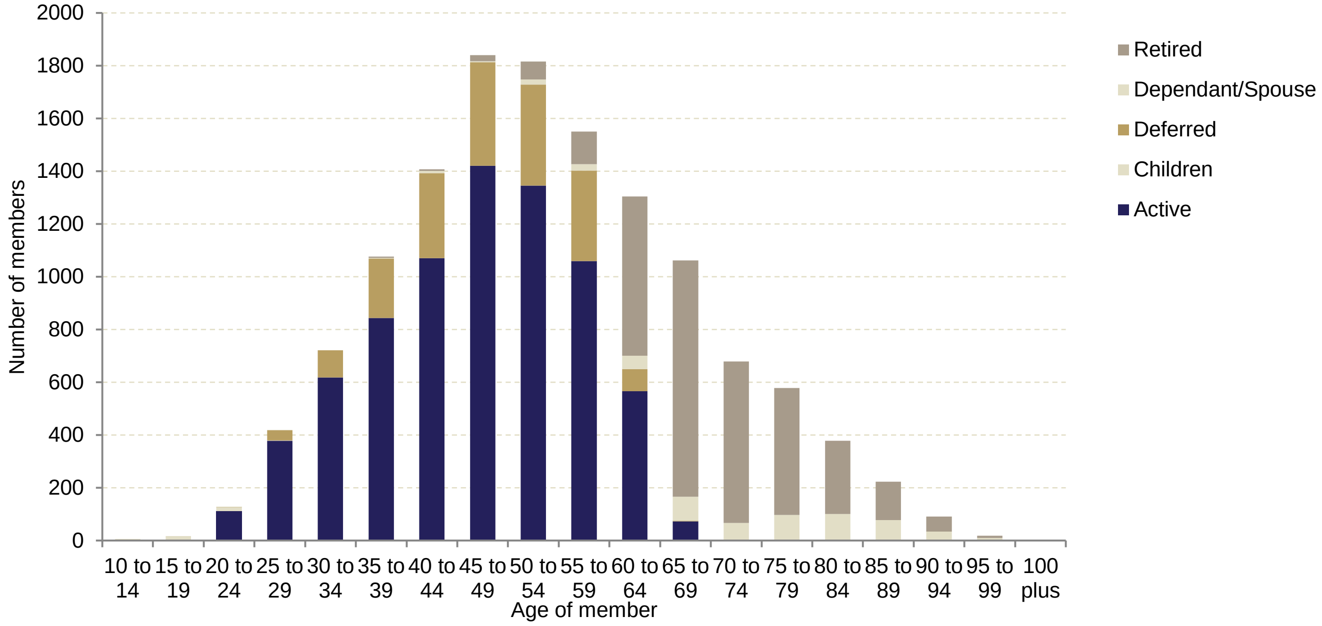


TOTAL MEMBERSHIP = 14,896

SCHEME MEMBERSHIP NUMBERS OVER THE LAST 10 YEARS



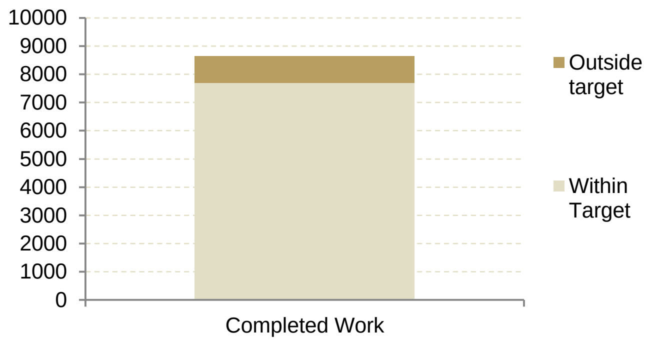
AGE PROFILE OF THE MEMBERSHIP 2015



PERFORMANCE & FEEDBACK

The chart shows the actual casework volumes during the year and also the volumes completed within the targets set in the Administration Agreement between the Committee of Management and the Administrator. During the last year 95% of tasks were completed within the targets set.

2015 CASEWORK VOLUMES



PENSION INCREASES AND CONSTRAINTS

Under the Regulations, PECRS pensions and deferred pensions are increased in line with the Jersey All Items Cost of Living Index provided that the Scheme's financial position remains satisfactory. Following the deficit as at 31 December 2007, all future increases to pensions and deferred pensions were reduced by 0.3% with effect from 1 January 2011. However, arising from the surplus as at 31 December 2010 the reduction was partly restored, becoming 0.15% with effect from 1 January 2013. The results of the 2013 actuarial valuation have enabled this 0.15% reduction to be fully restored and for the Scheme to return to increasing PECRS pensions and deferred pensions in line with the Jersey All Items Retail Prices Index.

Pension increases for the last 4 years have been:

1st January	Jersey All Items RPI %	PECRS Pension Increase %
2013	2.1	2.1*
2014	1.9	1.9*
2015	1.3	1.3
2016	0.9	0.9

* originally these increases were reduced by 0.15% but they were re-instated in November 2014 following the 2013 Actuarial Valuation (Members under the FHS Regulations and 1967 Regulations have received their pension in full with any reduction being paid by their employer not the Scheme).

Pension increases are subject to the financial position of the Scheme remaining satisfactory and thus not guaranteed.

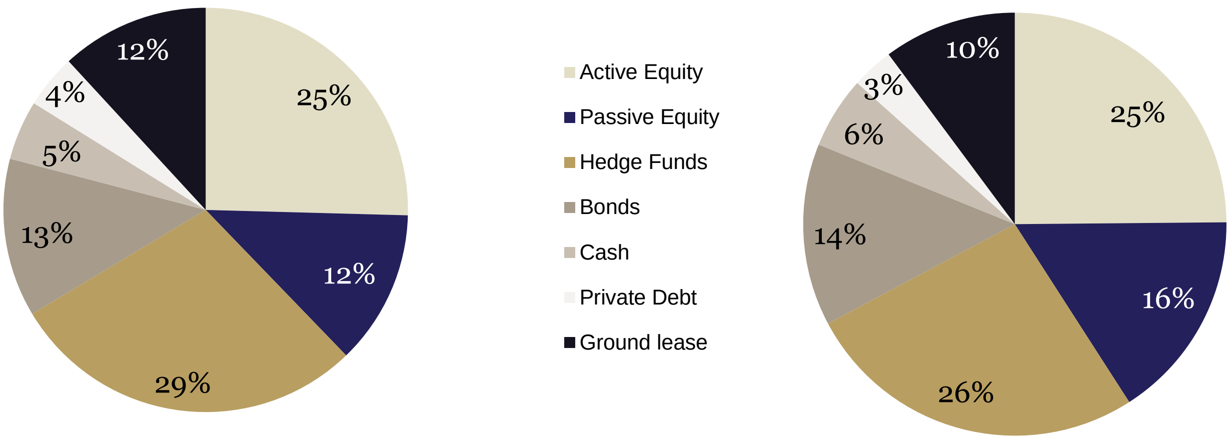
INVESTMENTS

The Scheme currently has £1.8 billion of assets under management (2014: £1.7 billion), split between 11 investment managers. During the year the Scheme increased by £100 million with a performance of 5.7% against a benchmark return of 2.1%.

ASSETS UNDER MANAGEMENT

As at 31 December 2015 the Scheme's assets under management were invested in a range of asset categories to achieve diversification. By investing in a range of different asset classes the Scheme aims to generate a higher level of return for a given level of risk and to smooth out, to some extent, the volatility of investment returns.

2015 2014



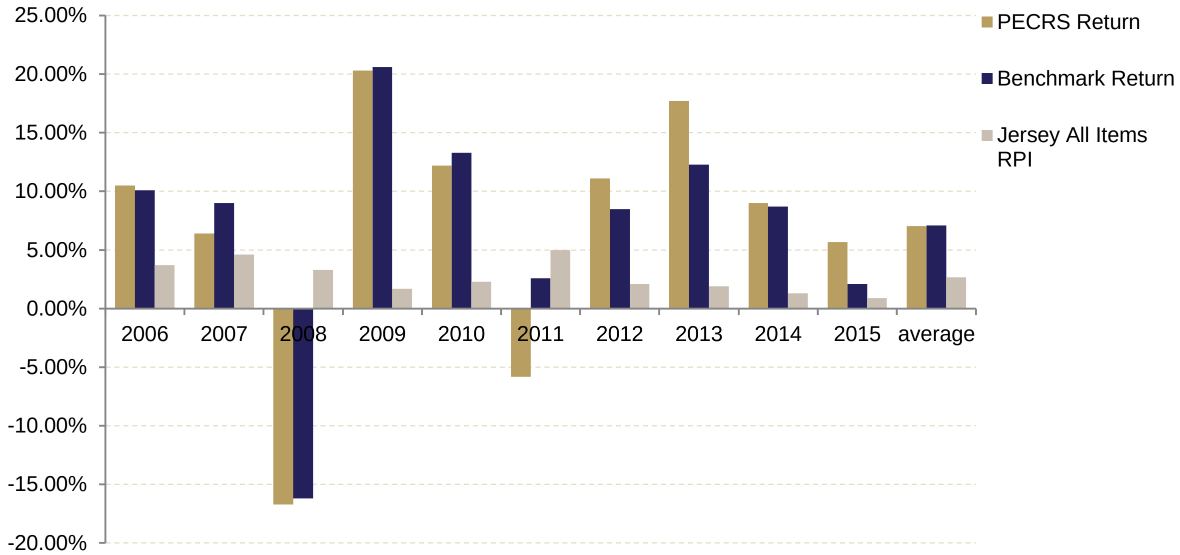
PORTFOLIO MANAGERS AND FUND VALUES

Fund Manager	Value of Fund (£m)	2015 performance		
		Performance	Benchmark Performance	Over / (under) performance
Equity				
Baillie Gifford & Co[2]	247.6	21.8	3.8	18.0
Legal and General Investment Management	225.9	0.7	5.5	(4.8)
Veritas Asset Management (UK) Ltd	219.0	8.5	3.8	4.7
Alternatives				
Arrowgrass Capital Partners LLP	129.3	7.6	0.0	7.6
Landsdowne Partners Limited	230.1	16.7	0.6	16.1
Odey Asset Management LLP	163.7	(12.2)	0.0	(12.2)
Bonds				
CQS	131.6	3.6	0.6	3.0
Investec Asset Management	99.9	(12.0)	(10.0)	(2.0)
Cash				
Northern Trust[1]	87.3	-	-	-
Property				
Pramerica Real Estate Investors Ltd (Commercial)	144.6	10.7	1.2	9.5
Pramerica Real Estate Investors Ltd (Residential)	71.8	14.3	1.2	13.1
Private Debt				
Hayfin Capital Management	74.2	4.5	0.0	4.5
	1,825.0	5.7	2.1	3.6

1 Appointed during the year (1 Aug 15).
2 This Includes broker cash under the control of these investment managers.

INVESTMENT PERFORMANCE

The Scheme's assets are invested to generate returns to pay Scheme benefits over the long term. Whilst absolute and relative performance compared to the benchmark has been positive over the last few years, it is important not to consider short term performance in isolation. The following graph shows the overall Scheme returns compared with the benchmark for the ten years 2006 to 2015. Over that whole period, the Scheme's investments achieved a return of 7.0% per annum against a Scheme benchmark of 7.1% per annum. The Jersey All Items RPI over the same period was 2.7% per annum meaning that the Scheme's investments have achieved a real rate of return above the Jersey All Items RPI of 5.3% per annum.



The table below shows the total performance of the Scheme over the periods ended 31 December 2015.

Time period	Performance Actual	Performance Benchmark	Over performance
1 Year	5.7	2.1	3.6
3 Years	10.7	7.6	3.1
5 Years	7.3	6.5	0.8
Since inception*	6.1	6.0	0.1

*This is calculated since 30 November 1998

INVESTMENT STRATEGY

The Committee's Investment Subcommittee develops the long-term investment strategy with the advice of its investment consultant, Mercer. It is also responsible for monitoring the Scheme's investment managers. How the Scheme's assets are monitored is set out in the Statement of Investment Principles that can be found on the Scheme's website (www.gov.je/statesemployeespension).

LONG-TERM INVESTMENT STRATEGY

The table below sets out the Scheme's investment strategy and the long term strategic allocation in place at the yearend.

Asset Category	Current Benchmark %	Actual Assets %
Growth Investments	55	58.3
Equities	35	33.2
Alternatives	20	25.1
Bond-Like Investments	45	41.7
Property	10	10.4
Bonds	20	14.9
Salary-Linked Bond	15	12.2
Cash	-	4.2
Total	**100**	**100**

ETHICAL, SOCIAL AND GOVERNANCE ASPECT OF INVESTING

The Investment Subcommittee has considered the Ethical, Social and Governance (ESG) aspects of investing the Scheme's assets and has decided on its position for this area. The Scheme has agreed to support the UK Stewardship Code and that each of the Scheme's investment managers should be asked to prepare a report on their approach to the UK Stewardship Code and ESG aspects in preparation for their annual meetings with the Subcommittee. This will enable the Investment Subcommittee to monitor the stances taken by their investment managers in this important area. The policy is reflected in the Statements of Investment Principles that can be found on the Scheme's website (www.gov.je/statesemployeespension).

DEVELOPMENTS DURING THE YEAR

The Investment Subcommittee held monitoring meetings with all the Scheme's investment managers during the year. The main movements in investments were: -

- Invested an additional £24 million in the Pramerica UK Residential Ground Lease Fund II.
- Continued to fund the Hayfin Limited Partnership so that by the end of the year £71.8 million had been invested.
- Completed the process to exit the mandate with Mirabaud Investment Management Ltd with the assets being moved to a number of other mandates.
- Invested an additional £30 million in the Arrowgrass Hedge Fund and an additional £21 million in the Lansdowne Hedge Fund.

CONCLUSION

Over the last year the Scheme's managers have performed strongly in difficult markets, delivering a return of 5.7% and exceeding the scheme specific benchmark by 3.6%. The Committee of Management has continued to keep their strategic investment allocation under review and make changes where it is felt in the best interest of the Scheme and its members. The approach to corporate governance has been reviewed and our decision to rely on the Scheme's investment managers to vote at company meetings on our behalf has been re-confirmed.

During the year the results of the last actuarial valuation were presented to the States. At the end of 2013 the Scheme Actuary determined that the Scheme had a surplus of £92.7 million. This has enabled previous reductions in the pension increase to be repaid and the Scheme to return to paying pension increases equal to Jersey All Items RPI.

In November 2015, the States Assembly agreed changes to the Scheme which introduce a Career Average Revalued Earnings (CARE) Scheme. With effect from 1 January 2016 new employees are admitted into the CARE Scheme which is to be known as the Public Employees Pension Scheme (PEPS). Existing employees will also transfer into PEPS on 1 January 2019 with the exception of members who are within 7 years of their normal retirement age on 31 December 2018 who will have the option to remain in the final salary pension scheme (PECRS). It is reassuring that the long planned changes to the Scheme that aim to ensure it is sustainable, affordable and fair have been agreed and implemented.

The Scheme relies greatly on the hard work of officers, consultants, actuaries, advisors and investment managers to ensure that the high standards expected for the management of the Scheme are maintained. I would like to thank all those involved in the Scheme for the support that they have provided during the last year.

Gordon Pollock BSc, FFA
Chairman of the Committee of Management
25 May 2016

FUND ACCOUNT

for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Dealings with members			
Contributions			
Employer contributions	4	63,319	44,084
Employee contributions	4	14,629	14,613
	4	77,948	58,697
Transfers in		2,892	2,704
Other income	6	509	611
		81,349	62,012
Benefits			
Benefits	5	68,008	65,066
Payments to and on account of leavers		275	260
Transfers out		4,886	2,907
Administrative expenses	7	1,926	2,097
		75,095	70,330
Net additions/(withdrawals) from dealings with members		6,254	(8,318)
Net returns on investments			
Change in market value of investments	10	103,194	148,723
Investment income	8	12,385	13,333
Investment administration expenses	9	(21,540)	(21,832)
Net returns on investments		94,039	140,224
Net increase in the Scheme's assets during the year		100,293	131,906
Opening net assets		1,732,689	1,600,783
Closing net assets		**1,832,982**	**1,732,689**

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

as at 31 December 2015

	Note	2015 £'000	2014 £'000
Investment assets			
Equities	10	441,306	419,228
Pooled Investment Vehicles	10	1,271,265	1,209,086
		1,712,571	1,628,314
Cash	10	112,337	106,401
Other investment balances	10	6,997	1,132
Total investment assets		1,831,905	1,735,847
Current assets	15	2,817	4,808
Current liabilities	16	(1,740)	(7,966)
Total net assets available for benefits		**1,832,982**	**1,732,689**

The Financial Statements summarise the transactions of the Scheme and deal with the net assets available for benefits at the disposal of the Committee of Management. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the report on Actuarial Liabilities on pages 35 and 36 of the Annual Report and these Financial Statements should be read in conjunction with it.

In accordance with Regulation 12 of Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989 the Financial Statements have been prepared by the Treasurer of the States of Jersey and have been audited.

The notes on pages 19 to 30 form part of these financial statements.

Richard Bell
Treasurer of the States
25 May 2016

These Financial Statements were received and approved on behalf of the Committee of Management on 25 May 2016.

Gordon Pollock BSc, FFA
Chairman of the Committee of Management
25 May 2016

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1. CONSTITUTION

The Public Employees Contributory Retirement Scheme (the "Scheme") is an independent retirement scheme, governed by Regulations made under the Public Employees (Retirement) (Jersey) Law, 1967, as amended.

2. BASIS OF PREPARATION

These Financial Statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, Financial Reporting Standards (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (FRS 102) and guidance set out in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (November 2014)' ("the SORP"). In adopting FRS 102, the provisions of 'Amendments to FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland – fair value hierarchy disclosures (March 2016) have been adopted early.

3. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The Scheme has adopted FRS 102 in these financial statements for the first time (see note 20).

a) Investment income

Income from fixed interest securities and bank interest is accounted for on an accruals basis. Dividend income from other quoted securities is recognised when the securities are quoted ex-dividend.

b) Benefits and payments to and on account of leavers

Benefits are recognised as they become due and payable.

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option exercised.

c) Contributions

Employer and employee contributions are recorded when the employee contributions are deducted from payroll. Both are based on a percentage of salary for the period to which they relate. Additional contributions (e.g. payments to augment pensionable service by the purchase of additional years either by the employer or, through the additional voluntary contribution facility, by the employee) are recorded when they are deducted from payroll.

The Scheme has AVC arrangements whereby individuals can pay additional contributions which are invested in the Scheme enabling members to gain additional years of service,

The Employers' contributions for the Pre 1987 Debt are accounted for in accordance with the agreement with the agreement on which they are based.

d) Transfers

Transfer values represent the capital sums either receivable in respect of members from other pension plans of previous employers or payable to the pension plans of new employers for members who have left the Scheme.

Transfer payments are accounted for on an accruals basis on the date the trustees of the receiving plan accept their liability. In the case of individual transfers, this is normally when the payment of the transfer value is made.

e) Other expenses

All fees and expenses are accounted for on an accruals basis.

f) Valuation of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investments vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

Market values of listed investments held at the year-end are taken at bid-prices or last trade prices depending on the convention of the Stock Exchange on which these are quoted. Foreign currency prices are expressed in sterling at the closing exchange rates on the last business day in the Scheme's financial year.

The valuation of the investment units held in the pooled funds is based on the closing bid prices of the units as confirmed by valuations received from the investment manager. These valuations are based on the bid prices of the underlying investments held by the custodian of the pooled fund.

The Ground Lease investments are valued, as advised by the Investment Manager, at the proportion due to PECRS of the open market value of the assets in the Fund valued in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors.

Capital calls or return of capital are recognised from the date the Scheme is notified of the event.

Transaction costs, being incremental costs that are directly attributable to the acquisition or disposal of an investment, are added to purchase costs and netted against sale proceeds as appropriate.

g) Taxation

The Scheme is exempt from Jersey income tax by virtue of Article 131 of the Income Tax (Jersey) Law 1961. Thus it is exempt from income tax in respect of income derived from the investments and deposits of the Scheme, ordinary annual contributions made by the Scheme members and gains made from investments held.

h) Currency

The Scheme's functional currency and presentational currency is pounds sterling.

Assets and Liabilities denominated in foreign currencies are expressed in Sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into Sterling at the spot exchange rate at the date of the transaction.

4. CONTRIBUTIONS

	2015 £'000	2015 £'000	2014 £'000	2014 £'000
STATES EMPLOYEES				
Employers				
Normal		33,608		33,388
Additional				
Past Service Debt	26,270		7,316	
Augmentation	198		176	
Voluntary Early Retirement	33		-	
		26,501		7,492
Members				
Normal	12,576		12,558	
Additional voluntary contributions	492		505	
		13,068		13,063
ADMITTED BODIES				
Employers				
Normal		3,210		3,204
Members				
Normal	1,523		1,514	
Additional voluntary contributions	38		36	
		1,561		1,550
		77,948		**58,697**

Past service debt contributions of £5.5m per annum are being paid by the employer until 2053 in accordance with Public Employees (Pension Scheme)(Funding and Valuation)(Jersey) Regulations 2015.The past service debt includes a repayment of £20.8 million in respect of Ports of Jersey Limited share of the Pre 1987 debt. In 2014 Andium Homes Limited was incorporated and a repayment of £1.9 million was made against the Pre 1987 debt.

5. BENEFITS PAYABLE

	2015 £'000	2014 £'000
Pensions	59,633	56,821
Commutations and lump sum retirement benefits	7,866	7,633
Lump sum death benefits	509	612
	68,008	**65,066**

6. OTHER INCOME

	2015 £'000	2014 £'000
Claims on death benefit insurance	509	611

7. ADMINISTRATIVE EXPENSES

	2015 £'000	2014 £'000
Salaries and office costs	1,061	784
Actuarial fees	277	498
Audit fees	46	77
Legal fees	56	132
Chairman and secretary fees	121	126
Premium on death insurance policies	326	460
Other expenses	39	20
	1,926	**2,097**

The Scheme holds an insurance policy with Aviva which provides death in service cover.

8. INVESTMENT INCOME

	2015 £'000	2014 £'000
Dividends from equities	7,173	9,397
Income from property managed funds	5,192	4,292
Income on cash deposits	320	170
	12,685	13,859
Gain on outstanding trades	-	198
Realised gain/(loss)on foreign exchange	366	(233)
	366	(35)
Less irrecoverable withholding tax	(666)	(491)
Total investment income	**12,385**	**13,333**

9. INVESTMENT ADMINISTRATION EXPENSES

	2015 £'000	2014 £'000
Investment management expenses	20,908	21,281
Custodian expenses	72	56
Investment advisory expenses	555	495
Other investment expenses	5	-
	21,540	**21,832**

The appointed investment managers are entitled to fees based upon a percentage of the net assets under management. The percentage varies from 0.05% to 1.5% based on the complexity of the asset class under management. In addition Odey, Arrowgrass and Lansdowne are paid performance fees for out-performing their benchmark.

The investment consultant receives a flat fee for services rendered and performance related fee based on the performance of the individual investment managers.

10. RECONCILIATION OF NET INVESTMENTS

	Value at 1.1.15 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Value at 31.12.15 £'000
Equities	419,228	108,691	(144,600)	57,987	441,306
Pooled Investment Vehicle	1,209,086	103,848	(86,876)	45,207	1,271,265
	1,628,314	212,539	(231,476)	103,194	1,712,571
Cash	106,401				112,337
Total	1,734,715				1,824,908
Pending Trades	-				5,637
Accrued Interest	1,132				1,360
Other investment balances	1,132				6,997
Total net investments	1,735,847				1,831,905

11. INVESTMENT TRANSACTION COSTS

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 10. Direct costs are analysed as follows:

	Equities £'000	2015 Total £'000	2014 Total £'000
Fees	62	62	612
Commissions	163	163	280
2015 total	**225**	**225**	**892**

In addition to the direct transaction costs disclosed above, indirect costs are incurred through the bid offer spread on some pooled investment vehicles and charges made within those vehicles. It has not been possible to quantify such indirect transaction costs.

12. FAIR VALUE OF INVESTMENTS

The fair value of investments has been determined using the following hierarchy.

Level 1 – Unadjusted quoted prices in active markets for identical securities that the entity can access at the measurement date.
Level 2 – Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
Level 3 – Significant unobservable inputs i.e. for which market data is unavailable.

The Scheme's investment assets have been included at fair value within these levels as follows:

Level	1 £'000	2 £'000	3 £'000	2015 Total £'000
Investment assets				
Equities	441,306	-	-	441,306
Pooled investment vehicles	-	325,810	945,455	1,271,265
Cash	112,337	-	-	112,337
Pending Trades	-	-	5,637	5,637
Accrued Interest	31		1,329,	1,360
Total investments	**553,674**	**325,810**	**952,421**	**1,831,905**

Analysis for the prior year end is as follows:

Level	1 £'000	2 £'000	3 £'000	2014 Total £'000
Investment assets				
Equities	419,228	-	-	419,228
Pooled investment vehicles		392,390	816,696	1,209,086
Cash	106,401	-	-	106,401
Pending Trades	-	-	-	-
Accrued Interest	29	-	1,103	1,132
Total investments	**525,658**	**392,390**	**817,799**	**1,735,847**

13. INVESTMENT RISKS

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed to at the end of the reporting period. These risks are set out by FRS 102 as follows:

Credit risk: is the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

Market risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Committee of Management is responsible for determining the Scheme's investment strategy. The Committee of Management has set the investment strategy for the Scheme after taking appropriate advice from its professional advisors. This strategy includes ranges for the proportion of assets to be included in each asset class. The day-to-day management of the asset within each portfolio of the Scheme, including the full discretion for stock selection, is the responsibility of the investment manager.

The Scheme has exposure to the above risks because of the investments it makes to implement its investment strategy. The Committee of Management primarily manages these risks through the adoption of a long-term investment strategy that is diversified both by asset class and manager. The risks are monitored on an ongoing basis by the Investment Subcommittee by regular reviews of the investment portfolios.

The following table summarises the extent to which the various classes of investments are affected by financial risks:

Asset Category	Market Risk				2015 Value (£m)	2014 Value (£m)
	Credit	Currency	Int Rate	Other		
Segregated						
Equities		√		√	441.3	419.2
Pooled Funds						
Equities		√		√	225.9	278.1
Property	√		√		216.5	175.4
Bonds	√	√	√		305.7	296.7
Alternatives	√	√		√	523.2	458.9
Cash	√		√		112.3	106.4
Pending Trades	√	√	√		5.6	-
Accrued Interest	√	√	√	√	1.4	1.1

Investment Strategy

The main priority of the Committee of Management when considering the investment policy for the Scheme is the aim to ensure that the benefits payable to members are met as they fall due whilst maintaining required liquidity. The below table details the current investment strategy of the Scheme.

Asset Class	PECRS %	Range %
Growth Investments	65.0	+/- 10.0
Equities	41.5	+/- 10.0
Alternatives	23.5	+/- 10.0
Bond-like Investments	35.0	+/- 10.0
Corporate Bonds	11.7	+/- 10.0
Index-Linked Gilts	11.7	+/- 10.0
Ground Lease Property	11.6	+/- 5.0
Salary Linked Bond	-	+/- 5.0

The core "growth" asset used by the Scheme is equities as the Committee of Management believes that they represent the cheapest, easiest and most transparent way to achieve a high level of investment return over the long-term. The Committee recognises however that the performance of equities can be volatile over time.

The Committee has invested in other "growth-like" alternatives (away from equities) that still target a reasonably high investment return, to diversify the Schemes' growth assets. These provide a different source of return less correlated to equities, which should help to reduce the risk of being over-exposed to any one market, asset class or manager, and enabling a smoother return over time. Examples of this include hedge funds.

Bond-like assets are defined by the Committee of Management as those assets that are aiming to achieve a much more stable return (when compared to growth assets) typically with a strong focus on the provision of income.

The core "bond-like" asset used by the Scheme is bonds with the target allocation focused on gilts (bonds issued by the UK government) and investment grade UK corporate bonds (bonds issued by high quality companies in sterling). Within the bond allocation, the Committee has a wide degree of flexibility to invest in other bonds if it thinks it is appropriate to do so on valuation grounds. Examples of this include taking a more global approach, investing in high yield bonds, private debt, or considering the bonds of emerging market economies.

Credit Risk

The Scheme is subject to credit risk because the Scheme directly holds cash balances. As at the year end, the Scheme held the following cash balances.

	2015 (£m)	2014 (£m)
HSBC (Note 15)	1.8	3.9
Northern Trust (Note 10)	112.3	-
J P Morgan (Note 10)	-	106.4
	114.1	**110.3**

The Scheme also invests in pooled investment vehicles which invest in emerging market sovereign government bonds, corporate bonds, private debt and property. The value at year end amounted to £522.2 million (2014: £472.1 million). The pooled investment arrangements used by the Scheme comprise authorised unit trusts. The Scheme is therefore directly exposed to credit risk arising from these pooled investment vehicles and is indirectly exposed to credit risks arising on the underlying investments held by these pooled investment vehicles.

The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

All the segregated assets of the Scheme are held by the Scheme's custodian, Northern Trust (2014: J P Morgan). Bankruptcy or insolvency of the custodian may cause the Scheme's rights with respect to securities held by the custodian to be delayed however as they are held in named accounts the assets will not be included on the balance sheet of the custodian. Cash not forming part of the investment assets is swept daily into the Northern Trust Sterling Fund account to minimise the amount that is included on the custodian's balance sheet.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

In addition, the notes below provide more detail on how this risk is managed and mitigated for the different classes.

Emerging Market Debt

Credit risk arising on non-investment grade bonds held indirectly as part of the Scheme's emerging market debt mandate is mitigated through diversification of the underlying securities to minimise the impact of default by any one issuer. This is the position at the current and previous year end.

Corporate bonds

Credit risk arising on corporate bonds held indirectly is mitigated by investing in corporate bonds which are rated at least investment grade. The Committee of Management consider financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's. This is the position at the current and previous year end.

Cash balances

Credit risk arising on cash held within financial institutions is mitigated by ensuring cash is held at least investment grade credit rated. This is the position at the current and previous year end.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Investment Subcommittee carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager.

Currency Risk

The Scheme is subject to currency risk because some of the Scheme's investments from its segregated investment mandates are denominated in a foreign currency. Indirect currency risk arises from the Scheme's investment in Sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currency. The Committee of Management minimises the direct risk by investing in GBP denominated share classes when appointing new investment managers.

The net currency exposure at the current and previous year-end was: -

	2015		2014	
	Direct Exposure (£m)	Indirect Exposure (£m)	Direct Exposure (£m)	Indirect Exposure (£m)
Pound Sterling	55.9	1,313.7	39.0	1,260.4
Euro	63.8	37.0	59.9	38.1
US Dollar	295.2	106.3	237.9	132.9
Japanese Yen	-	26.7	-	28.5
Other	51.9	135.8	64.5	168.9

Interest rate risk

The Scheme is subject to indirect interest rate risk through a number of pooled investment vehicles that hold investments in bonds, cash, private debt and ground leases. These holdings are monitored in the context of the overall investment strategy. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreements. Cash held to fund ongoing benefits and expenditure is kept to a minimum by ongoing monitoring with the majority of cash held with the custodian in a global sweep account.

	2015 (£m)	2014 (£m)
Indirect interest rate risk		
Emerging market debt	99.9	114.3
Private debt	74.2	55.3
Corporate bonds	131.6	127.1
Ground lease	216.4	175.4

Other Price Risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities and hedge funds held either as segregated investments or through underlying investments in pooled investment vehicles.

The Scheme has set a target asset allocation of 65% of investments being held growth investments. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets held with various high quality investment managers who are monitored by the investment advisor and Treasury Representatives on an ongoing basis.

At the year end, the return seeking portfolio represented 58% of the total investment portfolio (2014: 60%).

Liquidity risk

Liquidity risk represents the risk that the Scheme will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Scheme therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This is monitored on an ongoing basis to ensure cash is available to meet the pensioner payroll costs, expenses and also to meet investment commitments.
The Fund has immediate access to cash through HSBC that is kept to a minimum to reduce credit risk of £1.8 million (2014 £3.9 million). The Scheme also has the ability to access immediate cash held by Northern Trust which as at 31 December 2015 was £112.3 million (2014 £106.4 million held with J P Morgan).

14. CONCENTRATION OF INVESTMENTS

Investments accounting for more than 5 % of the net assets of the Scheme were:

	2015 Value	2015 %	2014 Value	2014 %
Legal & General FTSE RAFI AW3000 (Net WHT) Ind	225,861	12%	278,115	16%
CQS Credit Multi Asset Fund	131,604	7%	127,086	7%
Investec OEIC EM Lcl Ccy Debt Fund S GBP	99,949	5%	114,275	7%
Pramerica UK Groundlease Fund	144,644	8%	132,233	8%
Arrowgrass Masterfund	129,344	7%	91,886	5%
Lansdowne Developed Markets Fund Limited	230,072	13%	177,353	10%
Odey European Inc	163,737	9%	189,655	11%

15. CURRENT ASSETS

	2015 £'000	2014 £'000
Contributions due	253	243
Debtors	551	661
Cash balances	1,846	3,904
Advances to States of Jersey	167	-
	2,817	**4,808**

16. CURRENT LIABILITIES

	2015 £'000	2014 £'000
Creditors	(1,740)	(5,526)
Unsettled trade purchases	-	(225)
Advances from States of Jersey	-	(2,215)
	(1,740)	(7,966)

17. CONTINGENCIES AND COMMITMENTS

In the opinion of the Committee of Management, the Scheme had no contingent liabilities at 31 December 2015 (2014: nil).

At 31 December 2015 the Scheme had undrawn commitments to fund a private debt vehicle amounting to £27,538,881 (2014:£50,329,935).

18. RELATED PARTY TRANSACTIONS

The Treasury & Resources Department, a department of the States of Jersey, provides creditor payment, payroll, cash management and financial ledger services for PECRS. At the year end, a sum of £166,506 was owed to the Scheme by the States of Jersey in respect of transactions with the department (2014: £2,214,593 was owed by the scheme to the States of Jersey). During the year an amount of £847,649 (2014: £750,200) was paid to the department in respect of the services provided. The Chairman and Secretary to the Committee of Management receive remuneration as detailed in Note 7. Within the Committee of Management Board there are 5 active (2014: 5), 1 deferred (2014:1) and 1 pensioner members (2014:1). There were no other related party transactions identified during the year.

19. POST BALANCE SHEET EVENTS

There are no post balance sheet events that need to be disclosed in the Financial Statements.

20. TRANSITION TO FRS 102

This is the first year that the Scheme has presented financial statements under FRS 102 and the SORP. The last financial statements under existing UK GAAP and the previous SORP (revised May 2007) were for the year ended 31 December 2014. The date of transition to FRS was 1 January 2014.

There has been no impact on the current or prior year Net Assets or Fund Account of the scheme following this change.

INDEPENDENT AUDITORS' REPORT TO THE COMMITTEE OF MANAGEMENT OF THE PUBLIC EMPLOYEES CONTRIBUTORY RETIREMENT SCHEME

REPORT ON THE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, Public Employees Contributory Retirement Scheme's financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 December 2015, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989.

WHAT WE HAVE AUDITED

Public Employees Contributory Retirement Scheme's financial statements comprise:

- the statement of net assets available for benefits as at 31 December 2015;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".
In applying the financial reporting framework, the Treasurer of the States (the "Treasurer") has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE COMMITTEE OF MANAGEMENT AND THE TREASURER OF THE STATES

As explained more fully in the statement of responsibilities, the Treasurer is responsible for the preparation of the financial statements and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Committee of Management as a body in accordance with the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Treasurer; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Treasurer's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
25 May 2016

STATEMENT OF RESPONSIBILITIES

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Treasurer of State (the "Treasurer")s. The Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989 require the Treasurer to prepare, and have professionally audited, annnual accounts of the Scheme which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- contain the information specified in properly prepared in accordance with the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989.

The Treasurer is responsible for agreeing suitable accounting policies, to be applied consistently, and for making any estimates and judgements on a prudent and reasonable basis.

The Treasurer also has a general responsibility for ensuring that adequate accounting records are kept and the Committee of Management and the Treasurer have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The States of Jersey are responsible for the maintenance and integrity of the States of Jersey website. Jersey legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF SCHEME ACTUARY

Name of Scheme: States of Jersey Public Employees Contributory Retirement Scheme

Effective Date of Valuation: 31 December 2013

1. SECURITY OF PROSPECTIVE RIGHTS

It is our opinion that, on a going concern basis, the resources of the Scheme are likely in the normal course of events to meet in full the liabilities of the Scheme as they fall due, assuming all future increases to pensions and deferred pensions effective on or after 1 January 2015 will be in line with the annual increase in the Jersey All Items RPI. This opinion is based on the financial position of the Scheme at the effective date, 31 December 2013, and does not take account of more recent developments.

Our report on the valuation of the Scheme as at 31 December 2013 was signed on 31 October 2014. The report disclosed a surplus of £92.7M at the effective date of the valuation.

The surplus of £92.7M as at 31 December 2013 was based on the provisions of the Scheme at that date and assumed that future increases in pensions and deferred pensions will be based on the annual increase in the Jersey All Items RPI less 0.15% p.a.. In accordance with the Scheme's Regulations, part of this surplus was used to restore previous reductions to pension increases and remove the 0.15% p.a. reductions for future pension increases. Future increases to pensions and deferred pensions effective on or after 1 January 2015 will therefore be in line with the annual increase in the Jersey RPI.

We confirm that the adjustment to future pension increases outlined above eliminated £38.1M of the surplus of £92.7M at the effective date of the valuation and it has been agreed that the remaining surplus of £54.6M should be retained as a buffer against future adverse experience.

A further valuation is due to be carried out as at 31 December 2016.

2. SECURITY OF ACCRUED RIGHTS ON DISCONTINUANCE

It is our opinion that, on a discontinuance basis, the Scheme's assets existing on the effective date were sufficient to cover 58% of its accrued liabilities as at that date. This assumes that the Scheme discontinued on the valuation date, even though the Regulations currently governing the Scheme do not envisage the Scheme's discontinuance (i.e. the future accrual of benefits and payment of contributions into the Scheme being discontinued).

By accrued liabilities we mean benefits arising in respect of pensioners, deferred pensioners and active members for service prior to the effective date, on the basis that all active members are treated as if they had terminated pensionable service on the effective date with entitlement to deferred pensions.

A procedure was agreed between the Policy & Resources Committee and the Scheme's Committee of Management, as documented in an Act of the Policy & Resources Committee dated 20 November 2003, for dealing with the shortfall transferred to the Scheme arising from the changes made to the Scheme in 1987 (the "pre-1987 debt"). This agreement was described in our report on the actuarial valuation of the Scheme as at 31 December 2013 and is reproduced in Appendix 1 to this statement. The provisions of the Scheme were amended to deal with the debt in that manner.

The above opinion assumes that, should there ever arise any question of the Scheme's discontinuance, the capitalised value of the debt would be assessed at the point of discontinuance and paid off in full by the States of Jersey at that point or over a period of time in accordance with the above agreement.

3. FURTHER INFORMATION

Further information underlying this statement is set out in Appendix 2 to this statement.

For Aon Hewitt Limited

Jonathan Teasdale
Fellow of the Institute and Faculty of Actuaries

21 April 2016

APPENDIX I – THE TEN POINT AGREEMENT

The framework agreed between the Policy and Resources Committee and the Committee of Management for dealing with the pre-1987 debt was documented in a ten-point agreement approved by Act of the Policy and Resources Committee dated 20 November 2003. The provisions of the agreement, which have subsequently been reflected in Regulations approved by the States of Jersey on 27 September 2005, enable us to treat the pre-1987 debt as an asset of the Scheme for valuation purposes. The text of the agreement is reproduced below.

1. The States confirms responsibility for the Pre-1987 Debt of £192.1 million as at 31 December 2001 and for its servicing and repayment with effect from that date on the basis that neither the existence of any part of the outstanding Debt nor the agreed method of servicing and repayment shall adversely affect the benefits or contribution rates of any person who has at any time become a member of the Scheme.
2. At the start of the servicing and repayment period, calculated to be 82 years with effect from 1 January 2002, the Employers' Contribution rate will be increased by 0.44% to the equivalent of 15.6%. These contributions will be split into 2 parts, namely a contribution rate of 13.6% of annual pensionable salary and an annual debt repayment. The Employer's Contribution rate will revert to 15.16% after repayment in full of the Debt.
3. During the repayment period the annual Debt repayment will comprise a sum initially equivalent to 2% of the Employers' total pensionable payroll, re-expressed as a cash amount and increasing each year in line with the average pay increase of Scheme members.
4. A statement of the outstanding debt as certified by the Actuary to the Scheme is to be included each year as a note in the States Financial Statements.
5. In the event of any proposed discontinuance of the Scheme, repayment and servicing of the outstanding Debt shall first be rescheduled by the parties on the advice of the Actuary to ensure that paragraph (1) above ("Point 1") continues to be fulfilled.
6. For each valuation the States Auditor shall confirm the ability of the States to pay off the Debt outstanding at that date.
7. If any decision or event causes the Actuary at the time of a valuation to be unable to continue acceptance of such servicing and repayment of the Debt as an asset of the Scheme, there shall be renegotiation in order to restore such acceptability.
8. In the event of a surplus being revealed by an Actuarial Valuation, negotiations for its disposal shall include consideration of using the employers' share to reduce or pay off the Debt.
9. As and when the financial position of the States improves there shall be consideration of accelerating or completing repayment of the Debt.
10. The recent capital payment by JTL of £14.3m (plus interest) reduced the £192.1m total referred to in (1) by £14.3m and if any other capital payments are similarly made by other Admitted Bodies these shall similarly be taken into account.

APPENDIX II – ADDITIONAL INFORMATION FROM THE ACTUARY

1. NOTES ON OUR OPINION ON THE SECURITY OF PROSPECTIVE RIGHTS

The resources of the Scheme consist of:

a) the existing assets, including net current assets and liabilities, which had a value of £1,600.8M at 31 December 2013.

b) an annuity policy which we have valued at £0.4M at the same date.

c) future contributions payable by members at the various rates specified in the Regulations.

d) future contributions payable by employers other than Jersey Telecom Limited and Jersey Post Limited at the rate of 13.6% of salaries.

e) future debt repayments payable over the period prior to 31 December 2083 by employers other than Jersey Financial Services Commission, Jersey Telecom Limited, Jersey Post Limited, Jersey Gambling Commission, Brig-Y-Don and Les Amis (who have each already paid a lump sum contribution to meet their share of the pre-1987 debt). The debt repayments are determined on the basis set out in the agreement for dealing with the pre-1987 debt which is reproduced in Appendix 1 to this statement (in accordance with point 9 of this agreement, additional payments are being made by the States under the States of Jersey Medium Term Financial Plan 2013 - 2015 to accelerate repayment of the debt). The States of Jersey have agreed to take on responsibility for the debt repayments due in respect of Family Nursing and Home Care.

f) additional future contributions of 13.0% of the salaries payable by the States of Jersey Ambulance Service in respect of members employed as Emergency Ambulance Officers over the period prior to 31 December 2014 and 14.5% of the salaries of those members thereafter.

g) additional future contributions of 6.4% of the salaries payable by the States of Jersey Ambulance Service in respect of members employed as the Chief Ambulance Officer or an Assistant Chief Ambulance Officer over the period prior to 31 December 2014, and 10.0% of the salaries of those members thereafter.

h) contributions payable by Jersey Telecom Limited at the rate of 7.19% of salaries to 1 December 2014, and at the rate of 7.07% of salaries thereafter, in respect of each of its employees who is a member of the Scheme.

i) contributions payable by Jersey Post Limited at the rate of 8.14% of salaries to 1 December 2014, and at the rate of 8.27% of salaries thereafter, in respect of each of its employees who is a member of the Scheme.

2. NOTES ON OUR OPINION ON THE SECURITY OF ACCRUED RIGHTS ON DISCONTINUANCE

In calculating the value of the Scheme's accrued liabilities assuming the Scheme was discontinued, we have estimated the terms that might be offered by insurance companies for determining the cost of immediate and deferred annuities to secure the liabilities, plus a provision to cover expenses. In practice an alternative to purchasing annuities to secure the liabilities would be to continue running the Scheme as a closed fund.

The Regulations governing the Scheme at the effective date provided for annual increases in line with the Jersey All Items RPI less 0.15% p.a. (although increases are not guaranteed where an actuarial review has disclosed that the financial condition of the Scheme is no longer satisfactory). As there are no available assets which match the Scheme increases it is unlikely to be possible to purchase annuities based on such increases in the market. Therefore we have made allowance for increases to pensions before and during payment in line with the UK Retail Prices Index.

3. METHODS AND ASSUMPTIONS

The actuarial methods and assumptions underlying the opinions in this Statement are as set out in our full report on the valuation of the Scheme as at 31 December 2013.

GLOSSARY

Actuary: A consultant who advises the Scheme and every three years formally reviews the assets and liabilities of the Scheme and produces a report on the Scheme's financial position.

Admitted Bodies: Bodies whose staff can become members of the Pension Fund by virtue of an agreement made between the Chief Minister, Scheme and the relevant body.

Benchmark: A yardstick against which the investment performance of a fund manager can be compared, usually the index relating to the particular assets held.

Best estimate assumptions: Assumptions which have a 50% chance of outcomes being better than expected and a 50% chance of being worse than expected.

CARE Scheme: Career Average re-valued earnings Scheme, A pension scheme where benefits are built up for each working year and then "revalued" annually by an agreed index.

Committee of Management: Board to manage the Scheme under the powers vested in it by Regulations governing the Scheme. Comprising of; a chairman, six employer representatives and six member representatives.

Corporate Bonds: Investment in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.

Deferred Pension: The inflation linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment.

DPU: The Dedicated Pension Unit, a section of the States of Jersey Treasury & Resources department.

Equities: Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at Shareholders' meetings, which can be traded on a recognised stock exchange before the repayment date.

Fixed Interest Securities: Investments in mainly government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date.

Ground Lease: A long lease (typically 125 years or longer) granted by the freeholder on a piece of land in return for a ground rent. At the end of the lease the land and the building normally revert to the freeholder.

Jersey All Items RPI: Jersey All Items Retail Prices Index is the rate of inflation that retirement benefits are linked to.

Joint Negotiating Group: a co-ordinating group dealing with all pension matters put forward by its constituent unions and staff associations, individual Scheme members and matters referred to it by the Committee of Management and/or States Employment Board.

Managed and unitised funds: A pooled Fund in which investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. This enables a broader spread of investments than investors could achieve individually.

Market Value: The price at which an investment can be bought or sold at a given date.

Pending trades: Trades that have been instructed but not settled at year end.

Return: The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Segregated assets: Assets that the Scheme holds where the custodian holds individual assets on behalf of the Scheme that are managed by an Investment Manager. This is different to Pooled assets where the Scheme invests with other investors in a pool of assets, and the Scheme owns units in the pool as opposed to the individual assets.

SORP: Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised November 2014)', this is guidance on how to prepare the Financial Statements.

States Employment Board: The State's Employment Board is the employer of all public sector employees in Jersey and is responsible for fixing the terms and conditions of these employees. It is chaired by the Chief Minister and brings together two members who are Ministers or Assistant Ministers and 2 States members who are not.

Transfer Value: These are sums which represent the capital value of past pension rights which a member may transfer on changing pension Schemes.

CONTACTS AND FURTHER INFORMATION

If you can read this document but know someone who cannot please contact the DPU so this information can be offered in a more suitable format.

All published documents are available from the DPU.

Call us on (01534) 440227

Alternatively, you may wish to email us at pecrs@gov.je

Public Employees Contributory Retirement Scheme
Dedicated Pensions Unit
Cyril Le Marquand House
PO Box 353
St Helier
Jersey
Channel Islands
JE4 8UL

Opening times: Monday to Friday from 9am to 5pm

Website www.gov.je/statesemployeespension