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Review of the Jersey Social Security Fund as at 31 December 2015

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Agenda

- > Overview of the Fund
- > Purpose of the review
- > Results of 2015 review
- > Assumptions
- > Population projections
- > Assumed investment return
- > Conclusions

Overview of the Fund

- Primarily designed to provide benefits in old age and on death and incapacity
- Financed by a combination of social security contributions from individuals and employers and grants from the States
- Since 1998, excess income has generally been transferred to the Social Security (Reserve) Fund
- Where contribution income is lower than benefit expenditure Fund assets or Reserve Fund assets will be required to supplement contribution income

Purpose of the review

- Required by legislation at intervals not exceeding 3 years
- The previous review carried out as at 31 December 2012
- To review the operation of the Fund:
  - project possible future levels of expenditure from the Fund and the contribution rates required to finance this expenditure (breakeven contribution rates)
  - project the balance in the Fund and the Social Security (Reserve) Fund ("the Combined Funds"), assuming no change in contribution rates
  - identify risks to the sustainability of the Fund

The Fund has been growing in recent years

£ million	2013	2014	2015
Combined Fund at start	**1,007**	**1,214**	**1,323**
Contribution income	219	226	235
Investment income	196	96	35
Benefit expenditure	(202)	(205)	(212)
Expenses	(7)	(7)	(5)
Combined Fund at end	**1,214**	**1,323**	**1,377**
Breakeven contribution rate (%)	10.0	9.9	9.7
Fund as multiple of expenditure	5.3	6.0	6.2

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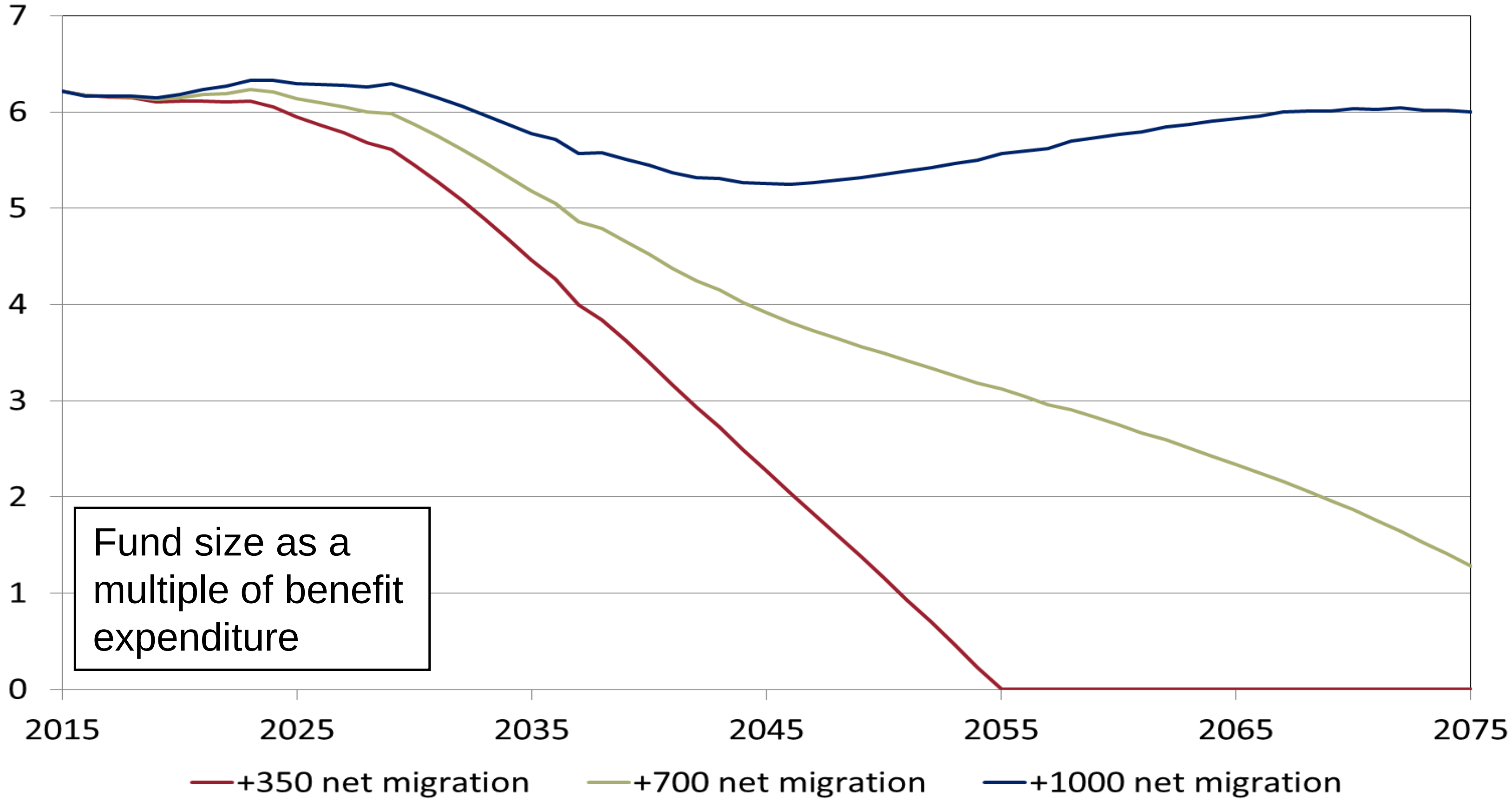
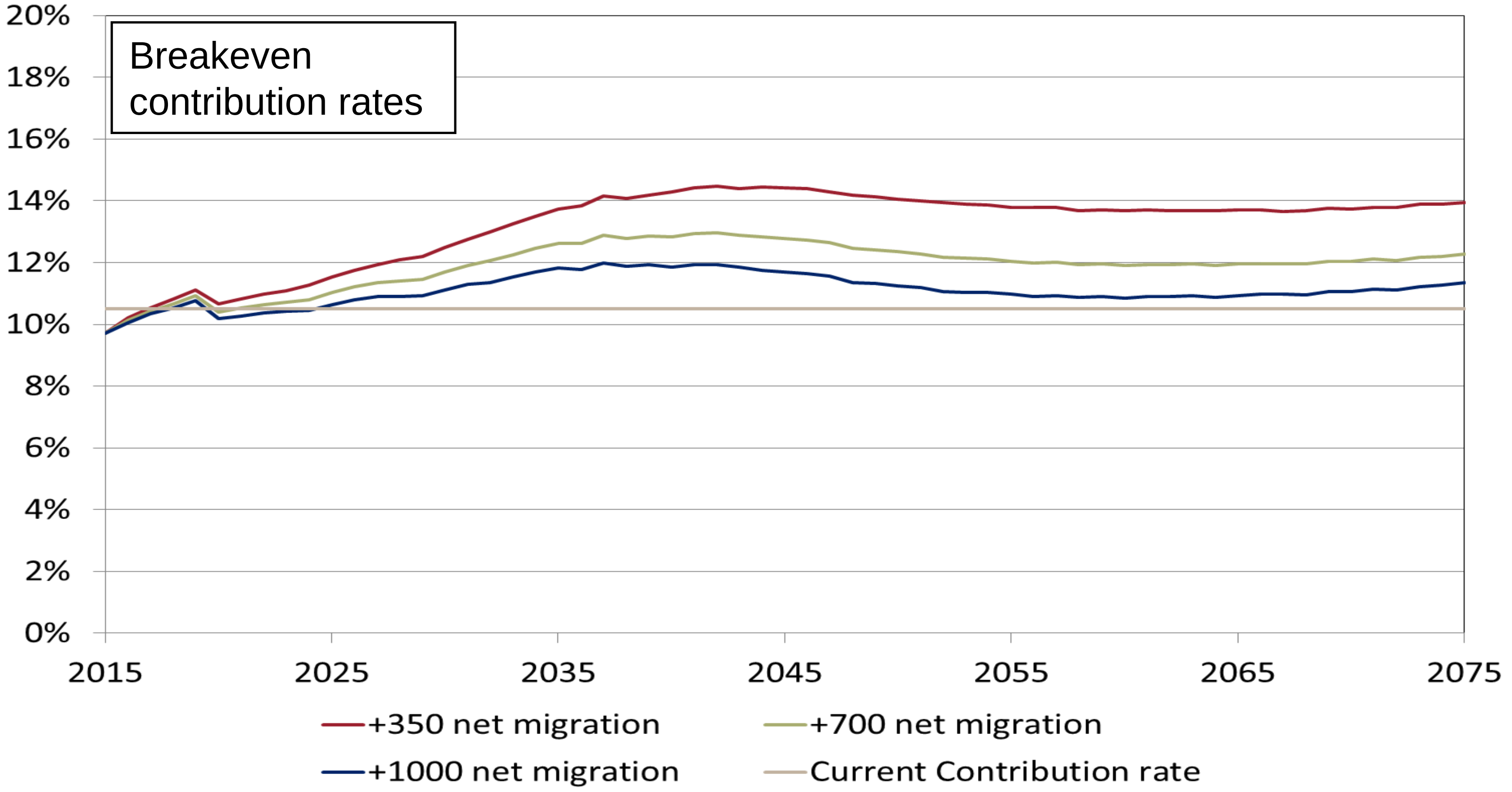
The Fund is expected to remain fairly stable as a multiple of benefit expenditure over the next ten years



The current contribution rate is projected to broadly meet benefit expenditure in the next ten years, after which Fund assets will be required to supplement contributions



Since the last review in 2012 the Fund outlook has slightly improved because:

- Investment returns have been better than expected in the period 2012 to 2015
- Small changes to expected contributor numbers and claims for old age pensions since the 2012 review have slightly reduced breakeven contribution rates in the short term

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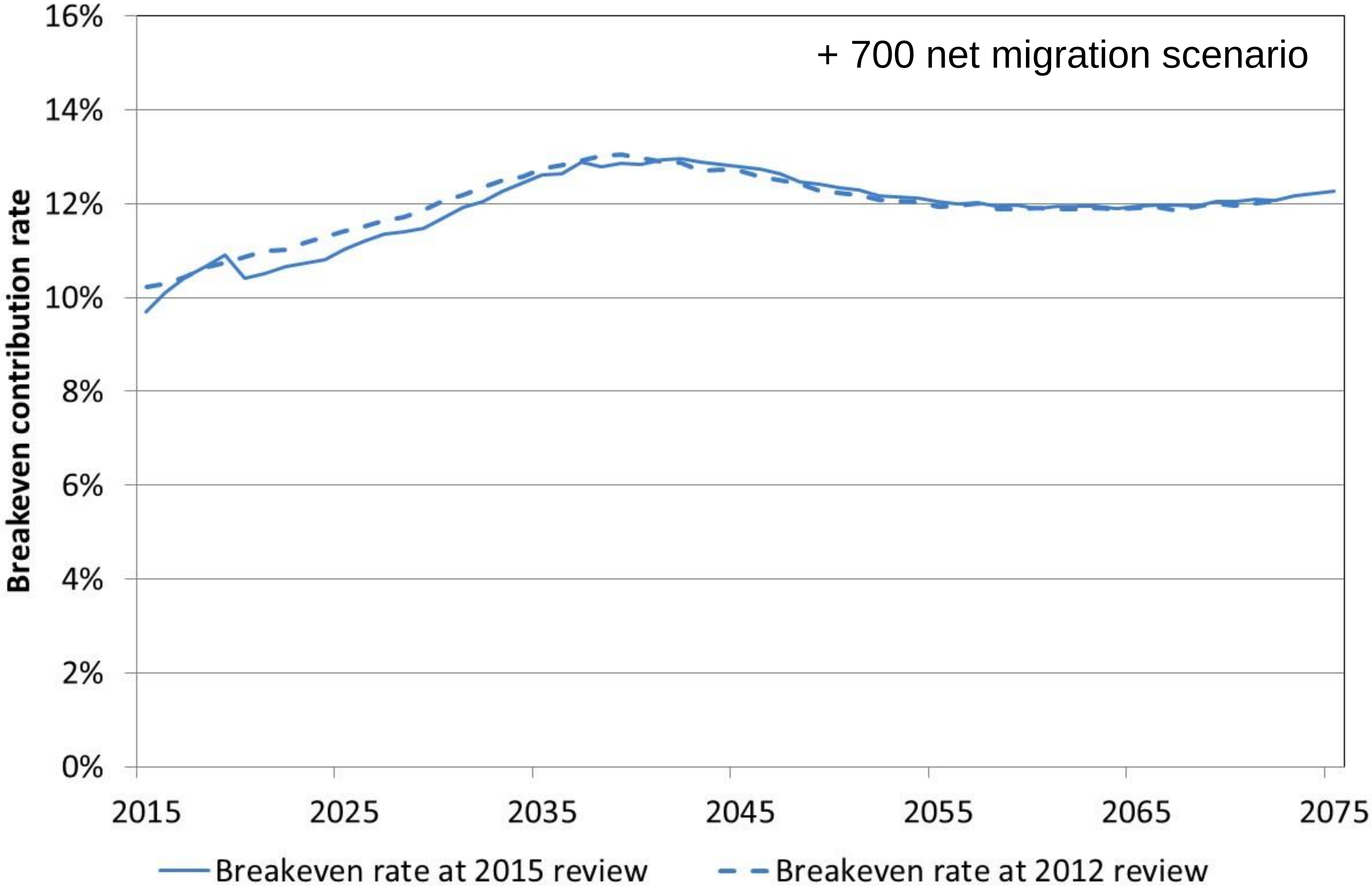
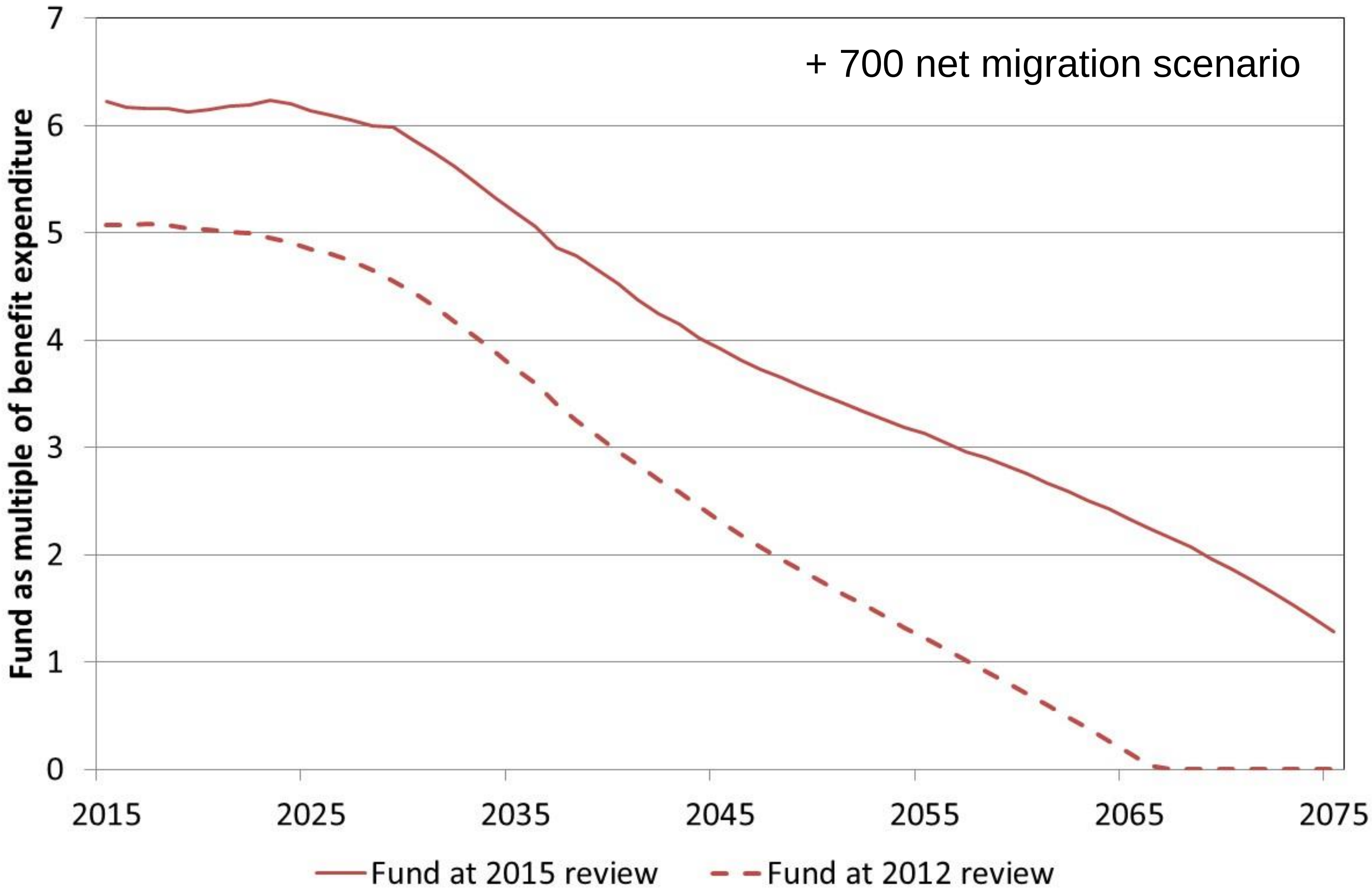
Change from 2012 to 2015 review



Change from 2012 to 2015 review



However, results are dependent on assumptions

- Population projections, including assumptions on:
  - Mortality
  - Fertility
  - Migration
- Economic assumptions, e.g.:
  - Future rate of investment return
  - Proportion of the population that contributes to the Fund
- Benefit assumptions e.g.:
  - Amounts and numbers of pension awards
- Funding assumptions e.g.:
  - The States grant returns to its previous level from 2020 onwards

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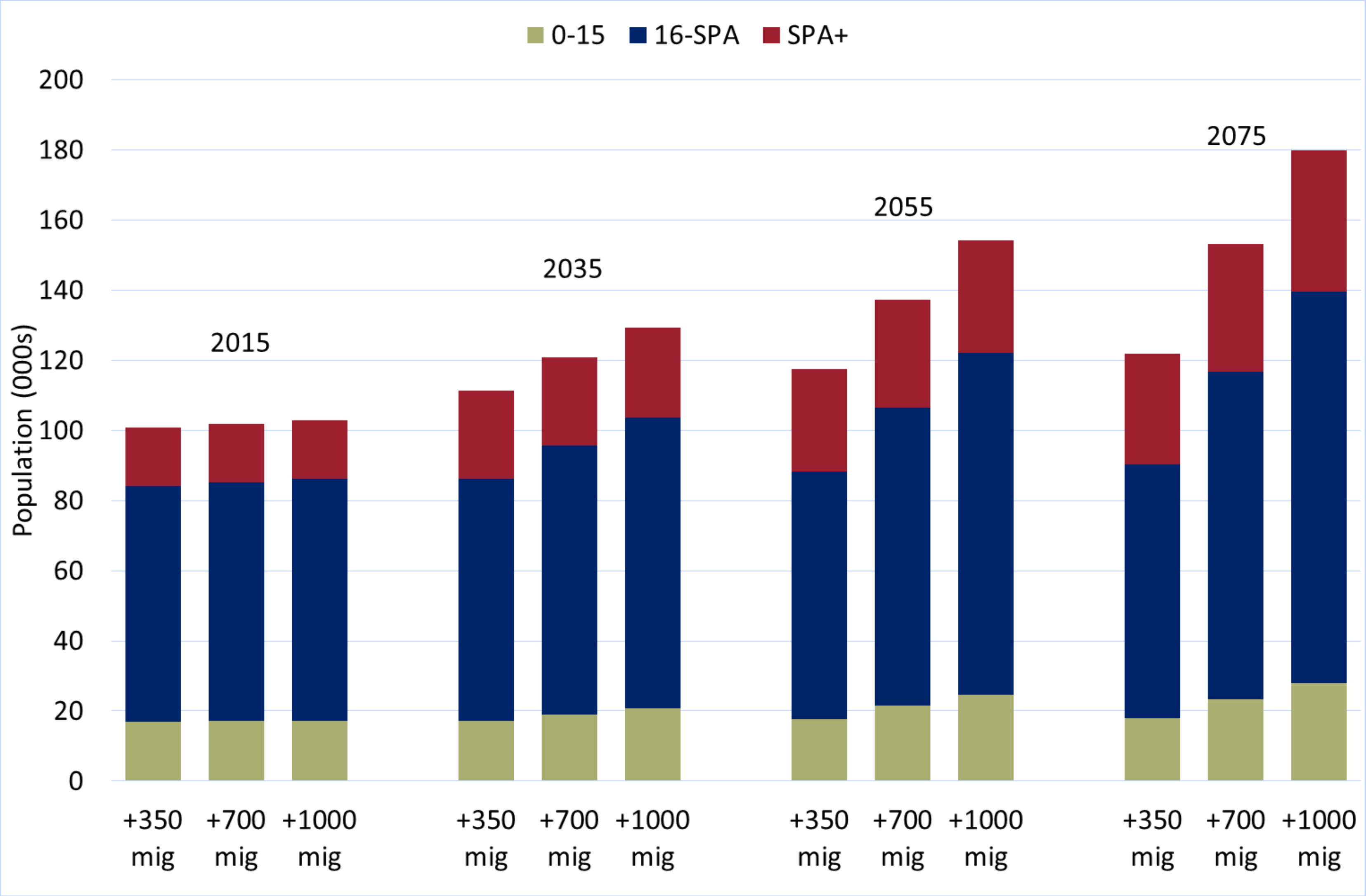
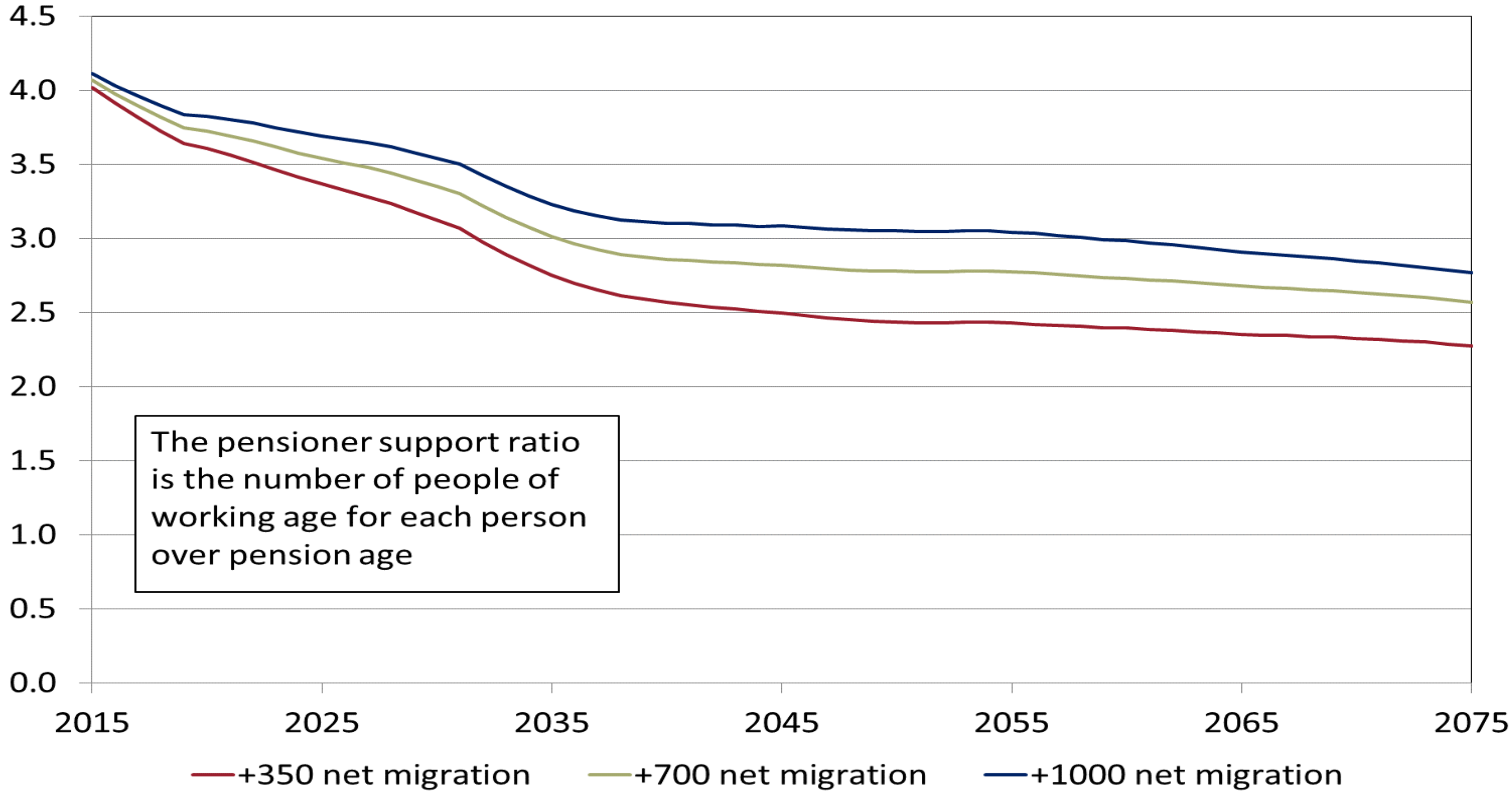
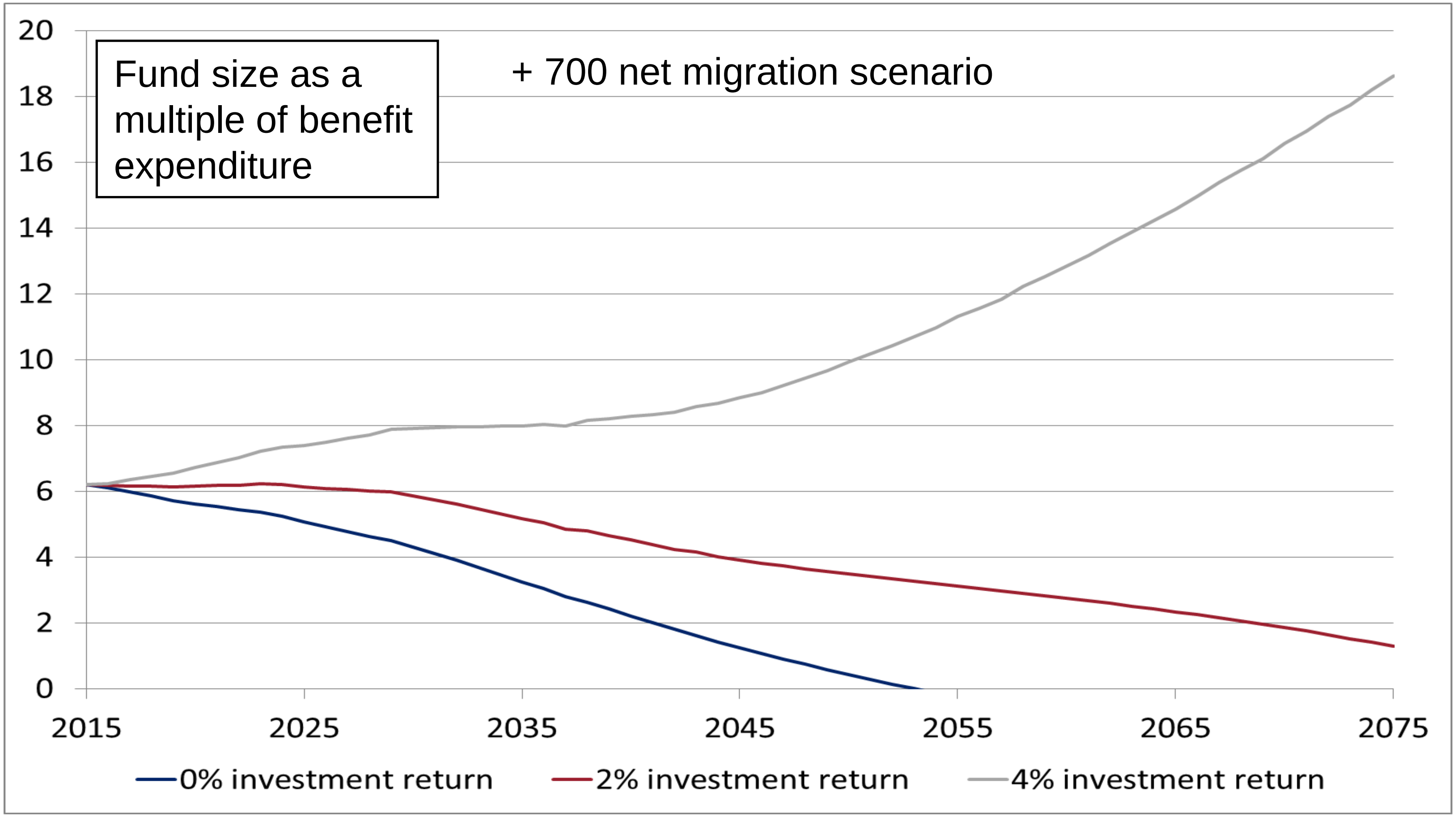


Population projections imply a pensioner population growing faster than the working age population, which results in rising breakeven contribution rates



The level of investment return (net of earnings) will significantly affect the Fund size



Conclusions

- Based on the assumptions used, the financial outlook for the Fund remains healthy in the short to medium term (10 to 15 years).
- The assumed level of future migration and rate of investment return has a significant impact on the projected development of the Fund.
- Except on highest assumed net migration, the Fund balance is projected to start to decline and be extinguished. Once extinguished, the contribution rate would need to be raised to at least the breakeven rate.
- Changes to benefits, such as further increases in pension age, could help delay the point at which contributions need to be increased as well as limiting the size of any required increase.
- It is not essential to take immediate action but the situation should be reviewed at the time of the 2018 review.

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