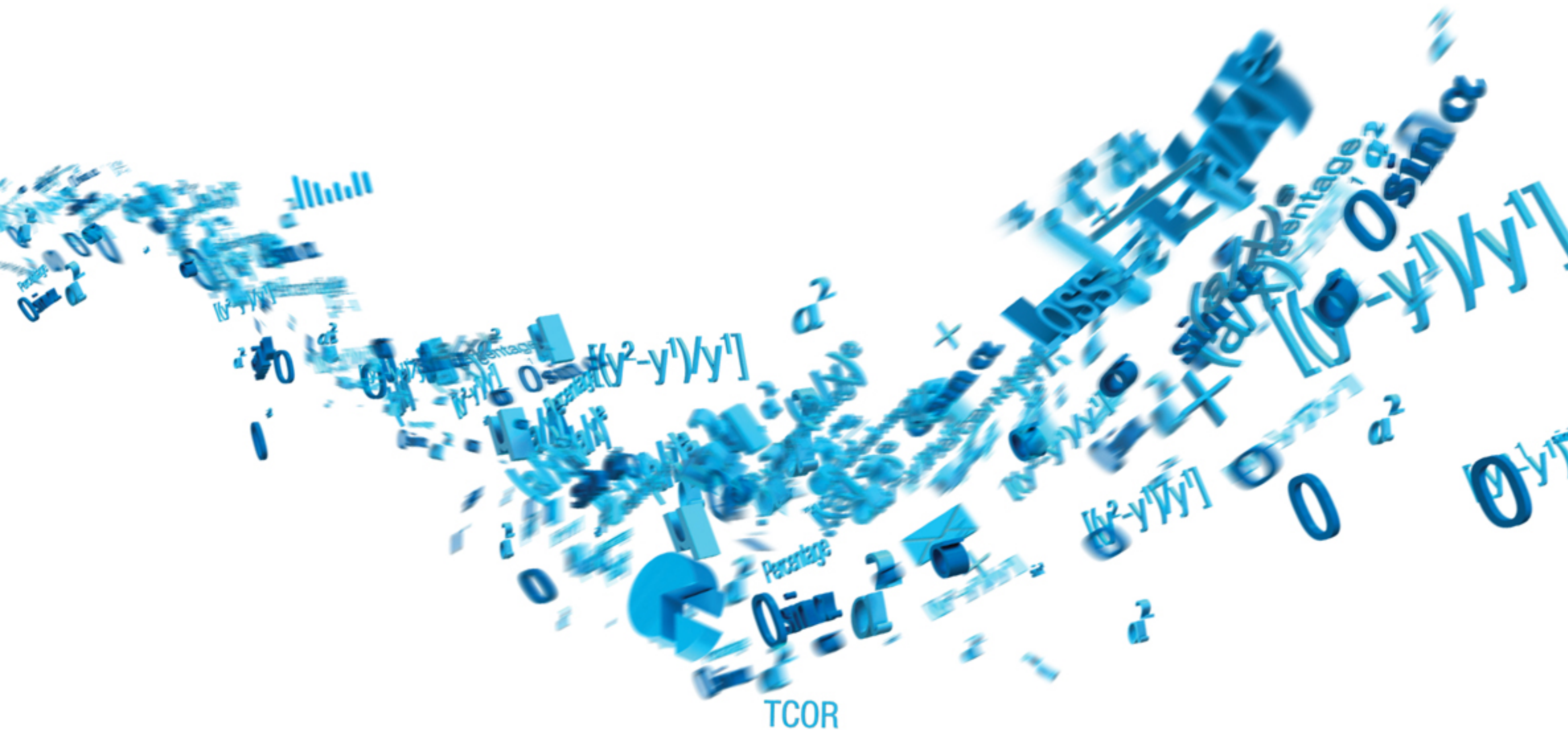

Public Employees Pension Fund

Funding Strategy Statement

Prepared for	Committee of Management
Copy to	Minister for Treasury and Resources
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Date	29 August 2019

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Public Employees Pension Fund

Funding Strategy Statement

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1. Introduction

This document is the funding strategy statement prepared in accordance with Regulation 2 of the Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015 (the "Funding and Valuation Regulations").

Funding strategy statement

1.1 This funding strategy statement sets out the funding strategy in respect of the Career Average Scheme (or "CARE", referred to within the Funding and Valuation Regulations as the "Scheme") and the Final Salary Scheme (or "FSS", referred to within the Funding and Valuation Regulations as the “1967 Scheme”). The combined fund comprising the assets of the Career Average Scheme and the Final Salary Scheme is known as the Public Employees Pension Fund (the "fund"). This document has been prepared by the Scheme Actuary following consultation with the Treasurer and has been agreed by the Committee of Management and the Minister for Treasury and Resources.

1.2 The Career Average Scheme and the Final Salary Scheme have been set up to provide pensions and other benefits to employees of the States and Admitted Employers. The purpose of the funding strategy statement is to set out agreed high-level principles in relation to funding strategy for the respective schemes subject to the overall requirements of the Regulations.

1.3 The funding strategy statement is owned by the Committee of Management. It will be reviewed, revised (if necessary) and consulted on at each valuation. Any changes will be agreed with the Committee of Management and the Minister for Treasury and Resources. This document and any updates will be published on the States website. The document was updated as part of the process for carrying out the valuation as at 31 December 2018.

1.4 Regulation 2(2) of the Funding and Valuation Regulations sets out the matters to be included in the funding strategy statement and these are referenced in the following sections.

1.5 In this document:

- “Jersey RPI increase” refers to the increase, if any, in the All Items Retail Prices Index for Jersey over the year to September; and
- “Best-estimate assumptions" refers to assumptions where the future outcome is equally likely to result in higher or lower scheme costs than assumed; and
- “Prudent assumptions” refers to assumptions where the future outcome is more likely to result in lower scheme costs than assumed; and
- “Discount rate" refers to the assumed rate of investment return used to place a present value on a future payment. For example, if the discount rate was 6% and if we had to pay a lump sum of £1,060 in one year’s time, the present value would be £1,000.

2. Assumptions for actuarial valuations

This section covers the following sub-paragraphs of Regulation 2(2)(c):

(iv) the overarching principles for the setting of assumptions to be applied to the actuarial valuation of the fund, which shall include the use of prudent assumptions in relation to the costs of funding benefits under the Scheme [i.e. the Career Average Scheme], and

(vi) the degree of prudence to be applied when setting key financial assumptions for the purposes of actuarial valuations.

General approach

2.1 Each valuation of the fund will separately identify the assets and liabilities of the Career Average Scheme and the Final Salary Scheme. The assets for each scheme will be derived from the fund's audited accounts. The liabilities for each scheme that will be calculated at valuations are the amounts that would be needed to pay the relevant scheme benefits in relation to service up to the valuation date, if the assumptions made are borne out in practice.

2.2 This document sets out the principles that will be adopted by the Actuary when determining the assumptions to be used to value the liabilities at each valuation. The assumptions will be subject to agreement in accordance with provisions set out in Regulation 4 of the Funding and Valuation Regulations.

2.3 The Statement of Investment Principles (the "SIP") dated 24 May 2018 sets out the principles governing decisions about the investment of the assets of the Final Salary Scheme and the Career Average Scheme. The SIP sets out the long-term investment strategies, including the currently agreed allocation between growth assets (defined as those assets where the investment aim is to achieve a higher level of investment return relative to the liabilities) and bond-like assets (defined as those assets providing a contribution towards the investment return and the overall diversification of the portfolio but a lower level of risk than growth assets). The allocation between growth assets and bond-like assets outlined in the SIP for the long-term investment strategy will be used in the determination of the discount rates for the schemes as outlined below.

2.4 Each valuation will be carried out on the basis that the schemes will continue with benefits being met from the fund as they fall due.

Discount rate for the Career Average Scheme

2.5 In accordance with Regulation 2(2)(c)(iv) of the Funding and Valuation Regulations, the assumptions used to calculate the liabilities of the Career Average Scheme must provide a prudent estimate of the amount that will be needed to pay the Career Average Scheme benefits.

2.6 For the valuation as at 31 December 2018, the discount rate for the Career Average Scheme will therefore be determined such that the probability of the actual investment return on the Career Average Scheme assets being higher than the discount rate over the 30 year period commencing on the valuation date is in the opinion of the Actuary, subject to the agreement of the Committee of Management and the Minister for Treasury and Resources, at least 60%. This will be assessed based on the Career Average Scheme's long-term investment strategy as set out in the SIP.

2.7 The approach to setting the prudent discount rate for the Career Average Scheme will be reviewed at each future valuation and any requisite changes will be agreed between the Committee of Management, acting on the advice of the Actuary, and the Minister for Treasury and Resources.

Discount rate for the Final Salary Scheme

2.8 The discount rate for the Final Salary Scheme will be set equal to a best-estimate investment return based on the assumed investments and in accordance with the process outlined below.

2.9 At each valuation, the Actuary will aim to reach agreement with the Committee of Management and the Minister for Treasury and Resources on whether and, if so, how it is appropriate to reflect the maturing of the Final Salary Scheme.

2.10 For the 2018 valuation, a term-dependent discount rate will be used which reflects the expected evolution of the Final Salary Scheme investment strategy. The initial discount rate will reflect the actual Final Salary Scheme assets (excluding the pre-1987 debt repayments) at the valuation date. From a point at which it is anticipated the Final Salary Scheme will reduce risk in the investment strategy, it will be assumed that the discount rate will reduce gradually until a point in time at which it is expected that the long-term investment strategy will be reached. The long-term discount rate will be based on the assumed long-term investment strategy for the Final Salary Scheme.

2.11 The term-dependent discount rate used to value the Final Salary Scheme liabilities will also be used for the purpose of valuing the pre-1987 debt repayments.

Assumptions other than the discount rate

2.12 Best-estimate assumptions will be adopted for all other assumptions required for the valuation of both the Career Average Scheme and the Final Salary Scheme, including but not limited to:

- Jersey RPI inflation
- Salary increases (in the Final Salary Scheme)
- Post-retirement mortality
- Withdrawals from service
- Early retirement
- Commutation.

Actuarial method

2.13 The actuarial method to be used in the calculation of the liabilities is the Projected Unit Method with a control period of three years for the Final Salary Scheme and one year for the Career Average Scheme.

2.14 The Projected Unit Method allows for projected future increases to pay (and, in the case of the Career Average Scheme, in-service revaluations) through to retirement or date of leaving service and for anticipated increases to deferred pensions and pensions in payment.

2.15 The value of past service benefits will be calculated as the projected cost of providing benefits in respect of service up to the valuation date for each scheme. The value of past service benefits will be compared with the value of assets in order to calculate the past service funding position for each scheme.

2.16 The cost of future service benefits will be calculated as the present value of the benefits expected to accrue to current members over the relevant control period following the valuation date. The cost of future service benefits will be expressed as a percentage of the members' pensionable earnings (by dividing the value of future service benefits by 1% of the value of members' pensionable earnings over the relevant control period).

2.17 An allowance for expected future administration expenses and the cost of death in service lump-sum benefits (expressed as a percentage of pensionable earnings) will be included in the cost of future service benefits.

2.18 There will be no allowance in the valuation for new entrants to the schemes after the relevant valuation date.

2.19 The rate of employer contributions required to be paid to the schemes will be determined in accordance with section 3.

3. Methodology for adjusting benefits and contributions

This section covers the following sub-paragraphs of Regulation 2(2)(c):

(ii) the methodology for maintaining, within the caps specified under Regulation 16, the sharing of the respective costs of employer and member contributions on an expected ratio of 2:1 with "2" being the employer proportion of contributions and "1" being the member proportion of contributions,

(vii) the methodology for adjusting -

> *(A) the annual pension increase rates and contribution rates for the respective schemes, and*
>
> *(B) the future accrual rate and revaluation rate for the Scheme; and*

(ix) the process for implementing any adjustments to any of the rates specified in the rates and adjustment certificate.

Regulatory Framework

3.1 The past service funding level (assets / past service liabilities) for each of the respective schemes will be determined at each valuation of the fund. The Regulations require that the value of the pre-1987 debt repayments be treated as an asset of the Final Salary Scheme for the purpose of funding valuations. The Regulations specify the broad framework for the action to be taken at a valuation. A summary of the framework is set out below, subject to the adjustments outlined later for the 2018 valuation, but the Regulations set out the full requirements (and if there is ever a conflict then the Regulations will prevail):

- Subject to the agreement of the Chief Minister, the Committee of Management may determine that no adjustments to benefits or contributions are required to be made in the Final Salary Scheme and/or the Career Average Scheme if the funding level of the relevant scheme is within the "funding corridor" of 95% to 105%;

- If the funding level of either or both the respective schemes is outside the "funding corridor" then the Actuary shall determine the adjustments required to benefits and contributions to restore either or both of the respective schemes to a 100% funding level, unless the Committee of Management and Chief Minister agree that no adjustments are required. The current policy agreed between the Committee of Management and the Chief Minister is that if the funding level is over 100% based on the maximum annual benefit increases, no adjustment will be made; surpluses will be retained as a cushion against later adverse experience or to reduce investment risk.

- Employer contributions may be adjusted subject to a cap of 16.5% of total pensionable earnings;

- Member contributions may be adjusted subject to the weighted average contribution rate for the membership as a whole being not greater than the cap of 8.25% of pensionable earnings (unless an increase in this cap is agreed following consultation with relevant trade unions, as defined in the Funding and Valuation Regulations);

- The Career Average Scheme accrual rate may be adjusted provided it is not greater than 1/66th;

- The revaluation rate in service for the Career Average Scheme may be adjusted subject to a minimum of 50% of (Jersey RPI increase + 1%) and a maximum of 100% of (Jersey RPI increase + 1%)

- The annual pension increase for the Career Average Scheme may be adjusted subject to a minimum of 50% of Jersey RPI increase and a maximum of 100% of Jersey RPI increase; and

- The annual pension increase for the Final Salary Scheme may be adjusted subject to a minimum of 0% of Jersey RPI increase and a maximum of 100% of Jersey RPI increase.

- If the change in Jersey RPI is negative, the Jersey RPI increase will be taken to be 0% for the purpose of calculating pension increases and revaluations in service. In this situation, pension increases will therefore be 0% and the revaluation rate will be between 0.5% and 1%.

3.2 The detailed application of how the framework will be applied in practice, including the 2:1 sharing of costs between employers and members, is set out in the remainder of this section.

Adjustments at 2018 valuation

3.3 Schedules of initial contribution rates are specified in the Regulations and these rates will remain in force until 31 December 2023. The accrual rate, in-service revaluations and annual pension increase under the Career Average Scheme are fixed until 31 December 2020. The extent to which adjustments may be made to benefits and contributions following the valuation as at 31 December 2018 is therefore limited (and, where applicable, overrides the risk sharing framework set out below).

3.4 The table below illustrates what might be adjusted following the valuation as at 31 December 2018:

	Possible effect on Final Salary Scheme pension increases?	Possible effect on Career Average Scheme benefits?	Possible effect on contributions?
2018 valuation	Yes	Yes	No

Risk Sharing Framework

3.5 The charts on the following pages set out how the risk sharing framework will apply for the purposes of calculating:

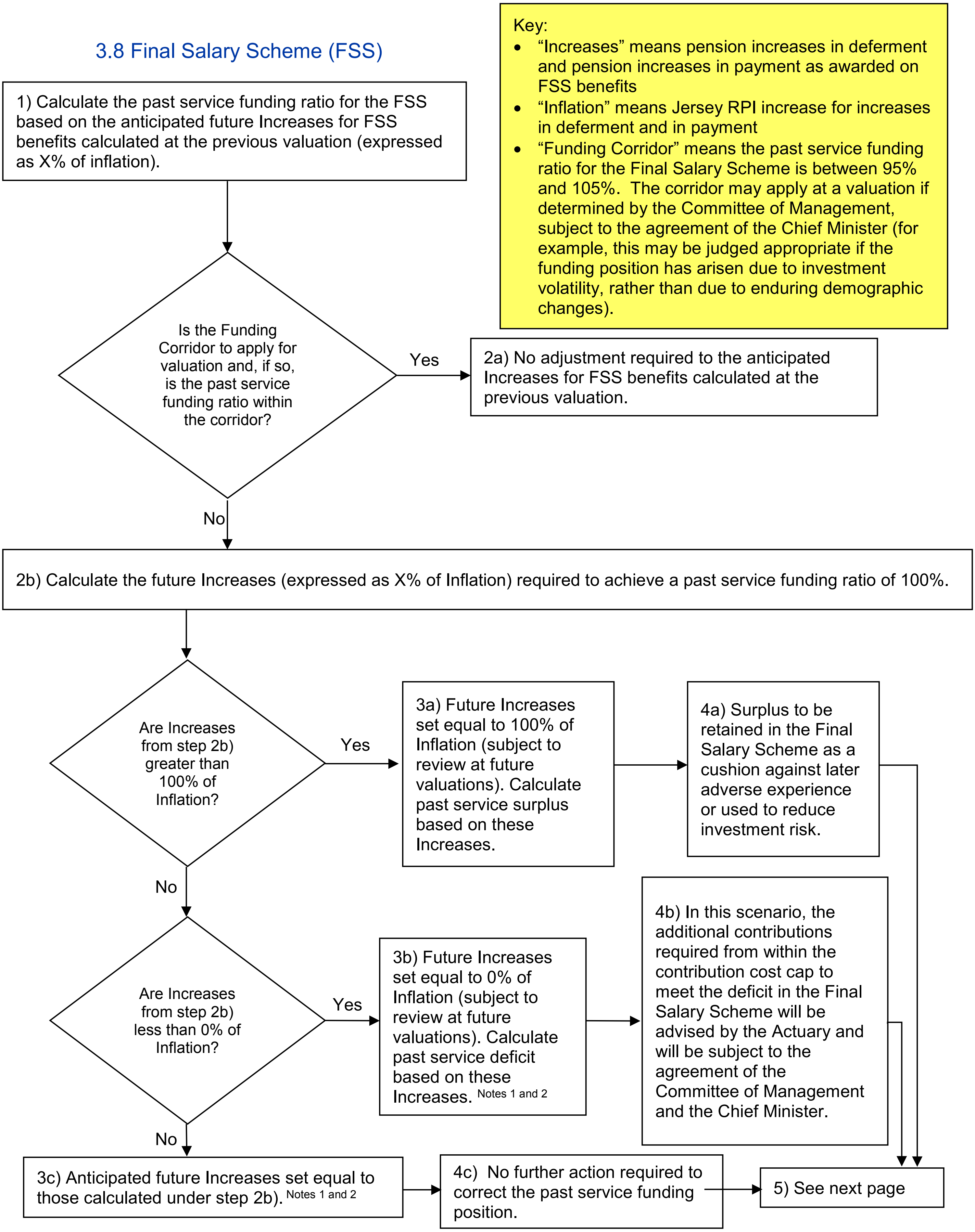
- pension increases in deferment and pension increases in payment under the Final Salary Scheme;
- revaluations in service, pension increases in deferment and pension increases in payment under the Career Average Scheme;
- employer and member contribution rates; and
- any adjustment to the accrual rate for future service benefits in the Career Average Scheme.

3.6 Some additional notes are set out after the charts to explain how the approach will be modified in less common scenarios. In particular, in the unlikely event that additional contributions are required from within the contribution cap to meet a deficit in either or both of the Final Salary Scheme and the Career Average Scheme based on the minimum annual benefit increases then the annual contributions required to meet the relevant deficit(s) over an appropriate period will need to be advised by the Actuary, subject to the agreement of the Committee of Management and the Chief Minister. The approach to determining what period is appropriate will be considered should this ever become relevant, using the approach outlined in paragraphs 4.3 to 4.5.

3.7 If any changes under paragraphs 3.5 or 3.6 are required then:

- the revised Career Average Scheme revaluations in service will apply with effect from the 31 December following completion of the valuation; and
- the revised pension increases and accrual rate will apply with effect from the 1 January following completion of the valuation.

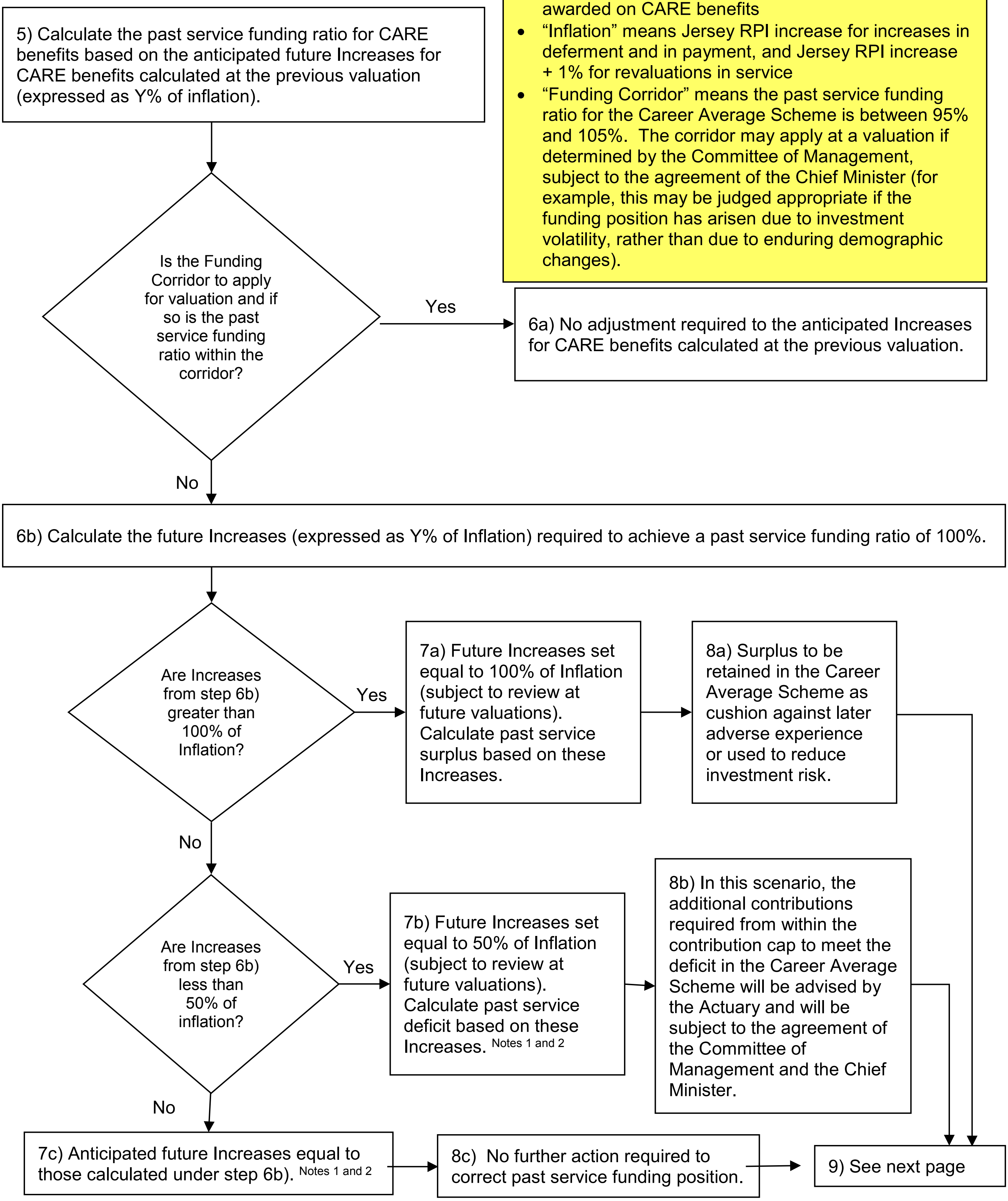
3.8 Final Salary Scheme (FSS)



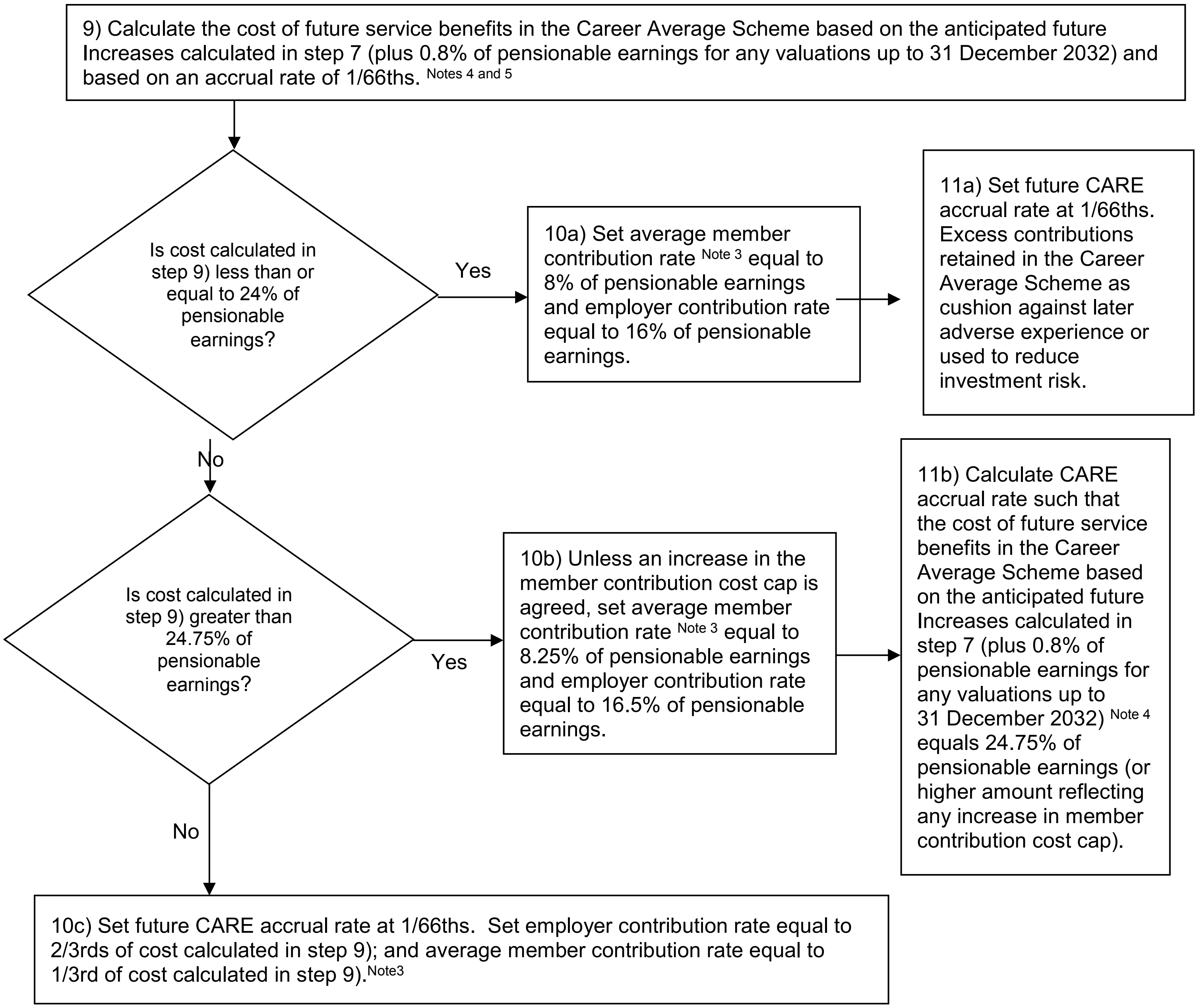
3.9 CARE past service

Key:

- "Increases" means the revaluation of accrued benefits for members in service, pension increases in deferment and pension increases in payment as awarded on CARE benefits
- "Inflation" means Jersey RPI increase for increases in deferment and in payment, and Jersey RPI increase + 1% for revaluations in service
- "Funding Corridor" means the past service funding ratio for the Career Average Scheme is between 95% and 105%. The corridor may apply at a valuation if determined by the Committee of Management, subject to the agreement of the Chief Minister (for example, this may be judged appropriate if the funding position has arisen due to investment volatility, rather than due to enduring demographic changes).



3.10 Contribution rates and CARE future service



3.11 From 1 January 2024, the total contribution rate (member plus employer contributions) payable to both the Final Salary Scheme and the Career Average Scheme will be set equal to the rate calculated in step 9, subject to a maximum of 24.75% of pensionable earnings (unless an increase in the member contribution cost cap is agreed). The contribution rate will not be changed prior to 1 January 2024 but the above approach will be used to set the accrual rate in the Career Average Scheme from 1 January 2021 based on the funding position at 31 December 2018.

3.12 Notes on risk sharing framework:

1. In accordance with Regulation 17(9) of the Funding and Valuation Regulations, the Committee of Management and the Chief Minister may choose to agree that no adjustment is required to correct the past service funding position.

2. In accordance with Regulation 18 of the Funding and Valuation Regulations, for any valuation of the fund from 31 December 2018 until 31 December 2032, if there would otherwise be a reduction in pension increases below 100% of Jersey RPI under step 3) for the Final Salary Scheme or step 7) for the Career Average Scheme then the asset value used to calculate the past service funding ratio for the relevant scheme will be calculated including the capital value of future employer and member contributions to cover transitional costs equal to 0.8% of pensionable earnings over the period to 31 December 2032. These future contributions to cover transitional costs will be allocated between the Final Salary Scheme and the Career Average Scheme as outlined in the next section.

3. The member contribution rates for ordinary members and uniformed members will be redetermined at each valuation so that the average across these member groups equals the average member contribution rate required based on pensionable earnings over the year to the valuation date, unless the Committee of Management and the Chief Minister agree an alternative approach.

4. In the event that additional contributions are required to meet a deficit in either or both of the Final Salary Scheme and the Career Average Scheme based on the minimum annual benefit increases then the annual contributions required to meet the relevant deficit(s) (expressed as a percentage of pensionable earnings as advised by the Actuary) would be added to the cost of future service benefits, and transition costs up to 31 December 2032, in steps 9) and 11).

5. Even if the accrual rate for the Career Average Scheme has been reduced following an earlier valuation to below 1/66ths, the cost of accrual in step 9) will be calculated based on an accrual rate of 1/66ths. The accrual rate will then be recalculated using the flow chart on the previous page and will be set at 1/66ths if this is affordable within the contribution cost caps.

6. The rates and adjustments certificate will specify a primary and secondary rate of employer and member contributions. The primary rate of employer and member contributions is the amount required to fund the cost of future service benefits in the respective schemes. For the Career Average Scheme, the primary rate will be equal to the rate calculated in step 9, subject to a maximum of 24.75% of pensionable earnings (unless an increase in the member contribution cost cap is agreed), less 0.8% of pensionable earnings for any valuations up to 31 December 2032. For the Final Salary Scheme, the primary rate will be calculated as the cost of future service benefits in the Final Salary Scheme based on the future pension increases calculated in step 3. The secondary rate of employer and member contributions is the adjustment (if any) required to the primary rate to meet a deficit in either or both of the Final Salary Scheme and the Career Average Scheme based on the minimum annual benefit increases. (In normal circumstances, it is envisaged that any surplus will be retained in the Final Salary Scheme and Career Average Scheme, as outlined in paragraphs 3.8 and 3.9, and not used to reduce contributions.)

Admitted Employers

3.13 The current policy of the Committee of Management is that, other than contributions certified by the Actuary under paragraph 6(4) of Schedule 1 to the Membership and Benefits Regulations relating to pre-1987 debt repayments and contributions to address any shortfall in assets attributable to an employer, Admitted Employers pay the same employer contributions as the States. In particular, there are currently no Admitted Employers where additional contributions, guarantees or indemnities are required in accordance with paragraph 5 of Schedule 1 to the Membership and Benefits Regulations. For each new Admitted Employer, the Actuary will consult with the Committee of Management and the Chief Minister as to whether this policy is appropriate for that employer or whether additional contributions, guarantees or indemnities are required.

3.14 Those Admitted Employers currently required to make pre-1987 debt repayments will continue to do so over the period specified in the Actuary's contribution certificates as provided for under the Regulations.

3.15 Any contributions due from Admitted Employers on cessation of participation in the schemes will be calculated in accordance with paragraph 8 of Schedule 1 to the Membership and Benefits Regulations.

4. Allocation of contributions and costs

This section covers the following sub-paragraphs of Regulation 2(2)(c):

(i) subject to paragraph (3), the methodology for the allocation of employer and member contributions made under the respective schemes, towards the costs of funding benefits under the respective schemes over a specified period,

(iii) the methodology for the allocation of administration, investment management and other costs attributable to the funding of benefits under the respective schemes, and

(x) the methodology for accounting for the costs of funding benefits attributable to –

> *(A) transfer payments out of the fund under Regulation 22 of the Administration Regulations, and*
>
> *(B) transfer payments credited to the fund under Regulation 23 of those Regulations.*

Contributions

4.1 The standard contributions payable to the Career Average Scheme and the Final Salary Scheme are summarised in the Appendix.

Allocation of contributions to cover Final Salary Scheme transition costs

4.2 In accordance with Regulation 2(3) of the Funding and Valuation Regulations, some of the contributions paid in respect of members of the Career Average Scheme will be allocated to the Final Salary Scheme in order to cover transition costs (i.e. the cost of Final Salary Scheme benefits accrual, the cost of phasing contribution increases for Final Salary Scheme members, and the cost of providing survivor benefits in the Final Salary Scheme to a nominated cohabiting partner). The amount of contributions which shall be paid to the Final Salary Scheme rather than the Career Average Scheme from 1 January 2019 is equal to:

- The cost of benefit accrual in the Final Salary Scheme (calculated based on the assumptions adopted for the latest completed valuation of the Final Salary Scheme) less the standard contributions paid to the Final Salary Scheme; plus

- £840,000 per year over the period up to 31 December 2032.

Allocation of contributions to fund minimum benefits

4.3 In the unlikely scenario that additional contributions are required to meet a deficit in either or both of the Final Salary Scheme and the Career Average Scheme based on the minimum annual benefit increases then the annual contributions required to meet the relevant deficit(s) will be advised by the Actuary and will be agreed between the Committee of Management and the Chief Minister. If there is no agreement, the annual contributions from within the contribution cap will be determined by the Actuary in consultation with the Committee of Management and the Chief Minister.

4.4 These annual contributions (expressed as a percentage of total pensionable earnings in the Final Salary Scheme and the Career Average Scheme) would be added to the cost of future service benefits, and transition costs up to 31 December 2032, before determining whether any adjustments to contributions or future service benefits in the Career Average Scheme are required in accordance with the agreed risk sharing framework (see page 8).

4.5 The additional annual contributions required to fund minimum annual benefit increases in the Final Salary Scheme and the Career Average Scheme will be paid for from within the contribution caps.

Allocation of costs

4.6 Costs include administration, investment management and other costs incurred by the fund in relation to the funding of benefits.

4.7 Where costs can reasonably be identified as relating to either the Career Average Scheme or the Final Salary Scheme then those costs will be deducted from the assets of the relevant scheme. Where it is not possible or practicable to identify which scheme certain costs relate to then those costs will be allocated between the Career Average Scheme and the Final Salary Scheme either in proportion to the scheme's overall asset values (in the case of investment-related costs) or in proportion to the numbers of members with benefits in each scheme (in the case of administration and other costs). For the avoidance of doubt, active members, deferred pensioners and pensioners/dependants are all classed as members for the purposes of that calculation.

Final Salary Scheme transfer costs

4.8 For any transfers made under the Public Sector Transfer Club (the "Club") in accordance with Regulation 24(6) of the Administration Regulations, some of the contributions paid in respect of members of the Career Average Scheme shall be re-allocated to the Final Salary Scheme.

- For any transfers out of the Final Salary Scheme under Regulation 24(6), the amount allocated to the Final Salary Scheme will be calculated as the actual transfer payment made less the "non-Club" transfer payment that would have been made in accordance with Regulation 22(2) of the Administration Regulations; and

- For any transfers into the Final Salary Scheme under Regulation 24(6), the amount allocated to the Final Salary Scheme will be calculated as the cost of the benefits granted based on the assumptions adopted for calculating benefits in respect of "non-Club" transfers accepted under Regulation 23(4) of the Administration Regulations less the actual transfer value received.

4.9 In any cases where the above calculations result in a negative amount, a transfer will be made from the Final Salary Scheme to the Career Average Scheme.

4.10 In relation to any Club transfers into or out of the Career Average Scheme under Regulation 24(6) of the Administration Regulations, or any non-Club transfers under Regulations 22 and 23 of the Administration Regulations, there will be no transfers of monies between the schemes.

5. Principles underlying terms for benefit options

This section covers the following sub-paragraphs of Regulation 2(2)(c):

(v) the overarching principles for the setting of assumptions for the purposes of calculating –

> *(A) the value of retirement benefits transferred under Regulations 22 or 23 of the Administration Regulations,*
>
> *(B) amounts payable in respect of additional voluntary contributions required under Regulation 15 of the Membership and Benefits Regulations or equivalent provisions under the 1967 Scheme Regulations, and*
>
> *(C) the amount by which retirement benefits are actuarially reduced where those benefits are paid early under Regulations 29, 30, or 32 of the Membership and Benefits Regulations, or equivalent provisions under the 1967 Scheme Regulations [this covers early retirement reductions and the terms for the payment of lump sums whilst in Scheme employment].*

Issues of principle

5.1 There are four main issues of principle to consider regarding factors. These are whether the factors should be:

- Based on best-estimate assumptions (i.e. the future outcome is just as likely to be better or worse than assumed) or prudent assumptions (i.e. the future outcome is more likely to be better than assumed);
- Market-related (i.e. linked to market conditions at the date of calculation) or fixed;
- Unisex factors or separate factors for males and females; and
- The frequency and timing of reviews of factors.

Best-estimate or prudent assumptions

5.2 The terms for all benefit options will be determined using the funding assumptions adopted for the relevant scheme at the most recently completed valuation, i.e. best-estimate assumptions for the Final Salary Scheme and assumptions for the Career Average Scheme which, taken as a whole, are prudent.

5.3 In calculating the benefits to be granted in respect of additional voluntary contributions, the assumptions used may differ from the funding assumptions in the following respects:

- the post retirement mortality assumption may be adjusted to allow for the possibility of selection (members choosing to pay AVCs may be expected to live longer than the average member); and
- a lower retirement age may be assumed for non-Uniformed members in the Final Salary Scheme (members choosing to pay AVCs may be expected to retire earlier than the average member).

5.4 In calculating the terms for exercise of the Old Age Pension adjustment in the Final Salary Scheme for members retiring with a Final Salary Scheme ill-health pension, the assumptions used may differ from the funding assumptions by making explicit allowance for such members to exhibit higher rates of mortality (lower life expectancy) than such members retiring in normal health.

Fixed or market-related

5.5 Fixed factors will be used for all benefit options apart from transfer calculations where a market-related approach may be used.

5.6 Non-Club transfer values and transfer-in added years in the Final Salary Scheme will be calculated based on the best-estimate assumptions adopted for the relevant valuation, with the terms updated to reflect market conditions at a date closer to the date of calculation by applying a Market Adjustment Factor (MAF).

5.7 Non-Club transfer values and transfer-in benefits in the Career Average Scheme will be calculated using fixed factors based on the prudent assumptions adopted for the relevant valuation, but the assumptions may be updated by the Committee of Management from time to time based on the Actuary's advice, if the Actuary advises either that the discount rate no longer reflects a prudent assumption of future investment returns or that there has been a significant increase in expected future investment returns.

5.8 Transfer calculations under the Public Sector Transfer Club (the "Club") will be carried out based on the terms set by the Club.

Unisex factors

5.9 Unisex factors will be used except for factors required within the Final Salary Scheme under the 1967 Regulations and Former Hospital Scheme Regulations, where separate factors for males and females are required to reflect the benefit differences between males and females. The weighting between the sexes will be determined based on the split of non-pensioner liabilities at the latest valuation.

Frequency and timing of reviews

5.10 The terms for benefit options will be reviewed as soon as practicable following completion of a funding valuation.

6. Funding risks

This section covers the following sub-paragraphs of Regulation 2(2)(c):

(viii) the identification of risks to the solvency of the fund and mitigation of such risks.

Solvency of the fund

6.1 Risks to the solvency of the fund are risks which could lead to there being insufficient money in the fund to meet the minimum level of benefits set out in the Regulations as they fall due.

Key funding risks

6.2 The fund faces a number of risks. The key risks that could lead to funding shortfalls in future are:

- Investment risks – the risk that investment returns are lower than allowed for in the valuation, and also that the asset values are volatile and move out of line with the liabilities, so the funding position is not stable.
- Inflation risk – the risk that inflation is higher than assumed (which could be due to changes in the definition of Jersey RPI), increasing the pensions that need to be paid.
- Longevity risk – where members live for longer than assumed and so pensions need to be paid for longer.
- Employer covenant risk – the risk that employers do not pay the contributions required under the Regulations.
- Membership changes – the risk that changes in recruitment or admission policies, or large scale divestments, increase the average cost of benefits. For example, an increase in the average age of the membership or an increase in the proportion of uniformed members would increase the cost of providing the promised benefits.
- Assumption changes – the risk that changes to the actuarial assumptions or method increases the assessed value of the liabilities.
- Options for members – the risk that members exercise options resulting in unanticipated extra costs. For example, members could commute less of their pension for cash at retirement than is assumed.

Risk mitigation actions

6.3 A number of actions are taken to mitigate the above risks:

- Regular funding valuations – valuations will be carried out at least every 3 years so, if experience is worse than assumed, this can be addressed at the valuation. If there is a deficit in either or both schemes at a valuation (or, the past service funding ratio is less than 95%, if it has been agreed that the funding corridor applies at a valuation) then this will be addressed through a reduction to future benefit increases provided by the relevant scheme (unless, exceptionally, the Committee of Management and the Chief Minister agree otherwise). If additional contributions are required to meet a deficit in either or both schemes based on the minimum annual benefit increases then the annual contributions required to meet the relevant deficit(s) will be advised by the Actuary and agreed by the Committee of Management and the Chief Minister, subject to the employer contribution cost cap. If necessary (to comply with the contribution cost caps), future accrual of benefits in the Career Average Scheme will be cut back.

- Assumption setting - A robust process for determining valuation assumptions, including consultation with the Chief Statistician, Statistics Jersey, regarding Jersey inflation index calculation methodology, helps mitigate investment and inflation risks but the key risk remains that actual experience may be worse than assumed so regular monitoring is important. Longevity risk is mitigated by the use of mortality assumptions which reflect Scheme experience and an allowance for future improvements in mortality rates based on current views at the valuation date.

- Regular monitoring of the funding position - the funding position is monitored regularly and considered at quarterly meetings of the Committee of Management. Actions that might be taken include bringing forward a valuation (if the position is significantly worse than expected) or reducing the risk inherent in the current investment strategy (if the position is significantly better than expected).

- Regular review of investment strategy – A review of the investment strategy for each scheme is carried out at least every 3 years. The reviews will ensure that that risk inherent in the investment strategy continues to be appropriate given the maturity and funding position of the schemes at that time.

- Monitoring investment performance – the overall investment performance of the schemes, and performance of individual investment managers, is monitored regularly and considered at quarterly meetings of the investment subcommittee and the full Committee of Management. Actions that might be taken include changes to the investment strategy or changes to individual investment managers.

- Member options – the terms for member options are set based on the assumptions adopted for the latest completed valuation (other than commutation, where the terms are fixed in the Regulations). This means that benefit options (other than commutation) will be effected on a basis that is broadly cost-neutral in relation to the relevant scheme's finances. If there are significant changes to market conditions in between valuations then the effect of this would be addressed at the following valuation.

6.4 In addition, the above risks are further mitigated in the Career Average Scheme by the use of prudent discount rate assumptions for valuations. It is therefore less likely that funding shortfalls will arise in the Career Average Scheme due to investment returns being lower than assumed.

7. Appendix – Contributions payable

Contributions

7.1 The standard contributions payable to the Career Average Scheme and the Final Salary Scheme are summarised below. In addition, contributions are payable to the Final Salary Scheme in respect of the pre-1987 debt in accordance with Schedule 5 of the Funding and Valuation Regulations. Additional contributions may also be payable under the Regulations: in particular, by employers in respect of pensionable allowances, augmentations or Voluntary Early Retirement, and by Admitted Bodies in accordance with Schedule 1 to the Membership and Benefits Regulations. Additional voluntary contributions may be paid by members.

Contributions from 1 January 2019 to 31 December 2023

7.4 Contributions will be payable in respect of active members of the Career Average Scheme in accordance with Schedule 1, Schedule 2 and Schedule 4 to the Funding and Valuation Regulations:

- Employer contributions (as % of pensionable earnings)
  - for members other than transition members (and for any re-joiners on or after 1 January 2016): 16%
  - for transition members (excluding re-joiners on or after 1 January 2016): 14.4% in 2019, 15.2% in 2020 and 16% from 1 January 2021
- Contributions by members (as % of pensionable earnings)
  - for members other than transition members (and for any re-joiners on or after 1 January 2016):
    - 7.75% for ordinary members, and
    - 10.10% for uniformed members
  - for transition members (excluding re-joiners on or after 1 January 2016):
    - in accordance with the transitional rates set out in Schedule 2 to the Funding and Valuation Regulations

7.5 Some of the contributions paid in respect of Career Average Scheme members from 1 January 2019 to 31 December 2023 will be allocated to the Final Salary Scheme to cover Final Salary Scheme transition costs as set out section 4. The remainder will be allocated to the Career Average Scheme.

7.6 Contributions to the Final Salary Scheme will be payable in respect of active members of the Final Salary Scheme in accordance with Schedule 3 and Schedule 4 to the Funding and Valuation Regulations:

- Employer contributions (as % of pensionable earnings)
  - 14.4% in 2019, 15.2% in 2020 and 16% from 1 January 2021
- Contributions by members in accordance with the transitional rates set out in Schedule 3 to the Funding and Valuation Regulations

Contributions from 1 January 2024

7.7 Contributions to the Career Average Scheme and the Final Salary Scheme will be payable in accordance with Regulation 11 of the Funding and Valuation Regulations and will be set out in the rates and adjustment certificate. The approach to be taken in determining the overall contribution rates is outlined in section 3. Methodology for adjusting benefits and contributions. Employer and member contributions in respect of both Career Average Scheme and Final Salary Scheme members will be set equal to the overall employer and member contribution rates as determined under that approach.

7.8 Over the period until 31 December 2032, the contribution rates for both the Final Salary Scheme and the Career Average Scheme will include 0.8% of pensionable earnings to cover transition costs. Some of the contributions paid in respect of Career Average Scheme members will be allocated to the Final Salary Scheme as set out in section 4.2 of this document. The remainder will be allocated to the Career Average Scheme.