Treasury and Exchequer
Ministerial Decision Report

Government of JERSEY

Public Employees Pension Fund (PEPF) Assumptions for the 2021 Actuarial Valuation

1. Purpose of Report

To enable the Minister to agree the assumptions for the 2021 actuarial valuation of the Public Employees Pension Fund (PEPF).

2. Background

In the course of preparation an actuarial valuation the Scheme Actuary, under Regulation 4 of the Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015, must following consultation determine the prudent assumptions to be applied in respect of a valuation of the Career Average Scheme and must gain the agreement of the Committee of Management and the Minister for Treasury and Resources to these assumptions.

In relation to the Final Salary Scheme the Scheme Actuary must following consultation aim to reach agreement on the assumptions with the Committee of Management and the Minister for Treasury and Resources.

The Scheme Actuary is required to have regard to the Funding Strategy Statement and the methodology for undertaking actuarial valuations agreed in this Statement when setting the actuarial assumptions for an actuarial valuation.

The Scheme Actuary has undertaken detailed work to analyse past demographic experience and review the financial assumptions. A summary of the proposed financial assumptions are attached for information. These have been considered and agreed by the Committee of Management and have been provided to the Treasury to obtain the agreement of the Minister for Treasury and Resources.

3. Demographic Assumptions

The Scheme Actuary completed an experience analysis to form the basis of determining actuarial assumptions for;-

- average retirement ages;
- the number of scheme members expected to leave service (known as ‘withdrawals’);
- the proportion of members who choose to take part of their benefits as a lump sum (known as ‘commutation’);
- the future level of promotional salary increases;
- other assumptions such as management expenses etc.

In line with the Funding Strategy Statement, the Scheme Actuary has set the demographic assumptions with the intention of providing a best estimate view of future experience.

4. Post-retirement Mortality Assumptions

An analysis of current mortality rates in the Final Salary Scheme over 12 years to the end of February 2020 has been undertaken by the Scheme Actuary. The COVID-19 pandemic has the potential to distort recent mortality data and the Scheme Actuary chose to restrict the analysis to the scheme's own mortality data in the pre-pandemic period. Industry actuarial tables have been used to establish an appropriate future longevity improvement assumption which together with past experience has been used to determine the post-retirement mortality assumption for the Final Salary Scheme.

There is limited mortality experience data for the Career Average Scheme and the Scheme Actuary believes it is reasonable to assume the mortality rates for Career Average Scheme members will be similar to the mortality rates for Final Salary Scheme members.

In line with the Funding Strategy Statement, the Scheme Actuary has proposed post-retirement mortality assumptions as a best estimate view of future mortality expectations. The Scheme Actuary propose to assume;-

- current mortality rates equal to SAPS S3 "All lives" tables (S3PMA for males and S3PFA for females) with 110% scaling factor for males and 105% scaling factor for females.

- Improvements from 2013 in line with CMI_2021 Core Projections with Sk=7.0, A=0.5% and a long term rate of future improvements in mortality of 1.5% per annum

Overall the proposed changes to mortality assumptions resulting from the analysis will reduce liabilities by around 1%.

5. Financial Assumptions

The Scheme Actuary has set the discount rate for the actuarial valuation of the Final Salary Scheme as a best estimate assumptions of an initial discount rate of 4.35% p.a. until 31 December 2031 reducing to 3.1% p.a. with effect from 1 January 2032.

The discount rate for the Career Average Scheme is required under the Regulations to be set at a prudent level as set out in the Funding Strategy Statement. The minimum level of prudence required is a discount rate such that there is at least a 60% probability of the actual investment return on Career Average Scheme assets being higher than the discount rate over a 30 year period. The Scheme Actuary will set a discount rate in accordance with this requirement.

The Scheme Actuary will use a best-estimate assumption for Jersey RPI inflation of 2.85% p.a. and an assumption for general salary increases of 3.35% p.a. in addition to promotional increases.

The methodology used by the Scheme Actuary for setting financial assumptions is in line with the Funding Strategy Statement.

6. Review of Assumptions

Over the last 11 months the Scheme Actuary has been undertaking the analysis of scheme experience and progressed assumptions that are in line with the methodology outlined in the Funding Strategy Statement and Regulations.

Following consideration by the Committee of Management the demographic, post-retirement mortality and financial assumptions were shared with the Treasury and Treasury officers requested the Employers Actuary undertake a review of the assumptions.

The Employers Actuary has reviewed the approach to setting the mortality assumptions and other assumptions and has confirmed that the assumptions proposed remain reasonable.

7. Recommendation

To agree the assumptions for the 2021 actuarial valuation of the Career Average Scheme and the Final Salary Scheme.

8. Reason for Decision

Under the Public Employees (Pension Scheme) (Funding and Valuation) (Jersey), regulation 4, the Scheme Actuary must following consultation determine the prudent assumptions to be applied in respect of a valuation of the Career Average Scheme (the "Public Employees Pension Scheme" [PEPS]) and gain the agreement of the Minister for Treasury and Resources to these assumptions. The Scheme Actuary must also following consultation aim to reach agreement on the assumptions for the actuarial valuation of the Final Salary Scheme (the "Public Employees Contributory Retirement Scheme" [PECRS]) with the Minister for Treasury and Resources.

9. Resource Implications

Any financial implications from the agreement of actuarial valuation assumptions will not be confirmed until completion of the actuarial valuation. No financial implications are expected.

Report author : Director of Finance Hub	Document date 7th December 2022
Quality Assurance / Review :Head of Financial Governance	
MD Sponsor: Treasurer of the States	

APPENDIX A

Assumption	2021	2018
Discount rate for Final Salary Scheme	For the period until 31 December 2031, 4.35% p.a. Reducing immediately to 3.10% p.a. with effect from 1 January 2032.	For the period to 31 December 2021: 5.00% p.a. then gradually declining over the following 20 years to 4.10% p.a
Discount rate for Career Average Scheme	4.40% p.a.	5.20% p.a.
Jersey RPI	2.85% p.a.	2.95% p.a.
Increases to pensions in payment and deferred pensions	2.85% p.a.	2.95% p.a.
General salary increases (in addition to promotional increases)	3.35% p.a.	3.95% p.a.