Treasury and Exchequer
Ministerial Decision Report

Public Employees Pension Fund (PEPF) Funding Strategy Statement

1. Purpose of Report

To enable the Minister for Treasury and Resources to agree an updated PEPF Funding Strategy Statement.

2. Background

The requirement for a Funding Strategy Statement to be produced and published prior to the completion of an actuarial valuation is a requirement under the Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015.

It is best-practice for funded pension schemes to produce a Funding Strategy Statement prior to the completion of an actuarial valuation. The Statement outlines the approach and principles to be adopted in the actuarial valuation.

The Funding Strategy Statement was last updated and agreed before the signing of the 2018 actuarial valuation.

Under the Regulations the Funding Strategy Statement must be kept under review by the Committee of Management and following changes to any of the matters contained in the statement, the Scheme Actuary must make revisions and obtain the agreement of the Committee and the Minister for Treasury and Resources.

In advance of completing the 2021 Actuarial Valuation the Committee of Management have reviewed and updated the Funding Strategy Statement. The changes to the Statement include References to the 2021 actuarial valuation have been removed to reflect the passage of time and changes to approach for the setting of discount rate and to allow for post valuation date investment conditions have been included.

3. Content of the Funding Strategy Statement

The Funding Strategy Statement (Appendix A) sets out the high-level principles in relation to the funding of the scheme liabilities subject to the overall requirements of the Regulations. These include;-

- Assumptions for actuarial valuations

  The principles for setting assumptions to be applied to the actuarial valuation of the fund including the level of prudence to be used for the valuation of the Career Average Scheme and the actuarial method to be used for calculating liabilities.

- Methodology for adjusting benefits and contributions

  The methodology for maintaining employer and member contributions within the cost caps outlined in the Regulations and adjusting the annual pension increase, contribution rates, rate of future accrual and revaluation rate.

- Allocation of contributions and costs

  The methodology for allocation of contributions, investment/administration costs and benefit transfers in/out values between the respective schemes.

- Principles for determining benefit options

  The principles to be adopted for setting assumptions for the calculation of transfers in and out of the scheme, amounts payable by members to purchase additional pension and the amount by which benefits are actuarially reduced for early payment.

- Funding risks

  The identification of risks to the solvency of the Fund and the actions taken to mitigate these risks.

4. Key Points

The Funding Strategy Statement sets out a range of principles and methodologies that will be used in the 2021 actuarial valuation. Some of the key points of note are;-

- The employer contribution cap is set at 16.5% of pensionable earnings in the Public Employees (Pension Scheme) Law 2015 and this is reiterated in the Funding Strategy Statement.

- The minimum level of prudence for the actuarial valuation of the Career Average Scheme is set as 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.

- Any increase in employer contributions from within the employer contribution cap (i.e. up to a maximum of 16.5% of pensionable earnings) to fund a <u>past service</u> deficit would require the agreement of the Chief Minister.

- The employer contribution to fund the <u>future service</u> cost of benefits cannot increase above 16.5% of pensionable earnings. Under the Regulations any increase in employer contributions above 16% of pensionable earnings to fund future service costs could not occur until 1st January 2024 at the earliest.

5. Review process

The Funding Strategy Statement is a technical document that been shared with the Employers Actuary for review. The Employers Actuary has commented and contributed to the development of the original document since 2016 and has now reviewed the changes being proposed.

The Employers Actuary has confirmed they are comfortable with the more minor updates and refinements to the wording (such as updating references to reflect the 2021 valuation and changing the definition of “long term investment strategies” to “strategic asset allocation” etc).

The Employers Actuary has also confirmed they are comfortable that:-

- the changes to the wording which grant the Committee of Management and the Minister additional flexibility to take into account changes in market condition after the valuation date are reasonable, especially so in light of market volatility at the end of September.

- the approach to setting the discount rate assumptions remains generally reasonable and that the proposed changes are consistent with the underlying investment principles for the Fund.

Under the previous discount rate approach, de-risking of the investment strategy for the Final Salary Scheme would have been assumed to start immediately and take place gradually over 20 years. The proposed approach in the updated Funding Strategy Statement involves taking more risk whilst the Fund is less mature assumes the current strategy is maintained for 10 years but then immediately shifted to a low risk position. The ultimate low risk position has been adjusted to reflect the outcome of investment strategy discussions (with input from the investment consultant, Mercer). The Employers Actuary is comfortable with these proposed changes.

6. Recommendation

To approve the updates to the Funding Strategy Statement.

7. Reason for Decision

Under the Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015 changes to the Funding Strategy Statement must have the agreement of the Minister for Treasury and Resources.

Accordingly the Minister is asked to agree the updates to the Funding Strategy Statement so that it can be published.

8. Resource Implications

There are no financial implications resulting from agreeing the Funding Strategy Statement. There are also no staffing implications.

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