The Valuation of Public and Private Sector Pensions: Some Issues

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1. Introduction

This background report examines issues which arise in relation to the valuation of public and private sector pensions. It draws together information from several sources into one report which can be used as a source document.

A report by the Comptroller and Auditor General on Public Service Pensions[1] estimated the cost of public sector pension arrangements. Our report includes both sensitivity analysis and reference to other studies, notably the Commission on Public Service Pensions Report (2000) and the Report of the Public Service Benchmarking Body (2007). The appendices to our report cover the structure of public and private sector pensions, pensions taxation and anomalies between the two systems.

2. Costs

The cost of any future promise, such as pensions, is highly dependent on assumptions – in the case of pensions, the main assumptions being the assumed rates of return on assets, salary inflation and longevity. A range of likely assumptions will give a range of likely cost outcomes. The C & AG report shows just how sensitive the current costs are to projected assumptions.

We have used the central assumptions of the C & AG report but there are a number of general points which need to be made which are related to this cost sensitivity.

The first point is that projections of pension costs made in recent years have all, in retrospect, been far too low. The combination of low interest rates, increased longevity and low investment returns has caused havoc for private sector pension schemes. The cost uncertainty has meant that most private sector defined pension schemes have closed to new entrants and many are in the process of closing for future accruals.

The second point is that this uncertainty also applies to public sector pension schemes but on a different time frame from private sector schemes. The original C & AG projections showed gross benefit expenditure on public service pensions rising from 1.6% of GNP in 2009 to 3.6% in 2058. These figures have now been revised upwards (see FEMPI Act Annual Review June 2012) to 2.5% for 2009 with, presumably, more than double that for 2058. More pessimistic assumptions would make this figure even higher – and in an environment where government finances would be under great strain.

Current active members of public and private sector pension schemes are the core of our interest here. This group are subject to current pensions taxation, either now or when they retire. Their benefits are, at least to some degree, yet to be determined.

[1] Public Sector Pensions: Special Report No 68, August 2009

In the public sector a Pension Related Deduction (PRD) came into effect in 2009. There is some disagreement over whether this is or is not a pension contribution; the C & AG treated it as such. (The fact that it does not reduce pension expectations would suggest that it is more akin to a pension contribution. Also the preamble to the FEMPI Act 2009 which introduced the PRD refers to 'the value of public service pensions is significantly and markedly more favourable than those generally available in other employment).

The C & AG report shows the following costs:

Sector	Gross Pension Cost as a Percentage of Pensionable Remuneration %	Net* Pension Cost as a Percentage of Pensionable Remuneration %
Civil Service	22.3	13.0
Health	16.1	4.3
Gardai	27.9	15.9
Prison Officers	29.6	19.8
Defence Forces	28.2	19.5
Teachers	22.4	9.6
Constitutional, Ministerial and Judicial Office-Holders	70.0	61.1
Weighted Average Cost	**20.1**	**8.6**

** net of member superannuation contributions and PRD.*
(N.B. These are accrual costs to fund the pension cost of one year's additional service for existing members rather than new entrant costs).

The report points out that the much higher cost for certain groups are due to earlier retirement and shorter service in the case of the security forces and to accrual over short periods for constitutional, ministerial and judicial office holders.

3. Taxation

The general principle of pension taxation has been that there was no tax on pension contributions, either by employer or employee, but that tax was levied on benefits paid as income. The exception to this was the lump sum which was allowed to be taken tax free on retirement. The Revenue imposed some limits on the amount of contribution by employees and also controlled 'overfunding' in the rare cases where this took place.

However, there have been a number of changes which have altered the tax free concept in build up of a pension fund. The first of these was the use of income and PRSI levies to which tax exemption for personal pension contributions no longer applies.

The concept of a maximum tax relieved fund was established in 2005 when the limit was first set at €5m (the Standard Fund Threshold or SFT). What this meant was that if an individual retired after 7th December 2005 with retirement benefits which were assessed at more than this figure, then the excess was subject to tax at 41% and benefits reduced to reflect this tax charge.

The threshold limit was reduced to €2.3m in 2010 and it is proposed to reduce this further from 2014 so as to limit tax relief to pension schemes which deliver income of up to €60,000 per annum (Budget Speech 2013).

In order to calculate the SFT limit for a defined benefit pension, the lump sum payable at retirement is added to 20 times the pension payable in the first year. This factor of 20 is used, regardless of age, gender or type of pension payable. For a defined contribution scheme, the actual fund value at retirement is used.

The use of a fixed 20:1 valuation factor for defined benefit pensions, regardless of age and type of pension, is very low in the light of current annuity rates. It is thus unfair in comparison with defined contribution arrangements.

Take the example of someone retiring from the public service at age 55 on a pension of €50,000. The open market cost of such a pension is currently €53 for every €1 of pension (approximately). This gives a true capital cost of €2.65m which, when added to the expected lump sum of €0.15m (3 times pension) gives an open market 'fair' value of €2.8m. Yet the value computed for tax purposes is only €1.15m. (i.e. 20 x €50,000 + 3 x €50,000).

The equivalent factor used for someone retiring from a typical private sector defined benefit arrangement is approximately 28.

In summary, using a crude factor of 20:1 is extremely favourable for the public service, particularly for those retiring early or with low normal retirement ages.

There is no apparent reason why a range of open market factors should not be used or alternatively why amounts emerging from DC schemes should not be discounted for fairness.

The following Table shows the current open market value (OMV)[2] at a range of retirement ages for the following typical types of DB pensions:

- Public service DB: A CPI linked pension, with 50% reversion to adult dependant.
- Typical private sector DB: A flat pension with 50% reversion to adult dependant.

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[2] *Based on open market annuities rates (non Sovereign Annuities) on the Irish Life Pensions Planet annuity website, 9th August 2012, for a female purchasing an annuity.*

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Age at retirement	OMV Public Service DB pension €1 pa	Discount on OMV provided by use of 20:1 valuation
50	62	68%
55	53	62%
60	45	56%
65	37	46%
70	29	31%

OMV Private Sector DB pension €1 pa	Discount on OMV provided by use of 20:1 valuation
31	35%
28	28%
26	23%
23	13%
20	Nil

Therefore individuals taking DB pensions in effect benefit from a discount on the OMV of such pensions for the chargeable excess tax system, as compared to individuals with DC benefits, with the DB discount being higher at younger ages and for public service pensions.

The impact of valuing DB pensions for the chargeable excess tax system at a fixed 20:1, can be seen from this example of a public service employee retiring at age 55 with a pension of €50,000 pa and a gratuity of €150,000 compared to a DC retiree with a DC fund of equivalent open market value:

Standard Fund Threshold reduced to €1.38m

	Open Market Value of benefits	Capital Value used for chargeable excess tax purposes	Standard Fund Threshold (SFT) €1.38m	Chargeable excess tax : 41% on excess over SFT
Public service retiree with pension of €50k pa plus gratuity of €150k[3].	€50,000 x 53 + €150,000 = €2,800,000	€50,000 x 20 + €150,000 = €1,150,000	€1,380,000	Nil
DC retiree with fund of €2.8m.	€2,800,000	€2,800,000	€1,380,000	[€2.8m less €1.38m] x 41% = €582k or 21% of DC fund

Therefore reducing the SFT to €1.38m while maintaining the current fixed 20:1 DB pension valuation factor, will increase the inequity of the chargeable excess tax treatment as between DB and DC benefits and, in particularly, as between public service pensions and private sector pensions/DC funds.

3 *OMV of benefits taken as: 53 x €50k + €150k = €2.8m.*

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Appendix I - Taxation of Private Pensions

Appendix I - Taxation of Private Pensions

Introduction

Private pension arrangements have traditionally been taxed on the EET system, i.e. tax exempt contributions, tax exempt investment returns for funded arrangements, but taxed retirement benefits.

Under the EET system therefore, the tax relief provided on pension contributions is repaid to the Exchequer many years later, when retirees take taxable retirement benefits. So focusing on the cost of the E's, i.e. tax relief on pension contributions and tax exempt roll up for funded schemes as the 'cost' of pension tax relief is not the full picture. It doesn't take account of current and future recovery of taxes on taxable retirement benefits.

This point is dealt with in the National Recovery Plan in the context of the cost of providing tax free investment accumulation for private pension funds:

"Public discourse about the cost of pension tax relief has been ill-informed and tends to distort the expectations of the savings that could be delivered by adjusting these reliefs.

...

The estimated cost of tax exemption on the accrued income and gains of pension funds is a "notional or imputed" cost. It is in effect deferred income tax – the fund rolls up gross to provide a higher pension value which is then taxed in the hands of the pensioners as the pension is paid."[1]

However there can be a mismatch between the quantum and rate of tax relief provided on pension contributions and the tax recovered subsequently by the Exchequer from taxable retirement benefits funded by those contributions:

- Some retirement benefits are specifically tax free or taxed at a reduced rate, e.g. retirement gratuities/lump sums are tax free up to a limit of €200k in respect of all such payments taken by a retiree from pension arrangements since 7th December 2005, with the next €375k of such payments subject to a ringfenced standard rate tax charge.[2]
- In DC arrangements, the quantum of taxable retirement benefits could be less than the contributions paid, if those contributions do not earn a positive investment return, after charges.
- Retirees may pay a lower effective tax rate on taxable retirement benefits than the rate of tax relief obtained on contributions, due to lower income in retirement and the use of various tax reliefs such as the income tax exemption limit[3].
- Personal contributions may not have been deductible for PRSI and/or USC purposes when paid, but taxable retirement benefits may be subject to PRSI and/or USC.

[1] *National Recovery Plan, Chapter 6.5, page 93*

[2] *S790AA, Taxes Consolidation Act 1997*

[3] *Currently a married/civil partner couple where at least one of the couple is aged 65 or more, are exempt from income tax if their combined annual taxable income is less than €36,000; marginal relief applies where their income exceeds €36,000 and is less than €72,000.*

Appendix I - Taxation of Private Pensions

Summary of current private pension taxation system

In broad terms the same taxation system applies to public service and private sector pension arrangements, but with some differences:

Taxation of pension arrangements and benefits

	Private Sector	Public Sector unfunded
Tax relief on contributions		
Personal	Deductible for income tax at marginal rate, but *not* for PRSI or USC, against taxable earnings within age related limits and a maximum earnings limit of €115k[4].	*Superannuation & Spouse's/Civil Partners & Children's Scheme contributions*: as for private sector. *PRD*[5]: Deductible for income tax, but *not* for PRSI or USC, against taxable earnings without limit.[6]
Employer	BIK exemption for employee in respect of employer contribution to an occupational pension scheme[7]. Deductible for employer as an expense against trading income.	Not relevant as there is no *explicit* employer contribution.
Tax relief on investment roll up		
	Investment returns of approved funded arrangements are exempt from Irish taxes, such as income tax, capital gains tax, DIRT, and Dividend Withholding Tax.	Not relevant as there is no fund accumulation.
Pension levy		
	A Stamp Duty levy of 0.6% pa of the market value of assets held in approved pension arrangements applies for 2011-14.	Does not apply as there is no fund accumulation.
Taxation of Benefits		
Chargeable excess taxation	Applies at retirement if the capital value of retirement benefits taken exceeds a threshold limit (standard limit €2.3m). Tax @ 41% applies to any excess of benefits taken over the threshold; benefits are reduced to reflect the tax liability payable by the administrator. See following section for more details.	As for private sector. See following section for more details
Lump sums/gratuities	Tax free up to a limit of €200k in respect of all lump sums taken since 7th December 2005 from all pension arrangements. The next €375k of such	As for private sector.

[4] *This limit was €275k in 2008 but was reduced in 2009 to €150k and to its current €115k level in 2011.*

[5] *Pension Related Deduction for public service employees who are members of public service pension schemes, under FEMPI Act (No 1) 2009.*

[6] *S790C, Taxes Consolidation Act 1997*

[7] *Employer contributions to an employee's PRSA is a BIK for income tax, but the employee can then claim income tax relief on the employer contribution as if he or she had paid it as a personal contribution, within the overall age related and €115,000 earnings limit restrictions, i.e. the employer contribution to an employee's PRSA is imputed for tax purposes to the employee.*

	Private Sector	Public Sector unfunded
	lump sums is taxed at a ring fenced standard rate of income tax, with any balance taxable as income under PAYE and for USC.	
Pensions in payment	Liable to PAYE and USC, but not PRSI.	As for private sector
ARF/vested PRSA drawdown	Liable to PAYE, USC and PRSI (for self employed). Minimum drawdown of 5% pa.[8]	Relevant only to private AVCs transferred to an ARF or held within a vested PRSA in retirement.

The main differences in taxation treatment of public and private sector pension arrangements are:

- Income tax relief on the PRD provided to public service employees is *not* subject to the age related and €115k earnings limits which apply to personal contributions to private or public sector pension arrangements.
- The pensions levy of 0.6% pa applying to private pension funds has no equivalence in public sector unfunded pensions.
- Under the chargeable excess taxation system:
    - Public service pensions are significantly undervalued compared to open market value, particularly for those who retire early. (See following section for more details).
    - Where a chargeable excess tax liability arises on public service benefits, recovery of the tax is limited to 50% of the net gratuity while any balance of the tax liability may be paid by a deduction in gross public service pension over a period of up to 10 years with no interest loading and no recovery of unpaid tax on death[9]. There is no equivalent provision for spread payment of chargeable excess tax on private pension benefits.
    - Public service employees with a mix of private and public service pension benefits can exercise an Encashment Option[10], and pay associated encashment tax, over their private pension benefits to disaggregate such benefits from the chargeable excess tax system. Such an option is not provided to individuals in the private sector.

Chargeable excess taxation system

Introduction

The chargeable excess taxation system[11] was introduced in December 2005 and was substantially modified in 2010. The legislation is titled as *'Limits on tax relieved pension funds'* and its introduction in 2005 followed an *'Internal Review of certain Tax Schemes'*[12] conducted by the Department of Finance.

[8] *6% pa if the total value of ARFs and vested PRSAs held by the individual is greater than €2m. S790D, Taxes Consolidation Act, 1997.*

[9] *S787Q(7), Taxes Consolidation Act, 1997*

[10] *S787TA, Taxes Consolidation Act 1997*

[11] *Chapter 2C, Part 30, Taxes Consolidation Act 1997*

[12] *Section G of the Review dealt with 'Tax Relief for Pension Provision'*

One of the Review's conclusions was:

"Current tax reliefs appear to be very generous in relation to individuals whose employers are in a position to make substantial tax deductible contributions to their schemes effectively without limit, particularly in circumstances where they can influence the level of employer contributions and their remuneration level."[13]

The related recommendation of the Review was:

"Place an absolute cap on the size of the maximum tax-relieved retirement fund."

Chapter 2C, Part 30, Taxes Consolidation Act 1997 was introduced with effect from 7th December 2005 and introduced a tax on the capital value of pension benefits (private and public sector) taken above a certain limit, i.e. a tax on the chargeable *excess* of retirement benefits taken over a specified threshold limit.

How the chargeable excess tax system works

In broad terms the system works as follows:

- It imposes a fixed ringfenced tax charge of 41% on the capital value of the excess, over a relevant threshold limit, of retirement benefits taken by a retiree from a pension arrangement; the administrator of the relevant arrangement is liable for the tax, but is empowered to recover the tax by a reduction of equivalent value in the value of the individual's retirement benefits.
- Any standard rate tax paid on retirement lump sums by an individual taken since 1st January 2011 is allowed as a credit against chargeable excess tax.
- The threshold was set at €5.0m on 7th December 2005 (referred to as the Standard Fund Threshold or SFT), but those who had accrued pension entitlements at 7tH December 2005 valued at more than €5m could protect those benefits from the tax charge by obtaining a Certificate from Revenue called a Personal Fund Threshold (PFT). Only benefits taken in excess of the PFT level would be subject to the tax.
- The SFT level of €5m was indexed for a few years, growing to €5.4m by 2008, when indexation of the limit stopped.
- The SFT level was reduced to €2.3m on 7th December 2010; however those who had accrued retirement benefit entitlements at 7tH December 2010 valued at more than €2.3m and less than €5.4m, could protect those benefits from chargeable excess tax by obtaining a Certificate from Revenue called a Personal Fund Threshold (PFT).
- The capital value of DC benefits is the DC fund value taken at retirement. In DB schemes, the capital value is taken as the gratuity/lump sum taken plus 20 x pension payable in the first year, regardless of age, gender, and type of pension payable.

  Example #1: A public service employee retires with a gratuity of €150,000 and a pension of €50,000 pa. For the purposes of the chargeable excess tax system, these benefits are assumed to have a capital value of €150,000 plus 20 x €50,000 = €1.15m.

[13] *Executive Summary, Department of Finance Internal Review of certain Tax Schemes', 2005*

Example #2: An employee in a private sector DB scheme retires with a pension entitlement of €60,000 pa, of which he or she opts to commute €9,643 pa for a lump sum of €135,000, and takes a reduced pension of €50,357 pa. For the purposes of the chargeable excess tax system, these benefits are assumed to have a capital value of €135,000 plus 20 x €50,357= €1.14m.

Example #3: An individual in the private sector retires with total DC funds of €1.15m. For the purposes of the chargeable excess tax system, these benefits are assumed to have a capital value of €1.15m.

Valuation of DB pensions

The use of a fixed 20:1 valuation factor for DB pensions, regardless of age, gender, and type of pension, values DB pensions for the chargeable excess tax system at an amount generally lower than equivalent open market value of such benefits as represented by current open market annuity rates.

The following Table shows the current open market value (OMV)[14] at a range of retirement ages for the following typical types of DB pensions:

- Public service DB: A CPI linked pension, with 50% reversion to adult dependant.
- Typical private sector DB: A flat pension with 50% reversion to adult dependant.

Age at retirement	OMV Public Service DB pension €1 pa	Discount on OMV provided by use of 20:1 valuation	OMV Private Sector DB pension €1 pa	Discount on OMV provided by use of 20:1 valuation
50	62	68%	31	35%
55	53	62%	28	28%
60	45	56%	26	23%
65	37	46%	23	13%
70	29	31%	20	Nil

Therefore individuals taking DB pensions in effect benefit from a discount on the OMV of such pensions for the chargeable excess tax system, as compared to individuals with DC benefits, with the DB discount being higher at younger ages and for public service pensions.

[14] *Based on open market annuities rates (non Sovereign Annuities) on the Irish Life Pensions Planet annuity website, 9th August 2012, for a female purchasing an annuity. .*

The impact of valuing DB pensions for the chargeable excess tax system at a fixed 20:1, can be seen from this example of a public service employee retiring at age 55 with a pension of €50,000 pa and a gratuity of €150,000 compared to a DC retiree with a DC fund of equivalent open market value:

Standard Fund Threshold of €2.3m

	Open Market Value of benefits	Capital Value used for chargeable excess tax purposes	Standard Fund Threshold (SFT) €2.3m	Chargeable excess tax : 41% on excess over SFT
Public service retiree with pension of €50k pa plus gratuity of €150k[15].	€50,000 x 53 + €150,000 = €2,800,000	€50,000 x 20 + €150,000 = €1,150,000	€2,300,000	Nil
DC retiree with fund of €2.8m	€2,800,000	€2,800,000	€2,300,000	[€2.8m less €2.3m] x 41% = €205k or 7% of DC fund.

While the DC retiree and the public service employee in this example have retirement benefits valued at the *same* open market value of €2.8m, the DC retiree has a chargeable excess tax liability of €205k or 7% of his her DC fund, while the public service retiree has no chargeable excess tax liability.

Reducing the SFT while maintaining the current fixed 20:1 DB pension valuation factor, would increase the inequity of the chargeable excess tax treatment as between DB and DC benefits and, in particular, as between public service pensions and private sector pensions/DC funds.

Chargeable excess tax as a disincentive

The protection from the chargeable excess tax accrued retirement benefits valued at more than €5m on 7th December 2005 and €2.3m at 7tH December 2010, means the tax is designed to act as a *disincentive* to accumulation of retirement benefits beyond these limits.

[15] *OMV of benefits taken as: 53 x €50k + €150k = €2.8m.*

Appendix II - Private Sector Pensions

Introduction

There are three main forms of private sector funded pension arrangements:

- Employer sponsored DB occupational pension schemes
- Employer sponsored DC occupational pension schemes
- Personal DC contract arrangements for the :
  - unincorporated self employed
  - employees in non pensionable employment, and
  - AVCs, for employees who are members of employer sponsored occupational pension schemes, either public or private sector.

Coverage

Numbers and coverage rates

The CSO periodically publish pension provision coverage modules to the Quarterly National Household Survey (QNHS). The latest module relates to private pension[1] cover of those in employment at Q4 2009. However the Survey results do not show coverage separately between public and private sectors, but by NACE economic sectors.

Nevertheless the disparity in private pension coverage between public and private sectors can be gauged by noting the pension coverage rates in sectors that are likely to be populated predominantly or exclusively by those working in the private or public sectors, as the case may be:

Occupational Pension Scheme coverage rates

Public sector dominated *(occupational pension scheme coverage only)*		**Private sector dominated** *(occupational and/or personal pension)*	
Public administration and defence;:	93%	Industry :	58%
Education :	89%	Wholesale & retail trade :	30%
Human health and social work activities	87%	Accommodation and food services :	17%
		Financial, insurance and real estate :	83%
		Sales :	25%
		Self employed	36%

Source: CSO QNHS Pensions Module Q4 2009

The only part of the private sector dominated areas with pension coverage rates close to that of the public sector is finance and insurance at 83%.

The 2009 QNHS pensions module shows a noticeable decline in pension coverage since 2008 in private sector areas (apart from finance & insurance), but a steady if not increasing coverage in public sector areas:

[1] *Meaning a member of an employer occupational pension scheme and/or contributing to a 'personal' pension.*

Occupational Pension Scheme coverage rates

	Q1 2008	Q4 2009
Public administration & defence	92%	93%
Education	84%	89%
Self employed	47%	36%
Accommodation & food services	22%	17%
Sales	33%	25%
Finance & insurance	78%	83%

Again the only part of the private sector areas displaying coverage rates and trends similar to the public sector is finance and insurance.

Combining the QNHS Pensions module data with CSO QNHS employment data at Q4 2009, and allowing for approx. 310,000 public service employees[2] at Q4 2009 with 100% pension coverage, it's possible to establish an estimated pension coverage rate of 41% in the private sector at Q4 2009 as follows:

Estimated private pension coverage at Q4 2009

		Pension Cover rate	No with pension cover	No without pension cover
Total in employment	1,887,700			
Employees (public + private)	1,564,600	54%	844,884	719,716
Public sector employees	**310,000**	**100%**	**310,000**	**0**
Private sector employees	1,254,600	43%[3]	534,884	719,716
Self employed	323,100	36%	116,316	206,784
Private sector (ees + se)[4]	**1,577,700**	**41%**	**651,200**	**926,500**

The estimate above of pension coverage for private sector employees of 43% at Q4 2009, tallies closely with a CSO estimate of 44% referred to in the Benchmarking Report 2007[5].

[2] *Source: Dept of Finance Analysis of Public Service Pay & Pensions 2005-2010, Table IX shows 318,836 public service employees at 1st January 2009 and 309,804 at 31st December 2010.*

[3] *Determined by deduction from the other coverage rates and employment data at Q4 2009.*

[4] *Including commercial semi state.*

[5] *Appendix 8 – section 6.2.2, page 221*

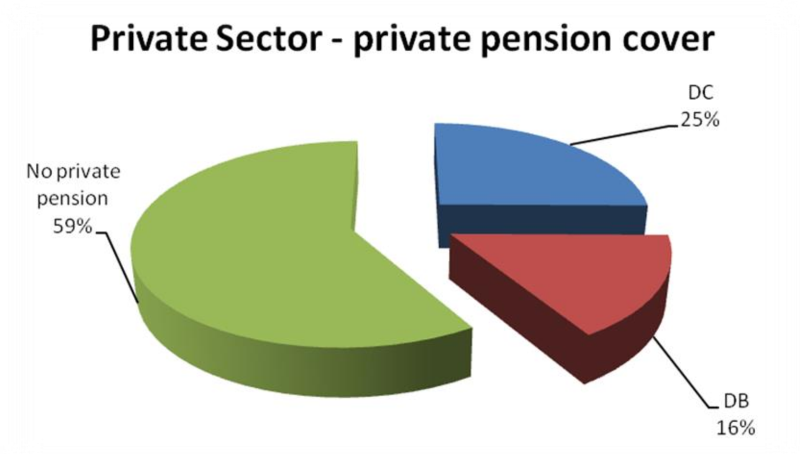
Type of coverage

Combining the estimated numbers with pension coverage (as outlined above) with Pensions Board data for end 2009, it's possible to estimate the type of pension coverage held in the private sector as follows:

Private Sector – estimated type of pension cover – end 2009

	No with pension cover	Type
Self employed	116,000	DC
Employees – in DB schemes	254,000[6]	DB
Employees - DC schemes	267,000[7]	DC
Employees – Personal pensions	14,000[8]	DC
Total with private pension cover	**651,000**	
Total with no private pension cover	**926,500**	

This chart shows the *estimated* makeup of private pension cover in the private sector at the end of 2009:



Source: Estimated based on CSO QNHS Q4 2009 combined with Pensions Board data

Of the estimated 651,000 in the private sector at the end of 2009 who had private pension cover, an estimated 61% (by number) had DC cover, with the balance (39%) being DB.

It is likely that the private sector DB cover of 39% has fallen since 2009 and will continue to fall further because:

- Most private sector DB schemes are closed to new entrants.
- Increasing retirements from DB schemes.

[6] *Number shown in Pensions Board annual report 2009 as members of funded DB occupational pension schemes.*
[7] *Number shown in Pensions Board annual report 2009 as members of DC occupational pension schemes.*
[8] *Residual figure from estimated 535,000 private sector employees with pension cover and the Pensions Board Annual Report 2009 figure of 521,000 in funded occupational pension schemes, assumed to be all in the private sector.*

- DB schemes, particularly smaller ones, are winding up. E.g. The Pensions Board Annual Report for 2009 shows 1,212 funded DB schemes, but their Annual Report for 2011 shows 993 funded DB schemes at April 2012.

Quality of coverage

There are few reliable sources to establish the quality of private sector retirement benefit coverage.

DB occupational pension schemes

The following table describes typical funded DB benefits and contributions, derived from a combination of the IAPF Pensions Market Survey 2007 and the Benchmarking Body Survey of Pension Schemes 2007. Unless otherwise stated, the source is the IAPF Survey 2007.

Benefit accrual	95% of DB schemes provided a benefit accrual rate of either 1/60th x final pensionable remuneration with option to commute part of the pension for a gratuity, OR 1/80th x final pensionable remuneration plus a separate gratuity of 3/80ths.
Pensionable remuneration	• 69% of schemes defined members benefits by reference to basic pay only, i.e. excluding overtime, allowances, etc. • 66% of schemes had a direct integration of State Pension in the calculation of pensionable remuneration, typically an offset of 1.5 x State Pension; some of the 34% of schemes without a direct offset against pensionable remuneration, use a State Pension offset against the pension entitlement instead.
Employee contributions	6% of pensionable remuneration (Benchmarking Survey)
Normal Retirement Age	65.
Post retirement increases	15% of schemes provided no post retirement pension increase, 33% provided discretionary increases, 34% provided CPI linked increases usually subject to a maximum, and 18% provided fixed increases (typically 3% pa). However Benchmarking Survey found 50% of schemes provide no increases, which may be consistent with the IAPF finding of 15% providing no increase and 33% providing discretionary increases.
Spouse's death in retirement	62% of schemes provided a spouse's death in retirement pension of 50% of the members pension

However note that these findings relate to 2007 (or earlier); since then the funding deficits of most DB schemes have increased significantly, with increasing resort by trustees and employers to some or all of the following:

- Reduction in accrued benefit entitlements 9secton 50, Pensions Act, 1990).
- Freezing schemes for further accrual of benefit; future accrual may switch to DC.
- Increased employee contributions.
- Cessation of any further discretionary increases in pensions.
- Withdrawal or reduction of fixed pension increases.
- Capping future DB accrual to a certain level of pensionable remuneration.
- Increasing Normal Retirement Age in line with increase in State Pension Age, for integrated schemes.
- Wind up of schemes with a deficit.

DC occupational pension schemes

The following table describes typical funded DC benefits and contributions, derived from a combination of the IAPF Pensions Market Survey 2007 and the Benchmarking Body Survey of Pension Schemes 2007. Unless otherwise stated, the source is the IAPF Survey 2007.

Employee contributions	5.0% of pensionable remuneration (IAPF Survey 2002)
Employer contributions	6.2% of pensionable remuneration (Benchmarking Survey)
Pensionable remuneration	• 81% of schemes defined members benefits by reference to basic pay only, i.e. excluding overtime, allowances, etc. • 20% of schemes had a direct integration of State Pension in the calculation of pensionable remuneration; 80% were not integrated.
Normal Retirement Age	65

However again note that the Surveys on which the above is based date to 2007 (or earlier) and may not fully reflect current DC OPS design.

Personal pension arrangements

There is no reliable data on personal contribution levels to PRSAs and/or Personal Pension Plans.

Appendix III - Public Sector Pensions

Sectors

The term 'public sector' pensions refers to a range of different pension arrangements covering the following various groups of public service employees:

- Civil Service
- Education
- Health
- Security, i.e. Gardai, Defence Forces and Prison Officers
- Constitutional, Ministerial and Judicial office holders
- Local Government
- Non commercial State sponsored bodies.

Coverage

There is generally 100% pension coverage of employees and part time/fixed term contract employees whose normal hours of work constitute less than 20% cent of the normal hours of work of a comparable full time employee.

The CSO periodically publish pension provision coverage modules to the Quarterly National Household Survey (QNHS). The latest module relates to private pension[1] cover of those in employment at Q4 2009. However the Survey results do not show coverage separately between public and private sectors, but by NACE economic sectors.

However the high pension coverage rate in the public sector can be gauged by noting the pension coverage rates in sectors that are likely to be populated predominantly or exclusively by those working in the public sectors:

Private pension - coverage rates

Sector *(occupational pension scheme coverage only)*	
Public administration and defence;:	93%
Education :	89%
Human health and social work activities	87%

Source: CSO QNHS Pensions Module Q4 2009

Funding

Public service pension arrangements generally operate on a pay-as-you-go (PAYG) basis, i.e. the cost of benefits is recognised only at the time of payment with benefits payable of current Exchequer revenues at that time.

[1] *Meaning a member of an employer occupational pension scheme and/or contributing to a 'personal' pension.*

The National Pensions Reserve Fund (NPRF) was established with the objective that 1/3rd of the Fund would be used to partly fund public service pension revenue outgoings from 2025 onwards. The Government committed to prefunding the NPRF at a rate of 1% pa of GNP, together with other occasional once off contributions[2].

Retirement benefits

Benefits

In broad terms those who entered the public service before 6th April 1995 are provided with final salary DB retirement benefits payable at their minimum retirement age of:

- 1/80th of pensionable remuneration[3] at retirement for each year of reckonable service, to a maximum pension of 40/80ths of pensionable remuneration; 50% of this pension is payable to a surviving spouse or civil partner where the pensioner predeceases his or her spouse/civil partner, and

- A gratuity of 3/80ths of pensionable remuneration at retirement for each year of reckonable service, to a maximum gratuity of 120/80ths of pensionable remuneration. In effect the gratuity is 3 times the annual pension.

Integration with State Pension entitlement

The pension entitlement (but not the gratuity) of those who joined the public service *after* 6tH April 1995 is integrated with their State Pension entitlement so that their total pension is made up partly by a public service pension and the balance by their State Pension.

The integration is accomplished by providing a lower rate of pension accrual, 1/200th instead of 1/80th, for each year of reckonable service, for that part of pensionable remuneration which falls below 3.333333 x the maximum annual rate of State Pension (Contributory) payable to a single person without dependants.

This change coincided with:

- such employees being required to pay PRSI at the higher Class A rate, instead of the lower 'modified' Class B, C or D rates of PRSI paid by those recruited before 6th April 1995.
- the introduction of an explicit Superannuation contribution for those sectors that had not previously paid such a contribution, e.g. civil service, and the increase in the contribution for those who had previously paid a reduced contribution, e.g. Gardai.
- a compensating increase in the pay scales for those sectors required to make a Superannuation contribution for the first time (Civil Service) or to pay an increased rate of

[2] €2.4bn of the Eircom flotation proceeds was used to seed the NPRF in 2011, while circa €2m of assets related to funded public service schemes for sixteen universities and certain State sponsored bodies was transferred to the NPRF in 2009/10 as a prefunding of the Exchequer contribution to the NPRF up to 2012; the associated accrued pension liabilities (estimated at €3bn at the time) were taken over by the State to be funded in the future on a PAYG basis. The NPRF has since been diverted to other purposes mainly the recapitalisation of banks

[3] Pensionable remuneration is normally the salary payable on the last day of reckonable service plus the average of the best three consecutive years' pensionable emoluments and allowances in the final ten years of service.

contribution (Gardai). The increase in pay scales was 20/19 for the Civil Service and 20/19 x 98.25% for Gardai.

Example – Civil Servant

Take an example of a civil service employee on a grade salary of, say, €50,000 pa (pre 6th April 1995 entrant level).

This Table compares their salary and superannuation contribution and benefit entitlements, assuming 40 years reckonable service at minimum retirement age and the current rate of State Pension (Contributory):

	Recruited *before* 6th April 1995	Recruited *after* 6th April 1995
Salary scale point	€50,000	€50,000 x 20/19 = €52,631
Superannuation contribution	Nil	3.5% x (52,631 – 2 x 11,976) + 1.5% x €52,631 = 3.4% of salary
PRSI employee rate	0.9%	4.0%
Gratuity	120/80 x €50,000 = €75,000 (150%)	120/80 x €52,631 = €78,947 (150%)
Public Service Pension	40/80 x €50,000 = €25,000 pa	40/200 x (3.333333 x €11,976) + 40/80 x (€52,631 – 3.333333 x €11,976) = €14,340
State Pension	Nil	€11,976
Total pension	€25,000 (50%)	€26,316 (50%)

The post 6th April 1995 civil servant's retirement benefits are circa 5% higher in monetary terms than those of the corresponding pre 6th April 1995 employee, as a result of the 5% increase in salary scale provided to post 6th April 1995 new entrants.

The integration of public service pension entitlements for employees recruited after 6th April 1995 means that the State's pension liability for these employees is split between:

- the payment of public service pension funded by the Exchequer, and
- the State Pension paid from the Social Insurance Fund (SIF) and funded by employer and employee PRSI contributions and, if PRSI contribution income is insufficient to meet SIF outgoings, an Exchequer subvention to the SIF.

Added years/fast accrual

Some professional and technical grades have traditionally been entitled to 'added' or 'notional years' service of up to 10 years, for reckonable service purposes. This was reduced to a maximum of 5 years added service for new entrants post 1st April 2005.

Some sectors and grades are entitled to '*fast accrual*', i.e. they can achieve the maximum pension and gratuity entitlement with less than 40 years actual service[4].

There is a separate Purchase of Notional Service (PNS) scheme whereby public service employees can, in return for an additional contribution (which is eligible for income tax relief within statutory limits), buy missing years of service required to bring them to their maximum reckonable service by their minimum retirement age. Public service employees can also contribute AVCs in addition to or in conjunction with PNS.

Minimum retirement age

Public service superannuation benefits are payable without actuarial reduction when an employee reaches their *minimum* retirement age, which varies between certain sectors and by date of entry into service.

Employees recruited before 1st April 2004 generally have a minimum retirement age of 60 and a maximum of 65; those recruited after 1st April 2004 generally have a minimum retirement age of 65 but no maximum.

However security and education sectors have earlier minimum retirement ages in certain cases:

Sector	Minimum Years Service Required to Earn Maximum Retirement Benefits		Minimum Age For Payment of Pension [a]	
	Pre 2004	Post 2004 [b]	Pre 2004	Post 2004
Garda Síochána	30	30	50	55
Permanent Defence Forces	31	31	- [c]	50
Fire Fighters	30	30	55	55
Prison Officers	30	30	50	55
Teachers	40	40	55	65

Notes:

a Staff may retire at an earlier age but with an actuarial deduction applied to their pension.

b Pension terms amended by the Public Service Superannuation (Miscellaneous Provisions) Act, 2004.

c Previous to 1 April 2004 pensions were linked to length of service and rank only.

Source: Figure 3.2, C & AG Special Report on Public Service Pensions, August 2009

For example, a member of the Gardai recruited *before* 1st April 2004 can retire on full pension and gratuity from age 50 onwards (with no actuarial reduction), if they have 30 years reckonable service completed at that time; however a teacher recruited *after* 1st April 2004 can only retire on full pension and gratuity from age 65 onwards (with no actuarial reduction), if they have completed 40 years reckonable service.

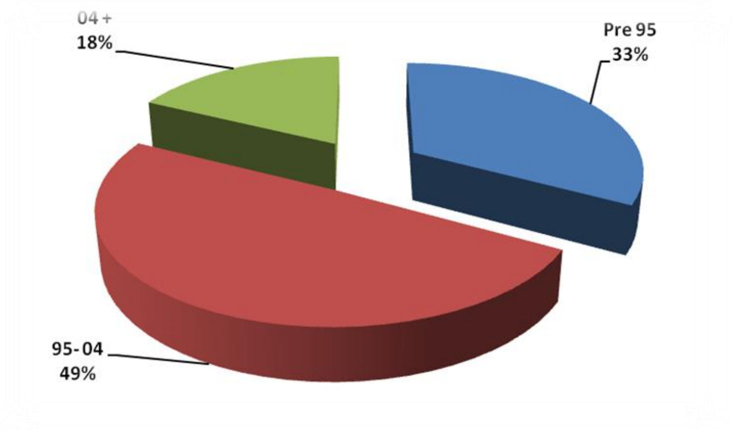
[4] *E.g. for members of the Garda Siochana, service in excess of 20 years is doubled, so that 40 years reckonable service for pension purposes can be obtained with 30 years of actual service. Members of the judiciary can accrue a full pension over 15 years of actual service.*

The more favourable fast accrual and earlier retirement ages for those involved in security duties is a notable feature of the public service pensions system.

Numbers in each category

The estimated split[5] of the estimated 310,000 public service employees (excluding pensioners) at the end of 2009, in relation to date of entry into public service, is as follows:

Estimated split of public service employees end 2009, by year of entry into service



The largest grouping therefore, at 49%, is estimated to be those recruited after 6th April 1995 and before 1st April 2004.

Pensionable allowances

Different sectors of the public service are entitled to various allowances, e.g. for working unsocial hours, which are generally pensionable[6]. For example:

- pensionable allowances for Gardai include rent, Sunday and night duty allowances. The Sunday Business Post of the 5th August 2012 quoted figures issued by the Department of Public Expenditure as confirming that the average Garda receives over €16,000 pa in allowances, which makes up about 1/3rd of their total remuneration, and that '*most'* of these allowances are pensionable.
- pensionable allowances for nurses include location and unsocial hours allowances.
- pensionable allowances for teachers include qualification, posts of responsibility and location allowances.

[5] *Pre 1995 taken as the total number of PRSI Class B, C and D contributors shown at end of 2009 in the Social Welfare Statistical Report for 2010; the post April 2004 number was estimated as the increase in public service employee numbers from end 2003 to end 2009 (about 31,000 and added back increase in public service pensioner numbers over that period, about 24,000 to get the gross increase of 55,000); the number of those recruited between 6th April 1995 and 1st April 2004 was then taken as the balance of the estimated 310,000 total.*

[6] *Usually averaged over a period of three years*

The pensioning of many of such allowances provides a 'uplift' factor to increase the superannuation benefits such public service employees get over and above their entitlement based on their salary only. This uplift will vary from sector to sector, and even indeed within sectors between individual employees.

Increments & promotions

Most grades in the public service operate are remunerated by reference to an incremental pay scale, where new entrants typically start at or close to the bottom of the scale and move up the scale with service, subject to an assessment. The length of the pay scale, i.e. number of increment points, varies between sectors and grades.

Promotions also have a similar impact on superannuation benefits, as promotion to a higher salary scale will bring with it higher superannuation benefits, as currently superannuation benefits are linked to final salary.

Cost Neutral Early Retirement (CNER)

When the minimum retirement age was increased for some sectors to 65 from 60 for new employees recruited after 1st April 2004, a scheme was introduced in April 2005 whereby employees could opt to take voluntary early retirement (VER) benefits, subject to an actuarial reduction, within 10 years of their minimum retirement age, i.e. from 50 or 55 onwards, as the case may be.

A set scale of actuarial factors apply for actuarial reduction to the pension and gratuity. The current factors are:

Persons with a preserved age of 60

Age last birthday	Pension	Lump sum
50	62.4%	82.2%
51	65.1%	83.9%
52	67.9%	85.5%
53	71.0%	87.2%
54	74.3%	88.9%
55	77.8%	90.7%
56	81.6%	92.4%
57	85.7%	94.3%
58	90.1%	96.1%
59	94.8%	98.0%

Persons with a preserved age of 65

Age last birthday	Pension	Lump sum
55	58.2%	82.4%
56	61.1%	84.0%
57	64.1%	85.6%
58	67.4%	87.3%
59	71.0%	89.0%
60	74.8%	90.7%
61	79.0%	92.5%
62	83.6%	94.3%
63	88.5%	96.1%
64	94.0%	98.0%

Preserved benefits

Where an employee leaves the public service, other than on grounds of retirement, prior to their minimum retirement age, they are generally entitled a preserved pension and gratuity entitlement, calculated on their reckonable service at the date of leaving service and payable at their minimum retirement age.

Pay parity

Public service pensions have traditionally been increased, but not decreased, at the discretion of the Minister for Finance, in line with the change in the current pay scale point of the grade from which the employee retired; this is referred to as 'pay parity'.

Pay parity has also been traditionally applied to preserved benefits for those who have left service.

Spouse/Civil Partner's & Children's Pension

Most employees are also members of a separate Spouse/Civil Partners and Children's Pension scheme which provides a pension of 50% of the employee's retirement pension, plus associated children's pensions.

Reduction in public service salaries

Public service salaries were reduced with effect from 1st January 2010 as follows:

Slice of salary	Reduction in salary
First €30,000	5%
Between €30,001 and €70,000	7.5%
Between €70,001 and €125,000	10%
Between €125,001 and €165,000	8%
Between €165,001 and €200,000	12%
Above €200,000	15%

At a pre reduction €50,000 salary level, the reduction amounts to 6.0%.

These cuts feed through to lower superannuation entitlement for those who retired *after* 29th February 2012, as their superannuation benefits are based on a lower salary; however their pensions are not subject to the PSPR (see following).

For those who retired *before* 29th February 2012, superannuation benefits are based on their pre cut salary scales, i.e. before application of the reduction above, but their pensions *are* subject to the PSPR.

Appendix III - Public Sector Pensions

Under the Haddington Road Agreement further reductions in pay for those earning over €65,000 were made from 1 July 2013 as follows:

Between €65,001 and €80,000	5.5%
Between €80,001 and €150,000	8%
Between €150,001 and €185,000	9%
Above €185,000	10%

Public Service Pension Reduction (PSPR)

Public service pensions in payment above €12,000 pa, where payment of the pension commenced before 1^{st} March 2012, are subject to an ongoing reduction with effect from 1^{st} January 2011, as follows:

Slice of pension	Reduction in pension
First €12,000	0%
Between €12,000 and €24,000	6%
Between €24,000 and €60,000	9%
Above €60,000	12%

For a €25,000 pa pension, the reduction amounts to 3.2%. Note that for post 6^{tH} April 1995 new entrants, the PSPR only applies to the public service pension part of their total pension entitlement and not to the State Pension part.

As pointed out in the previous paragraph, the PSPR does *not* apply to public service pensions where payment commenced *after* 29^{th} February 2012, as these pensions are based on public service salaries reduced by the cut imposed in January 2010. (See above)

There is therefore an 'either/or' situation where for a €50,000 salary, with associated pension expectation of 50%, i.e. €25,000 pa:

	Retirement before 1^{st} March 2012	Retirement after 1^{st} March 2012
Reduction in salary for superannuation benefit purposes	No	Yes : - 6.0%
Reduction in public service pension in payment	Yes : -3.2%	No

Typical public service superannuation entitlements 2012

The Minister for Public Service & Reform provided the following information about public service pensions on 2nd May 2012, at a meeting of the Select Committee on Finance, Public Service and Reform:

"I would also like to take this opportunity to dispel some myths about civil servant pensioners and in particular those retirees during the grace period. The 2012 Estimate assumes an average pension for civil servants retiring this year of €29,000 with a corresponding average once off lump sum of €87,000.
Clearly, these numbers show that pensions for the huge majority of Civil Service retirees are modest. There is a lot of focus on the top end of pensions in the public service but it is important to note the figures I have just quoted. These large pensions are not representative. It must be stressed that 38% of civil servants are on occupational pensions of €10,000 or less and 25% have pensions paid from Vote of €5,000 or less – some people may of course have other pension income, but these numbers show that commentators should be very cautious about claiming that pensions are excessive."

Reduction in public service salary scales for new entrants post 1st January 2011

The salary scales and allowances for new appointees to the public service after 1st January 2011 are subject to a 10% reduction on the levels applying to new entrants before that date. This reduction generally feeds through to 10% lower superannuation benefits in monetary terms than applicable to similar appointees before that date.

Some allowances have also been cut or removed for new appointees to the public service after 1st January 2011.

Employee contributions

Public service employees may pay up to three different contributions in respect of their public service pension benefits:

- A Superannuation contribution
- A Spouse's/Civil Partner's and Children Pension scheme contribution, and
- The Pay Related Deduction (PRD) introduced in March 2009.

Superannuation contribution

Most, but not all, public service employees pay an explicit[7] superannuation contribution; however the rate of payment varies between sectors and between those who joined before and after 1st April 1995:

[7] *The term 'explicit' is usually used to distinguish from the 'implicit' contribution pre 6th April 1995 civil servants are said to pay by their pay scales being generally 5% lower than those civil servants recruited after 6th April 1995.*

Superannuation Contribution

Sector	Recruited *Pre* 1st April 1995	Recruited *Post* 1st April 1995 and before 1st January 2011
Civil Service	Nil	3.5% of net[8] pensionable remuneration + 1.5% of pensionable remuneration. However salary scale uplifted to 20/19 of equivalent pre 1st April 1995 scale
Gardai	1.75% of pensionable remuneration	3.5% of net pensionable remuneration + 1.5% of pensionable remuneration. However salary scale uplifted to 20/19 x (equivalent pre 1st April 1995 scale – 1.75%).
Education, Health, Local Government	5% of pensionable remuneration	3.5% of net pensionable remuneration + 1.5% of pensionable remuneration.

Spouse's/Civil Partners & Children's Pension scheme

Most public service employees, including those who are single, are members of the Spouse's/Civil Partners & Children's Pension scheme, to which they must pay a regular contribution of 1.5% of salary.

Pension related deduction (PRD)

All public service employees with an entitlement to public service pension benefits[9] are subject to a further contribution, called the pension related deduction (PRD), with effect from 1st March 2009. The PRD applies to all public service remuneration, both pensionable and non pensionable (such as overtime and BIKs).

The current rate of PRD varies by the level of public service remuneration as follows:

Slice of remuneration	PRD
First €15,000	Nil
Between €15,000 and €20,000	2.5%
Between €20,000 and €60,000	10%
Above €60,000	10.5%

The PRD is applied equally to all salary and pensionable allowances as between pre and post 6th April 1995 employees, even though post 6th April 1995 employees have a lower public service pension entitlement than corresponding pre 6th April 1995 employees due to integration of their benefits.

While the PRD may generally be considered to be a pension contribution, Section 7(2) of the FEMPI Act 2009 states that the PRD '*is not a pension contribution for the purposes of the Pensions Act, 1990*'. However the preamble to the Act refers to : *'an Act, in the public interest, to provide for the*

[8] Reduced to take account of State Pension; net pensionable remuneration = gross pensionable remuneration less twice the annual rate of the maximum single person's State Pension, currently €11,976.
[9] Excluding commercial state bodies, such as ESB, CIE and Bord Gais.

payment of a contribution by certain persons in the public service (including members of the Houses of the Oireachtas and certain office holders) who are members of an occupational pension scheme or pension arrangement...'

The Minister for the Public Service and Reform in his opening Dail statement (19th October 2011) on the second stage of the Public Service Pensions (Single Scheme) & Remuneration Bill 2011 referred to Section 7(2) FEMPI Act 2009 and stated:

"The pension levy contribution is a misnomer. It was called that by the previous Government, but it is a levy on pay. I hope it will not be a permanent feature, as I said to the unions when I met them. In my judgment, it is a mistake for unions to characterise it as a pension contribution because the fear will be at a future date that it will be subsumed into the calculation of pension contributions. Under the auspices of the Financial Measures in the Public Interest Act 2009, it is not, by definition, a permanent measure. I hope it will not be a permanent measure, but, obviously for the foreseeable future, it is required."

However the C& AG Report on Public Service Pensions of August 2009 treated the PRD as a 'pension contribution'.

Incentivised voluntary early retirement (VER) schemes

A feature of public service pensions is the periodic offering of 'incentivised' voluntary early retirement (VER) schemes where superannuation terms more favourable than the norm are offered.

Examples include:

- *Teachers 1997*: The scheme involved 3 *strands* which provided additional credited years of reckonable service for superannuation purposes:
    - Strand I: Up to 5 years extra service where a teacher was '*experiencing professional difficulties in their professional duties*';
    - Strand II: Up to 2 years extra service where the teacher's retirement would provide the school with *'an opportunity to enhance the education service provided through facilitating change*';
    - Strand III: Up to 7 years extra service where the teacher is in a post which is '*surplus to requirements and who cannot readily be redeployed*'.

      Pre 1st April 2004 appointed teachers could retire without actuarial reduction from 55 onwards.
- *Nurses 1997*: nurses could opt to retire between the ages of 55 and 60 with immediate pension benefits and no actuarial reduction. The scheme was '*aimed at nurses who find the demands of the profession such that they no longer feel that they can operate at the level of professional performance they themselves and management require*.'
- *September 2009* : a general early retirement scheme was offered to all public service employees (excluding those in the security sector) whereby employees opting for VER from age 50 upwards could take their accrued pension entitlement immediately, with *no* actuarial reduction for payment before their minimum retirement age; 10% of the gratuity was payable on early retirement with the balance payable at the employee's minimum

retirement age with an undertaking that the balance would not be subject to any pension lump sum taxation measures which might be introduced subsequently[10].

- *November 2010:* a voluntary early retirement scheme was offered to employees in the HSE over age 50, with the accrued pension and gratuity entitlement payable immediately, with no actuarial reduction for payment before their minimum retirement age, and with superannuation benefits payable on their pre cut salary.
- *February 2012* : a general early retirement scheme was offered to all public service employees (excluding those in the security sector) whereby employees opting for VER from age 50 upwards could take their accrued pension entitlement immediately, subject to actuarial reduction for payment before their minimum retirement age, but based on their pre January 2010 cut salary level. However such pension entitlements are subject to the reduction in public service pension.

The various incentivised VER schemes suggest that a significant number of public service employees go onto superannuation benefits on early retirement and on terms generally more favourable than normally allowed by the various schemes. There is therefore a trend of providing *uplifts* to the value of superannuation benefits as an incentive to significant numbers availing of VER schemes.

New public service single superannuation scheme

The Public Service Pensions (Single Scheme) and Remuneration Act 2012 provides for a new single public service pension scheme for all new public service employees recruited on or after a future 'operative' date, which has not yet been determined. The Act does not impact on existing public service pension arrangements for current employees and pensioners except potentially in relation to the operation of pension increases.

The main changes in the new single scheme compared to current post April 2004 entrants are:

- Career average pensionable remuneration, adjusted by CPI increases, rather than final salary.
- A later minimum pension age, linked to the State Pension age.
- Less favourable fast accrual for security sectors, i.e. 35 years service to earn a 50% pension as compared to 30 years currently; however these grades retain their right to retire without actuarial reduction to their benefits from 55 (50 for PDF).
- Higher superannuation contributions for security and other specialist sectors who benefit from fast accrual, and
- CPI linking for pensions in payment, rather than current pay parity increases.

[10] *A limit of €200,000 on all tax free lump sum taken from all pension arrangements since 7th December 2005 was introduced with effect from 7th December 2010. Lump sums taken above this limit are subject to standard rate income tax up to next €375,000 and at marginal rate income tax above the next €375,000.*

Appendix III - Public Sector Pensions

	Pre 6th April 1995 entrant	6th April 1995 – 31st March 2004 entrant	Current post 1st April 2004 entrant	Single Pension Scheme entrant
Minimum retirement age *(when benefits can be taken without actuarial reduction)*	*Standard* : 60 *Security* : 50 *Teachers* : 55	*Standard* : 60 *Security* : 50 *Teachers* : 55	*Standard* : 65 *Security* : 55 (50 for PDF)	*Standard*: 66, increasing with the State Pension (Contributory) age to 67 in 2021 and to age 68 in 2028. *Security*: Current earlier minimum retirement ages for the security sector continue to apply.
Employee contribution	*Civil Servants* : nil *Gardai*: 1.75% of pensionable remuneration *Teachers*: 5% of pensionable remuneration. + Spouses/Civil Partners and Children's Scheme : 1.5% of salary + PRD + PRSI Class B/D: 0.9% + 3.1% on excess over €75,000.	3.5% of net pensionable remuneration[11] + 1.5% of gross remuneration. + Spouses/Civil Partners and Children's Scheme : 1.5% of salary + PRD + PRSI Class A : 4.0%	3.5% of net pensionable remuneration + 1.5% of gross remuneration. + Spouses/Civil Partners and Children's Scheme : 1.5% of salary + PRD + PRSI Class A : 4.0%	*Standard*: 3.5% of net pensionable remuneration + 3.0% of gross remuneration. *Security*: 4.2% of net pensionable remuneration + 3.3% of gross remuneration. President, Ministers, members of the Oireachtas, the judiciary: 13% of gross pensionable remuneration. + PRD + PRSI Class A : 4.0%
Employee retirement benefits	Final salary pension *Standard*: 1/80th x pensionable remuneration for each yr of reckonable service Max 40 yrs reckonable service *Gratuity* : 3/80th x pensionable	Final integrated salary pension *Standard* : Pensionable remuneration up to 3.33 x State Pension : 1/200th for each year of reckonable service Pensionable remuneration in excess of 3.33 x State Pension : 1/80th for each year of reckonable service Max 40 yrs reckonable service	Final integrated salary pension *Standard* : Pensionable remuneration up to 3.33 x State Pension : 1/200th for each year of reckonable service Pensionable remuneration in excess of 3.33 x State Pension : 1/80th for each year of reckonable service Max 40 yrs reckonable service *Gratuity* : 3/80th x pensionable	Career average integrated salary pension: adjusted by CPI, upward only. *Standard*: Career average pensionable remuneration up to 3.74 x State Pension : 0.58% (1/172th) for each year of reckonable service Career average pensionable remuneration in excess of 3.74 x State Pension : 1/80th for each year of reckonable service

[11] *i.e. gross remuneration less twice the maximum annual rate of State Pension (Contributory) pension payable to a person with no child or adult dependants.*

	Pre 6th April 1995 entrant	6th April 1995 – 31st March 2004 entrant	Current post 1st April 2004 entrant	Single Pension Scheme entrant
	remuneration for each year of reckonable service : max 120/80ths *Gardai*: Double reckonable service for each year of reckonable service over 20 yrs; e.g. 30 years actual = 40 years reckonable.	*Gratuity* : 3/80th x pensionable remuneration for each year of reckonable service: max 120/80ths *Gardai*: Double reckonable service for each year of reckonable service over 20 yrs; e.g. 30 years actual = 40 years reckonable.	remuneration for each year of reckonable service : max 120/80ths *Gardai*: Double reckonable service for each year of reckonable service over 20 yrs; e.g. 30 years actual = 40 years reckonable.	*Gratuity*: 3/80th x career average pensionable remuneration for each year of reckonable service. *Gardai* : Career average pensionable remuneration up to 3.74 x State Pension : 0.58% for each year of reckonable service Career average pensionable remuneration in excess of 3.74 x State Pension : 1.43% (1/70th) for each year of reckonable service *Gratuity*: 4.29% (3/70th) career average pensionable remuneration for each year of reckonable service.
Pensions in payment	Pay parity Under Single Pension Scheme Act, CPI linking 'may' be applied by Minister to existing pensions of pre operative date retirees, instead of pay parity.	Pay parity Under Single Pension Scheme Act, CPI linking 'may' be applied by Minister to existing pensions of pre operative date retirees, instead of pay parity.	Pay parity Under Single Pension Scheme Act, CPI linking 'may' be applied by Minister to existing pensions of pre operative date retirees, instead of pay parity.	CPI linking; upward only for new entrants post operative date.

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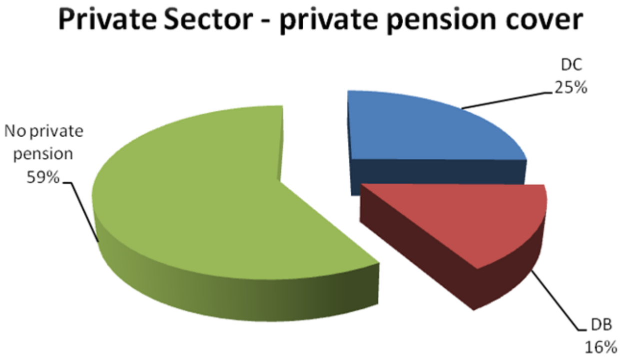
Appendix IV - Public Sector (PuS) V Private Sector (PS) –Differences

Differences

1. **PuS provides 100% private pension coverage. In the PS the figure is estimated at 41%.**



2. **PuS provides DB benefits to 100% of its employees; DB cover in the private sector is under 40%** (and falling), of those who have private pension cover.

3. **PuS continues to provide DB benefit accrual to its current employees and new entrants;** in the PS, nearly all private sector DB schemes are closed to new entrants, and an increasing number no longer provide further accrual of DB benefits to existing members.

4. **PuS provides more favourable DB benefits than PS DB benefits in the following ways:**
    - PuS provides early retirement ages (with no actuarial reduction) for security grades than generally available in the PS, e.g. pre April 2004 recruited Gardai and Prison Officers can retire from age 50 without any actuarial reduction to their benefits.
    - The provision in the PuS of credited years service for professional and technical qualifications; up to 10 years for certain pre April 2005 recruited grades. PS DB schemes rarely, if ever, provide credit for professional and technical qualifications.
    - The PuS provides fast accrual of superannuation benefits to certain grades, i.e. a full pension and gratuity can be earned over a period of less than 40 years. E.g. Gardai and Prison Offices can accrue a full pension with 30 years' service, and members of the judiciary can accrue a full pension with 15 years' service. While some PS DB schemes in the finance and insurance areas may provide fast accrual for a limited number of senior executives, the vast majority of members in PS DB schemes do not benefit from any form of fast accrual.
    - The PuS provides a facility for employees to purchase missing years pensionable service on a DB basis. (Purchase of Notional Service). AVC facilities in the PS are invariably on a DC basis.
    - PuS pensions in payment (and preserved pensions for those who have left service) have traditionally benefitted from pay parity, i.e. increased in line with the increase in the salary grade point from which the employee retired.
      The Benchmarking Survey of private pensions in 2007 found 50% of PS DB schemes provide no post retirement increases. The Public Service Pensions (Single Scheme and Other Provisions) Act 2012 provides for a potential replacement of pay parity increases for public service pensioners with CPI increases, upwards only CPI increases and with no maximum increase.
      By contrast the Social Welfare & Pensions Act 2012 amended the statutory minimum annual revaluation of preserved pensions in PS DB schemes from 1st January 2013 to CPI change (positive *or negative*) or 4% if lower.

5. **PuS pension arrangements have a number of tax advantages over PS arrangements:**
   - Income tax relief at marginal rate is provided on the PuS Pension Related Deductions (PRD) outside the tax relief limits applying to personal contributions to PS arrangements. E.g. income tax relief on PRD contributions is not subject to the €115k earnings limit applying to personal contributions to PS arrangements.
   - The pensions levy of 0.6% pa on PS pension funds is not matched by any corresponding levy or reduction in PuS pensions or benefits.
   - The chargeable excess taxation system generally treats PuS benefits more favourably than PS benefits:
     - Use of 20:1 to value pensions significantly undervalues the value of a PuS pension compared to its open market value;
     - Where a chargeable excess tax liability arises on PuS benefits, PS employees may spread the excess, if any, of the tax liability over 50% of net gratuity, by way of a deduction from gross pension for a period of up to 10 years on an interest free basis and with no recovery of unpaid tax on death. No such provision applies to chargeable excess tax liabilities arising on PS benefits;
     - PuS employees with PS benefits in addition to their PuS benefits can exercise an Encashment Option and pay associated encashment tax, to disaggregate part or all of their PS benefits for the purposes of the chargeable excess tax system. This facility does not apply to the PS individuals.