Our Ref. 17/0064/PER

8 August 2017

Commander Gerard O'Flynn
President
Association of Retired Commissioned Officers
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Dear Commander O'Flynn

I write in reply to your letter dated 4 May 2017 in relation to ARCO's position on pension related issues. The delay in responding to your correspondence is most regretted.

In relation to the valuation of public service pensions, I note that your organisation, as did many other Unions, Staff Associations and Representative Associations for public service pensioners, made a submission on this issue to the Public Service Pay Commission. The deliberations of the Commission took into account all such submissions and these informed the conclusions reached in their analysis of the topic which is set out comprehensively in their report, published in May last.

You will be aware that the primary conclusion reached by the Pay Commission was that they assigned a value for public service pensions over private sector pensions in the range of 12%-18% (i.e .up to 6% above the 2007 levels) for the pre-2013 standard accrual cohort of public servants. The value for fast accrual public service pensions would be significantly more. The Commission went on to propose that this value should be addressed by providing for an increased employee pension contribution for those who continue to benefit from those schemes. This increased pension contribution would be applied in conjunction with the discontinuance of the pension–related deduction (PRD) under the Financial Emergency Measures in the Public Interest (FEMPI) Acts. The terms of the proposed Public Service Stability Agreement (PSSA) 2018-2020 reflect the recommendations of the Commission. However, while the terms of the PSSA also serve to secure the benefits of the existing schemes for public service pensioners, public service pensioners unlike their current employee counterparts, are not required to make any additional contribution towards those benefits.

Regarding the pension abatement issue raised in relation to those who enter subsequent public service employment following the award of a public service pension, you will appreciate that it would be incongruous for the State to assume liability for payment of both a public service pension and the cost of remuneration for that person in employment by the State at the same time.

As you are aware, the Public Service Pension Reduction (PSPR) is being significantly ameliorated in three stages, under the FEMPI Act 2015. This legislation sets out a programme of substantial partial restoration of PSPR up to 2018 and will mean that, from 2018, approx. 80% of public service pensions will no longer be subject to PSPR, while those pensioners not fully removed from the reach of PSPR by dint of these changes will, in the majority of cases, benefit by €1,680 per year. Further amelioration of PSPR will be a matter for Government to consider in the context of the forthcoming legislation to give effect, if ratified, to the proposed Public Service Stability Agreement.

The Minister is fully aware of the particular pension position of post-February 2012 retirees whose pensions reflect the lower salary rates applied to all public service workers as a result of the pay cuts on 1 January 2010 under the FEMPI (No. 2) Act 2009. Your particular concern about this group has been noted.

In the past, the occupational pensions of public service pensioners were generally adjusted in line with changes in the wages or salary of the pensioner's grade at retirement. The Minister has asked me to point out that this non-statutory linkage, sometimes referred to as "pay parity", lapsed in 2010, when the values of pensions in payment were left unchanged notwithstanding salary cuts at the beginning of that year which affected all public servants under the financial emergency legislation.

This lapsing of pay parity, along with the pension differential arising between pre and post-2012 retirees, have created the conditions under which, as we move beyond "FEMPI" legislation and the progressive removal of the Public Service Pension Reduction (PSPR) towards more normal pay and pension setting conditions in the public service, the issue of how to adjust the post-award value of public service pensions, through appropriate pay or other linkages has required consideration.

In this context, Section 6.2 of the proposed Public Service Stability Agreement 2018-2020, which was published on 8 June 2017 at the conclusion of the public service pay talks, indicates that, over the duration of that agreement if ratified, policy on public service pensions in payment will be guided by the following three elements:

- First, the need to adopt an equitable approach to the various public service pensioner cohorts differentiated by date of retirement (in particular pre and post end-February 2012) is affirmed.
- Second, for those who retired or will retire post end-February 2012, to the extent that they retired on reduced salaries for pension award purposes, they will receive pension increases in line with pay increases received by their peers currently in employment in accordance with the terms of the collective agreement.
- Third, when alignment is achieved between pre and post end-February 2012 pensioners, as will happen progressively for salary ranges up to €70,000 in 2020 under the proposed collective agreement, pay increases will continue to benefit pensions in payment for the duration of the agreement.

With regard to your particular concern about post-February 2012 retirees, I would draw your attention to the second bulleted element of the policy position set out immediately above. This means that, over the period of the agreement, if ratified, pensions in payment will increase in line with pay increases where necessary to ensure that they are equal to the pensions being awarded to same-grade retiring staff.

In your letter you also expressed ARCO's concern about the uncertainty of future pension increases and the possibility of these increases being linked to the Consumer Price Index (CPI). In that regard, section 6.3 of the PSSA 2018-2020 also commits the Government, for the agreement's duration, to **not** triggering CPI linkage of "pre-existing" public service pensions under section 40 of the Public Service Pensions (Single Scheme and Other Provisions) Act 2012.

With regard to ARCO's request for a "formal independent third party mechanism", there is no legislative provision for access to third-party adjudication in respect of pension increases for recipients of public service pensions. Indeed there is no such facility for recipients of the Contributory State Pension. However, the interests and concerns of public service pensioners in relation to public service pension issues have been regularly articulated in meetings between the Alliance of Retired Public Servants and this Department. This engagement has also included meetings between the Alliance, the Minister and the Minister's predecessor. Through that process of engagement with the Alliance, the Minister believes that public service pensioners have had, and continue to be afforded, a meaningful and direct means of articulating their concerns in relation to pensions and related issues.

I hope the above information is satisfactory in relation to your correspondence.

Yours sincerely

Michelle O'Connor
Private Secretary to the Minister for Finance and Public Expenditure and Reform