An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

Mr Brian Burke

Chairperson

Alliance of Retired Public Servants

IMPACT Building

Nerney's Court

Dublin 1

18 August 2017

Dear Mr Burke

I am directed by the Minister for Finance and Public Expenditure and Reform, Mr Paschal Donohoe TD, to refer to the recent meeting between representatives of the Alliance, the Minister and DPER officials on 12 July 2017 in relation to public service pensions.

In the course of that meeting, at your request for the benefit of your members, this Department undertook to elaborate on the significance and impacts of the existing Public Service Pension Reduction (PSPR) measures under the Financial Emergency Measures in the Public Interest (FEMPI) Acts and proposed measures, subject to ratification, under the Public Service Stability Agreement 2018-2020, as they would impact on public service pensioners.

Public Service Pension Reduction (PSPR)

The PSPR is being significantly ameliorated in three stages, under the Financial Emergency Measures in the Public Interest (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. More particularly, from 1 January 2018, public service pensions in payment up to at least €34,132, will no longer incur any liability for 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. The cost of this measure in 2018 will be some €30m and I can confirm that, notwithstanding the particular pressures on all Exchequer spending in the context of an extremely tight budgetary provision for 2018, this amount has been provided for in current estimates and will be made available for PSPR amelioration in 2018. Examples of the PSPR yearly gains to pensions in payment under the relevant measures are also set out on the table enclosed, for the main pre-March 2012 pensioner group.

Further amelioration of PSPR will be a matter for Government to consider in the context of the forthcoming legislation to amend the FEMPI Acts to give effect, if ratified, to the proposed Public Service Stability Agreement and also in relation to the resources available. However, it is the Government's stated position to unwind the measures imposed under the FEMPI Acts as soon as possible, with particular regard to the impact on public service pensions in payment and public service pensioners.

In regard to the priority accorded to the unwinding of PSPR, I would point out that as noted above, in January 2018 all public service pensions in payment up to at least €34,132, will no longer incur any liability for PSPR. The equivalent pay rate for such a pension based on a full service (40yr) standard accrual, "pre-existing" (pre-2013) pension scheme would be at least €68,264 (€34,132 x 2). This equivalent pay rate, under the PSSA proposals if ratified, will not be restored to its pre-FEMPI pay level until 2020. Moreover, those existing public servants in employment will be required to make a significant Additional Superannuation Contribution in respect of their pension entitlements under legislation to replace the Pension Related Deduction (PRD). The PRD applies to public servants under the FEMPI Acts and under the proposals it will be converted to an Additional Superannuation Contribution, subject to certain reductions in the existing application thresholds. As you are aware, neither PRD nor the proposed Additional Superannuation Contribution applied or will apply to pensions in payment.

In short, public service pensions in payment are being restored at a significantly faster pace and rate than their equivalent public service pay levels, while those public servants at equivalent pay levels will be required to pay a significant and permanent additional pension contribution.

Proposals under the PSSA 2018-2020 as they would affect Public Service Pensioners:

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. 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 received particular consideration. This issue was also highlighted by the Public Services Committee of ICTU in the negotiations around the proposed introduction of the Additional Superannuation Contribution for their members.

In this context, Section 6.2 of the proposed Public Service Stability Agreement 2018-2020, 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 expressed particular concern about post-February 2012 retirees, I would draw your attention to the second 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.

The Alliance also expressed 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.

In order to show more fully the beneficial impact this proposed policy would have on pensions in payment, I enclose a table of examples setting out the carry-through of the relevant increases to qualifying public service pensions in payment. You will appreciate, as indicated in the meeting, that the implementation of these proposals as they would apply to public service pensioners will form an extra cost in the coming years, and the necessary budgetary provision in 2018 (subject to ratification of the PSSA) is currently the subject of detailed consideration.

I trust the above information is of assistance.

Yours sincerely

Peter Brazel

Principal Officer

Department of Public Expenditure and Reform

Pre-March 2012 Retirees - PSPR Impact from 2011 onward

Public Service Pension Reduction (PSPR) (€)							Pensions net of PSPR (€)							Year-on-Year Gain - FEMPI 2015			Total Gain (Post-FEMPI 2015)
Pension (pre-PSPR)	Jan 2011	Jan 2012	July 2013	Jan 2016	Jan 2017	Jan 2018	Pension (pre-PSPR)	Jan 2011	Jan 2012	July 2013	Jan 2016	Jan 2017	Jan 2018	Jan 2016	Jan 2017	Jan 2018	
12000	0	0	0	0	0	0	**12000**	12000	12000	12000	12000	12000	12000	0	0	0	0
18000	360	360	360	0	0	0	**18000**	17640	17640	17640	18000	18000	18000	360	0	0	360
25000	810	810	810	408	0	0	**25000**	24190	24190	24190	24592	25000	25000	402	408	0	810
30000	1260	1260	1260	858	360	0	**30000**	28740	28740	28740	29142	29640	30000	402	498	360	1260
34000	1620	1620	1620	1218	720	0	**34000**	32380	32380	32380	32782	33280	34000	402	498	720	1620
34132	1632	1632	1632	1230	732	0	**34132**	32500	32500	32500	32902	33400	34132	402	498	732	1632
34500	1665	1665	2000	1598	1100	368	**34500**	32835	32835	32500	32902	33400	34132	402	498	732	1632
35000	1710	1710	2280	1880	1380	600	**35000**	33290	33290	32720	33120	33620	34400	400	500	780	1680
37000	1890	1890	2520	2120	1620	840	**37000**	35110	35110	34480	34880	35380	36160	400	500	780	1680
40000	2160	2160	2880	2480	1980	1200	**40000**	37840	37840	37120	37520	38020	38800	400	500	780	1680
45000	2610	2610	3480	3080	2580	1800	**45000**	42390	42390	41520	41920	42420	43200	400	500	780	1680
50000	3060	3060	4080	3680	3180	2400	**50000**	46940	46940	45920	46320	46820	47600	400	500	780	1680
55000	3510	3510	4680	4280	3780	3000	**55000**	51490	51490	50320	50720	51220	52000	400	500	780	1680
60000	3960	3960	5280	4880	4380	3600	**60000**	56040	56040	54720	55120	55620	56400	400	500	780	1680
65000	4560	4560	6130	5730	5230	4450	**65000**	60440	60440	58870	59270	59770	60550	400	500	780	1680
70000	5160	5160	6980	6580	6080	5300	**70000**	64840	64840	63020	63420	63920	64700	400	500	780	1680
75000	5760	5760	7830	7430	6930	6150	**75000**	69240	69240	67170	67570	68070	68850	400	500	780	1680
80000	6360	6360	8680	8280	7780	7000	**80000**	73640	73640	71320	71720	72220	73000	400	500	780	1680
85000	6960	6960	9530	9130	8630	7850	**85000**	78040	78040	75470	75870	76370	77150	400	500	780	1680
90000	7560	7560	10380	9980	9480	8700	**90000**	82440	82440	79620	80020	80520	81300	400	500	780	1680
95000	8160	8160	11230	10830	10330	9550	**95000**	86840	86840	83770	84170	84670	85450	400	500	780	1680
100000	8760	8760	12080	11680	11180	10400	**100000**	91240	91240	87920	88320	88820	89600	400	500	780	1680
110000	9960	10760	14880	14480	13980	13200	**110000**	100040	99240	95120	95520	96020	96800	400	500	780	1680
120000	11160	12760	17680	17280	16780	16000	**120000**	108840	107240	102320	102720	103220	104000	400	500	780	1680
130000	12360	14760	20480	20080	19580	18800	**130000**	117640	115240	109520	109920	110420	111200	400	500	780	1680
140000	13560	16760	23280	22880	22380	21600	**140000**	126440	123240	116720	117120	117620	118400	400	500	780	1680
150000	14760	18760	26080	25680	25180	24400	**150000**	135240	131240	123920	124320	124820	125600	400	500	780	1680
160000	15960	20760	28880	28480	27980	27200	**160000**	144040	139240	131120	131520	132020	132800	400	500	780	1680
170000	17160	22760	31680	31280	30780	30000	**170000**	152840	147240	138320	138720	139220	140000	400	500	780	1680
180000	18360	24760	34480	34080	33580	32800	**180000**	161640	155240	145520	145920	146420	147200	400	500	780	1680
190000	19560	26760	37280	36880	36380	35600	**190000**	170440	163240	152720	153120	153620	154400	400	500	780	1680
200000	20760	28760	40080	39680	39180	38400	**200000**	179240	171240	159920	160320	160820	161600	400	500	780	1680

Impact of Pay Increases on Qualifying Public Service Pensions in Payment under the Proposed PSSA 2018-2020

Current Salary Level	Pension*	01-Jan-16 2.5% / 1%	01-Sep-17 €1,000	01-Jan-18 1%	01-Oct-18 1%	01-Jan-19 1% up to €30,000	01-Sep-19 1.75%	01-Jan-20 0.5% up to €32,000	01-Oct-20 2%	Total Pension Gain (End-2020)
€20,000	€10,000	€10,250	€10,750	€10,858	€10,966	€11,076	€11,270	€11,326	€11,552	€1,552
€25,000	€12,500	€12,625	€13,125	€13,256	€13,389	€13,523	€13,759	€13,828	€14,105	€1,605
€30,000	€15,000	€15,150	€15,650	€15,807	€15,965	€15,965	€16,244	€16,244	€16,569	€1,569
€35,000	€17,500	€17,500	€18,000	€18,180	€18,362	€18,362	€18,683	€18,683	€19,057	€1,557
€40,000	€20,000	€20,000	€20,500	€20,705	€20,912	€20,912	€21,278	€21,278	€21,704	€1,704
€45,000	€22,500	€22,500	€23,000	€23,230	€23,462	€23,462	€23,873	€23,873	€24,350	€1,850
€50,000	€25,000	€25,000	€25,500	€25,755	€26,013	€26,013	€26,468	€26,468	€26,997	€1,997
€55,000	€27,500	€27,500	€28,000	€28,280	€28,563	€28,563	€29,063	€29,063	€29,644	€2,144
€60,000	€30,000	€30,000	€30,500	€30,805	€31,113	€31,113	€31,658	€31,658	€32,291	€2,291
€65,000	€32,500	€32,500	€33,000	€33,330	€33,663	€33,663	€34,252	€34,252	€34,937	€2,437
** €70,000	€35,000	€35,000	€35,000	€35,350	€35,704	€35,704	€36,328	€36,328	€37,055	€2,055

Note:

* The values in this column assume retirement pensions paid on a non-integrated ("pre-1995") basis after 40 years' service, and are on a pre-PSPR basis.
For ease of presentation the displayed salary levels (adjacent column) associated with each pension value are given as simply twice the particular pension value.

** For illustrative purposes, these examples assume pass-through of each pay increase to the associated pension at the relevant salary level.
This pass-through will benefit the pensions of all post-February 2012 retirees.
The pensions of pre-March 2012 retirees will only get increases during the term of the PSSA 2018-2020 where, at the time of each PSSA pay increase, the current equivalent salary (paid to serving staff) is above, or moves above, the salary on which the pension is based.

For the pensions of pre-March 2012 retirees which are based on salaries at or above €70,000, no increases will apply under the proposed agreement. Such pensions are already higher, and will remain higher even after the implementation of the PSSA pay increases, than equivalent new award pensions.

For that reason, the table above should not be used as a reference for pre-March 2012 pensions.

PSSA 2018-2020: Proposed Salary Increases

2018
1 January 2018 annualised salaries to increase by 1%
1 October 2018 annualised salaries to increase by 1%

2019
1 January 2019 annualised salaries up to €30,000 to increase by 1%
1 September 2019 annualised salaries to increase by 1.75%

2020
1 January 2020 annualised salaries up to €32,000 to increase by 0.5%
1 October 2020 annualised salaries to increase by 2%