Information Note for the Alliance of Retired Public Servants (ARPS)

1. Introduction

This note provides a summary of the current position in relation to PSPR amelioration and the application of the pension increase policy. It should be noted that while the net effect of i) the lessening of PSPR and ii) the pension increase policy amounts to an effective increase in the amount of public service pension received, these are two separate policies, with two separate rationales which are being applied in two distinct ways.

2. Public Service Pension Reduction (PSPR)

Background

The Public Service Pension Reduction (PSPR) is a reduction affecting certain public service pensions which was introduced on 1 January 2011 under the Financial Emergency Measures in the Public Interest Act (FEMPI) 2010. PSPR was significantly extended (deeper reductions applied in some cases, more pensions affected) on 1 July 2013 under the Financial Emergency Measures in the Public Interest Act 2013.

The PSPR exemption thresholds and rates are different depending on whether the individual retired before 1 March 2012, or from 1 March 2012 to 1 April 2019. The reason for this is that the salaries used to calculate pre-March 2012 pensions do not reflect any FEMPI pay reductions.

When applied at peak rates from mid-2013, PSPR raised approx. €135 million for the Exchequer on a full-year basis.

FEMPI 2015 PSPR Amelioration

A three-stage partial reversal of PSPR was provided for in the Financial Emergency Measures in the Public Interest Act 2015, with rate reductions (via revised PSPR tables) occurring on 1 January in each of the years 2016, 2017 and 2018.

The final FEMPI 2015 change, in place from 1 January 2018, meant that approximately 80% of pensions were no longer subject to PSPR from that date.

The cost of these FEMPI 2015 changes is estimated at about €90 million on a full-year basis from 2018, or €30 million in each of the years 2016, 2017 and 2018.

Public Service Pay and Pensions Act 2017 PSPR Amelioration

The Public Service Pay and Pensions Act 2017 provided for the further lessening of the impact of PSPR in each of the years 2019 and 2020. For the pre-March 2012 cohort of retirees, this amelioration is occurring by way of significant increases in the PSPR exemption threshold. For the post-February 2012 cohort of retirees, this amelioration in 2019 and 2020 is being delivered by way of a lessening of the percentage reduction rates.

<u>Pensions awarded pre-March 2012:</u> With effect from 1 January 2019 and 2020, the PSPR position is as per the table below. Only if the pension has a pre-PSPR value in excess of €39,000 will it be liable to PSPR in 2019. That figure will increase to €54,000 in 2020.

PSPR in 2019 and 2020 (pre-March 2012 pensions)	
Annualised amount of public service pension	*Reduction*
Up to €39,000 (*€54,000**)	Exempt
Any amount over €39,000 (*€54,000**) but not over €60,000	12%
Any amount over €60,000 but not over €100,000	17%
Any amount over €100,000	28%

** Effective 1 January 2020*

<u>Pensions awarded in the period 1 March 2012 to 1 April 2019:</u> The PSPR position with effect from 1 January 2019 and 2020 is as per the table below. Only if the pension has a pre-PSPR value in excess of €60,000 will it be liable to PSPR.

PSPR in 2019 and 2020 (pensions from 1 March 2012 to 1 April 2019)		
Annualised amount of public service pension	*Reduction 2019*	*Reduction 2020*
Up to €60,000	Exempt	Exempt
Any amount over €60,000 but not over €100,000	3%	1%
Any amount over €100,000	8%	6%

Persons who retired after 1 April 2019 are not subject to PSPR.

This further lessening of the PSPR impact on pensions means that, from 1 January 2019:

- Pre-March 2012 pension recipients still subject to PSPR will see an annual reduction of €1,080 in the amount they are paying.

- The amount raised by PSPR reduced by approximately 50% (from circa €48 million in 2018, to circa €24 million in 2019) with some 12,000 pensioners being removed from the impact of PSPR from that date.

From 1 January 2020:

- Pre-March 2012 pension recipients still subject to PSPR will see an annual reduction of €1,800 in the amount they are paying.

- The amount raised by PSPR will reduce by a further 50% (from circa €24 million in 2019 to circa €12 million in 2020) with some 10,500 additional pensioners being removed from the impact of PSPR from that date.

- Following the PSPR changes in 2019 and 2020:

  - From 1 January 2020, for the vast majority of public service pensioners – an estimated 97% plus – PSPR will have ceased to apply.

    A residual group of some 3,000 - 4,000 pensions will remain affected (with the majority of these being pre-March 2012 awarded pensions).

  - This compares with considerably higher PSPR-affected pension numbers estimated for earlier years as follows:

    - 2015: approx. 90,000
    - 2018: approx. 26,000
    - 2019: approx. 15,000

  - From 1 January 2020 on, no pension whatsoever with a value of up to €54,000 p.a. will be affected by PSPR. For more recent retirees (February 2012 – 1 April 2019), no pension with a value of up to €60,000 p.a. will be affected by PSPR.

- This implies that only those pre-March 2012 pensions that are linked to salary rates of a minimum amount of €108,000 p.a., or €120,000 p.a. for the February 2012-1 April 2019 retiree group, will bear any persisting PSPR impact from 1 January 2020 on.

- The cost to the Exchequer of these changes is estimated at €24 million in 2019 and €12 million in 2020. This represents a reduction in the amount raised by PSPR of over 90% from a peak of approximately €135 million.

Ministerial Order to Remove Remaining PSPR

Section 27 of the Public Service Pay and Pensions Act 2017 states that no later than 31 December 2020, the Minister for Public Expenditure and Reform will issue an order that will specify a date for the full removal of PSPR from that residual group of PSPR-affected pensions. That date will effectively be the date of complete abolition of PSPR.

Summary of costs associated with the removal of PSPR

As set out above, the legislated PSPR unwinding process has associated estimated costs as follows:

Year	Estimated Cost
2016	€30 million
2017	€30 million
2018	€30 million
2019	€24 million
2020	€12 million
To be decided by ministerial order	€12 million

3. Pension Increase Policy

Background

The current pension increase policy was agreed in 2017 under the Public Service Stability Agreement 2018-2020 (PSSA). This policy is essentially a time-limited (expires end-2020), conditions bound, resumption of the non-statutory pension increase arrangements, sometimes known as "pay parity", which formerly prevailed, but which lapsed in 2010.

Principle of the Pension Increase Policy

The policy provides that pay increases awarded to public servants over the course of the PSSA will result in a pension increase where the pay rate on which the pension is based is lower than the pay rate of a corresponding serving staff member with the same grade and scale point after the pay increase is applied.

- If a pension qualifies on this basis, it is increased to the extent that alignment is ensured between the salary on which it is based and the salary of the corresponding serving staff member.

- If a pension does not qualify, on the basis that it is based on a higher salary than that of the corresponding serving staff members, no increase is due.

Distinction between pre-March 2012 and post-February 2012 pensions in terms of qualification for pension increases

<u>Persons who retired prior to 1 March 2012:</u> In general, most pension recipients in this category have not yet qualified for increases as their pensions are based on higher salaries than those in payment to corresponding serving staff. Individuals in this group retired either before any FEMPI reductions, or were protected by the first grace period, which meant the salary reductions they experienced while working were not reflected in the salary rate used to calculate their pension.

However, as the PSSA continues and further pay increases are granted to serving staff, a greater proportion of pension recipients in this category will qualify. Pension increases will be due for an individual once the salary of their serving counterparts exceeds the salary rate on which their pension is based.

Persons who retired from 1 March 2012 on: Those who retired from 1 March 2012 onwards generally qualify for pension increases on foot of all pay increases applied to the salaries of their serving counterparts. This is because their pensions were based on salaries that were/are generally lower than the salaries of their serving counterparts after pay increases were/are applied to serving staff.

However, in the particular case of pension recipients in this category for whom remuneration for a corresponding serving staff member was above €110,000 as of 1 July 2013, pay increases for dates prior to 1 April 2019 were not eligible to be passed on to pensions in this cohort. This was because, despite the fact that the pay increases of 1 January 2018 and 1 October 2018 were applied to serving staff in this category, up to 1 April 2019, such serving staff were still in receipt of salary rates that were lower than the salary rates that were used to calculate the pensions of corresponding pension recipients in this cohort.

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