

Public service pension costs: liabilities explained

MARTIN FRAWLEY

The State's accrued liability in respect of retirement benefits for public servants over the next 70 years stands at almost €150 billion as of the end of December 2018.

While this is a considerable increase on the €114.5 billion liability calculated at the end of 2015, the Department of Public Expenditure and Reform points out that €25 billion of that increase, is down to changes in calculating the liability required by Eurostat. This is predominantly down to a 1% decrease in the annual discount rate underlying the calculations. (Eurostat require a calculation of the liability every three years)

Had the previous calculation been used, the State's liability would have been just short of €125 billion.

The Department said that the accrual of additional benefits by current employees, including new staff, also increased the accrued liability. This refers to additional voluntary contributions or AVCs allowed for public servants for the first time under 2017 legislation.

The report also points out that the liability was estimated assuming that pensions will increase in line with pay parity or the pay increases that apply to serving staff. Currently, pay parity remains the method of calculating pension increases. However, legislation allows the Minister to change that to increases in line with the consumer price index or CPI.

Accordingly, the liability calculations were also done with CPI increases and under this, the total liability worked out at €126.6 billion. That is some €23 billion or 15% less than when pay parity is applied to pension increases.

SUSTAINABILITY

Minister McGrath said that while the liability is undoubtedly large, he pointed out that it is spread over the next 70 years.

The Minister added that the introduction of the Single Public Service Pension scheme in 2013, which reduces retirement benefits for public servants, will increase the sustainability of public service pensions.

The Minister added that the compulsory retirement age has been increased from 65 to 70 years of age and this will reduce the time pensions are paid for those public servants who opt to remain working longer.

"The cost of public service occupational pensions is expected to increase from 1.1% of GDP in 2019 to 1.5% of GDP by 2040. However the cost is expected to reduce thereafter with a cost of 0.9% of GDP expected by 2060 reflecting measures taken to mitigate costs", said Minister McGrath.

CONTRIBUTIONS

Public servants contributed €1.4 billion towards their pensions in 2018, including Additional Voluntary Contributions, against a cost of €3.6 billion.

The liability is based on 313,691 active public service employees and 173,405 pensions in payment.

Of the total liability of almost €150 billion, almost €75 billion applies to active employees, €60.6 billion for pensions in payment and almost €5 billion for deferred members.

Education has the largest pension liability at €49.8 billion, followed by Health at €38.5 billion, the Civil Service (€20.5 billion), Local Authorities (12.1 billion), Justice (€12 billion), Defence Forces (€9.8 billion) and Non Commercial State Agencies (€6.9 billion).