Public service pension reform set out in Ministerial notes

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Reform of the supplementary pension system and centralisation of the new single pension scheme are among the public service pension issues highlighted in the briefing notes for the new Minister for Public Expenditure and Reform.

Many public servants who have an entitlement to retire before the state pension age of 66 are also post-1995 entrants who pay Class A PRSI and have a pension integrated with the state pension (those entering before 1995, still the bulk of current retirees, are separate from the state pension system).

To deal with the gap between these public servants retiring before 66, without entitlement to state pensions, 'occupational supplementary pensions' are often made available. These provide the value of the state pension until the individual reaches 66 and qualifies automatically.

According to the Ministerial brief, these arrangements are "not ideal", as individuals must sign on with the Department of Social Protection and declare themselves available for work, which "will give rise to significant administrative burdens in the coming years as retirements of staff with integrated pensions increases".

It adds that DPER intends "to conduct a review of the process for assessing the payment of supplementary pensions with a view to streamlining the process". However, "legislative change may be needed to reform these arrangements".

The reform, says the briefing note, should take account of the proposal that a higher level of state pension be payable if an individual defers retirement, "in the context of an individual's entitlement to the occupational supplementary pension".

Ministerial approval was obtained in 2020 to progress "early development of a Bill to resolve these and other outstanding pension issues".

MANDATORY RETIREMENT

The issue of supplementary pensions has been a major one for Defence Forces and Garda groups who are obliged to take early retirement, but new entrants since 2013 do not have entitlement to a supplementary pension.

Separately, these public service groups with mandatory early retirement and 'fast accrual' have been considered since December 2021 by a working group to consider the impact on pensions of a possible extension of mandatory early retirement ages.

While no final recommendations have been made to date by this working group, its work is currently expected to conclude over 2023. The Ministerial brief said: "It is necessary to both develop a fast accruals policy and examine the case and cost for fast accrual pension terms by sector, and role, in respect of any additional years' service on foot of extended Mandatory Retirement Ages (MRAs) being sought."

SINGLE POST-2013 SCHEME

On the single public service pension scheme introduced in 2013 for new entrants, which is based on career average defined benefit and is expected to reduce long-term pension costs by 35%, the briefing note says that the scheme "imposes considerable requirements on public service employers in recording and calculating pension benefits earned by employees on a pay period basis", as well as the issuing of annual benefit statements. Claims of improper administration could lead to significant costs for the State.

To support the implementation of the single scheme over "the very long-term" and to "minimise the risks of administrative error for scheme members", it is recommended that a "Central ICT Solution (Future Administration Solution) will be developed and rolled out overo the next three to five years". Work has been ongoing on making a recommendation to Government on this.

EXTRA CONTRIBUTIONS

Separately, the Ministerial brief notes that the Additional Superannuation Contribution (ASC – which replaced the crisis-era public service pension levy several years ago) is paid by civil and public servants, but not by the wider public sector, such as commercial semi-states.

Since up to 3,200 staff will be transferring from the local authorities (public service) to Irish Water (commercial semi-state) over the next four years, this poses "challenges" for ASC.

"It remains the position of DPER that an ASC equivalent contribution is paid by all individuals benefitting from terms equal to those of a public service pension. There will be wider IR and public service pay and pensions implications if exemptions are provided, including possible challenges from public service unions in the context of future pay talks."

PAY PARITY

The briefing note also points out that an actuarial review of the State's public service pension liabilities is due by the end of 2023, based on the financial position as of the end of 2021. The last valuation estimated the liabilities at €149.6 billion as of end 2018.

A case is also made for the eventual removal of the parity of increases between public service pensioners and their serving former colleagues in the same grade. This, says the brief, is “costly and unwarranted”, noting that the single scheme for post-2013 entrants has a consumer price index link instead.