Inflation impact on new public service pension liabilities

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The State's accrued liability in respect of pension benefits for current and former public servants is estimated at €175.7 billion in 'today's money' terms, as of the end of 2021.

This figure covers all expected future superannuation benefits from accrued service, over the next 70 years or so.

It represents a considerable increase on the estimate of almost €150 billion, completed three years ago. EU rules require that each member state go through this process every three years.

The actuarial review, by John Pender and Áine Chambers of the Department of Public Expenditure and Reform, points out that a crucial part of the estimate on pension liabilities is the use of the discount rate, i.e. the nominal discount rate less the impact of expected inflation, which in the current estimate was put at 4% per year.

The review points out that almost €16 billion of the increase over the estimate three years ago is attributed to the change in assumptions, particularly the increase in underlying salary inflation rate and price inflation rate.

It also points out that the increase in the estimate is also down to the increase in public service numbers which grew from 330,500 at the last estimate in Q4 2018, to 365,860 at the current estimate completed at Q4 2021.

The Department of Public Expenditure and Reform noted that public service numbers have since increased to 389,000 at the end of 2023, suggesting that the next estimate to be based on figures at December 2024 will be even larger again.

The review points out that the while State's liability for public service pensions is "significant" at 41.5% of GDP, this liability "will fall to be paid over approximately the next 70 years and not in any single year". By comparison, it notes that the total actual expenditure on public service pensions in 2021 was €4.2 billion.

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It also says that the review did not consider the long-term sustainability of public service pension schemes.

However, it said the schemes have been subject to considerable reforms in recent years such as the integration of the public service schemes with the State (contributory) Scheme for public servants who joined after April 1995, the increase in the minimum retirement age for those who joined since 2004, and the introduction of the Single Public Service Scheme in 2013, “which itself will, in time, reduce liabilities by around 25% from what otherwise would have been the case”.

The Department of Public Expenditure and Reform said that the cost of public service occupational pensions is expected to increase from 1% of GDP in 2022, to 1.1% of GDP by 2040.

“However, the cost is expected to reduce thereafter with a cost of 0.7% of GDP expected by 2070 reflecting measures taken to mitigate costs”, added DPER.

DPER also pointed that public servants paid €1.7 billion in pension contributions in 2022, following the introduction of the Public Service Pay and Pensions Act in 2017, which effectively allowed public servants to make Additional Voluntary Contributions (AVCs) to their pensions. This contribution figure is up from the average contribution of €1 billion per year prior to the introduction of the Act, said DPER.