PART II

Review of Public Service Occupational Pension Schemes and Costs

CHAPTER 3

Existing Public Service Occupational Pension Arrangements

3.1 Introduction

3.1.1 In Part II of the Report, we set out public service pension terms in detail and review the administration, management, and financing arrangements of public service pension schemes. We present a full actuarial review of public service pensions and consider the implications for pension schemes of changing operational requirements, work environment and conditions of employment of public servants.

3.1.2 In this Chapter, the Commission details the various occupational pension schemes applying in the public service. We outline the historical development of public service pension arrangements and set out the pension terms applying under each scheme. We pay particular attention to scheme development in the civil service and the local authorities because, historically, these schemes have been the standard reference or model for most other public service schemes (and, perhaps because of this, better information is available for both schemes).

3.1.3 Table 3.1 summarises the membership, pensioner numbers, and cost of pension schemes across the eight major sectors of the public service in 1997 (see Appendix 3.1 for more detailed statistics). The cost of public service pensions is examined in detail in Chapter 6.

Table 3.1: Summary of public service pension scheme numbers, pensioner numbers, and total annual pension costs for 1997

Sector	Estimated total no. of members	% of total scheme membership	Estimated total no. of pensioners	Estimated total annual pension cost*	
				Ir£ (m)	*Euro (m)*
Civil Service	29,058	14%	13,903	87	*110*
Local Authorities	23,993	12%	16,017	59	*75*
Education	56,149	28%	15,022	147	*186*
Garda Síochána	10,746	5%	5,492	58	*74*
Prison Officers	2,476	1%	252	2	*3*
Defence Forces	13,098	7%	11,129	57	*72*
Health Service	59,779	29%	13,367	85	*108*
NCSS Bodies	7,920	4%	2,000	14	*18*
Total	**203,219**	**100%**	**77,182**	**509**	***646***

* Excluding the cost of gratuities and lump sums.

3.1.4 Public service pension terms have changed considerably over the last 30 years in response to changing needs and requirements. The introduction of spouses' and children's pension schemes and a preservation of service facility are just two examples of the system's ability to respond to an obvious need. On the other hand, it will be seen that the essential principles on which public service pension schemes are based — some of which may now seem anachronistic — have remained fundamentally unchanged since the schemes were first introduced in the nineteenth century.

3.2 Overview of public service pension terms

3.2.1 Before examining individual schemes in detail, we summarise below the main features of public service occupational pension arrangements. Pension schemes in the public service are *defined benefit* schemes — the pension benefits payable are specified or defined in the rules of the scheme. Thus, the scheme member knows the calculation formula which will determine the level of benefits due at retirement. Furthermore, public service schemes are *final salary* defined benefit schemes — the benefits formula is based on the level of remuneration at the date of retirement.[7] Under the *defined benefit final salary* structure, for each year of pensionable service, a public servant will earn or accrue a retirement pension of 1/80th of pensionable remuneration, or of net pensionable remuneration in the case of a public servant in full PRSI class (see Paragraph 3.3.58), and a retirement lump sum of 3/80ths of pensionable remuneration. We examine other forms of pension structure — including defined contribution schemes — in Chapter 14 of the Report.

3.2.2 Table 3.2 sets out a general summary of standard public service pension scheme terms. In the summary, certain differences in terms between public service groups or individuals have been ignored.

3.2.3 The main variations from this general picture are in the area of retirement age. For example, Gardaí may retire at age 50 with 30 years' service and with each year after 20 counting double. Retirement from age 55, with various service conditions, applies in the case of other categories such as teachers. The Defence Forces also have special early retirement arrangements and a very different form of pension scheme.

3.2.4 A further variation is in the area of classification for State Social Insurance purposes. Most public servants are in modified class PRSI — they pay a lower rate of PRSI than applies to employees generally and do not qualify for a range of Social Insurance benefits, including pensions. A number of public servants are in full class PRSI — they pay the same rate of PRSI as other employees and, because they are entitled to Social Insurance pensions, their occupational pensions (and pension contributions) are subject to integration. The number of public servants whose occupational pensions and contributions are subject to integration will increase as a result of the Government decision that all public servants appointed on or after 6 April 1995 should be in full PRSI class.

3.2.5 The variations in terms between groups will become apparent in the following outline of pension terms in each part of the public service.

[7] Except where promotion or a personal change of salary took place in the final three years of service, in which case a three-year average applies.

Table 3.2: Standard public service pension terms[8]

Access	Automatic scheme membership for all permanent and many atypical employees
Eligibility for benefits	5 years' service (no minimum for death-in-service)
Pensionable service	Wholetime, temporary, part-time and job-sharing (pro rata), transferred, notional, and purchased service
Maximum service	Limit of 40 years
Retirement age	Age 65, optional from age 60
Pensionable remuneration	Final pay (averaged over final 3 years, if recently promoted) plus pensionable allowances (averaged)
Retirement pension	1/80th of pensionable remuneration per year of pensionable service up to a maximum of $\frac{1}{2}$ pensionable remuneration
Retirement lump sum	3/80ths of pensionable remuneration per year up to a maximum of $1\frac{1}{2}$ times pensionable remuneration
Integration (if full PRSI)	Pension calculation: pensionable remuneration is offset by twice the single rate of Old Age (Contributory) Pension (OACP)
Part-time employees	Each year worked (part-time) is treated as a full year's service; if full PRSI, integration is applied to actual remuneration, as above
Spouses' and Children's Scheme (S&C)	Spouse receives $\frac{1}{2}$ of member's pension ($\frac{1}{2}$ of potential pension to age 65 if death-in-service or following ill health retirement); children's pensions
Ill health benefits	Immediate benefits based on actual service plus up to 10 added years
Death-in-service	Gratuity of 1-$1\frac{1}{2}$ times pensionable remuneration, plus S&C pensions, if applicable
Contributions	5% main scheme, $1\frac{1}{2}$% S&C scheme (if full PRSI, part of contribution based on remuneration less OACP offset)
Early leaver (having five years' service)	Benefits preserved and payable from age 60, uprated in line with salary increases
Transfer of service	Between public sector organisations/groups
Early retirement	Not normally available before age 60
Retention beyond age 65	Infrequent; no reckoning of service beyond age 65
Options to individual to enhance pension	(i) Purchase of notional service at full actuarial cost; (ii) union-sponsored AVC schemes
Pension increases	In line with salaries (pay parity)
Financing of schemes	Pay-as-you-go cost met from annual revenues

[8] It is assumed that this is a public service scheme where an explicit main scheme contribution applies, and that the individual concerned is a member of the relevant spouses' and children's contributory pension scheme.

3.3 Civil service

Historical development of the Civil Service Pension Schemes[9]

3.3.1 The system of occupational pension provision now in place dates from a number of different pension arrangements in the eighteenth century which provided for the needs of British civil servants in their old age. These were formalised in nineteenth century legislation. No fund was ever established for civil service pensions, although an individual member contribution was introduced for a time. The first Superannuation Act devoted exclusively to pensions was in 1834. The 1859 Superannuation Act consolidated earlier changes in the Civil Service Pension Scheme. It fixed the pension accrual rate as 60ths of final salary after 40 years' service and provided for early retirement on grounds of ill health. A minimum retirement age of 60 was established on foot of an 1857 Commission of Enquiry report which concluded, *inter alia*, that at this age productivity often begins to decline due to old age or infirmity.

3.3.2 Legislation passed in 1909 introduced lump sum benefits[10] on retirement based on 30ths of pensionable remuneration and changed the accrual rate for pension from 60ths to 80ths to give a pension of one-half of pensionable remuneration plus lump sum after 40 years' service. Maximum lump sum of $1\frac{1}{2}$ times pensionable remuneration was payable after 45 years' service. The 1909 Act also introduced a death-in-service gratuity equal to the amount of annual pensionable remuneration, subject to a minimum of five years' service, and made provision for the payment of a balancing gratuity where death occurred shortly after retirement. The 1909 changes applied to male civil servants only. The Superannuation Act, 1914 provided that the death-in-service entitlement should be calculated as the more favourable of the amount of annual pensionable remuneration or the amount of lump sum which the civil servant would have received if he had retired on the grounds of ill health on the day of his death. The British administration granted increases to pensions in payment under the Pensions (Increase) Act, 1920.

3.3.3 Few changes were made to the pension scheme in the early years of the new State. Pensions (Increase) Acts were passed in 1950 (the first time public service pensions were increased by the Irish administration), 1956, 1959, 1960 and 1964. The Pensions (Increase) Act, 1964 provided for future indexation of pensions by means of Statutory Instrument instead of an Act of the Oireachtas.[11]

3.3.4 The 1909 changes were extended to female civil servants in 1954. The Superannuation Act, 1956 allowed civil servants to allocate part of their pension in favour of pensions for dependants. When Social Insurance Old Age (Contributory) Pensions were introduced in 1961, public servants with established civil service type pension entitlements were excluded from cover because their pension schemes were regarded as affording them adequate income protection on retirement.

3.3.5 The Superannuation and Pensions Act, 1963 introduced transferability of service within the public service and made available in limited form the granting of added years of notional service for those appointed to professional grades in the civil service (this was subsequently widened in an *ad-hoc* scheme formalised in 1985).

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[9] Material in this section is drawn from Hughes, G., *The Irish Civil Service Superannuation Scheme*, ESRI (1988), Appendix 1.

[10] It would seem that the purpose of changing the pension accrual rate to eightieths was to facilitate the introduction of the death-in-service gratuity (See Rhodes, G, *Public Sector Pensions*, George Allen & Unwin Ltd, 1965, pp. 21-22).

[11] The pensions covered by this provision are listed in the Schedule to the Act. They include the National Schools and Secondary Teachers' Superannuation Schemes, Garda Síochána pensions, civil service pensions, local authority and harbour authority pensions, and pensions payable by any body established by the Oireachtas. The most recent regulations made under the Act date from 1984, and there is a backlog of regulations to be made for the period since then.

3.3.6 A Committee on Post-Retirement Adjustments in Public Service Pensions was established in September 1964 and reported in March 1965. The Committee recommended that pensions should be increased in line with changes in the Consumer Price Index. However, in the 1969 budget, the Minister for Finance announced his decision in principle to adopt pay parity — i.e. to increase pensions in payment in line with salary increases — and to move towards it over a number of years. (A detailed note on the history of pension increases in the public service is given in Appendix 16.1.)

3.3.7 The Pensions (Abatement) Act, 1965 modified existing abatement provisions. With abatement, pension is reduced so that when added to the remuneration of any new position to which a pensioner is appointed, the sum is no greater than the remuneration of the position from which the pensioner retired. Prior to 1965, abatement applied in respect of civil service pensioners appointed to any position across the public service as a whole; following the 1965 Act, it was confined to appointments within the civil service only.

3.3.8 With effect from 23 July 1968, a contributory pension scheme was introduced to give pensions to widows and orphans of deceased civil servants. The scheme, known as the Civil Service Widows' and Orphans' Contributory Pension Scheme,[12] was put on a legislative basis by means of Statutory Instrument in 1977. A non-contributory *ex-gratia* widows' and orphans' scheme was introduced in respect of civil servants who retired or died before the effective date of the contributory scheme. Up until 1981, female civil servants were excluded from the widows' and orphans' scheme.

3.3.9 Prior to 1970, non-established civil servants had no occupational pension coverage. With effect from 1 January 1970, a non-contributory pension scheme was introduced for such employees. As non-established civil servants were in full class PRSI, unlike established civil servants, the scheme was subject to integration with the Social Insurance system. A contributory widows' and children's pension scheme for non-established state employees was introduced from 1 December 1978. Both of these schemes have operated and continue to operate on an administrative basis.

3.3.10 Certain changes in the Civil Service Pension Scheme were introduced with effect from 1 June 1973 arising from a joint management/staff working party report which was endorsed by the General Council under the Scheme of Conciliation and Arbitration for the civil service. These included:

- an increase in the fraction used in calculating retirement lump sums and death gratuities from 1/30th to 3/80ths per year of service, thereby providing for maximum lump sum of $1\frac{1}{2}$ times pensionable remuneration after 40 years instead of 45 years;
- the reckoning of service in days rather than completed years;
- the reckoning of prior part-time service;
- the grant of added years on ill health early retirement;
- a reduction in the qualifying period for retirement benefits from ten to five years;
- the abolition of the minimum qualifying period (five years) for death gratuity and widows' and children's pension in case of death-in-service;

[12] As a result of the 1973 joint management/staff working party report, the terms of the Widows' and Orphans' Contributory Pension Scheme were widened and the title changed to the Widows' and Children's Contributory Pension Scheme.

- the abolition of the *break-in-service* rule in relation to the reckoning of prior service (previously, if an employee had a break in service, the earlier period did not reckon for pension purposes);
- preservation of pension rights after five years' service for those in employment on or after 1 June 1973 (see Paragraph 3.3.44);
- the purchase of notional added years at the officer's expense (this was implemented in a Department of Public Service Circular in 1979).

Many of these changes were given legislative effect in the Civil Service Superannuation Regulations, 1980 drawn up under the Superannuation and Pensions Act, 1976 (see Paragraph 3.3.14).

3.3.11 The *marriage bar* which required women to resign from the civil service on marriage was removed with effect from 31 July 1973.

3.3.12 In 1974, the upper income limit applying to the insurability of non-manual workers under the Social Insurance system was abolished with the result that a large cohort of employees, including many public servants, were brought into full Social Insurance for the first time while many other public servants (who had been above the income limit) came into the lower rate of modified insurance for the first time.

3.3.13 In 1975, in line with the 1969 commitment to pay parity, provision was made for automatic increases in pensions from 1 July each year in line with increases in salaries in the civil service. This was later amended to increase pensions from the same effective date as that of increases applied to salaries of civil servants.

3.3.14 The Superannuation and Pensions Act, 1976 enabled the Minister for Finance to make pension schemes in respect of the public service, to amend or repeal certain provisions of the Superannuation Acts, 1834 to 1963, and certain other enactments, and to make provision for related pensions matters.

3.3.15 In 1981, the Widows' and Children's Contributory Pension Scheme became the Spouses' and Children's Contributory Pension Scheme when it was extended to include all female civil servants appointed on or after 1 June 1981. Female civil servants appointed prior to that date were given the option to join. In 1984, the scheme was revised to cover all children of a member, regardless of the member's marital status, and to include the spouses of post-retirement marriages. More restrictive provisions for refunding contributions were introduced as a means of financing these improvements. The option to join the revised scheme was extended to all civil servants, whether in the existing scheme or not, and to all pensioners and surviving spouses of pensioners in respect of whom the option to join the original scheme had been given.

3.3.16 Job-sharing and career break schemes were introduced in 1985 and 1986, respectively.

3.3.17 In 1987-88, a limited voluntary early retirement scheme was introduced and ran for a number of years with the objective of reducing numbers in the civil service[13] (this was later extended to other areas of the public service).

[13] Approximately 1,250 civil servants availed of the scheme (this figure excludes industrial non-established civil servants), which represented 4.2% of all serving civil servants on 1 January 1988.

3.3.18 In 1987, the Government decided that enhanced pension benefits should be granted to Secretaries of Departments coming within the remit of the Top Level Appointments Committee (TLAC) who reach the end of their seven year terms before age 60 or who are required to retire at age 60 or between 60 and 65.

3.3.19 Arrangements to allow civil servants to avail of union-sponsored additional voluntary contribution (AVC) schemes to enhance their pension benefits were introduced in 1987 (as an alternative to the scheme for purchase of notional added years).

3.3.20 In 1995, the Government decided that all established civil servants (and public servants generally) appointed on or after 6 April 1995 should be in full PRSI class, thus giving them an entitlement to State Social Insurance pensions. Integration of contributions and benefits apply as part of the new pension arrangements.

3.3.21 New entrants from open competitions held since 1997 for the grades of Administrative Officer, Third Secretary, and Executive Officer are appointed on a one year contract basis subject to assessment during the period of contract. At the end of this period, should they be deemed satisfactory, they are offered an established position on probation. If they are judged not to be satisfactory, their appointment is terminated.

Coverage of Civil Service Pension Scheme

3.3.22 Employment in the civil service (including the prison service) comprises 15% of total public service employment. There are two main categories of position in the civil service: established and non-established personnel. **Established** civil servants are those recruited by means of competitions held by the Civil Service Commission. They are permanent employees and their employment can only be terminated by the Government. A certificate of qualification must have been issued under Section 26 of the Civil Service Commissioners Act, 1956 or a person must be deemed under Section 27 of that Act to possess such a certificate.

3.3.23 **Non-established** civil servants are those employed in a wholetime capacity by a government department or office who are not established civil servants and in respect of whom special pension arrangements have not been made.[14] This definition covers certain employees who are not civil servants in the strict legal sense, e.g. civilian employees attached to the Defence Forces (who number about 1,200) and manual employees in Garda stations. Non-established civil servants may be recruited in the same way as established personnel; however, appointments to certain positions such as Services Officer, etc., may be made by individual departments. They are often employed in a situation where the long-term necessity of a particular position is not obvious, or where it is deemed desirable that personnel should undergo a trial period in a non-established capacity before being appointed in an established capacity. Non-established civil servants can be dismissed by the Minister of the relevant department.

3.3.24 The Civil Service Pension Scheme is set out in the Superannuation Acts, 1834 to 1963, the Superannuation and Pensions Act, 1976, various Statutory Instruments made under those Acts, and circulars issued by the Department of Finance.[15] There are separate main schemes and spouses' and children's schemes for established and non-established civil servants. We set out the

[14] Department of Finance, "Superannuation Handbook: A Guide to the Superannuation Provisions applicable to Civil Servants" (Revised, 1998), Part 2, Chapter 3.

[15] During the period 1973-87, the Department of the Public Service had primary responsibility for the Civil Service Pension Scheme.

pension terms for both groups below. The variation in terms arising out of the extension of full PRSI to entrants appointed after April 1995 is shown separately.

3.3.25 Membership of the main pension scheme is automatic for all established civil servants.[16] Membership of the spouses' and children's contributory pension scheme is automatic for all civil servants appointed in an established capacity after 31 December 1968, in the case of male civil servants, and 31 May 1981, in the case of female civil servants. The scheme was optional for civil servants appointed in an established capacity before those dates.

3.3.26 On appointment, non-established civil servants automatically become members of the non-established pension scheme, with the exception of temporary civil servants appointed under certain short-term non-renewable contracts (see Paragraph 3.3.27). Membership of the spouses' and children's contributory pension scheme is automatic for all male non-established civil servants made pensionable under the main scheme after 30 November 1978, and for all female non-established civil servants made pensionable after 31 May 1986. The scheme was optional for those pensionable before those dates.

3.3.27 Temporary non-established civil servants appointed on short-term contracts are generally admitted to the pension scheme on the basis that:

- such appointments, even if it is not specifically stated, are often renewable; and
- death-in-service cover is provided by inclusion in the scheme.

In a small number of cases, non-established civil servants who are not admitted to the pension scheme are paid an addition of up to 11% of salary with which to make their own personal pension arrangements.

3.3.28 Atypical employees are not generally recruited to the civil service, although as already noted, temporary employees have been appointed as non-established civil servants in the past. Recently, panels have been set up for the appointment of temporary and part-time established civil servants at the grades of Clerical Officer, Executive Officer and Administrative Officer. In the future, temporary requirements among these grades may be met in the first instance from the new atypical panels. With changes to the job-sharing and career break schemes, there will be resulting staffing gaps which will be filled with temporary part-time employees.

Pension terms of established civil servants appointed prior to 6 April 1995

3.3.29 On retirement on age, ill health or redundancy grounds, an established civil servant, having at least five years' pensionable service, qualifies for:

(i) a **pension** of 1/80th of pensionable remuneration per year of pensionable service subject to a maximum of one-half of pensionable remuneration; and

(ii) a **lump sum** of 3/80ths of pensionable remuneration per year of pensionable service, subject to a maximum of one-and-a-half times pensionable remuneration.

3.3.30 **Retirement age** is 65, although a civil servant may retire with immediate payment of pension benefits at any time after age 60 (with no actuarial reduction to allow for the longer period over which the pension will be paid).

[16] Traditionally, membership of the scheme has applied to civil servants who are capable of giving five years' pensionable service by age 65 on the basis that this is the minimum period required to qualify for retirement benefits.

3.3.31 **Pensionable remuneration** includes salary and pensionable emoluments. Salary is defined as the actual rate of salary held on the last date of pensionable service, except where there has been a promotion or a personal increase in salary in the last three years of service, in which case it is calculated as an average over those three years. If a civil servant is job-sharing at retirement, pensionable salary is based on the salary which would have been payable if he or she had been working in a full-time capacity. Pensionable emoluments include allowances in the nature of pay, but do not include overtime, gratuities, or expense payments (see also Paragraphs 22.9.8-22.9.15). Pensionable emoluments are averaged over the final three years of service (this is known as the *three-year averaging rule*).

3.3.32 **Pensionable service** includes actual paid service as an established civil servant, paid temporary service, service transferred from elsewhere in the public sector under the Transfer of Service Scheme, notional service granted in certain circumstances, and any additional service purchased by the civil servant under the purchase scheme. Job-sharing service reckons as half of full-time service. Total pensionable service cannot exceed 40 years.

3.3.33 There is provision to grant **notional added years** (maximum ten years) for professional civil servants under Section 6 of the Superannuation and Pensions Act, 1963 and for professional, technical and specialist civil servants under the *ad hoc* added years scheme, which was introduced in 1985. The latter scheme, amended in 1997, is more commonly used than the former. Generally, these arrangements apply where it is not possible to appoint a person before age 25 because of the particular experience/qualification requirements of the position. We set out further details on the grant of notional added years in Section 22.3.

3.3.34 A civil servant may qualify for **ill health early retirement benefits** arising from permanent disability, provided he or she has at least five years' pensionable service. Pension and lump sum are calculated as outlined above, except that account is taken of an additional period of notional service of up to ten years (usually, six and two-thirds years), calculated by reference to the length of actual service given and potential service to retirement age. In certain very limited circumstances a special higher rate of pension (Injury Warrant) may be payable to a civil servant who is forced to retire because of injury sustained in the performance of official duties, or to his or her spouse and children where the injury results in death.

3.3.35 A civil servant appointed from a competition advertised prior to 1 February 1974 who has at least five years' actual reckonable service prior to marriage, and who resigns from the civil service on or shortly before marriage, or within two years thereafter, may apply for the award of a **marriage gratuity**, which would be in lieu of any other civil service pension benefit. The amount of the gratuity is one month's pay for each year of reckonable service (pro rata for part of a year) up to the date of marriage, subject to a maximum of 12 months' pay.

3.3.36 If **reappointed**, the civil servant may elect to refund the marriage gratuity, and in doing so, all prior service will be aggregated with subsequent service for pension purposes. Refunds may be made (in instalments, if desired) during service, or by deduction from final pension awards. Compound interest — at the rate of 6% per annum — is charged on refunds made by civil servants who are reappointed in the normal course (e.g. through a competition of the Civil Service Commission). No interest is charged in the case of civil servants reinstated through statutory provisions pertaining to widowhood or non-support by spouses (reinstatement is no longer available since 1996).

3.3.37 **Secretaries General** of government departments appointed by TLAC (see Paragraph 3.3.18) who reach the end of their seven year term before age 60 may, with the agreement of the Government, be allowed the option of early retirement with enhanced pension benefits. The enhanced benefits consist of an award of up to ten added years and a special severance gratuity of six months' salary on the terms specified in Sections 6 and 7 of the Superannuation and Pensions Act, 1963. These arrangements are normally granted subject to special abatement conditions should the individual concerned subsequently be appointed, below age 65, to any public sector position following retirement.

3.3.38 There is provision for **early retirement** for reasons of **improving efficiency and economy** and **on abolition of office** under the Superannuation and Pensions Act, 1963 and the Superannuation Act, 1909. Pension benefits are paid immediately and up to ten notional added years may be included in pensionable service. A special severance payment of up to one-half of salary may be paid. These terms have been used relatively infrequently. The terms available under the civil service voluntary early retirement (VER)[17] scheme are less beneficial, as the maximum added years award is seven years, and is confined to those with more than 20 years' service. Under the VER scheme, a severance gratuity of three weeks' pay per year of potential service to age 65 (subject to a maximum of 27 weeks' pay) is payable as an alternative to an added years award.

3.3.39 A **short service gratuity** is payable where a civil servant retires on grounds of permanent incapacity having at least one but less than five years' pensionable service. The gratuity is one-twelfth of pensionable remuneration for each year of reckonable service (with pro rata entitlement for part of a year). In addition, if the civil servant has a minimum of two years' reckonable service, a lump sum equal to 3/80ths of pensionable remuneration multiplied by the number of years of reckonable service is payable (with pro rata entitlements for part of a year).

3.3.40 On **death-in-service**, a death gratuity is payable to the legal personal representative (if less than £15,000, the gratuity is paid direct to the person who appears to be beneficially entitled to it). The gratuity is a minimum of the amount of pensionable remuneration or, if greater, the lump sum that would have been payable if the civil servant had retired on ill health grounds on the date of death (subject to a maximum of $1\frac{1}{2}$ times pensionable remuneration).

3.3.41 A **balancing gratuity** is paid where a civil servant dies shortly after retirement and where the total amount of lump sum and pension paid up to the date of death is less than the annual amount of pensionable remuneration at time of retirement. The gratuity is equal to the amount of the shortfall and is payable to the legal personal representative.

3.3.42 **Spouses' and children's pensions** are also payable on death, provided the civil servant was a member of the spouses' and children's pension scheme (or where the *ex gratia* widows' and children's pension scheme applies, in respect of those who retired or died before 23 July 1968). Where the civil servant dies after retirement in the normal course, the spouse's pension is one-half of the pension in payment on the date of death. Where the civil servant dies in service, or dies subsequent to retirement on ill health grounds, the spouse's pension is one-half of the retirement pension that would have applied had the civil servant served to age 65.

3.3.43 A pension equivalent to one-sixth of the deceased's entitlement is payable in respect of

[17] The VER scheme operated on a general basis in the civil service in the period from mid-1987 to the end of 1988 (see Paragraph 3.3.17). Since then, it has been offered in a small number of instances where officers were deemed surplus to requirements.

a dependent child, defined as a child under the age of 16, a child between the age of 16 and 22 in full-time education or vocational training, and a child with a disability (who may qualify for a child's pension for life). A higher rate of child's pension (one-third of the deceased's pension entitlement) is payable where no spouse's pension is being paid. A maximum of one-half the deceased's pension applies to the total amount of children's pensions payable.

3.3.44 **Preservation of benefits** applies to any established civil servant who resigns prior to age 60 (on or after 1 June 1973) having at least five years' service. Under preservation, accrued pension entitlements are *frozen* at the time of leaving service and can be claimed on reaching age 60. Benefits are based on pensionable service and pensionable remuneration at the date of leaving, the latter uprated by pay increases applied to the former civil servant's grade since the date of leaving. A preserved death gratuity is payable if death occurs before age 60. Assuming membership of the spouses' and children's scheme, pensions may also be payable to the member's dependants. A preserved pension and lump sum may be paid where the individual becomes incapable of working before age 60. In all circumstances, preserved entitlements are based on actual accrued service only.

3.3.45 As an alternative to preservation, if a former civil servant takes up employment in another area of the public sector, he or she has the option under the **Transfer of Service Scheme** to transfer the period of pensionable service to the new pension scheme (usually without the necessity for a transfer payment between the two schemes). If the civil servant has less than five years' service on leaving, and does not transfer service to another public sector organisation, his or her contributions under the spouses' and children's contributory pension scheme are refunded.

3.3.46 **Pension increases** are applied in line with, and with effect from, the operative date of any relevant pay increases. Pensioners benefit from all general pay increases and, in general, from special pay increases which apply to their former grade as a whole. The pensions increase policy is set out in more detail in Appendix 3.2.

3.3.47 Established civil servants appointed before 6 April 1995 do not make an explicit **contribution** under the main pension scheme. However, for pay determination purposes, it has been accepted in a number of arbitration findings in the past that an implicit contribution is made through salary being set at a lower level to take account of the benefits payable under the pension scheme (we discuss this matter in Section 11.9). An explicit periodic contribution of $1\frac{1}{2}\%$ of remuneration is made in respect of membership of the spouses' and children's contributory pension scheme. A further contribution of 1% of pensionable remuneration is made by deduction from retirement lump sum or death gratuity in respect of each year of pensionable service for which periodic contributions have not been made (this applies only in respect of married civil servants).

3.3.48 A scheme for **purchase of notional service** was introduced for civil servants serving in an established capacity on or after 1 April 1979. The scheme was revised in 1990. Subject to certain conditions, it enables civil servants to purchase additional years of service by means of periodic or lump sum contributions. Appropriate actuarial tables are applicable. The scheme is intended to be self financing. Further details of the scheme are provided in Section 12.10.

3.3.49 **Additional voluntary contributions** (AVCs) — in the form of union-sponsored schemes — were first approved by the Department of the Public Service in a letter to Personnel Officers dated 19 February 1987. As an alternative to the purchase scheme, AVCs enable additional pension benefits to be obtained by means of payments to an outside agency in circumstances where there would be a shortfall of service at retirement or where ultimate pension benefits would fall short of the limits set by the Revenue Commissioners. AVCs can also be used to enhance death-in-service cover. Further details are contained in Section 12.12.

3.3.50 Section 1 of the Pensions (Abatement) Act, 1965 provides for the **abatement of pension** of civil service pensioners who are re-employed in the civil service; abatement does not apply on employment elsewhere in the public service. Under this provision, the pensioner's total income from pay and pension should not exceed the salary which would have been payable had the civil servant not retired. The Minister for Finance may waive the abatement if it is in the public interest to do so, e.g. if there are no practical alternatives for carrying out a particular body of work. The section only applies to civil service appointments; it does not, for example, apply to persons employed on a fee-paid basis. However, it is the general policy in fixing fees in such cases to pay a reduced amount to take account of the pension wherever practicable.

3.3.51 **Allocation of pension** — introduced in the Superannuation Act, 1956 — enables a civil servant at retirement to surrender part of his or her pension to provide a separate pension for a nominated beneficiary, usually a spouse and/or dependent relative. The allocated pension is determined by standard actuarial factors. Once the allocation is made, the retired civil servant's pension is payable at the reduced rate, i.e. less the deduction of the amount surrendered for the duration of the payment of pension, even if the nominated beneficiary predeceases the retired civil servant. The allocation facility was introduced at a time when there was no spouses' and children's scheme in place; however, since the latter was established, it has rarely been used.

3.3.52 Prior to 1994, **forfeiture** of entitlement to pension benefits applied in the case of civil servants who (for whatever reason) were dismissed from their posts, or resigned so as to pre-empt dismissal. With effect from 1 January 1994, however, such former civil servants retain their entitlement to pension benefits (preserved, if they are under age 60), subject to the provision that in cases involving financial loss to the Exchequer, the amount of the loss, plus interest, is recouped by deduction from the benefits payable.

3.3.53 Under a 1995 provision, **compensation** is payable in the case of delays of more than one year in payment of pension benefits due. Compound interest based on changes in the Consumer Price Index is applied to the amount of benefit outstanding.

Pension terms of established civil servants appointed on or after 6 April 1995

3.3.54 The terms set out above apply to established civil servants who are in modified (Class B) PRSI. New entrants appointed as established civil servants on or after 6 April 1995 are in full (Class A) PRSI and their pensions are integrated with the State Social Insurance system. The purpose of integration is to take account of Social Insurance benefits in making up a portion of replacement income at retirement. Integration applies to both pension and contributions. Lump sum is unaffected.

3.3.55 Where a person is appointed direct to a position from another part of the public service where he or she had been in modified PRSI class immediately before appointment or from a non-established position in the civil service[18] which had been held continuously since before 6 April 1995, the pension arrangements for modified PRSI class civil servants described above will apply.

[18] Non-established civil servants were already fully insurable under the Social Welfare Acts prior to the April 1995 change. A condition of service for those employed before 6 April 1995 is that should they subsequently be appointed to established positions, their PRSI status changes to the lower modified rate.

3.3.56 Where an established civil servant in full PRSI class has previous service in the public service in respect of which he or she has paid modified PRSI contributions, a once-off option may be exercised at any time up to the date of retirement in favour of:

- aggregating all such prior service with future service under the pension terms applying to civil servants in full PRSI class; or
- retaining all preserved pension benefits in respect of the previous service, in which event only the future service would be governed by the new terms.

3.3.57 The main differences in the arrangements for civil servants in full PRSI class compared with those for civil servants in modified PRSI class are:

- an explicit main scheme contribution applies. The contribution comprises $3\frac{1}{2}$% of net remuneration (as defined in Paragraph 3.3.58) in respect of pension and $1\frac{1}{2}$% of remuneration in respect of lump sum. A separate contribution rate of $1\frac{1}{2}$% of remuneration applies in respect of the spouses' and children's contributory pension scheme;
- the salary scales of new entrants are uplifted to 20/19ths of the salary scale applicable to civil servants in modified PRSI class;
- pension is calculated on the basis of net pensionable remuneration (as defined in Paragraph 3.3.58), while the lump sum or death gratuity is calculated on the basis of pensionable remuneration (as defined in Paragraph 3.3.31 above).

3.3.58 **Net remuneration** is defined as current salary plus pensionable emoluments, less twice the maximum rate of Social Insurance Old Age (Contributory) Pension (OACP) payable to a single person with no dependants. **Net pensionable remuneration** is defined as salary plus pensionable emoluments at date of retirement, less twice the maximum rate of OACP payable to a single person with no dependants. The deduction is sometimes known as the *Social Welfare offset*. In the case of spouses' and children's benefits, the calculation of net pensionable remuneration is adjusted upwards by means of deducting once rather than twice the maximum single rate of OACP.

3.3.59 The total pension (occupational pension plus OACP[19]) payable to a civil servant in full PRSI class is the same, after 40 years' service, as that payable to a civil servant in modified PRSI class (i.e. 50% of pensionable remuneration). To take an example, where a civil servant in full PRSI class retires after 40 years' service and is in receipt of a salary of £25,000 at retirement (assuming there are no pensionable emoluments), pension is calculated as in Table 3.3.

Table 3.3: Pension for a civil servant in full PRSI class retiring with pensionable remuneration of £25,000 and 40 years' service

Net pensionable remuneration:	£25,000 – (2 × £5,009)[20] = £14,982
Occupational pension:	£14,982 × 40/80 = £7,491 per annum
Total pension:	£7,491 + £5,009 (OACP) = £12,500 per annum (i.e. 50% of pensionable remuneration)

[19] This excludes any additional amount which may be payable in respect of qualifying adult or child dependants.
[20] OACP (May 2000) = £96 × 52.18 weeks = £5,009.

3.3.60 A **supplementary pension** is payable in respect of periods during which the pensioner is not employed in any capacity which involves a Social Insurance contribution and, due to causes outside his or her control, fails to qualify for Social Insurance benefit or qualifies for such benefit at less than the maximum personal rate of OACP. The rate of supplementary pension will be sufficient to bring the occupational pension to the rate which would have been payable had it been based on pensionable remuneration instead of net pensionable remuneration.

Part-time civil servants

3.3.61 While there are no formal pension terms in place for part-time established civil servants in full PRSI class, it is envisaged by the Department of Finance that pensionability will be conditioned as follows:

(i) the part-time civil servants concerned must be in regular, quasi-permanent employment (including wholetime temporary, regular temporary or seasonal workers, etc.);

(ii) they must be working a minimum of 8 hours per week where the full-time equivalent week is 39 hours;

(iii) full integration of actual pensionable remuneration with the Social Insurance OACP in the case of one part-time job must apply — but subject to appropriate adjustment in the case of more than one part-time job to ensure that the total Social Welfare offset is not more than twice the personal rate of OACP;

(iv) each year of part-time service must count as one year's service;

(v) there must be an appropriate adjustment to actual pensionable remuneration where hours vary substantially during service.

Prison Officers

3.3.62 Prison Officers are civil servants and so are covered by the Civil Service Pension Scheme. The Superannuation (Prison Officers) Act, 1919 made certain changes to pension terms to take account of the much higher standard of physical efficiency required of a Prison Officer all through service and the extra strain of working in a prison environment. These changes enabled Prison Officers to retire on or after age 55 (rather than age 60) with their service in excess of 20 years counting as double in the calculation of pension benefits (thus, maximum benefits are payable after 30 years' actual service). The maximum retirement age is set at age 60. The terms were amended in 1983 to allow Prison Officers the option of retiring from age 50 with immediate pension provided they had 30 years' actual service in the prison service.

Non-established civil servants

3.3.63 Non-established civil servants, including industrial civil servants, civilian employees attached to the Defence Forces, and manual employees working in Garda stations, have broadly the same pension terms as established civil servants paying full class PRSI, with the following exceptions:

- there is no pension contribution under the main scheme;
- the contribution rate under the spouses' and children's contributory pension scheme is $1\frac{1}{2}$% of net remuneration rather than of remuneration, as in the case of established civil servants in full PRSI class. Net pensionable remuneration is not readjusted when calculating spouses' and children's pensions, unlike the position set out at Paragraph 3.3.58;

- the retirement age is 65/66 years, with no provision to retire at an earlier age other than on grounds of ill health;
- non-established civil servants are not eligible for the award of professional added years;
- the death-in-service arrangements are similar to those for established civil servants, with the exception that where the deceased was married, there is discretion to pay the death gratuity to the spouse, rather than to the legal personal representative;
- *compassionate gratuities* are payable to part-time non-established civil servants who have worked for ten or more hours per week and have completed five years' service. They are payable on retirement after age 60 and are calculated at the rate of one week's pay for each year of service up to 15 years, and two weeks' pay for each subsequent year, subject to a maximum of 78 weeks.

3.4 Local authorities

Historical development of the Local Government Superannuation Scheme

3.4.1 The Minister for the Environment and Local Government has responsibility for the Local Government Superannuation Scheme (LGSS), which is governed by the Local Government (Superannuation) Act, 1980. Schemes made under the 1980 Act are subject to the consent of the Minister for Finance.

3.4.2 The LGSS has its origins in the Union Officers' Superannuation (Ireland) Act, 1865. That Act provided for the grant by Poor Law guardians of annual allowances not exceeding two-thirds of salary at retirement/resignation to wholetime officers[21] of Poor Law unions in Ireland, with the consent of the Poor Law Commissioners. Officers had to be at least 60 years of age and retirement/resignation had to be on the grounds of permanent infirmity or old age. The terms of the Act were later extended to cover other officers, and a definition of local authorities was introduced. The first pension scheme which provided benefits to non-officer grades appears to have been the Dublin Corporation Superannuation Act, 1905. (As indicated above, non-established employees in the civil service were not made pensionable until 1970.)

3.4.3 A series of Acts followed which modified, but did not alter substantially, the above provisions. A major change was made in the Local Government (Superannuation) Act, 1948, which forms the basis for the present pension arrangements. Under the Act, a contributory code for both officer and non-officer grades was introduced and the accrual rate for pension was changed from 60ths to 80ths for officers, thus providing for a maximum pension of one-half of pensionable remuneration after 40 years. Provision was made also for the payment of a lump sum at the rate of 1/30th of pensionable remuneration per year of service up to a maximum of $1\frac{1}{2}$ times pensionable remuneration after 45 years. These changes were in line with changes previously made in the Civil Service Pension Scheme. The pension entitlements of non-officers continued to accrue on the basis of 60ths with a maximum pension entitlement of two-thirds of pensionable remuneration after 40 years' service. Provision for payment of death gratuities was introduced under the 1948 Act for both officers and non-officers.

3.4.4 The Local Government (Superannuation) Act, 1956 replaced earlier pension provisions. The Act improved substantially the pension conditions of non-officer grades in a number of ways,

[21] The terms *officer* and *non-officer* have particular legal implications in the local authority structure. The two classes of personnel are broadly equivalent to established and non-established civil servants (see also Paragraph 3.4.8).

in particular, by making eligibility for pensionable status in any case subject to a single objective requirement of a minimum of 200 service days in a single financial year.

3.4.5 A revised local authority scheme was introduced on an administrative basis in 1977. The purpose of the scheme was essentially to bring it into line with changes which had been introduced in the civil service with effect from June 1973 (see Paragraph 3.3.10), and to take account of the fact that non-officers were fully insurable under the Social Welfare Acts. The changes implemented in respect of non-officers included the replacement of the 60ths accrual rate with an 80ths accrual rate for new entrants, and the introduction of integrated pension arrangements with effect from May 1977. Under the latter, pension continued to be based on pensionable remuneration for service prior to the cut-off date, but net pensionable remuneration was used for service after the cut-off date. Preservation of benefits for all local government personnel was also introduced from this time.

3.4.6 The Local Government (Superannuation) Act, 1980 enabled the detailed arrangements governing the pensions of local authority staff to be set out in statutory form. Over 30 schemes have been made under this legislation, the latest being the Local Government (Superannuation) (Consolidation) Scheme, 1998 which consolidates and updates the provisions of all earlier Acts and schemes. It covers all aspects of local government pension arrangements, such as personal pension benefits, spouses' and children's pensions, transfer of service, and the purchase of notional service. A number of circular letters also apply.

Pension terms of local authority officers and employees

3.4.7 Reflecting the historical development of local authority structures in Ireland, the LGSS has applied to the personnel not just of the local authorities but also of the Health Boards and Authorities, Vocational Educational Committees (VECs), Institutes of Technology, and certain local government and health corporate bodies. In total, the scheme has provided for the pensions of about 37% of public service employees. Employment in the local authorities themselves comprises about 12% of public service employment. Recently, responsibility for the pensions of vocational teachers has been transferred to the Department of Education and Science and the transfer of the remaining pension functions of VECs and Institutes of Technology is under active consideration. In addition, consideration is being given to transferring the pension arrangements for Health Boards and statutory health bodies to the Department of Health and Children.

3.4.8 The LGSS covers two categories of personnel: officers and non-officers. While there is no simple definition of either category, generally, local authority officers are engaged in administrative, technical, and professional duties, while non-officers are engaged in manual work. Different rules of admission apply to both groups:

- membership is automatic for **officers** appointed to permanent positions or under contract to temporary wholetime positions where the contracts of employment are potentially renewable (prior to 1 January 1998, only permanent wholetime officers could become members);
- membership is automatic for **non-officers** on completion of 130 days' service in a calendar year, with no minimum number of service days needed in subsequent years.

3.4.9 On being made pensionable, officers are required to pay contributions for any previous temporary (including part-time) service they may have accrued. Those in full PRSI class pay contributions owed on a current salary basis, i.e. for each year of temporary service, a contribution level equivalent to current rates must be paid. Officers in modified PRSI class pay for any temporary service on an historic salary basis, i.e. contributions owing are determined by reference to the appropriate salary at the time of temporary employment. In the latter situation, an officer has three years from notification of the amount due to pay the outstanding contributions. Failure to do so within this period results in the application of compound interest, the rate of which is determined by whether the period of service was before or after 31 December 1983. In the former instance a rate of 7% applies, and in the latter a rate of 6% applies.

3.4.10 The payment of contributions for previous temporary service is different in the case of non-officers as there is no requirement to make such service reckonable for pension purposes. However, the automatic entry into the scheme after 130 days' service means that should a non-officer opt to pay the appropriate contributions for such past service, the amount owing will be small. Payment is determined on an historic rather than a current salary basis. If the contribution is not paid within an agreed period, the service is deemed to be non-pensionable. In practice, it would appear that most non-officers choose to make reckonable all previous temporary service.

3.4.11 As in the civil service, marriage gratuities may be repaid in order to reckon service given prior to leaving on marriage. Compound interest, at the rates set out in Paragraph 3.4.9, is charged in the case of re-employments in the normal course occurring after 27 May 1977. Personnel re-employed following widowhood are required to repay the original gratuity only, i.e. no compound interest is applied.

3.4.12 Local Authority Managers have broadly similar terms to Secretaries General in the civil service appointed by TLAC (see Paragraph 3.3.37).

3.4.13 Apart from the above, officers and non-officers covered by the LGSS have, with the following exceptions, the same pension terms as established and non-established civil servants, respectively:

- non-officers may retire between the ages of 60 and 65, whereas non-established civil servants must retire at age 65/66;
- in the case of officers retiring from posts designated as *professional* under the Local Authority (Officers and Employees) Act, 1926, an addition of up to one-third is made to reckonable service, subject to a maximum of ten years, where retirement takes place after 60 years of age — this is a less restrictive form of the *notional added years* applying in the civil service (see Paragraph 3.3.33);
- the changes introduced into the civil service scheme with effect from 1973 (see Paragraph 3.3.10) apply in the LGSS automatically for new entrants from June 1978, and subject to option for personnel in service between May 1977 and May 1978;
- persons who became pensionable before 1 February 1995 have the option on resigning to take a refund of main scheme and spouses' and children's scheme contributions for service given prior to that date, as an alternative to preserving benefits or transferring service;
- it was agreed in 1996 that part-time non-officer grades would be admitted to the LGSS on an optional basis (subject, generally, to the terms set out at Paragraph 3.3.61). Contributions and benefits are integrated;

- a main scheme pension contribution of 5% of pay applies in respect of all personnel. Part of the contribution is integrated for non-officers (post-May 1977 service) and for officers appointed on or after 6 April 1995;
- given that a 5% pension contribution already applied, no uprating of salary took place when full PRSI was introduced in respect of officers appointed on or after 6 April 1995;
- in February 1996, a minimum death gratuity of £12,000 was introduced for non-officers. It is indexed in line with pay increases and is paid on a pro rata basis in the case of part-timers;
- personnel employed in the psychiatric services, principally Psychiatric Nurses, who come under the LGSS and are registered under the 1945 Mental Treatment Act, have the option to retire at age 55, and must retire at age 65. Service in excess of 20 years' counts as double, and so maximum benefits are payable after 30 years' service;
- Fire Officers and Firefighters have similar pension terms to those applying in the psychiatric services, except that Firefighters are generally required to retire at age 55 (Fire Officers may remain in service until age 65).

3.5 Health service

Historical development of pension schemes in the health service

3.5.1 The structure of the modern health system is based on the 1970 Health Act which established eight Health Boards and set out how the health service was to be managed, structured, operated and financed. Today the acute services are administered by distinct hospital systems – the voluntary public hospitals, hospitals set up as corporate bodies,[22] and the Health Board hospitals. Some of the voluntary public hospitals are partly owned by religious orders, run by boards of governors and administered by boards. All but a minor part of the current hospital expenditure is met by public funds with the exception of private hospitals – some of which are also nurse training schools. Services for people with a mental disability are mainly provided by voluntary organisations.

3.5.2 It would appear that health service personnel first became pensionable under the local authority superannuation code, which had its beginnings in the Union Officers' Superannuation (Ireland) Act, 1865 (see Section 3.4). The provisions of the 1865 Act were applied to medical officers of Poor Law unions (and of dispensary districts of such unions) by the Medical Officers' Superannuation (Ireland) Act, 1869. Pension terms were similar to those applying to civil servants. Special pension terms applied to persons working in asylums – these date as far back as the 1909 Asylum Officers' Superannuation Act, and perhaps earlier. Special terms continue to apply in respect of officers and employees registered under the 1945 Mental Treatment Act.

3.5.3 The LGSS applies to personnel employed in hospitals coming under the auspices of the Health Boards and most health corporate bodies. Thus, the LGSS covers the vast majority of health service personnel. However, discussions have taken place between the Department of Health and Children and the Department of the Environment and Local Government concerning the transfer of future responsibility for the administration of pensions in respect of those health service employees covered by the LGSS.

[22] These include Beaumont Hospital, St James's Hospital and St Luke's Hospital, all funded by the Eastern Regional Health Authority.

3.5.4 In the past, voluntary hospitals had no pension schemes for their staff. The Voluntary Hospitals (Officers) Superannuation Scheme, 1969 (VHSS) as amended in 1977 now covers such hospitals as the Mater, St. Vincent's, and Crumlin.

3.5.5 The Nominated Health Agencies Superannuation Scheme, 1986 (NHASS) covers 19 different agencies. Both the VHSS and NHASS are run centrally by the Department of Health and Children.

3.5.6 The main categories of personnel employed in the health service are:

- nursing (general and public health);
- psychiatric nursing;
- medical and dental;
- paramedical;
- management and administration;
- maintenance and technical;
- support services.

3.5.7 Other than the LGSS, the formal pension schemes applying in the health service are:

- Voluntary Hospitals (Officers) Superannuation Scheme, 1969 (as amended in 1977) and the Voluntary Hospitals (Officers) Spouses' and Children's Contributory Pension Scheme, 1986;
- Voluntary Hospitals (Non-Officers) Superannuation Scheme, 1985 and the Voluntary Hospitals (Non-Officers) Spouses' and Children's Contributory Pension Scheme, 1986;
- Nominated Health Agencies Superannuation Scheme, 1986 and the Spouses' and Children's Contributory Pension Scheme, 1986.

These are non-statutory schemes.

Pension terms of personnel employed in the health service

3.5.8 The pension terms of health service personnel are broadly similar to those applying to civil servants and to local authority personnel, with the following exceptions:

- officers and employees registered under the 1945 Mental Treatment Act (principally Psychiatric Nurses) who come under the LGSS may retire after age 55. Pensionable service in excess of 20 years is doubled, up to a maximum of 30 years' actual service (40 years' pensionable service). Health service personnel working in the psychiatric services who are covered by pension schemes other than the LGSS do not have special pension terms;
- all officers (apart from non-consultant hospital doctors – see Paragraph 3.5.11) who are employed in a temporary capacity are excluded from membership of the respective pension schemes. It should be noted, however, that the employing authorities are examining the question of extending pension scheme coverage to temporary personnel employed on potentially renewable contracts (such a change has already taken place in the LGSS – see Paragraph 3.4.8);

- all personnel (apart from some medical practitioners) covered by the NHASS are in full PRSI class. With effect from 6 April 1995, all new entrants covered by the LGSS and VHSS are in full PRSI class, while officers in service before that date are in modified PRSI class;
- given that a 5% pension contribution already applied, no uprating of salary took place when full PRSI was introduced in respect of officers appointed on or after 6 April 1995.

3.5.9 Personnel covered by the LGSS who are appointed to permanent positions subsequent to earlier service which was non-pensionable are required to pay outstanding employee contributions in order to make this service pensionable. Under the VHSS and NHASS, the payment of outstanding contributions in such a situation is optional. Under the LGSS, those in modified PRSI class generally have three years to pay contributions which are owing. After this, compound interest is applied on the outstanding balance (see Paragraph 3.4.9). In the VHSS, compound interest applies from the outset on contributions owing. Personnel covered by the LGSS and VHSS on a full PRSI basis since 6 April 1995 pay outstanding contributions on a current salary basis.

3.5.10 Nurses have been entitled to reckon the period of training for pension purposes on the basis that it constituted actual paid service. However, with the recent change of status of training as a result of the introduction of the Bachelor of Nursing Degree programme, this will no longer be possible.

3.5.11 Non-consultant hospital doctors have for some time been covered by the LGSS and VHSS. Full pension entitlements were extended to this group notwithstanding the wholetime temporary nature of their employment.

3.5.12 Under the 1997 restructuring agreement reached with nurses under the *Programme for Competitiveness and Work (PCW)*, two new retirement initiatives were agreed and have been implemented. These comprise a pre-retirement initiative whereby nurses may opt to job-share at age 55 and retire at age 60 with full pension credit for the job-sharing service, and a limited early retirement initiative. Both initiatives are subject to an annual quota. They are operating on a pilot basis and are to be reviewed in the light of the Commission's Final Report. Further details of these initiatives are given in Appendix 3.3.

3.6 Education sector

3.6.1 The education sector, which makes up about 28% of total public service employment, includes teachers, lecturers, and non-teaching personnel in schools, VECs, special schools, universities, Colleges of Education, Institutes of Technology and other education bodies. There are separate pension schemes for each area; the principal schemes are detailed below.

3.6.2 Teachers comprise the largest group in the education sector, representing about 24% of total public service employment. There are three separate pension schemes, the National School Teachers' Superannuation Scheme, the Secondary Teachers' Superannuation Scheme and the Vocational Teachers' Superannuation Scheme. A range of changes to teachers' pension terms were made as part of the 1997 restructuring agreement between management and teachers under the *PCW*, including the introduction of a pilot early retirement initiative (see Paragraph 3.6.24).

3.6.3 Apart from the facility to retire on or after reaching age 55 having 35 years' service (see Paragraph 3.6.9), there are a number of general differences between the pension terms of civil servants and of teachers. These include:

(i) maximum retirement age for a teacher is the end of the school year following his or her 65th birthday;

(ii) unions and management did not agree to revise the spouses' and children's schemes for national and secondary teachers in line with the 1984 changes in the civil service scheme (see Paragraph 20.3.5). VEC teachers did have this option as part of the implementation of the 1984 changes under the LGSS;

(iii) a main scheme contribution of 5% of pay applies (integrated as appropriate);

(iv) primary and secondary teachers have the option to purchase notional years of service by reference to age 60 or age 65 while most public servants with standard pension terms must purchase added years by reference to age 65 only;

(v) the civil service working party changes introduced with effect from June 1973 (see Paragraph 3.3.10) were implemented for national and secondary teachers in 1977; thus, preservation of pension benefits applies in respect of national and secondary teachers in service on or after 30 June 1977, rather than 1 June 1973 as in the civil service.

National teachers — historical development of pension scheme

3.6.4 The National School Teachers' Superannuation Schemes are made under the Teachers' Superannuation Act, 1928 and the Teachers' Superannuation (Amendment) Act, 1990. The principal scheme is the National School Teachers' Superannuation Scheme, 1934, as amended.

3.6.5 The original pension scheme for national teachers was set up under the National School Teachers' (Ireland) Act, 1879. It provided for the granting of pensions or gratuities to any *classed* teacher, i.e. principal and assistant teachers in model or ordinary national schools, but not including Lay Assistants or the subsequently established Junior Assistant Mistresses (they were made pensionable under the 1934 scheme). The Act also provided for the establishment of a pension fund out of which all pensions were to be paid. The basis of the fund was provided by a capital sum of £1.3 million set aside from the Irish Church Fund, the interest on this sum at the rate of 3% per annum being paid into the fund. Actuarial valuations of the fund were made regularly during the early period, but less frequently thereafter. Each of these valuations, with the exception of one made shortly after establishment, disclosed a deficiency. Various grants were made to the fund to maintain its solvency. In 1914, new teacher contributions ranging from $3\frac{1}{2}$% to 5% of pay were introduced. These were fixed at 4% of pay in 1921 and continued at that rate up until 1934. It was estimated that the deficit in the scheme by 1934 was close to £5 million.

3.6.6 The Government decided in 1934 that the new pension scheme for national teachers would be non-contributory and that it would take on the full responsibility of meeting the cost of teachers' pensions. Because of the additional financial burden to the State, the salaries of serving teachers were reduced by 9% (the net reduction was 5% as teachers were no longer paying the 4% contribution). The new scheme provided for continuation of an existing facility for national teachers to retire on or after age 55 once they had accrued 35 or more years' service.

3.6.7 While the legislation provided for the establishment of a pension fund, this was intended to be a nominal fund only, and the scheme's pension commitments have since been met from monies voted annually by the Oireachtas.

3.6.8 The pension scheme remained non-contributory up until 1968. On foot of a recommendation by the Tribunal on Teachers' Salaries (the *Ryan Tribunal*), a common contributory salary scale was introduced for all teachers. Secondary teachers already paid a pension contribution of 5% of pay. The introduction of a similar contribution for national teachers and payment of the same salary scale as for secondary teachers had the effect of uprating the national teachers' non-contributory scale by 1/19th.

National teachers — pension terms

3.6.9 Basic pension terms for national teachers are similar to those applying in the civil service. However, there is an option for national school teachers to retire with immediate payment of pension and lump sum on or after age 55, provided they have completed 35 years of pensionable service.[23]

3.6.10 Membership of the main pension scheme is automatic for national school teachers in pensionable teaching service, i.e. fully qualified teachers who are appointed to permanent or temporary wholetime posts in national schools. Membership of the spouses' and children's contributory pension scheme is automatic for male teachers appointed after 30 June 1969 and female teachers appointed after 31 May 1981 and was optional for teachers who were appointed before those dates.

3.6.11 Recent changes under the teachers' *PCW* agreement make provision for the pensionability on an ongoing basis of part-time service in primary schools provided it is deemed to be quasi-permanent. A teacher who is timetabled at the outset of the school year for specific class contact time of at least 2 days per week for the full duration of the school year in any one school will be regarded as in quasi-permanent employment. In addition, more extensive arrangements are being introduced for the payment of contributions in respect of certain part-time service (e.g. substitute teaching) given prior to pensionable service — more restrictive arrangements were first permitted in 1991.

Secondary teachers — historical development of pension scheme

3.6.12 The Secondary Teachers' Superannuation Schemes are made under the Teachers' Superannuation Act, 1928 and the Teachers' Superannuation (Amendment) Act, 1990. The principal scheme is the Secondary Teachers' Superannuation Scheme, 1929, as amended.

3.6.13 The scheme was established initially on a funded basis. The fund was valued once, in 1934, when it was found to have accrued a deficiency of £344,000 with contributions paid by teachers and schools being sufficient to meet only two-thirds of the liability in respect of new entrants. The Department of Finance sanctioned the discontinuance of the fund from 1 January 1984, with pensions and lump sums being paid since then from the Second-Level and Further Education Vote. The contribution rates at the time the scheme was set up were 4% of pay for teachers and 2.5% of pay for the employing school. The teachers' contribution was increased to 5% of pay under Section 13 of the 1951 Secondary Teachers' Superannuation (Amendment) Scheme, and the employer's contribution was increased to 5% of pay under Section 16 of the

[23] In computing the 35 years, credit for pre-service training is allowed; a teacher with four or more years' training is allowed two years' credit; a teacher with three years' training is allowed one year's credit. The credited years do not count for benefit purposes.

1956 Secondary Teachers' Superannuation (Amendment) Scheme. The employer's contribution continues to be payable but is calculated on the *basic salary* only. Basic salary is the amount of the teacher's salary for which the school is responsible. Since the introduction of the Common Basic Scale on 1 July 1968, basic salary amounts to £400 per annum. In practice, in the case of the vast majority of schools, the Department pays both incremental salary and basic salary. The amount of the basic salary together with the associated pension contribution and PRSI contributions is offset against capitation grants due to schools.

Secondary teachers — pension terms

3.6.14 The Secondary Teachers' Superannuation Scheme applies to teachers in secondary, community and comprehensive schools.

3.6.15 Until recently, the scheme was identical in most respects to the national teachers' scheme; however, it differed in two important areas:

- secondary teachers were eligible only to retire between ages 60 and 65 (they did not have the national teachers' option to retire from age 55, having 35 years' service); and
- membership of the scheme was optional (in 1997, about 80% of secondary teachers were members of the pension scheme).

3.6.16 These have now changed as a result of the implementation of the teachers' restructuring agreement under the *PCW*. Secondary teachers now have the option to retire from age 55 provided they have at least 35 years' service, and membership of the pension scheme is automatic for new entrants appointed to eligible service on or after 1 March 1996.

3.6.17 Secondary teachers who are not members of the pension scheme pay the full rather than the modified rate of PRSI, and so are entitled to receive State Social Insurance benefits. Following the change in Social Insurance status of new entrants to the public service, all secondary teachers (whether in the pension scheme or not) appointed on or after 6 April 1995 are in full PRSI class. Teachers who were eligible for admission to the pension scheme prior to 1 March 1996 may on application be admitted to membership of the scheme from a date not earlier than 15 months prior to the date of application for membership. Those opting to join the main pension scheme are required also to join the spouses' and children's contributory pension scheme.

3.6.18 Prior to the *PCW* agreement, membership of the Secondary Teachers' Superannuation Scheme was open only to registered teachers serving in secondary schools in permanent or temporary wholetime posts and to permanent teachers serving in community and comprehensive schools. However, under the new arrangements, membership of the scheme is now open, with effect from 1 August 1996, to all teachers in secondary, community and comprehensive schools who are employed on a permanent or quasi-permanent basis (i.e. timetabled at the outset of the school year for specific class contact time of at least nine hours per week for the full duration of the school year in any one school) provided they are fully qualified, are capable of giving at least five years of actual pensionable service by the end of the school year in which they reach age 65, and have satisfactory health.

3.6.19 In reckoning pensionable service, unless the teacher retires from part-time service or dies while in part-time service (see Paragraph 3.6.20), part-time service given from 1 August 1996 is reckoned in the proportion which the weekly hours worked bear to wholetime service of 22 hours weekly. Part-time service for which contributions have been made (see Paragraph 3.6.21), and which was given before 1 August 1996, is reckoned as half of comparable wholetime service.

3.6.20 Where a teacher retires from part-time service or dies while in part-time service, pension benefits are related to actual salary at retirement or death, whichever is appropriate, and to pensionable service, where the teacher is given one full year's credit for each year of part-time service. An appropriate adjustment may be made where hours vary substantially during service. In circumstances where a teacher dies in part-time service, potential pensionable service for the purpose of a spouses' and children's pension is counted in full years from the date of death. As part of the teachers' *PCW* agreement, these provisions are to be reviewed in the light of the Commission's Final Report.

3.6.21 Once admitted to the scheme, a teacher has the option to pay contributions in order to make pensionable certain service given prior to the effective date of admission. The service must have been given as a fully qualified secondary teacher. All previous wholetime service may be made pensionable in this way and part-time service may be made pensionable in respect of:

- each school year where the teacher had at least half of comparable wholetime service in that year; or
- each week during the school year where, not having had a minimum of half of comparable wholetime teaching service in the school year, the teacher had at least nine hours' teaching service in that week.

Part-time service may not be made pensionable in this way until contributions have been made in respect of all reckonable wholetime service. Where wholetime service comes to more than five years, contributions must be made in respect of a minimum of five years' service.

3.6.22 The rate of contribution for such reckonable service is $1\frac{1}{2}\%$ of remuneration and 5% of net remuneration. It is open to the teacher to make payment of the appropriate contribution either immediately by way of a lump sum based on current remuneration, or at retirement. An option to pay immediately must be exercised within 12 months of formal admission to the pension scheme. Where payment is made at retirement, the appropriate contribution is deducted from the retirement gratuity and is based on remuneration immediately prior to retirement.

Vocational teachers — pension terms

3.6.23 Until recently, pensions of vocational teachers were covered by the Local Government Superannuation Scheme (LGSS). The scheme was open to officers, including teachers, employed by VECs since the date of their establishment in 1930. Following the *PCW* agreement, the LGSS has, in relation to vocational teachers, become the Vocational Teachers' Superannuation Scheme, 1998 (VTSS) by virtue of the Vocational Education Superannuation Schemes (Transfer of Departmental Administration and Ministerial Function) Order, 1998. This order transfers responsibility for vocational teachers' pensions to the Department of Education and Science. Pension terms are essentially the same as those applying under the LGSS, but with a number of provisions specific to the case of teachers (as modified under the *PCW* agreement). These are as follows:

- the qualification criteria for membership of the scheme are the same as those applying to secondary teachers except that vocational teachers are eligible for membership even where they are not capable of giving at least five years' pensionable service by the end of the school year in which they reach age 65 (under the VTSS, teachers with less than the potential for five years of pensionable service are eligible to receive payment of a death gratuity if they die in service; however, a spouses' and children's pension is not payable);

- there is an option to retire from age 55, provided the teacher has a minimum of 35 years' service (in reaching the threshold of 35 years, credit for pre-service training is given);
- unlike the case of national and secondary teachers, the revised spouses' and children's pension scheme (see Paragraph 3.6.3 (ii)) was introduced in respect of vocational teachers as part of its general introduction under the LGSS;
- under the *PCW* agreement, temporary wholetime service and part-time service of a quasi-permanent nature is, with effect from 1 September 1996, pensionable on an ongoing basis; a teacher who is timetabled at the outset of the school year for specific class contact time of at least nine hours per week for the full duration of the school year by any one VEC will be regarded as in quasi-permanent employment during that year;
- provisions in respect of reckoning part-time pensionable service given from 1 September 1996 and pension arrangements in case of retirement or death while in pensionable part-time service are the same as for secondary teachers;
- special provisions apply to the payment of contributions in respect of service, including part-time service, given in an otherwise pensionable capacity prior to the effective date of admission to the scheme.

Limited pilot early retirement initiative for teachers

3.6.24 A limited early retirement scheme was agreed as part of the *PCW* restructuring agreement reached between the Department of Education and the teachers' unions in early 1997. It applies on a pilot basis to national, secondary and vocational teachers. The scheme involves three strands:

Strand I	Teachers with not less than 15 years' wholetime or pensionable service who are consistently experiencing professional difficulties in their teaching duties;
Strand II	Teachers aged 55 years or more who, having served for a minimum of 20 years, wish to retire and whose school management verifies that such retirement would provide an opportunity to enhance the education service provided by the school by facilitating change such as the introduction of new skills and curriculum review;
Strand III	Teachers in posts surplus to requirements which will not be filled and who cannot readily be redeployed.

3.6.25 Special retirement terms, involving the granting of added years in certain circumstances and immediate payment of pension with no actuarial reduction, apply. The full details of the scheme are set out in Appendix 3.4. Strands I and III are subject to an overall quota of 150 retirements per year. Strand II is subject to an overall quota of 250 retirements per year. Priority is given to older teachers under all three strands where the number of applications exceeds the quota. All applications for early retirement under Strands I and II of the scheme are processed by an *Early Retirement Advisory Committee* (*ERAC*) which makes recommendations to the Minister for Education. Under the agreement, the pilot scheme is to be reviewed in the light of the Commission's Final Report.

Non-teaching personnel in schools and VECs

3.6.26 Pension terms in respect of non-teaching personnel (clerical support staff and school caretakers) in schools and VECs are generally equivalent to civil service terms. It would appear that not all such employees (some of whom work on a part-time basis) are members of a pension scheme.

Third level education — historical development of pension schemes

3.6.27 In the past, the academic, administrative, and technical staffs of many third-level colleges were covered by separate pension schemes operated by the colleges or institutions in which they were employed. Most such bodies now operate a single scheme for all employees. For historical reasons, the five older universities,[24] have pension funds. The employer contribution to these funds is provided from monies made available through the Higher Education Authority (HEA). These schemes are only partially funded in that, while main scheme benefits are formally funded, pension increases continue to be financed on a pay-as-you-go basis (see Paragraph 5.2.5). Pension terms differ in certain aspects from public service norms, e.g. notional added years facilities tend to be more favourable than apply elsewhere in the public service and, in a number of universities (e.g. TCD and NUIM), early retirement subject to actuarial reduction is available from age 50.

3.6.28 The Department of Education and Science has operational responsibility for the pension scheme of the Colleges of Education for National Teachers. The Department has also a regulatory and financing role in relation to the pension schemes of the College of Home Economics. The National College of Art and Design which is funded via the HEA has a non-funded pension scheme that corresponds with public service standard terms. This is also the case with the University of Limerick and Dublin City University.

Third level institutions — pension terms

3.6.29 Notwithstanding the caveat above, standard pension benefits for those in third level education are basically similar to those applying in the civil service. The majority of staff are covered by non-contributory main schemes and contribute $1\frac{1}{2}$% of pay for membership of spouses' and children's contributory pension schemes. For new entrants taking up service on or after 6 April 1995, a 5% contribution applies under the main pension schemes, in the same way as for established civil servants (see Paragraph 3.3.57).

3.6.30 In TCD, academic and administrative personnel employed on a contract basis where there is a reasonable expectation of two years' employment are admitted to a defined contribution scheme, rather than to the standard defined benefit arrangements. Generally, employees and employers each pay a scheme contribution of 5% of salary. On subsequent appointment to permanent positions in the university, transfer values can be used to purchase service within the defined benefit scheme. A number of the other universities operate similar arrangements.

3.6.31 Up to ten notional added years are provided as a matter of course to academic staff in most universities. In practice, TCD, UCD and NUIM also grant added years to administrative personnel. This is in contrast to other parts of the public service where such a facility is confined to professional and specialist grades.

3.6.32 Section 25(7) of the Universities Act, 1997 requires that universities prepare and submit new pension schemes for approval to the HEA with the consent of the Ministers for Education

[24] Trinity College Dublin (TCD), National University of Ireland Maynooth (NUIM), University College Galway (UCG), University College Dublin (UCD) and University College Cork (UCC).

and Science and Finance. Section 25(8) of the Act preserves existing pension entitlements of employees serving at the commencement date of the Act. The HEA has written to the universities asking them to submit draft schemes which conform to public service norms. Proposals from the universities are currently under consideration.

3.6.33 Management and administrative personnel employed by the VECs and by the Institutes of Technology are currently covered by the LGSS and so have the same pension terms as apply in the local authority sector. Teachers and lecturers in Institutes of Technology are also currently covered by the LGSS but, under the *PCW* agreement, it has been agreed that teachers and lecturers employed on a temporary wholetime or quasi-permanent basis will be pensionable on an ongoing basis with effect from 1 September 1996. It has since been decided by the Government that, subject to agreement on the resources involved, all of the functions exercised by the Minister for the Environment and Local Government in regard to VEC and Institute of Technology pensions should be transferred to the Minister for Education and Science. Arrangements for the transfer are currently being made.

Other education bodies

3.6.34 The Department of Education and Science also has a regulatory and financing role in relation to the pension schemes of the following bodies:

- National Council for Educational Awards;
- National Council for Vocational Awards;
- HEA;
- Dublin Institute for Advanced Studies;
- Institiúid Teangeolaíochta Éireann;
- Royal Irish Academy of Music.

3.7 Permanent Defence Forces

Pension schemes of the Permanent Defence Forces

3.7.1 The Defence Forces (Pensions) Acts, 1932 to 1975 empower the Minister for Defence, with the consent of the Minister for Finance, to make pension schemes to provide retired pay, pensions and gratuities for and in respect of members of the Permanent Defence Forces. The terms and conditions for the grant of pension, etc., are contained in the Defence Forces (Pensions) Schemes, 1937 to 1994.

3.7.2 Membership of the main pension schemes applies to all personnel (commissioned officers, enlisted personnel, and members of the Army Nursing Service and the Chaplaincy Service) from the date of joining the Permanent Defence Forces.

3.7.3 Membership of the spouses' and children's contributory pension scheme is automatic for male officers commissioned after 31 December 1970 and female officers commissioned after 31 December 1984 and was optional for officers serving before those dates. In the case of enlisted personnel, membership of the spouses' and children's pension scheme is automatic for male personnel enlisted after 31 January 1978 and female personnel enlisted after 31 December 1984, and was optional for those serving before those dates.

3.7.4 The Defence Forces Pension Schemes represent a distinct pension code which is quite different from the codes applicable elsewhere in the public service. Distinctive features of the schemes include provision for the immediate payment of pensions and gratuities regardless of age after relatively short periods of service (five years for gratuity only, and 12 years for pension and gratuity, in the case of officers; three years for gratuity only, and 21 years for pension and gratuity, in the case of enlisted personnel) and the absence of provision for the preservation of benefits.

3.7.5 Unlike most other public service pension schemes, the Defence Forces schemes are generally not directly pay-related in that many of the benefits (pensions, in particular) are not directly based on pay at date of retirement, but are flat rates based on rank, service in rank, and overall service. Pensions in payment are generally revised in line with movements in the pay of serving personnel.

3.7.6 Members of the Permanent Defence Forces are not insured for Occupational Injuries Benefits under the Social Welfare Acts. Instead, they are covered by the Army Pensions Acts, which constitute a military occupational injuries code. Disability pensions may be granted under those Acts to retired officers and enlisted personnel suffering from permanent disablement due to injuries or wounds attributable to military service or due to disease arising from overseas service with the United Nations. The level of pension depends on the degree of disablement assessed by the Army Pensions Board, which is the statutory body appointed to adjudicate on pension applications. Under taxation legislation, all disability pensions under those Acts are exempt from income tax. Provision is also made for the grant of allowances to the dependants (including spouses and children) of deceased military personnel where death was attributable to service. Where a person is eligible for payments under both the Army Pensions Acts and the Defence Forces Pension Schemes, the payment under the schemes is generally subject to abatement.

3.7.7 There is no explicit contribution to the main pension scheme, except in the case of officers commissioned on or after 6 April 1995, who are in full PRSI class. A 5% contribution was introduced for these officers in the same way as for established civil servants (with consequent uprating of salaries by 1/19th) — see Paragraph 3.3.57. A contribution of $1\frac{1}{2}$% of remuneration applies to officers who are members of the spouses' and children's contributory pension scheme. For enlisted personnel, the spouses' and children's scheme contribution is $1\frac{1}{2}$% of four times the amount of basic spouse's pension plus addition for Military Service Allowance.

Commissioned officers

3.7.8 There are three broad service categories for the purposes of pension benefits:

- officers with five or more but less than 12 years' service who qualify for gratuity (without pension) of 20 days' pensionable pay at date of retirement for each year of qualifying service;
- those with between 12 and 20 years' service who qualify for pension and gratuity, both at flat rates, depending on rank and service. Under the schemes, the minimum pension for a person retiring as a Captain after 12 years' service is about 20% of maximum regimental pay, plus addition for Military Service Allowance (MSA);[25]

[25] Military Service Allowance (MSA) was introduced to compensate Defence Forces personnel for the special disadvantages associated with military life. It is paid on a continuous basis to all personnel up to and including the rank of Colonel (with the exception of those in training or in full-time third-level education). On foot of a recommendation by the *Gleeson Commission*, 1990, MSA is reflected in the pensions and gratuities of personnel retiring since August 1990.

- those with 20 or more years' service who qualify for flat-rate pension depending on rank, service in rank and overall length of service and for flat-rate gratuity depending on rank.

All benefits are calculated by reference to the number of completed years of qualifying service and are payable immediately on retirement, regardless of age.

3.7.9 The qualifying period for maximum pension of 50% of maximum regimental pay (plus addition for MSA) varies according to rank and service, but can be attained long before an officer reaches maximum retirement age. For example, a Commandant may qualify for maximum pension at around age 40 to 42, while the normal retirement age for that rank is 56. Where maximum flat-rate pension is less than 50% of the maximum regimental pay for the rank (e.g. for a Captain), the pension is increased to the latter amount. Conversely, where pension is greater than 50% of the maximum regimental pay for the rank (e.g. for a Lieutenant-Colonel), the pension is reduced to the latter amount, but only if the officer was promoted to his or her retiring rank on or after 1 January 1986.

3.7.10 The maximum retirement lump sum of $1\frac{1}{2}$ times pay (plus addition for MSA) is payable only on retirement within two years of the maximum retirement age, which varies according to rank and ranges from age 54 for a Captain to age 63 for a Lieutenant-General. However, in the case of an officer with 20 or more years' service who serves to within four years of maximum retirement age for the rank, the maximum flat-rate retirement gratuity is progressively increased on the basis of one-third of the difference between the flat-rate gratuity and $1\frac{1}{2}$ times pay (plus addition for MSA) at retirement, for each completed year of service during the five year period preceding retiring age, subject to a maximum of $1\frac{1}{2}$ times pay (plus addition for MSA) at retirement.

3.7.11 In the case of officers commissioned on or after 6 April 1995, who are in full PRSI class, integration of personal and survivors' pensions with the Social Insurance system applies in line with arrangements applicable to established civil servants in full PRSI class.

3.7.12 Under the schemes, certain officers such as doctors, engineers, and pilots who are paid extra remuneration in respect of their specialised duties are categorised as special service officers for pension purposes. The extra remuneration is reflected in the calculation of pay-related gratuities, while fixed percentage additions are made to the standard rates of pension. Medical and Dental Officers qualify for a 20% addition to pension, while other categories such as engineers, pilots and chemists qualify for a 10% addition.

3.7.13 Subject to certain conditions, long-service increments introduced under the *PCW* restructuring agreement for officers are reckonable for pension purposes in the case of Captains and Commandants retiring after 1 October 1994 and Lieutenant Colonels retiring after 1 January 1998.

3.7.14 An officer with at least one but less than ten years' service who is compulsorily retired on medical grounds qualifies for an enhanced service gratuity of 30 days' pensionable pay for each complete year of service. No pension is payable. Where service is greater than ten but less than 20 years, he or she qualifies for a higher pension than would be payable if retiring voluntarily, in addition to a flat rate gratuity. Where service is 20 years or more, the standard rates of pension and gratuity apply, but the maximum retirement gratuity of $1\frac{1}{2}$ times pensionable pay is payable somewhat earlier.

3.7.15 There is no minimum service requirement for the payment of death gratuity. On death-in-service, a gratuity of a minimum of one year's pensionable remuneration is payable to a relative of the deceased (if married, usually his or her spouse and/or children). A maximum gratuity of up to $1\frac{1}{2}$ years' pay is payable depending on length of service.

3.7.16 The contributory spouses' and children's pension scheme for officers is essentially the same as that applying elsewhere in the public service. The spouse's pension is normally one-half of the deceased's actual pension, except where the officer dies in service or after retirement on medical grounds (in which case, the pension is half what the deceased would have received on serving to normal retirement age). In all cases, the maximum spouse's pension payable is one-quarter of the deceased's uprated pensionable remuneration.

Enlisted personnel

3.7.17 Enlisted personnel qualify for immediate gratuity (without pension) on retirement with three or more and less than 21 years' service. They qualify for both immediate pension and gratuity after 21 years' service (or after 12 years if discharged on medical grounds) regardless of age in every case. Maximum benefits are payable after 31 years' service, while maximum retirement age is 60.

3.7.18 Pension consists of a basic flat rate pension (which varies according to rank) in respect of 21 years' service, together with an addition to basic pension of 40% of the rate of MSA. An additional increment in respect of each year of service in excess of 21, up to an overall maximum of 31 years, is also payable, while the addition for MSA is increased from 40% to a maximum of 50% of the allowance (payable after 31 years' service). A retirement gratuity of 25 weeks' pay (plus addition for MSA) is payable after 21 years' service, and the maximum gratuity is 45 weeks' pay after 31 or more years' service.

3.7.19 Minimum pension after 21 years' service represents between 36% and 39% of maximum pay (plus addition for MSA) depending on rank, while the maximum after 31 years' service ranges from 47% to 53% of maximum pay.

3.7.20 Enlisted personnel pay PRSI at Class H, and so are fully insured for all benefits under the Social Welfare Acts, except Occupational Injuries Benefits (see Paragraph 3.7.6).

3.7.21 The 21 year pension (plus addition for MSA) is payable to a pensioner during his or her lifetime, but the additional increment for service in excess of 21 years and the supplementary 10% of MSA cease to be payable when the pensioner becomes entitled to Social Insurance Retirement Pension (at age 65), or OACP (at age 66). The withdrawal of the additional increment is in accordance with the principle of integration of occupational benefits with Social Insurance benefits in the case of employees who are fully insured under the Social Welfare Acts. However, the method used in the case of enlisted personnel is, in effect, a partial form of integration, and differs from the standard method applicable in other public service employments.

3.7.22 Certain forms of extra remuneration are reckonable for pension purposes. These payments are fully reckonable in the calculation of pay-related gratuities, while an addition of 3% of the standard rates of pension is payable in respect of each additional payment.

3.7.23 A modified service pension and a service gratuity are payable where discharge is on medical grounds and service is 12 or more but less than 21 years. Benefits are calculated on a proportionate basis by reference to the standard pension and gratuity applicable to 21 years' service.

3.7.24 There is no minimum service requirement for payment of death gratuity. On death-in-service, a gratuity of one year's pensionable remuneration is payable to a relative of the deceased (if married, usually his or her spouse and/or children).

3.7.25 The contributory spouses' and children's pension scheme for enlisted personnel is essentially based on schemes applicable elsewhere in the public service. The spouse's pension is one-half of the 21 year pension appropriate to the rank of the deceased.

Members of the Army Nursing Service and the Chaplaincy Service

3.7.26 The pension arrangements of members of the Army Nursing Service (ANS) and the Chaplaincy Service are quite different from those of officers and enlisted personnel. For example, no gratuity is payable in addition to pension, and there is no provision for the payment of survivors' benefits. Generally, benefits are determined by reference to pay and service on retirement.

3.7.27 Where service is five years or more but less than 20 years, a gratuity of one month's reckonable pay is payable for each year of service, subject to a maximum of one year's pay in the case of the ANS, and 19 months' pay in the case of the Chaplaincy Service.

3.7.28 The minimum qualifying period for pension is 20 years (or ten years if retired on medical grounds) and maximum pension is payable after 30 years' service. Pension is based on 1/60th of reckonable pay at date of retirement for each year of service. An additional 1/60th is payable for each year of service in excess of 20, subject to a maximum pension of 2/3rds of pay after 30 years' service. There are no minimum age limits to qualify for pension or gratuity and maximum retirement age for both services is 65 years.

3.7.29 Benefits are non-contributory, except in the case of persons appointed on or after 6 April 1995 (in full PRSI class), in respect of whom a 5% pension contribution applies.

3.8 Garda Síochána

Historical development of the Garda Síochána Pension Scheme

3.8.1 The terms and conditions of the pension schemes applicable to members of the Garda Síochána are set out in the Garda Síochána Pensions Orders, 1925 to 1981, and agreements made under the Garda Síochána Conciliation and Arbitration Scheme.

3.8.2 Members of the Garda Síochána have special pension terms which differ from standard public service terms. These special terms take account of the need to maintain a younger and more physically capable workforce able to give a better service and suited to the rigours of policing. This approach is a long-standing one and was reflected in the Constabulary (Ireland) Act, 1908, which provided the basis for the current arrangements. The *Ross Commission*, 1920, reporting on the Royal Irish Constabulary and Dublin Metropolitan Police, recommended the adoption of the *Desborough Commission* view that all ranks be entitled after 25 years' service to retire on pension of one-half of annual pensionable pay, and after 30 years' service to retire on a pension at the rate of two-thirds of pensionable pay.

3.8.3 After the establishment of the Garda Síochána in 1922, the Garda Síochána (Temporary Provisions) Act, 1923 and the Garda Síochána Act, 1924 enabled the Minister for Justice, with the sanction of the Minister for Finance, to authorise the grant and payment of pensions or gratuities to members of the Garda Síochána and to their widows, children and dependants. Unlike the rest of the public service, provision for widows' pensions always existed in the Garda code. The Garda Síochána Pay Order, 1924 provided for the annual deduction of $2\frac{1}{2}$% from the pensionable pay[26] of every member of the Force as a contribution to the general pension charge of the Garda Síochána. This contribution rate was reduced to 1.75% of pay for male Gardaí in the early 1970s when the widows' and children's contributory pension scheme was being introduced.

3.8.4 The Garda Síochána Pensions Order, 1925 maintained the special pension terms which continue to apply today. It also established a compulsory retirement age of 63 for members in the rank of Chief Superintendent and below. The retirement age was reduced for members recruited after 1952 to age 60 for the Chief Superintendent and Superintendent ranks, and to age 57 for the Inspector, Sergeant and Garda ranks. The retirement age for Assistant/Deputy Commissioners has recently been reduced to age 60. The Garda Commissioner now has pension terms equivalent to civil service Secretaries General appointed by TLAC (see Paragraph 3.3.37).

3.8.5 In 1965, provisions were introduced to allow female Gardaí to retire from age 50 after at least 25 years' service. The reduction in contribution rate from $2\frac{1}{2}$% to 1.75% of pay in the early 1970s (see above) was not applied to female Gardaí, as they were not then covered by the widows' and children's contributory pension scheme. That scheme was extended to female Gardaí in the early 1980s.

3.8.6 Pension terms for male and female members of the Force were equalised in June 1983. Female members were offered the pension terms applicable to male members (including the 1.75% contribution rate), while male members were offered the terms applicable to female members (including the $2\frac{1}{2}$% contribution rate). Male and female members recruited after this date are conditioned to retirement from age 50 having 30 years' service, and pay the 1.75% standard contribution rate.

3.8.7 In 1983, Garda Síochána Arbitration Board Report No.15 recommended that a series of allowances, including rent allowance, be made pensionable. The Board recommended that the commencement date be 1 October 1982. It was decided at the time that pensions in payment prior to the commencement date would not receive the benefit of the pensionability of these allowances.

3.8.8 Under the *PCW* agreement with the Garda associations, unsocial hours allowances — night duty, Saturday, Sunday and public holiday allowances — were made pensionable for members of the Garda Síochána who retired on or after 1 January 1993. The pensionability of these allowances was not extended to pensions in payment prior to this date.

Pension terms of members of the Garda Síochána

3.8.9 Members of the Garda Síochána may retire on or after age 50 if they have 30 years' actual service in the Force, with service in excess of 20 years being doubled. Thus, maximum pension is payable after 30 years' actual service. Maximum retirement age is 57.

3.8.10 Membership of the main pension scheme is automatic for all members of the Garda Síochána. Membership of the spouses' and children's contributory pension scheme is automatic

[26] The $2\frac{1}{2}$% contribution seems to date from the mid-1800s when local police pension funds were being established throughout the United Kingdom (Rhodes, A, *Public Sector Pensions*, 1965, p. 59).

for male Gardaí attested (i.e. appointed following completion of training) after 31 December 1971, and for female Gardaí attested after 30 June 1984. Membership was optional for those attested before those dates.

3.8.11 A special pension is payable where a member is incapacitated due to an injury received in the execution of duty without the member's own default. A statutory scheme of compensation also applies. A special survivor's pension is payable where the member is killed in the performance of his or her duty.

3.8.12 Members of the Garda Síochána who are attested on or after 6 April 1995 are in full PRSI class and are subject, generally, to the same pension calculation and contribution arrangements as apply to newly appointed established civil servants (see Paragraph 3.3.57). The 5% periodic contribution rate (integrated as appropriate) for new entrants replaced the existing rate of 1.75%, and the salary scale and the rates of pensionable allowances which are subject to periodic contributions (i.e. rent allowance and unsocial hours allowance) were uprated accordingly.

3.8.13 Where the surviving spouse of a deceased member would qualify for the maximum rate of Social Insurance Widow(er)'s Contributory Pension based on both his or her own and the deceased member's Social Insurance contribution record, only one pension is payable by the Department of Social, Community and Family Affairs. In such cases, an equivalent pension may be paid by the Department of Justice, Equality and Law Reform under Article 15(5) of the Garda Síochána Pensions Order, 1981. Such pension is paid in addition to any award under the spouses' and children's scheme. This additional spouse's pension is examined in more detail in Paragraphs 20.5.10-20.5.17.

3.8.14 In most other respects, members of the Garda Síochána have the same pension terms as established civil servants.

3.9 Non-commercial state-sponsored bodies

3.9.1 Separate pension schemes (usually, a main scheme and a spouses' and children's contributory pension scheme) apply to each of the non-commercial state-sponsored bodies. In general, these schemes are based on *model schemes* issued by the Department of Finance (see Paragraph 4.2.8) and offer the same pension terms as apply to civil servants. The largest schemes, in respect of FÁS, Forfás, and Teagasc, include approximately half of the public service employees in this area. A number of the older bodies, including FÁS, Forfás and CERT, operate pension funds. In some cases, the relevant funds relate to employees who were transferred on the winding up of organisations where pension funds had already existed (e.g. AnCO, IDA). As with the funded university schemes (see Paragraph 3.6.27) the cost of pension increases is not funded in advance and is met on a pay-as-you-go basis.

3.9.2 Enhanced pension terms apply to certain full-time board members and to those in equivalent positions under the schemes of a number of non-commercial state-sponsored bodies (generally, retirement is between age 60 and 65). Maximum pension of one-half of pensionable remuneration is accrued after 24 years; maximum lump sum in such schemes is $1\frac{1}{2}$ times pension rather than salary. However, individuals appointed to these positions who previously served elsewhere within the public sector may, if more favourable to them, have the standard 40 year pension arrangement applied, thus entitling them to a lump sum of up to $1\frac{1}{2}$ times salary rather than $1\frac{1}{2}$ times pension. Members who have their appointment terminated (other than for stated misconduct), or are not re-appointed on expiration of their period of office, are entitled to immediate pension and lump sum where they have accrued more than five years' service. Preservation of benefits applies only in case of voluntary resignation having five or more years' service. The schemes involved include:

- Competition Authority — Chairman and Members
- Labour Court — Chairman and Members
- Environmental Protection Agency — Directors
- Bord Pleanála — Chairman and Members

3.10 Conclusions

3.10.1 In this Chapter, the Commission has reviewed the historical basis of current pension provision in the public service. We have outlined the detailed pension provisions applying in each area of the public service. It will be seen that, given the current socio-economic context and today's increasingly mobile and flexible work environment, some of the basic principles and assumptions underlying public service pensions might appear outmoded and rigid. However, over the past 20 or 30 years, certain pension modifications have been made with the aim of providing the necessary adaptability and flexibility required in a modern public service. The Commission considers below the continuing appropriateness of current pension terms in the changing public service, the internal consistency and fairness of pension terms, including fairness as between public service groups, and the need for employee choice and flexibility within the pensions framework.

3.10.2 At this stage, the Commission is in a position to make a number of general points about public service pension schemes:

- while there is variation in scheme terms, a broad similarity in pension structures now exists across the public service as a result of an ongoing process of standardisation. The only area where there is any significant divergence from the norm is the Defence Forces;
- a number of public service groups have lower retirement ages for operational reasons, and receive enhanced pension terms as a result. The rationale for these terms is not clear in all cases. We examine this matter more closely in Chapter 15;
- the Commission is very much in favour of retaining the broad uniformity which underpins public service pension schemes. However, we see the provision to the individual of greater choice and flexibility on a cost neutral basis as a very important part of our agenda;
- existing pension arrangements derive from a time when life expectancy was much lower and work environments were significantly different from what they are now. It can be argued that schemes should be changed to better reflect the requirements of today's society;
- although they have made greater provision for part-time and temporary employment in recent years, it is questionable whether public service pension schemes cater adequately for this important component in public service employment.

APPENDIX 3.1

Pension scheme coverage in the public service (1997)

Sector/Scheme (i)	Coverage	Active Members	Pensioners	Annual Pension Cost (ii)
				Ir£ (m)
Civil Service Pension Scheme	Established Civil Servants (excl. Prisons)	25,667	8,055	81.0
	Prison Officers	2,476	252	2.2
	Non-Established and Industrial Civil Servants	3,391	5,848	5.5
Local Government Superannuation Scheme (Local Authorities)	Officers	8,914	3,084	26.5
	Employees	15,079	12,933	32.6
Local Government Superannuation Scheme (Health Service personnel)	Officers/Employees	40,218	11,544	74.0
Voluntary Hospitals Superannuation Scheme	Officers/ Employees	13,661	1,823 (incl. NHASS)	11.3 (incl. NHASS)
Nominated Health Agencies Superannuation Scheme (NHASS)	Officers/ Employees	5,900		
National Teachers Superannuation Scheme	National Teachers	21,040	6,990	77.4
Secondary Teachers Superannuation Scheme	Secondary Teachers	16,986	2,998	29.4
Local Government Superannuation Scheme (VECs, Institutes of Technology)	Vocational Teachers, Lecturers and Non-Teaching Staff	9,883	2,134	15.9
Various university schemes	Lecturers/Administrative/ Secretarial	7,240	2,700	23.7
Others in education sector	Teaching and Administrative Personnel	1,000	200	0.5
Defence Forces Pension Schemes	Officers and Enlisted Personnel	11,884	11,129	57.0
Civil Service Pension Scheme	Civilian Employees	1,214		
Garda Síochána Pension Scheme	Garda Síochána	10,746	5,492	57.7
Non-commercial state-sponsored bodies (various pension schemes)	Employees	7,920	2,000	14.0
Total		**203,219**	**77,182**	**508.7**

Source: Commission on Public Service Pensions, ''Actuarial Review of Public Service Pensions'' (November 1997), Report prepared by IPT Actuarial Services Ltd.

Notes:

(i) There are separate spouses' and children's schemes in respect of each public service group.

(ii) The costs represent annual pension expenditures in 1997 (employee contributions have not been netted off), excluding the cost of gratuities and other non-recurring payments.

APPENDIX 3.2

Pension increases under the Civil Service Pension Scheme[27]

(i) Since 1986, civil service pensions have been increased in line with relevant pay increases applicable to serving staff, and such pensions increases are effective from the same dates as the pay increases. The increases are effected on an administrative basis initially, and are later given statutory effect by means of regulations made under the Pensions (Increase) Act, 1964. Summary details of these arrangements are as follows.

(ii) All **general** pay increases (e.g. general increases under national pay agreements such as the *Programme for Competitiveness and Work (PCW)* or previous similar agreements concluded between the social partners) are applied to civil service pensions as a matter of course.

(iii) **Special** payscale increases (i.e. increases pertaining to specific grades or posts) are also applicable to pensions subject to the following conditions:

(a) the increase must apply to all staff serving in the grades or posts concerned;

(b) assimilation of serving staff to the revised pay scales must be on the basis of ''corresponding points'' (i.e. not on ''starting pay on promotion'' or ''regrading'' terms);

(c) the increase must not have been awarded in consequence of a substantial restructuring or alteration of duties which, in effect, constitutes regrading of the posts or grades concerned;

(d) the increase must not have been awarded in respect of increased productivity from serving staff;

(e) the increase must be a permanent feature of the pay scale.

(**Note**: The restrictive conditions outlined above have given rise to particular difficulties in the case of special payscale increases under the *Programme for Competitiveness and Work Agreement*, which have been largely awarded in respect of restructuring, increased productivity and alterations in duties. In the case of these increases, the Government has, exceptionally, decided that pending the report of the Commission on Public Service Pensions, certain permanent increases in pay scales arising from *PCW* restructuring deals may be applied to retired personnel, **subject to a minimum increase of 3%**.)

(iv) In applying pensions parity, a former officer who had not reached the maximum of his/her pay scale by the time he/she retired is **not** subsequently deemed to advance along the incremental scale in respect of periods after retirement. Thus, for example, the pension of an officer who resigns 6 months after reaching the 6th point on a 9-point salary scale will (subject to paragraph (v) below) be revised by reference to the 6th point of that scale.

(v) Where a post or grade is abolished, the normal practice is to base the pension of an employee who has retired from that post or grade on the scale point of an existing grade which is closest to the point held at retirement by the former employee. Future increases

[27] This Appendix reproduces Section 19 of Department of Finance, ''Superannuation Handbook: A Guide to the Superannuation Provisions applicable to Civil Servants'' (Revised, 1998).

in the former employee's pension are then based on pay increases applicable to the grade concerned. Where a post is upgraded or downgraded subsequent to the date of an officer's retirement, the pension is increased by reference to the pay he/she would have had if he/she had remained in the post, but ignoring the upgrading or downgrading which occurred after the retirement.

(It should be noted that a post is not treated for this purpose as being downgraded solely because, for example, there is a change in the method of pay determination for serving staff. A post would only be regarded as being downgraded for this purpose if, for example, the change involved a reduction in the duties and responsibilities of the post and the person serving at the time of the downgrading retained the original salary rate on a personal basis — i.e. only a future appointee would be subject to the lower salary rate. If the change did not have these characteristics, pensions increases of staff who retired before the change would generally continue to be determined by reference to the salary rate of the serving staff.)

(vi) If a retired officer has allocated portion of his/her pension to another person *[see Paragraph 3.3.51]*, pay increases are applied to the notional full pension, which is then reallocated in the proportions determined by the former officer at the time of his/her retirement.

(vii) Where a retiree is awarded a pension based on **net pensionable remuneration**, which takes account of the rate of Social Insurance pension paid on the date of his/her retirement, such a pension is not recalculated in full (taking account of changes in the Social Insurance pension) on the occasion of a pay increase. In such cases, the officer's occupational pension, when calculated at retirement, is expressed as a percentage of full pay at that time — e.g. 30% of scale pay — and pension increases are based on changes in scale pay, without regard to changes in Social Insurance pension rates.

(viii) Where a pension is based on pensionable remuneration which includes pensionable emoluments, the element in the pension which reflects the emoluments is increased by reference to general pay increases only.

(ix) If:

(i) an emolument which was not hitherto pensionable becomes pensionable, or

(ii) a new pensionable emolument is introduced

with effect from a specific date, officers who have retired prior to that date do not benefit from such developments.

APPENDIX 3.3

Retirement initiatives agreed between the Department of Health and Children and the Nurses' Unions under the *PCW* restructuring agreement (1997)

1. Pre-retirement initiative

Nurses aged 55 or over who have a minimum of 20 years' wholetime service and who do not otherwise enjoy enhanced pension benefits may qualify to work on a job-sharing basis for a maximum of five years prior to retirement, or such lesser period as may apply until they reach age 60, with the five or lesser number of years in question to reckon as full-time service for pension purposes.

A quota not exceeding 600 applications applies during the initial three-year operation of the scheme, with up to a maximum of 300 applications to be approved in the first year.

The scheme is intended to benefit both individual nurses and their employers where nurses are no longer capable of coping with the stresses and demands of nursing on a full-time basis. The scheme operates on a pilot basis pending review in the light of the Final Report of the Commission on Public Service Pensions.

2. Limited early retirement initiative

A limited early retirement initiative is available in respect of nurses aged 55 or over with at least 35 years' service who find the demands of the profession such that they no longer feel they can operate at the level of professional performance they themselves and management require. The facility operates as follows:

- nurses in this category are eligible for immediate pension;
- the scheme is subject to a number of criteria;
- an annual quota of 200 applies;
- the scheme operates on a pilot basis pending the Report of the Commission on Public Service Pensions.

APPENDIX 3.4

Limited early retirement scheme agreed as part of the restructuring agreement reached between the Department of Education and Science and the Teachers' Unions (1997)

1. **Strand I** — Applies to teachers with not less than 15 years' wholetime or pensionable service who are consistently experiencing professional difficulties in their teaching duties.

Subject to certain provisions, pension entitlements are as follows:

- a teacher with 35 years or more of actual pensionable service is granted pension based on actual reckonable service;
- a teacher with less than 35 years of actual pensionable service is awarded pension based on actual reckonable service enhanced by the grant of added years; the grant of added years is 25% of actual reckonable service, subject to the lesser of five years or potential service to age 65, and also subject to an aggregate maximum of actual service and added years of 35 years.

2. **Strand II** — Applies to teachers aged 55 years or more who, having served for a minimum of 20 years, wish to retire and whose school management verifies that such retirement would provide an opportunity to enhance the education service provided by the school by facilitating change such as the introduction of new skills and curriculum review.

Pension entitlements are as follows:

- a teacher aged 55 with 35 years or more of reckonable pensionable service is granted pension based on actual reckonable service;
- a teacher aged 55 with less than 35 years of reckonable pensionable service is awarded pension based on actual reckonable service, enhanced by the grant of added years equal to whichever is the least of (a) two years, or (b) potential service to age 65, or (c) the service required to give total reckonable service of 35 years.

3. **Strand III** — Applies to teachers in posts surplus to requirements which will not be filled and who cannot readily be redeployed.

Pension entitlements are as follows:

Teachers with at least five years of pensionable teaching service have an option of either:

(i) immediate pension and lump sum based on actual (and purchased) pensionable service, enhanced by the award of added years at the rate of 35% of actual reckonable service, subject to

(a) added years not exceeding the lesser of seven years or potential service to age 65; and

(b) total service for pension and lump sum purposes being subject to a maximum of 40 years;

or

(ii) immediate pension and lump sum based on actual (and purchased) pensionable service, subject to the standard 40 year limit, with no added years award, but with a severance gratuity at the rate of three weeks' pay per year of potential service to age 65 (subject to a maximum of 27 weeks' pay).

4. Strands I and III are subject to an overall quota, in aggregate, of 150 retirements per year. Strand II is subject to an overall quota of 250 retirements per year. Priority is given to older teachers under all three strands where the number of applications exceed the quota.

5. All applications for early retirement under Strands I and II of the scheme are processed by an *Early Retirement Advisory Committee* (*ERAC*) which makes recommendations to the Minister.

6. The Scheme operates on a pilot basis pending review in the light of the Final Report of the Commission on Public Service Pensions.

CHAPTER 4

Management, Administration and Communication

4.1 Introduction

4.1.1 In this Chapter, we outline the management, administration and communication arrangements for public service pension schemes. We identify and discuss a number of issues which have arisen under these general headings. Our recommendations on these issues are presented in Chapter 25. We deal with the financing of public service schemes separately in Chapter 5.

4.1.2 In some parts of the public service, the pension scheme is small and is specific to a particular company or organisation; in others, it is a large *umbrella* type scheme applying to the sector as a whole. Thus, there are a large number of schemes and a wide range of organisations involved in different aspects of their administration.

4.1.3 Notwithstanding the complexity of these structures, it appeared to the Commission that on the basic requirement of any pensions administration system – paying pensions in the correct amount and on time – public service pensions are administered reasonably efficiently and effectively across all parts of the public service.

4.1.4 However, there are deficiencies in the system. Foremost amongst these, in our view, is the lack of proactive communication of the pension scheme. The focus of pension administration and personnel sections has traditionally been the calculation of benefits at the point of retirement and on death-in-service. Insufficient effort is made to communicate benefit entitlements to individual employees during service, to appraise them of options to enhance their pension, and to open up retirement choice. In addition, scheme documentation is not kept up to date in some parts of the public service.

4.1.5 There are deficiencies too in the recording of information, even basic service data. There is little use of modern information technology to formally record pensionable (or potentially pensionable) service with different employers, which is the norm in most private sector schemes. Part of the explanation for this may lie in the pay-as-you-go approach to financing public service pensions and the often limited resourcing of pension administration sections. Apart from creating problems for the valuation of pension liabilities and the estimation of future cashflows, the limited recording of service makes it difficult for individual public servants to calculate their full pension entitlements so that they can better plan for retirement.

4.2 Parties involved in administering and managing public service pensions

4.2.1 The main parties carrying out the day-to-day administration of pensions are the six government departments which operate the schemes for the major public service groups, as shown in Table 4.1.

Table 4.1: Administration of public service pensions

Department	Public service area
Finance	Civil service
Environment and Local Government (LGSS)	Local authorities, health service, VECs, etc.[28]
Health and Children	Health service
Education and Science	Teaching & support personnel
Defence	Defence Forces
Justice, Equality and Law Reform	Garda Síochána

4.2.2 In addition, a large number of public service bodies, including universities and non-commercial state-sponsored bodies, administer their own pension schemes, sometimes with assistance from outside pension consultants.

4.2.3 At a broader level, the primary brief for pensions policy, the financing of pensions, and the negotiation of changes to pension terms rests with the Department of Finance. We review the role of each party below. A more detailed note on existing pension administration arrangements is provided in Appendix 4.1.

4.2.4 The existence of separate pension schemes and administrative structures reflects the different strands of historical development of the public services. In recent times, there has been a growing centralisation and standardisation of approach, particularly as regards pension terms.

Department of Finance

4.2.5 The Department of Finance, through its Pension Section, administers the Civil Service Pension Scheme, with payment of pension benefits being carried out by the Paymaster General's Office. The Department has a major role in developing pensions policy for the public sector as a whole — in relation to pension terms and the financing of pension schemes — and in wider public service pensions management. It deals with union claims for changes to pension terms through the Civil Service Conciliation and Arbitration Scheme. It advises on the management response to pension claims elsewhere in the public service. It sanctions the payment of pension increases. It contributes to the development of national and EU policy on pensions matters generally and assesses the implications for public service schemes of new legislation and of relevant court judgements, both at domestic and European level. The Department also plays an active role in developing pension solutions to changing employment conditions and working requirements in different parts of the public service.

[28] The administration of pensions under the Local Government Superannuation Scheme is carried out by the individual local authorities, Health Boards, VECs, etc. The Department of the Environment and Local Government maintains an overall co-ordination and support role.

4.2.6 The other pension functions of the Department of Finance include:

- the formal approval of pension schemes, which are usually drawn up as Statutory Instruments based on a *model scheme* (see Paragraph 4.2.8) and requiring the signature of the Minister concerned and of the Minister for Finance;
- the provision of advice to departments and agencies on individual pension cases, and the granting of sanction in cases in which the Department has a formal role (e.g. approval of ill health retirements by civil servants, teachers, and members of the Garda Síochána);
- making decisions on appeal cases under pension schemes where the Minister for Finance is given a role as final arbiter; and
- the approval of AVC schemes for the civil service and other parts of the public service.

In addition, the Chief Medical Officer, who is attached to the Department, provides medical opinion on ill health retirement applications for civil servants and teachers.

Other government departments

4.2.7 The government departments which operate the other large public service pension schemes carry out the range of administrative duties discussed below.

4.2.8 These and other departments are also involved, with the Department of Finance, in approving pension schemes and modifications to schemes of public service bodies and state companies coming under their aegis. These schemes and revisions are generally drawn up in line with *model schemes* issued by the Department of Finance, which replicate the provisions of the Civil Service Pension Schemes. Departments also have some pension responsibilities relating to their own civil servants.

Other public service bodies

4.2.9 Other public service bodies – including hospitals, schools, universities and non-commercial state-sponsored bodies – are involved, to a greater or lesser degree, in the management and administration of pensions for their employees, whether under an umbrella scheme for the sector as a whole, or under a stand-alone scheme specific to themselves. Pension funds are used to finance the pension costs of a small number of schemes. In some cases professional pension consultants are employed to handle parts of the administration and/or to advise on changes to pension terms.

4.3 Adequacy of existing administration and communication systems

4.3.1 We discuss the adequacy of existing management and administration arrangements for public service pensions in this and the following Section under the headings:

- processing of pensions;
- pension administration for serving public servants;
- communication;
- appeals;
- development of pensions policy;
- negotiation of pension claims.

As noted previously, we consider the financing of pension schemes separately in Chapter 5.

Processing of pensions

4.3.2 Under this heading, we include the processing of pension calculations, the payment of pensions, lump sums, and gratuities, the implementation of pension increases and the payment of arrears.

4.3.3 It would appear to the Commission that the processing of pensions is carried out reasonably efficiently and effectively across all public service schemes. New pension cases are set up correctly and pension benefits are paid promptly. In most cases, pension increases, which are based on increases in pay of serving public servants, are paid within a reasonable period of the effective date of the relevant pay increases (although difficulties in relation to restructuring agreements have given rise to delays — see Section 11.8). Pensioners' queries are dealt with efficiently, and in some areas, personnel from the relevant pension sections meet with pensioner association representatives from time to time to discuss pensioners' concerns.

4.3.4 While a number of substantive issues have been raised by pensioner associations — and these are discussed elsewhere in this Report — it would appear that, in general, pensioners and their representative associations are broadly satisfied with the level of service which they receive from scheme administrators.

Pension administration for serving public servants

4.3.5 For serving public servants, the administration of pensions includes the recording of service and contributions, the processing of employee pension options (e.g. purchase of notional service, use of AVCs, payment of outstanding contributions in respect of prior service), dealing with public servants who leave employment before retirement age, and the transfer of pensionable service between public service organisations.

4.3.6 In general, existing administrative systems would appear to be capable of providing adequately for public servants who serve for their full career in centralised parts of the public service (e.g. civil service, Garda Síochána, Defence Forces) and have maximum pension entitlements at retirement age. The main administrative requirements arise at point of retirement when pension entitlements are being calculated. The recording of service is straightforward, although, increasingly, there may be breaks in full-time service due to career breaks or job-sharing.

4.3.7 It would appear that existing systems are less capable of addressing the needs of employees who have worked in non-centralised parts of the public service (e.g. the local authorities, and the education and health services). The main difficulty is the tracking of service, including temporary, part-time, and training-type employment, where a number of different employers may be involved. In many cases, computerised payroll/personnel systems have not been designed to record pensionable service. As a further complication, the reckoning of certain service may be at the option of the individual, subject to payment of outstanding contributions. Sometimes, the option is exercised only at retirement. Where there is prior service in another part of the public service, a formal transfer of service must be arranged for that service to be made reckonable in the calculation of pension with the final employer (see Paragraph 4.3.8). In many cases, a full calculation of pensionable service is only carried out at retirement or in the case of death-in-service.

4.3.8 Service may be transferred between public service bodies by means of the *Public Service Transfer Network*,[29] which facilitates mobility throughout the public service. However, the process of transferring service can be cumbersome, involving the verification of earlier service with previous employers and the assessment of any outstanding contributions (in some cases, a transfer value must be paid).

4.3.9 We note in Section 7.2 that the number of public servants taking up employment at older ages is increasing. Thus, it can be expected that many public servants will be interested in options to improve their pension, whether through the purchase of notional service or AVC schemes. We discuss both options in Chapter 12, where we identify certain deficiencies in current arrangements.

4.3.10 In addition to the requirements placed upon pension scheme administrators arising from the factors discussed above, there are ever increasing demands upon existing systems as a result of greater numbers of queries from individuals about their pension entitlements generally and as a consequence of the new pension provisions of the family law legislation in relation to judicial separation and divorce.[30]

4.3.11 In many public service areas/organisations, responsibility for different aspects of pension administration rests with different sections or units. For example, *Personnel Section* may be responsible for recording service, *Pay Section* for pay history and pension contributions, and *Pension Section* for technical aspects of the pension scheme. There may be little ongoing contact between these sections in the overall coordination of pensions administration. In some decentralised areas (e.g. local authorities/health service), most of the day-to-day responsibility for queries and the processing of employee options rests with the local personnel section. Given the increasing complexity of the pensions environment, it must be asked whether employees are being provided with the appropriate level of expert assistance and advice, and whether existing administrative structures represent the most efficient and effective method of administering pensions across the public service as a whole.

4.3.12 To conclude, difficulties arising from inadequate tracking of pensionable service and the lack of computerised pension systems became very apparent to the Commission when the actuarial review of public service pensions was being undertaken. Given deficiencies in the data available, it was necessary to prepare samples and estimates for particular public service groups. Many schemes did not maintain a central record of individuals with deferred or preserved pension entitlements. The Commission considers that this situation is far from satisfactory. Apart from creating an obstacle to assessing future pension costs, the lack of easy access to pension and service records on a centralised basis hinders those employees who make the effort to ascertain their own personal pension entitlements and to plan accordingly.

Communication

4.3.13 The Commission views communication as an important component in the proper administration and management of pension schemes. Communication includes the provision of:

[29] For legal reasons there are in fact two such networks – one dealing with transfers between bodies neither of which is a local authority and the other covering cases where the transfer is either to or from a local authority. We refer to the Civil Service Transfer of Service Scheme in Paragraph 3.3.45.

[30] The Family Law Act, 1995 and the Family Law (Divorce) Act, 1996 require that pension rights must be taken into account by the court where, following a judicial separation or divorce, the parties to the marriage apply to the court for one or more of the various orders prescribed under the Acts for the purposes of financial settlement (The Pensions Board, *Trustee Handbook* (1998), p. 65).

- information on accrued occupational pension entitlements and, where relevant, on State Social Insurance entitlements;
- options to improve pension entitlements;
- options to part-finance the cost of retiring early;
- annual report and general information on the pension scheme;
- replies to queries from employees and pensioners;
- information as required in family law cases.

4.3.14 Under the disclosure regulations of the Pensions Act, 1990, pension schemes (including those in the public service) are required to prepare annual reports and to provide these automatically to qualifying trade unions and, on request, to scheme members, prospective members, and to their spouses. As part of this process, schemes are obliged to inform members of the availability of their annual reports. A person leaving employment with an entitlement to preserved benefits (*early leaver*) must be provided automatically with a statement of his or her entitlements and of the rules applying to payment. For new entrants, basic information on the scheme (eligibility, contributions, benefit details, etc.) must be provided automatically within a certain minimum period of joining. The constitution of the scheme should be made available for inspection. Where serving members seek it, the scheme must provide details of personal entitlements, including survivors' benefits, contribution and service history, etc. On retirement or death, information must be provided on the amount of benefits payable, options relating to these benefits, and the rules governing continued payment of pension and how the amount of pension might subsequently be altered.

4.3.15 It is not clear to the Commission that all public service schemes have sufficient resources to provide a satisfactory level of communication to public servants in relation to their pension scheme and individual benefit entitlements. The case of early leavers is a particular concern.

4.3.16 While the quality of scheme information may have improved over the last number of years, partly as a result of implementation of the Freedom of Information Act, 1998, it would appear that, for some schemes, information booklets are not regularly updated to cover the most recent developments. The fact that the formal constitution of certain schemes may be in the form of a series of Acts and Statutory Instruments can make it difficult for employees to exercise their right of inspection. This difficulty is compounded in a number of instances by the fact that the actual drawing up of relevant regulations is often in arrears.

4.3.17 In the report on the National Pensions Policy Initiative, *Securing Retirement Income*, the Pensions Board recommended that schemes should automatically provide annual statements to scheme members. These statements, in addition to giving personal benefit information (personal accrued amount and prospective level of pension), would address points relating to Social Welfare pensions. The Board accepted that where there were large numbers in the same grade — such as in the public service — it might be necessary to issue *grade statements* rather than personalised statements, at least initially.[31]

4.3.18 Apart from formal compliance with the disclosure requirements of the Pensions Act, the Commission is in favour of active communication of benefit entitlements and of options to

[31] The Pensions Board, *Securing Retirement Income* (1998), pp. 177-8.

improve benefits so that employees can take a more active role in planning for their retirement. We discuss this further in Chapter 19.

4.3.19 We consider that there are major shortcomings in current communication systems for public service schemes. Greater resourcing of this aspect of pensions administration will be necessary, particularly in the context of our recommendations for the future direction of public service pensions.

Appeals

4.3.20 Most decisions relating to entitlements under public service occupational pension schemes flow directly from the relevant schemes (which are usually in the form of Statutory Instruments) and there is limited or no discretion in applying case law and precedent to individual cases. As regards appeals and complaints, it would appear that the general line adopted by scheme administrators is that if a particular matter does not come within the remit of the scheme, it cannot be accommodated without amending that scheme. It would seem that many individual complaints may actually relate to settled pensions policy, for example, in relation to the cut-off date for the introduction of preserved benefits, reckoning of non-pensionable allowances, etc.

4.3.21 The Commission notes that public service pension schemes are subject to the following formal appeal/complaint mechanisms:

- recourse to the Public Service Ombudsman (in relation to cases of maladministration);
- the Freedom of Information Act, which gives a statutory right to obtain reasons for decisions and access to relevant papers;
- a formal system of appeal, generally available under public service schemes, to the relevant Minister and, in some cases, to the Minister for Finance.

4.3.22 In addition, there are a number of other avenues which enable public servants and pensioners to draw attention to what they consider are unsatisfactory decisions in relation to their pension entitlements. These include political representations, parliamentary questions, and representations by unions and pensioner organisations.

4.3.23 As a result, the general view amongst scheme administrators would appear to be that any individual complaints which have a substantive element of justification are normally resolved in favour of the pensioner, sometimes on the *benefit of the doubt* basis. However, a number of submissions received by the Commission suggested that there was need for an independent pensions body to consider cases involving a dispute or appeal.

4.3.24 We note that the formal appeal system referred to in Paragraph 4.3.21 involves the appropriate Minister (in some cases, in consultation with the Minister for Finance) acting in a quasi-judicial way, making a determination on an individual case where the public servant or pensioner has invoked the right to appeal the employer's determination of his or her pension or prospective pension entitlements.

4.3.25 We would suggest that questions arise as to the effectiveness of this form of appeal. It would appear that the departmental staff who are involved in processing appeals are often those who advised on how to handle the cases in the first instance. While complainants ultimately have recourse to the courts as a last resort, it can be argued that a more transparent and independent appeal system would be to the benefit of scheme administrators and aggrieved parties as a more effective means of addressing concerns raised.

4.3.26 The Public Service Ombudsman's Office has outlined the essential criteria for a good internal complaints system. We summarise these below.

Accessible	Simple instructions about how to make a complaint should be made available. This should clearly identify the designated complaint handlers and explain how they will operate.
Simple	The various stages in the complaint handling process should be kept to a minimum with each stage in the process clearly identified.
Speedy	Targets should be set for acknowledging receipt of complaints and the completion of their examination.
Fair and Independent	Complaints not resolved by the original decision maker should be examined objectively by persons not involved with the original decisions or actions. The examination should have regard not only to the rules governing the scheme but also to considerations of equity and good administrative practice.
Confidential and Impartial	All complaints should be treated in confidence.
Effective	The complaints system should have the authority to address all the issues giving rise to the complaint. Where the examination finds that the fault lies with the public body, the system must have the power to provide appropriate redress.
Flexible	Where rules are necessary to ensure consistency, too much rigidity should be avoided and there should be a degree of discretion given to those involved in the system to adjust to changing needs.[32]

4.3.27 Measured against these criteria, appeals mechanisms in public service pension schemes would appear to fall down in a number of respects.

4.4 Management of pensions across the public service

4.4.1 The management of public service pension schemes across the public service as a whole involves managing the overall financing of pensions (see Chapter 5), developing pensions policy, and negotiating changes to scheme terms with the public service unions. While there is an obvious link between policy development and the negotiation of change, we consider them separately below.

Development of pensions policy

4.4.2 Pensions policy includes assessing the implications for, and representing the concerns of, public service schemes in relation to legislative changes proposed at national level (e.g. Pensions Act, Family Law Acts) and at European level (e.g. Directives in the area of equality in pension schemes), as well as the impact of relevant court judgements in the domestic courts and in the European Court of Justice. It also involves the implementation of necessary scheme modifications arising from legislative developments and court decisions.

4.4.3 As we have shown in Chapter 3, public service pension schemes are usually provided for in primary legislation and drawn up in the form of Statutory Instruments. They are financed on a

[32] The Ombudsman, *An Example of a Code of Good Administrative Practice*, pp. 9-11.

pay-as-you-go rather than a funded basis, which is the approach of occupational pension schemes in the private sector. This combination of factors has, in the past, given statutory public service occupational pension schemes a special status *vis-à-vis* occupational pension schemes generally. For example, unfunded public service schemes do not require approval by the Revenue Commissioners under the Finance Act, 1972. In addition, public service schemes are exempt from certain of the regulatory requirements of the Pensions Act in relation to occupational pension schemes.

4.4.4 However, developments over time have tended to blur this distinction, and nowadays, private sector and public service occupational pension schemes are usually treated in similar fashion for the purposes of national and EU policy and legislation, as well as by the courts. At the European Court of Justice, it has been found that even though public service pension schemes are drawn up in statutory form and are financed by the State, they should nonetheless be considered, like private sector occupational pension schemes, as coming within the scope of Article 119 of the *Treaty of Rome* dealing with pay, rather than as statutory schemes of social security (which are outside the scope of that Article).[33] This judgement confirms the view of public service occupational pensions as deferred pay and so negotiable between unions and management. In conclusion, it is clear that public service occupational schemes no longer enjoy a special status, and must now be considered in the context of occupational pension schemes generally.

4.4.5 The main policy issues currently impacting upon public service pension schemes in common with all other occupational pension schemes are as follows:

- equality;
- access to pension schemes for part-time and contract employees;
- disclosure of information to scheme members;
- pension provisions of Family Law legislation;
- mobility of workers across Europe.

4.4.6 The central co-ordinating role of the Department of Finance ensures an integrated approach to pensions policy issues across the public service. The *model schemes* (see Paragraph 4.2.8) are updated regularly to reflect current legal requirements and developments in public service pensions policy.

4.4.7 As the discussion above indicates, the range of issues affecting pensions, some of which are quite complex, has widened considerably in recent years. As a consequence, and with increasing regulation of occupational pension schemes, the Commission considers that it is becoming more difficult for public service pension schemes to keep abreast of current developments. There are no structures to bring together public service pension scheme administrators and policy makers to discuss developments on a regular basis. We would suggest that this has probably acted as an inhibiting factor in progressing change.

4.4.8 Because of the existence of separate pension schemes, any amendment to pension terms which is required on foot of new legislation or the outcome of a court case has to be implemented separately for each scheme, subject to the approval of the Department of Finance. This may take

[33] Case C-7/93 ABP v Beaune (judgement of 28 September 1994, paragraph 23).

a long period of time. The Commission notes that in many cases changes in pension terms are operated on an administrative basis pending the formal updating of schemes in due course.

Negotiation of pension claims

4.4.9 Changes to pension scheme terms usually involve negotiations with the public service unions, e.g. the 1973 civil service working party changes (see Paragraph 3.3.10); some of these negotiations may form part of wider negotiations on pay and conditions.

4.4.10 Public service pension terms are amended relatively infrequently. Changes may be proposed by the public service unions. They are often raised first as claims in the civil service context and negotiated with the Department of Finance under the civil service conciliation machinery. Thereafter, many of these changes are negotiated under separate conciliation processes in the other sectors of the public service, sometimes involving some of the same personnel, on both sides of the table, who were involved in the civil service negotiations. Some examples are the spouses' and children's pension scheme (first introduced in the civil service in 1968 and subsequently extended to other areas), the revised main pension scheme terms (introduced with effect from June 1973 in the civil service and extended to the LGSS and teachers' schemes in 1977), the purchase of notional service schemes, the revised spouses' and children's pension schemes, and the professional added years schemes.

4.4.11 In some cases, claims may be lodged initially in the local authority, health or education sector, often in relation to issues that are more relevant in those sectors than in the civil service, e.g. part-time working, the reckoning of past service, etc. As well as participating at working party level in the context of civil service pensions, the Department of Finance forms part of the management teams under the Teachers' Conciliation Council, the Local Government Superannuation Scheme Conciliation Committee, and the Garda Síochána and Defence Forces' Conciliation and Arbitration Schemes.

4.4.12 Under public service conciliation and arbitration schemes, pension terms are conciliable but not arbitrable (except by agreement). Thus, if there is disagreement between management and unions regarding a particular pensions claim, there is no agreed procedure for its determination by an outside party.

4.4.13 Recent amendments to the terms of the Industrial Relations Acts have given employees in the local authority and Health Board areas access to the Labour Court and the Labour Relations Commission and future pension claims for such employees will fall to be dealt with in those fora rather than under the traditional conciliation process.

4.4.14 As already indicated, not all changes to pensions terms emerge directly from the industrial relations process. Other developments can have a direct and binding influence on public service pension terms, e.g. the Government decision to introduce full PRSI for all new entrants to the public service, national pensions legislation (e.g. the Pensions Act), and European Court decisions (such as those in the equality area).

4.4.15 While changes to scheme terms are often implemented first on an administrative basis, they invariably require a formal change to the terms of each individual pension scheme affected (see Paragraph 4.4.8). The Commission notes that this can be a cumbersome process. As changes must be negotiated separately for each scheme, it can result in different implementation dates for different schemes, which can be a source of grievance for any individuals affected.

4.4.16 Table 4.2 outlines a range of recent modifications to public service pension scheme terms, giving the source of the change and the schemes affected in each case.

Table 4.2: Recent changes in public service pension scheme terms

Item	Source of change	Date	Schemes affected
Pension splitting in Family Law cases	Family Law Acts	1995-96	All
Full PRSI for new entrants—integration	Government decision	1995	Most[34]
Access to pension schemes for part-time and temporary employees	European Court of Justice judgements, EU Directives, policy development	c 1997	Potentially all
Pensionability of Garda Síochána unsocial hours payments	*PCW* agreement (part of wider package of pay and conditions)	1994	Garda Síochána
Pilot early retirement initiative for teachers	*PCW* agreement (part of wider package)	1996	Teachers
Pilot early retirement initiative for nurses	*PCW* agreement (part of wider package)	1996	Nurses
Minimum death gratuity	LGSS negotiations	1996	LGSS
Change in upper age limit for children's pension	Civil Service Working Party	1997	Civil service (potentially all)

4.4.17 Notwithstanding the coordinating role of the Department of Finance, it would seem to the Commission that the existence of different industrial relations structures, with independent arbitration in some cases, creates a potential for changes in pension terms to be implemented in one part of the public service without full consideration being given to their possible impact on other public service schemes.

4.5 Conclusions

4.5.1 The Commission considers that existing arrangements for administering and managing public service pension arrangements, while deficient in certain respects, ultimately fulfil their objective of paying pensions in an efficient and effective manner. Some of the difficulties faced by the administrative systems, such as the establishment of comprehensive scheme databases and better communication procedures, are capable of resolution with greater resourcing and usage of appropriate information technology. We believe that given the defined benefit structure of the pension schemes and the fact that standard terms apply across most of the public service there is no reason why public servants should not be provided with good quality information on their pension benefits.

[34] Schemes covering public service groups which were in full PRSI class prior to the 1995 change — e.g. non-established civil servants — were unaffected by the change.

4.5.2 A significant feature of the pension system is the growing centralisation of approach, particularly in relation to pension terms. This has been assisted to a great degree by the widescale use of *model scheme*s across the public service. We believe that uniformity of pension terms is a valuable tool in managing pension schemes, as it can act as a restraining influence in certain situations where the concession of an improvement in terms in one sector of the public service could have widespread financial repercussions across the public service as a whole. The other side of the coin, however, is that the knock-on effects of a concession can ripple right across the system very quickly and with considerable expense.

4.5.3 This move towards a more centralised approach raises the question of how the measures recommended by the Commission later in this Report will be implemented. It is clear that, on a global scale, the Commission's recommendations will involve a set of initiatives which will impact upon all pension schemes in a way which requires effective, integrated, and coordinated management and administration systems. We discuss this matter further in Chapter 25.

APPENDIX 4.1

Current public service administration arrangements

Introduction

1. There is no standard model for the administration of public service pensions. Some schemes are managed centrally (e.g. the national and secondary teachers' schemes, the Defence Forces' schemes and the Garda Síochána scheme) whereas others are managed locally (e.g. the Local Government Superannuation Scheme). The civil service scheme combines both methods in that most departments have devolved responsibility for pensions administration while the Department of Finance operates the scheme for the remaining departments.

2. Pension management and administration arrangements for the larger public service groups are outlined in the following paragraphs.

Civil service

3. Service and contribution records for each individual civil servant are maintained by the employing department. Those departments with devolved responsibility, e.g. the Department of Agriculture, Food and Rural Development, calculate the pension entitlements of their staff while the Department of Finance carries out this function in respect of other departments. The Department of Finance calculates pension increases for all pensioners. It has computerised some of its pensions administration, e.g. pensions payroll and calculation of benefits, but many operations, e.g. pension increases, are done manually. There is little computerisation of pensions administration in other departments.

4. Departments are required to refer some of the more difficult pension cases, principally involving professional added years or options to purchase notional service, to the Department of Finance for decision.

5. Changes to pension terms in the civil service are discussed between the Department of Finance and the civil service unions, initially at the General Council of the Civil Service Conciliation and Arbitration Scheme, and are usually referred to a joint management/staff working party (which meets four times a year).

6. Informal meetings and contacts take place from time to time between pensioner representatives and the Department of Finance to discuss matters such as pension increases and pension payment arrangements.

7. Pensions Section in the Department of Finance comprises 15 employees. Of these, eight are involved in administrative duties, and nine in policy formulation. In addition, 12 employees in the Paymaster General's Office are involved in the payment of civil service pensions.

Local authorities

8. The Department of the Environment and Local Government exercises an overall policy, support and guidance role in relation to the Local Government Superannuation Scheme (LGSS) but leaves the administration of the scheme to the local authorities themselves (there are 29 County Councils, 10 Corporations, and 49 Urban District Councils). To assist local authorities and to standardise practice, the Department has developed a number of initiatives over the years, principally an expert computer system. While this has helped to overcome inconsistencies, experience to date would suggest that some authorities, particularly the smaller ones, continue to have difficulties in administering what can be very complex provisions. In some authorities, it would seem that the computer system either is not operated at all or is used for very limited purposes. The computer system comprises—

- an information element which contains all the relevant scheme rules and documentation; a help desk; and a step by step process for the determination of reckonable service; and
- databases which store all relevant service and contributions data, calculate the benefits when they become due, and produce benefit statements.

The system is being upgraded at present.

9. All aspects of administration, including record management and the payment of pension awards, are dealt with locally and pension payments are met from the authorities' own resources and charged to their programme accounts.

10. The Minister for the Environment and Local Government has an appellate function in relation to LGSS pensions.

11. Changes to the LGSS have, to date, been dealt with by a committee representing management and staff interests under the aegis of the Local Government Management Services Board. The Department of Finance is represented on this committee. Now that all local authority staff have access to the Labour Court and the Labour Relations Commission, the role of the committee may be re-examined.

12. Pensions Section in the Department of the Environment and Local Government comprises nine employees, seven of whom deal with the LGSS, with the remaining two responsible for the pension entitlements of the Department's own staff. In addition, personnel employed by the local authorities are directly involved in the administration of the pension scheme.

Health service

13. The pension arrangements for the health service come within a number of distinct schemes. The Health Boards are covered by the LGSS which is administered by the Department of the Environment and Local Government (see above), while the voluntary hospitals and nominated health agencies come within the Voluntary Hospitals Superannuation Scheme (VHSS) and the Nominated Health Agencies Superannuation Scheme (NHASS), respectively, and are administered by the Department of Health and Children. In contrast to the LGSS, the VHSS and the NHASS are managed centrally with all the day-to-day functions, such as the calculation and payment of pensions, being carried out by the Department of Health and Children. There is not a high level of computerisation.

14. Changes to the pension arrangements for health service personnel arise from negotiations conducted under the aegis of the Health Service Employers Agency.

15. Negotiations are ongoing in relation to the transferring of the pension arrangements for relevant health service personnel from the LGSS to the Department of Health and Children.

16. Pensions Section in the Department of Health and Children comprises nine employees. Most of the work is of an administrative/payment nature. Personnel in the Health Boards, voluntary hospitals, etc. are also involved in the administration of pensions.

Education sector

17. All records relating to the service, pay, contributions, etc., of national and secondary school teachers are maintained centrally by the Department of Education and Science. Individual schools do not have any pension functions. The verification of past service and charging of arrears of contributions is handled by the Department, as is the calculation of pension entitlements. The scheme administration is not computerised, with the exception of the pensions payroll (for the national teachers' and secondary teachers' schemes) and the downloading of service details from the payroll system (national teachers).

18. Responsibility for the pensions of vocational teachers was transferred to the Department of Education and Science from the Department of the Environment and Local Government in September 1998. The Vocational Teachers' Superannuation Scheme is administered locally by the Vocational Education Committees, with the exception of payment of awards which is the responsibility of the local authorities. The Department of Education and Science exercises the same policy and support role in relation to vocational teachers' pensions as the Department of the Environment and Local Government does in relation to the pensions of local authority staff.

19. Changes to the teachers' pension schemes are made arising from agreement at the Teachers' Conciliation Council (the Department of Finance is represented on the management side of the Council). Some changes are made outside of the Conciliation Council, with the consent of the Department of Finance.

20. Teachers' Pensions Section in the Department of Education and Science comprises 27 permanent employees and 10 temporary employees. Most of the work is of an administrative/payment nature.

21. The Department of Education and Science also administers separate pension schemes in respect of the Colleges of Education and clerical and support staff in schools.

22. In the case of universities and a range of other education bodies, there are a number of stand-alone pension schemes which are administered in full by the body in question. Finance is made available by the Higher Education Authority (HEA) or by the Department of Education and Science. Some of the older Universities (e.g. UCD, Trinity, Maynooth and UCC) have pension funds and the HEA provides finance for the employer contributions to the fund, plus the cost of pension increases. Changes to pension scheme terms – usually in line with changes in the larger public service schemes – are negotiated locally, in agreement with the Department and the Department of Finance.

Defence Forces

23. All records relating to the pension entitlements of Defence Forces personnel are kept centrally by the Department of Defence. The Pensions Unit of that Department calculates and pays the pension entitlements when they become due. The pensions administration system is a manual one with the exception of pensions payments, which are computerised.

24. Changes to the pension arrangements for Defence Forces personnel arise from negotiations under the Defence Forces' Conciliation and Arbitration Scheme, at which the Department of Finance is represented.

Garda Síochána

25. The calculation and payment of Garda pensions are carried out by the Department of Justice, Equality and Law Reform. Service records are provided by the Garda authorities. There is little computerisation apart from the pensions payroll.

26. Changes to the pension arrangements for the Garda Síochána arise from negotiations under the Garda Síochána Conciliation Council, at which the Department of Finance is represented.

27. Ill health retirement and complex cases are referred to the Department of Finance.

28. Pensions Section in the Department of Justice, Equality and Law Reform comprises nine employees. Most of the work is of an administrative/payment nature.

Non-commercial state-sponsored bodies and other public service bodies

29. There are separate pension schemes for each of the non-commercial state-sponsored bodies coming under the aegis of a range of government departments. There are many such bodies and schemes — over 100 bodies participate in the Public Service Transfer Network. The largest schemes are in respect of FÁS, Teagasc, Forfás, Enterprise Ireland, the Central Fisheries Board and the Blood Transfusion Service Board.

30. Practically all of the schemes of these bodies conform to the *model schemes* developed by the Department of Finance and the degree of divergence between schemes is relatively small.

31. While a small number of the older non-commercial state-sponsored bodies have pension funds (e.g. FAS), most operate on a pay-as-you-go basis. Some avail of the services of private sector pension administrators and advisors.

32. Changes to pension scheme terms — usually in line with modifications introduced in the larger public service schemes — are negotiated locally, in agreement with the parent department and the Department of Finance.

CHAPTER 5

Financing and Accounting Arrangements for Public Service Pension Schemes

5.1 Introduction

5.1.1 In this Chapter, the Commission outlines current financing and accounting arrangements for public service pensions and evaluates the appropriateness of these arrangements in the changing public service environment. We also present a preliminary discussion of the pre-funding of public service pension schemes as a means of better managing future pension costs.

5.2 Current financing and accounting arrangements

5.2.1 The majority of public service occupational pension schemes are financed on a pay-as-you-go basis, with the annual cost of pensions being met from current revenue. Thus, pension liabilities are secured by the Government and its ability to tax. In contrast, private sector companies and commercial state companies operate a pre-funding system, setting aside funds and investing them to meet future liabilities as and when they arise.

5.2.2 The pay-as-you-go method of financing pensions reflects the cash accounting approach which has traditionally underpinned government accounting systems. Under this approach, the annual charge for pensions in government accounts is in respect of the cost of pensions and lump sums of public servants who have retired or died in service during the year in question, as well as the cost of pensions already in payment. Unlike funded schemes, there is no charge or adjustment made in respect of the accruing cost of pensions, i.e. the cost to be met at some future date of the pension benefit earned by serving staff *as pensionable service is completed*. In addition, current government accounting systems do not contain any record of the pension liability in respect of the past service of serving public servants and of pensioners.

5.2.3 In the civil service, the cost of pensions is met from a central Superannuation Vote which is administered by the Department of Finance; thus, departmental Appropriation Accounts do not contain any pension charges for serving civil servants. Different arrangements apply to other public service groups (see Appendix 5.1); for example, the pay-as-you-go cost of Defence Force pensions is met from the Army Pensions Vote, while the cost of local authority pensions is charged to the accounts of each individual local authority (and is not identified in the accounts of the Department of the Environment and Local Government).

5.2.4 Usually, pension contributions received from employees are recorded under the Appropriations-in-Aid heading of the appropriate Vote, rather than netted off against pension payments.[35]

[35] Taking the example of the health service, total pension contributions by serving employees in 1997 were equivalent to about 60% of total pensions expenditure that year (see Tables 6.4 and 6.5).

5.2.5 A number of universities and non-commercial state-sponsored bodies operate pre-funded pension arrangements. In the case of the universities, the Higher Education Authority (HEA) provides 15% of pensionable payroll annually to cover pension costs. This money is invested by the respective funds and, along with investment returns and employee contributions, is used to pay pensions. Pension increases are financed separately with a further 5% (approximately) of pensionable payroll being paid annually by the HEA to cover such costs. The universities and/or their agents have complete autonomy in the areas of investment and investment policy and no Exchequer/HEA controls or monitoring are in place.

5.2.6 Pension costs for the public service as a whole go largely unreported in government financial statements, although an expenditure figure was included in the Budget 2000 tables.[36] In 1997, according to the Commission's actuarial review (see Section 6.4), the total expenditure on public service pension schemes was £636 million (€807 million). The total of employee contributions received was £185 million (€235 million). In comparison, assuming an average new entrant rate[37] of 19% of pensionable remuneration, which is inclusive of the employee contribution, the accruing cost of pensions for serving staff for 1997 is estimated at £780 million (€990 million).

5.2.7 The Department of Finance produces a regular analysis of the Exchequer pay and pensions bill, the most recent of which relates to the period 1995-2000.[38] Local authority pay and pension costs are excluded. The Exchequer pay and pensions bill covers:

(i) the actual cost to the Exchequer of the pay and pensions of civil servants, teachers, members of the Garda Síochána and the Defence Forces;

(ii) the amounts which are included in respect of pay and pensions in grants to Health Boards and other health agencies (such as voluntary hospitals), universities and other third level colleges, and non-commercial state-sponsored bodies; and

(iii) the cost of employer PRSI contributions.

Employee pension contributions are netted off the gross figure. A separate table shows a sectoral breakdown of the Exchequer pensions bill, indicating the percentage year-on-year growth in net pension expenditures.

5.2.8 The Commission would question the usefulness of the table for the management of pension costs. The increase in pension expenditures reported in any year reflects, mainly, the number of retirements which have taken place during the year, and the cost of pension increases for those then in receipt of pensions. Both factors are effectively outside the control of decision makers. In reality, the actual incurring of pension costs has taken place at a much earlier stage.

5.3 Pay-as-you-go versus funding

5.3.1 There are two basic approaches to financing pensions: pay-as-you-go, where pension costs are met from current revenue; and pre-funding, where funds are set aside and invested to meet future liabilities as and when they arise.

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[36] Department of Finance, *Budget 2000*, Table E, p. 171.

[37] The new entrant rate represents the contribution (as a percentage of pensionable remuneration) which would be required to fully fund the accruing cost of current public service pension terms for serving staff — see Paragraphs 6.2.8-6.2.10 and Section 6.6. Pensionable remuneration in 1997 is estimated at £4,087 million (€5,189 million).

[38] Department of Finance, ''Analysis of Exchequer Pay and Pensions Bill 1995-2000'' (June 2000).

5.3.2 The arguments generally made in favour of the *pay-as-you-go* system include the following:

- the State's permanent and continuing commitment to discharge its obligations as they arise adequately meets the primary objective of funding in the private sector, viz. to provide a secure basis for the pensions of employees;
- pay-as-you-go is easy to operate and the administrative costs are low;
- pay-as-you-go is in keeping with the Government's budgetary system generally;
- pay-as-you-go facilitates transferability of service within the public service (in most cases, no transfer payments need to be made when a public servant moves from one public service scheme to another).

5.3.3 The arguments made in favour of *funding* include:

- funding, unlike pay-as-you-go, makes advance provision for future liabilities;
- the real cost of pensions is immediately obvious under a funding arrangement. Thus, the long-term effect of increases in the number of personnel covered and/or improvements in pension terms (which may have only a minor impact on costs under a pay-as-you-go system in the short-term) is immediately apparent to the parties concerned;
- contribution rates for a pension fund would bring home to members of schemes the value of their pension entitlements and to employers the real cost of recruitment;
- funding would give a more stable profile of costs to the Exchequer over time compared with pay-as-you-go.

5.3.4 The Commission notes that a number of the arguments in favour of funding have to do with the need for transparency in pension costs. This brings up the related question of the accounting for pension costs in government financial management systems, a matter we discuss in Section 5.4 following.

5.3.5 The question of funding, or of partially funding, public service and Social Welfare pensions was recently considered by the Government in the context of the report of the Budget Strategy for Ageing Group.[39] The Group had been asked to bring forward specific proposals, in the light of present and prospective substantial budget surpluses, designed to ease the longer term budgetary burden of the Exchequer's liability for Social Welfare and public sector employee pensions implicit, respectively, in the prospective ageing of the general population and of public servants. The review of the Social Welfare liability was in line with the recommendation of the Pensions Board in *Securing Retirement Income* (1998) that steps should be taken to establish an explicit mechanism to fund, at least partially, the prospective substantial growth that is projected to occur in Social Welfare old age pensions, if they are increased in line with real earnings.[40]

5.3.6 As a result of these deliberations, the Minister for Finance announced on 23 July 1999 that the Government had decided to provide resources on a planned basis to secure future pensions, setting aside an annual provision of 1% of GNP (then estimated at £520 million for 1999) to pre-fund part of the future cost of Social Welfare and public service pensions. The Minister added that the Government had also decided to allocate a tranche of the proceeds of the flotation of Eircom (then Telecom Éireann) to supplement the annual allocation.

[39] Department of Finance, "Report of the Budget Strategy for Ageing Group" (July 1999).
[40] The Pensions Board, *Securing Retirement Income* (1998), p. 110.

5.3.7 In its report, the Budget Strategy for Ageing Group had estimated that even if all Exchequer receipts arising from future privatisations of state bodies were allocated to pre-fund future Exchequer liabilities, these, together with the annual allocation proposed, would be sufficient to fund about 40% only of the extra pension and health costs which the Exchequer would face over the decades ahead. Accordingly, the Group recommended that:

- the annual pre-funding allocation should be established as a non-discretionary budget item, to be met each year regardless of economic, budgetary or other circumstances;
- there should be periodic reviews of the actuarial position of the funds and an associated automatic requirement to adjust either the amount of annual funding assigned to, or the basis on which draw-down may be made from, each fund consistent with the outcome of each actuarial review of the long-term viability of the funds.

5.3.8 The Government acknowledged in its statement of July 1999 that there were major policy issues to be determined in legislating for pensions pre-funding and that these would be considered in the drawing up of the necessary legislation. Reference was made to the upcoming report of the Commission on Public Service Pensions in that context. The relevant legislation, the National Pensions Reserve Fund Bill, 2000, was published in June 2000.

5.3.9 The Commission's analysis and recommendations on the funding of public service pensions, taking into account the relevant economic arguments as well as the implications of the Government's pre-funding initiative, are set out in Chapter 23.

5.4 System of accounting for public service pensions

5.4.1 The financing of public service pension schemes is closely related to the question of accounting for pension costs. In this Section, the Commission discusses the limitations in the treatment of pension costs under the existing cash-based approach. We also review developments generally in the reform of government financial management systems, which have implications for the reporting of pension costs.

5.4.2 As outlined above, government pension costs are financed on a pay-as-you-go basis. Accounting for pension costs has traditionally followed this method of financing; thus, only actual cash outgo and member contributions received are recorded in government financial systems.

5.4.3 The shortcomings of a purely cash-based approach to accounting for government pension costs and liabilities are outlined below:

- it fails to highlight the long-term cost of pensions, which is expected to increase substantially over the next 20 years. In particular, cash accounting fails to capture the long-term cost of management decisions to improve pension terms, extend scheme coverage, and to recruit additional employees. In the case of recruitment, for example, there would actually be a short-term pension saving through increased employee contributions (however, the eventual cost of pensions for these employees would far outweigh the value of the contributions received);
- it conveys a false impression of the affordability of pensions — it makes no sense in accounting terms to relate the actual cost of pensions in payment to the employee contributions received from serving staff;

- existing systems fail to bring home to employers the true cost of decisions to retire employees early on grounds of ill health, restructuring, or efficiency. In private sector funded schemes, employers are often required to pay in advance to the pension fund the additional capital cost arising from an early retirement (or to use a fund surplus to finance the early retirement);
- because of the above deficiencies, it becomes difficult to delegate to departments and agencies responsibility for important categories of management decision making in accordance with the modernisation of the public services under the Strategic Management Initiative (see Paragraph 7.5.2);
- by failing to report the full cost of pensions — particularly that portion being borne by the employer — existing systems impact adversely on the value placed on pensions by employees. This can lead on occasion to the pursuit of unsustainable pension claims such as in the area of early retirement;
- because they give no recognition to the accruing cost of pensions and of accumulated pension debt, current arrangements are open to criticism by international organisations such as the World Bank, the IMF and the OECD. In its 1998 Article IV consultation report on Ireland, the IMF urged the authorities to take the opportunity afforded by buoyant economic conditions to incorporate at least the full accruing cost of public service pension liabilities in future budgets.

5.4.4 The Commission considers that implementation of the following measures would help address these problems (we take these up further in Chapter 24):

- provision for regular actuarial reviews of public service schemes;
- actuarial valuations to be carried out on proposed changes to scheme terms; and
- changes to government financial management and reporting structures to record accruing pension costs in a more transparent way.

Reform of government financial systems

5.4.5 The annual departmental Appropriation Accounts are prepared primarily on the basis of cash-based receipts and payments.[41] The accounting system records the movement of cash in and out of the Department, i.e. those receipts and payments actually received and paid during the period of account. Under this system, the accounts for any particular year include, but do not distinguish between, cash required to meet liabilities outstanding at the end of the previous year plus cash required to meet liabilities incurred and falling due for payment in the current year. They do not provide for liabilities incurred in the current year but which are not expected to mature for payment until the following year.

5.4.6 The cash basis of accounting used by government departments differs from the system used in the commercial sector which is known as the *accrual system*. With accrual accounting, revenues are taken into account when due, even if not received, and expenditures are charged in the account when liabilities are incurred, whether payment is made in the accounting period or not. The system also allows deferral of expenses so that resources consumed during an accounting period can be identified. This facilitates the matching of costs with outputs. In relation to pensions, the general approach, subject to certain qualifications (see Paragraph 24.2.4), is to

[41] Much of the material in Paragraphs 5.4.5 and 5.4.6 is taken from Department of Finance, *Public Financial Procedures: An Outline* (1990), p. 42.

ensure that the operating costs of providing retirement benefits to employees are recognised in the accounting periods in which the benefits are earned by the employees. Financial statements are prepared separately for the pension fund.

5.4.7 Until recently, the cash-based accounting system has been considered appropriate for government accounting purposes because its simplicity enables the annual Appropriation Accounts to be prepared more easily and because it fits in well with the requirements of parliamentary control. However, over the past few years, in keeping with the emerging focus of the Strategic Management Initiative (see Section 7.5), the emphasis of the accounting system has moved on from simple compliance with spending limits to measuring achievement and recording full costs. In this respect, following a review of departmental financial management systems completed in 1994, it was decided to introduce some important aspects of accrual accounting into the Appropriation Accounts (the accounting for pension costs remained unchanged).

5.4.8 In 1995-96, a pilot project involving the introduction of a comprehensive system of accrual accounting was carried out by the Department of Transport, Energy and Communications (now Department of Public Enterprise). The project involved the production of financial statements with accompanying notes and conforming as closely as possible to Statements of Standard Accounting Practice (SSAPs)[42] and Financial Reporting Standards (FRSs) as issued by the Accounting Standards Board at that time. Fundamentally, with some exceptions, the accounting policies which were adopted were no different in most respects to those adopted by public limited companies. The Department produced financial statements for 1995 and 1996 according to the new accounting policies.

5.4.9 Accounting for pension costs was a key aspect of the new system. The project noted that the pension scheme applying to civil servants employed by the Department was unfunded and that actual pension costs arising from the scheme were the responsibility of, and paid for by, the Department of Finance on a pay-as-you-go basis. While the Department of Transport, Energy and Communications did not incur pension costs and was not responsible for their actual payment, it was responsible for the staff that generated these costs. Accordingly, it was considered important, in calculating the full staff costs of the Department, to include a figure for pension liability.[43]

5.4.10 Thus, a notional charge for the accruing cost of pensions was recorded in the Department's Operational Statement. The charge was based on an actuarial valuation of the pension liability for pensionable service of the existing staff of the Department accrued over the year, calculated at 20.2% of the total salary cost. The estimated unfunded pension liability was not included in the financial statements, but was disclosed separately as a note to the financial statements.

5.4.11 In 1996, the Government established a Working Group on Financial Management with the objective of mapping out a comprehensive set of proposals for radically overhauling existing financial procedures. This was in response to the critique of existing financial management and controls in *Delivering Better Government* which attributed the problems in the management of

[42] Financial Reporting Exposure Draft (FRED) 20 proposes substantial change from the existing SSAP 24, *Accounting for Pension Costs*. The main changes are: (i) in measuring pension scheme assets, a move from using an actuarial basis to using market values, (ii) a move from using the expected rate of return on the scheme assets to a rate that reflects the characteristics of the liabilities, (iii) a move from gradual recognition of actuarial gains and losses in the profit and loss account to immediate recognition in the statement of total recognised gains and losses (iv) and as a consequence of (iii), the balance sheet to show a pension asset or liability equal to the recoverable surplus or deficit in the scheme.

[43] Department of Transport, Energy and Communications, *Introduction of Accruals Based Accounting Project Report* (1996), p. 44.

the public finances to inadequate systems, characterised as overcentralised, short-term in orientation and more concerned with control of inputs than with efficient and effective delivery of outputs.

5.4.12 The report of the Working Group, *Financial Management in a Reformed Public Service* (1999), was accepted by the Government. The Report made recommendations under a series of headings — multi-annual budgeting, delegation of financial authority, administrative budgets, and the development of a generic model for an enhanced financial management system based on an accrual accounting approach.[44]

5.4.13 The Commission considers that full inclusion of pension costs within the new financial management systems being developed — and, in particular, the introduction of an accruals-based approach to accounting for pensions — would bring a much-needed transparency into this largely unreported part of government costs and liabilities. The Commission's further deliberations and recommendations in this regard are set out in Chapter 24.

5.5 Conclusions

5.5.1 Financing and accounting are important elements in current public service pension arrangements. The Commission is conscious of developments which are already underway, including the pre-funding of part of future Social Welfare and public service pension costs, and the modernisation of government financial systems. Against this backdrop, the Commission's objectives in relation to the financial accounting for public service pensions are as follows:

- securing the long-term financial base for public service pension schemes;
- ensuring that there is an acknowledgement of the real cost of existing pension provision on an ongoing basis, i.e. ensuring transparency of pension costs; and
- creating an awareness and understanding of the medium- to long-term effects of additional recruitment, pension improvements, early retirement packages, etc.

5.5.2 We believe that the introduction of an accruals-based approach to accounting for public service pensions, broadly along private sector lines, would offer a number of advantages. From the perspective of cost discipline, an accruals approach would ensure that the real cost of pensions would be charged to the accounts of the department or organisation which had primary responsibility for the delivery of a particular public service. It would foster an awareness of the medium- to long-term effects of additional recruitment, improvements in pension terms, and of early retirement. In our view, this would enhance the overall management of pensions at a time of escalating costs. In addition, the employer contribution would bring home to employees in a transparent way the true cost and value of a public service pension.

[44] Financial Management Working Group, *Financial Management in a Reformed Public Service: Report of the SMI Working Group on Financial Management to the SMI Implementation Group* (1999).

APPENDIX 5.1

Current arrangements for meeting the cost of public service pensions

1. Civil service

The cost of expenditure on civil service pensions is met from a central Superannuation Vote administered by the Department of Finance. Employee contributions are recorded under the Vote's Appropriations-in-Aid heading.

2. Local authorities

Expenditure on pensions under the LGSS is financed by each local authority and is charged to its programme accounts. Expenditures are financed from a combination of the local authority's resources, which includes grants from the Department of the Environment and Local Government, community and service charges, and employee pension contributions.

3. Health service

Health Boards and certain health corporate bodies come under the aegis of the LGSS and, therefore, like the local authorities, meet the cost of their own pension expenditures on an ongoing basis. Costs are financed by employee contributions — which are retained by the Health Boards — and grants from the Department of Health and Children. The Voluntary Hospitals Superannuation Scheme and the Nominated Health Agencies Superannuation Scheme are financed in a similar way.

4. Teachers' pension schemes

Pension payments in respect of national school teachers are met from the First Level Education Vote of the Department of Education and Science. Employee contributions are recorded under the Vote's Appropriations-in-Aid heading. The Second Level and Further Education Vote of that Department provides for all payments made under the Secondary Teachers' Superannuation Schemes and recoups local authorities for the pension payments they make in respect of teachers and other staff of Vocational Education Committees and Institutes of Technology. Employee contributions are recorded as Appropriations-in-Aid.

5. Universities

A number of the universities operate funded pension schemes from which pensions are paid. The funds are financed from grants made by the Higher Education Authority (HEA). Pension increases are financed separately by the HEA.

6. Defence Forces

Pensions for Defence Forces personnel are met centrally from the Army Pensions Vote of the Department of Defence. Employee contributions are credited to Appropriations-in-Aid.

7. Garda Síochána

The payment of pension awards is met centrally by the Garda Síochána Vote of the Department of Justice, Equality and Law Reform. Employee contributions are recorded as Appropriations-in-Aid.

8. Non-commercial state-sponsored bodies

Most of the non-commercial state-sponsored bodies' pension schemes are unfunded. The cost of pensions is met from a combination of employee contributions and grants from the Exchequer. A small number of pension schemes are funded under arrangements broadly similar to those of the universities.

CHAPTER 6

Cost and Actuarial Review of Public Service Pensions

6.1 Introduction

6.1.1 The Commission considered that ascertaining the true cost of public service pension terms and carrying out a detailed projection of future pension costs were key requirements of our terms of reference. Until now, no full actuarial costing of public service pensions had ever been carried out.[45] While it had been generally acknowledged that pension costs would rise significantly over the long-term, there had been no accurate measure of the extent of the increase. The Commission decided that comprehensive actuarial costings were needed to enable the State to better manage its long-term pension commitments, to bring greater transparency into pension costs and to allow proper evaluation of possible changes to benefit terms.

6.1.2 In January 1997, the Commission contracted actuarial consultants, Irish Pensions Trust Actuarial Services Ltd., to undertake an actuarial review of public service pension schemes. The primary objective of the review was to prepare a projection of gross benefit expenditure and contribution income (cashflow projections) for each public service group and for the public service as a whole on the basis of existing pension terms, together with an actuarial valuation of the accrued pension liabilities of the State in respect of all public service pension schemes. A further objective was to estimate the contribution rates (new entrant rates) required to finance the benefits of typical new entrants to the various parts of the public service.

6.1.3 In this Chapter, the Commission presents the findings of the actuarial review.[46] We consider the factors behind the growth in public service pension costs. Finally, we discuss the scale of future pension costs and examine the implications for the State and for the taxpayer.

6.2 Methodology and assumptions used

6.2.1 There are a number of ways to measure the cost of a pension scheme. The easiest is to establish the current pay-as-you-go cost. This is the actual gross expenditure on pensions, death gratuities, and lump sums in any year. Contributions received from scheme members can be offset to give a net cost figure. The main drawback of this method is that it takes no account of future outgoings and contributions. There are other more comprehensive measures which capture the future cost profile:

- *cashflow projections*, which estimate the pensions expenditure and contribution income for future years on the basis of actuarial assumptions;

[45] The results of preliminary work on the costing of public service pension schemes was published in a paper, ''Public Sector Pension Provision'', presented to the Society of Actuaries in Ireland on 23 November 1995 by J. Joyce, J. Reilly and R. Smythe. It is to the credit of the authors of the paper that their projections are very much in line with the conclusions of the Commission's own actuarial review. An earlier partial review of public service pension costs (civil service, Garda Síochána, teachers and Defence Forces) was carried out by the Operations Research Section of the Department of the Public Service (October 1986).

[46] Commission on Public Service Pensions, ''Actuarial Review of Public Service Pensions'' (November 1997), Report prepared by IPT Actuarial Services Ltd.

- the *valuation of accrued liabilities*, which is a measure of the pension benefits accrued — for both pensioners and serving staff — over the period of service up to the date of valuation; and
- *new entrant contribution rates*, which represent the contribution, expressed as a percentage of pensionable remuneration, which would be required to finance the existing pension terms over the period of employment of typical new entrants to the different parts of the public service.

The various measures are reported in the actuarial review as outlined below.

6.2.2 The methodology and most important assumptions used in the actuarial review are detailed in this Section. In carrying out the review, the consultants commented that complete data were not always available across all public service sectors, particularly where information was not held centrally (see also Paragraph 4.3.12). As it was not feasible to collect complete and accurate information in all areas, the consultants formulated data models for the purposes of the report, based on population samples where reasonable levels of data existed. They also made appropriate assumptions in other cases where data items were lacking.

6.2.3 The Commission is satisfied that the projections provide a reasonable indication of the expected development of gross benefit expenditure and contribution income into the future. It should be noted that the projections are sensitive to the assumptions made, which may not be borne out in practice. The most important feature of the projections, therefore, is their overall trend rather than their absolute value in any given year. In summary, although approximations have been made in some areas, we believe the data models used are sufficiently reliable for the purposes of the projections contained in this Report.

6.2.4 In the review, the public service was divided into eight sectors: civil service, local authorities, education, Garda Síochána, prison service, Defence Forces, health, and non-commercial state-sponsored bodies. It was assumed that total numbers of active employees in the public service would remain constant.

Cashflow projections

6.2.5 In estimating gross benefit expenditure and contribution income of the various public service schemes into the future, a number of financial and demographic assumptions were made. Using these assumptions, the probabilities of the various events arising in the future leading to payment of benefits in accordance with the provisions of the particular pension scheme together with the amount of such benefits were calculated.

Accrued liabilities

6.2.6 In establishing the present value of the accrued liability in respect of public service pension schemes, the generally accepted principle that pension benefits should accrue over the period of employment giving rise to these benefits was used. So, for example, the liability in respect of pensions currently in payment (i.e. the present value of all such future pension payments and contingent spouses' and children's benefits) is a fully accrued liability. This is consistent with the funding principle operating in pre-funded schemes that a member's retirement benefits should be fully secured by the time he or she retires. For members currently in employment, the accrued liability was calculated by reference to the service that they had completed to the date at which the valuation took place, in this case January 1997.

6.2.7 The accrued liability value calculated included, amongst other things, an allowance for projected future salary increases over the period to commencement of the benefits.

New entrant contribution rates

6.2.8 Contribution rates were calculated, expressed as the percentage of annual pensionable remuneration (i.e. annual basic salaries plus pensionable allowances, where applicable), that would be required to finance the existing pension terms over the period of employment of typical new entrants to the various public service groups.

6.2.9 These rates could be considered as the typical cost to the State of the various existing pension terms based on the financial and demographic assumptions outlined below. The rates do not necessarily represent the value to specific individuals of the relevant scheme, which depends amongst other things on when they join, what their salary progression is throughout their career, and when they draw benefit.

6.2.10 For the sake of simplicity and comparability, these costs have been expressed in terms of a percentage of annual basic salary plus pensionable allowances, where applicable. The fact that certain benefits are based on total salary and other benefits are based on salary less various offsets in respect of State Social Insurance benefits means that the cost in respect of future new entrants will vary as the relationship between Social Insurance benefits and salaries varies.

Financial assumptions

Price inflation

6.2.11 To avoid having to make an explicit assumption regarding future price inflation, the gross benefit expenditure and contribution projections were prepared in constant (1997) price terms. This meant that any trends emerging in the projections excluded the impact of future price inflation. Thus, if gross benefit expenditure were projected to increase from £10 million currently to £15 million in five years' time, this would not mean that actual expenditure would be £15 million in five years' time — to arrive at the actual figure, an estimate of price inflation for the next five years would have to be added.

Growth in GNP

6.2.12 To be consistent with the 1997 *Actuarial Review of Social Welfare Pensions* undertaken on behalf of the Department of Social, Community and Family Affairs, the following assumptions were used regarding future real growth in GNP:

Table 6.1 Assumptions regarding future real growth in GNP

Period	Excess of growth in GNP over rate of price inflation
1997—2006 inclusive	5% per annum
2007—2016 inclusive	3% per annum
2017—2047 inclusive	2% per annum

The GNP for 1996 was taken as £37 billion (€47 billion).[47]

[47] The most recent estimate for GNP in 1996 is £40.5 billion (€51.4 billion) .It might be noted that real GNP growth in the three-year period 1997—99 was higher than the rate assumed, averaging 8.3% per annum, and that recent estimates project real GNP growth in 2000 of 8.25% (Department of Finance, *Economic Review and Outlook*, 2000). In addition, the longer term assumptions for real GNP growth made by the Department of Finance in the ''Report of the Long-Term Issues Group'' (forthcoming) are slightly higher than those given in Table 6.1: 2001-2011, 4.3% p.a.; 2011-2021, 3% p.a.; 2021-2036, 2.3% p.a.; 2036-2056, 1.2% p.a. In the medium- to long-term, the effect on the pension cost projections of the differences in initial GNP figure, and in the assumed real rates of growth in GNP, would not be significant.

General salary increases

6.2.13 Based on experience of pay increases in a number of public service grades over the last 15 year and 30 year periods, and views on an appropriate assumption for the future, a future rate of general salary growth of 1.5% per annum in excess of price inflation was assumed. Separate allowance was made for the impact of salary scales and promotional increases.

Salary/promotional scales

6.2.14 The impact of progression along existing salary scales and promotion from one grade to another was estimated by analysing average salaries at each age in the various public service groups and drawing up smoothed salary scales.

Pension increases

6.2.15 Future pension increases were assumed to be at the same rate as general salary increases.

Increases in Social Welfare pensions

6.2.16 Having regard to recent trends, it was assumed that State Social Insurance pensions would grow in the long-term at a rate of 1.0% per annum in excess of price inflation.[48]

Discount rate

6.2.17 This is necessary for the calculation of new entrant rates and to quantify the accrued pension liabilities of the State. For funded pension schemes, the discount rate is the expected future rate of investment return that will be achieved on the pension schemes' assets. For the purposes of providing estimates that would be reasonably consistent with the costings of pension fund liabilities in the private sector, it was assumed that the discount rate would be 4% in excess of price inflation. The effect of a more conservative discount rate of 3.5% in excess of price inflation is shown in the sensitivity analysis below.

Demographic assumptions

Mortality

6.2.18 Standard tables of mortality published by the Institute of Actuaries and the Faculty of Actuaries were used; these tables are used in the valuation of private sector pension schemes.[49] By way of illustration, the life expectancies at age 65 using these tables are 16.5 years for a male, and 20.3 years for a female.

Wthdrawals, ill health retirements

6.2.19 Appropriate tables of withdrawals and ill health retirements were drawn up based on details of employee turnover and ill health retirements in various sectors of the public service.

Age retirements

6.2.20 Assumptions on age retirement patterns were based on the range of ages at which members can retire, information on age retirement patterns in the recent past, where available, and discussions with administrators of the various public service schemes.

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[48] In the four-year period 1997-2000, increases in State Social Insurance pensions were higher than the rate assumed, averaging 3.7% per annum in excess of price inflation. The recommendations of the National Pensions Policy Initiative regarding future rates of increase in Social Welfare pensions, and Government commitments regarding future increases in the period to 2002, are outlined in Paragraphs 16.3.24-16.3.26.

[49] There are no public service mortality tables available.

Other demographic assumptions

6.2.21 Appropriate assumptions were also made in relation to proportions married, the age difference between males and females, childrens' pensions, and numbers of new entrants to each public service group.

6.3 Current (pay-as-you-go) cost of public service pensions

6.3.1 In 1997, the total cost of pensions in the public service was estimated at £636 million (€807 million) made up of pensions, £509 million (€646 million), and gratuities, lump sums, etc., £127 million (€161 million). Total membership of public service pension schemes was estimated at around 203,000 public servants, with an annual payroll of just over £4 billion (€5 billion). There were around 77,200 pensioners in receipt of pension. A detailed breakdown of the 1997 estimate is given in Table 6.2.

Table 6.2 Summary of public service pension scheme numbers, salary costs, pensioner numbers, and annual pension costs (1997)

Sector	Estimated total no. of members	Estimated total annual salary Ir£ (m)	Estimated total no. of pensioners	Estimated total annual pension cost*	
				Ir£ (m)	*Euro (m)*
Civil Service	29,058	513	13,903	87	*110*
Local Authorities	23,993	373	16,017	59	*75*
Education	56,149	1,376	15,022	147	*186*
Garda Síochána	10,746	264	5,492	58	*74*
Prison Officers	2,476	56	252	2	*3*
Defence Forces	13,098	203	11,129	57	*72*
Health Service	59,779	1,141	13,367	85	*108*
NCSS Bodies	7,920	161	2,000	14	*18*
Total	**203,219**	**4,087**	**77,182**	**509**	***646***

* Excluding the cost of gratuities and lump sums.

6.3.2 It should be noted that the total number of active members shown is less than the total number of employees in the public service since not all employees are eligible for pension benefits.[50] Also, the figure for pensionable pay is less than the gross public service pay bill because the latter includes elements of remuneration which are not pensionable.

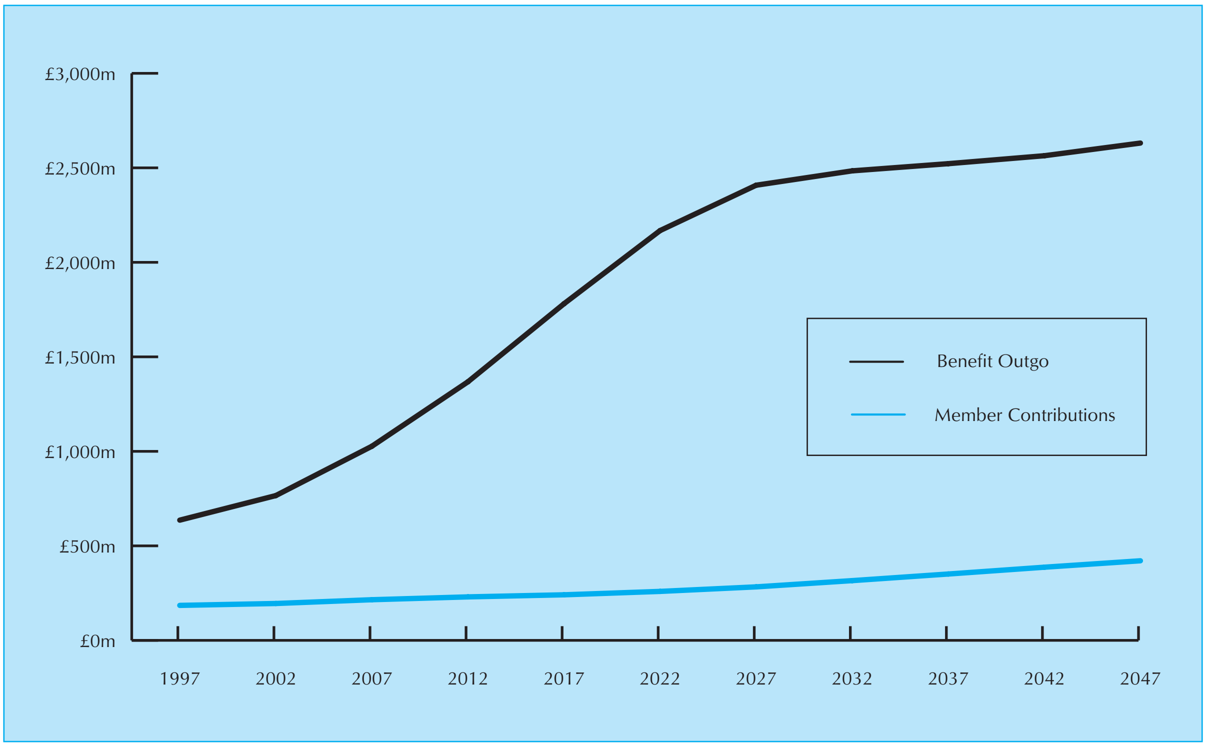
6.4 Development of future cashflows

6.4.1 The methodologies and actuarial assumptions outlined above were adopted for the purposes of estimating the gross benefit expenditure and contribution income of the various public service schemes into the future. The cash flow projections made on this basis are expressed in constant (1997) price terms.

6.4.2 The graph in Table 6.3 sets out the projected development of cashflows for the public service as a whole.

[50] The Department of Finance estimate of public service numbers as at 1 January 1997 was 219,000 ("Analysis of Exchequer Pay and Pensions Bill, 1995-2000", p. 11). This figure includes part-time employees who have been aggregated as wholetime equivalents (for example two part-time employees working half time are deemed to be equivalent to one full-time employee).

Table 6.3 Projected development of cashflows for public service pensions — 1997 to 2047



6.4.3 A more detailed summary of the expenditure projections is contained in the following tables. These are presented in 15 year intervals; projections in five year intervals are contained at Appendix 6.1. Table 6.4 gives gross benefit expenditure projections for the period under review.

Table 6.4 Gross benefit expenditure*

Sector	1997		2012		2027		2042	
	£Ir (m)	*Euro (m)*	£Ir (m)	*Euro (m)*	£Ir (m)	*Euro (m)*	£Ir (m)	*Euro (m)*
Civil Service	96	*122*	164	*209*	378	*480*	369	*469*
Local Authorities	80	*102*	112	*142*	170	*216*	186	*236*
Education	198	*251*	509	*646*	811	*1,030*	820	*1,041*
Garda Síochána	71	*90*	159	*202*	238	*302*	269	*342*
Prison Officers	3	*4*	19	*24*	44	*56*	48	*61*
Defence Forces	65	*82*	119	*151*	165	*210*	193	*245*
Health Service	103	*131*	227	*288*	518	*658*	589	*748*
NCSS Bodies	20	*25*	59	*75*	84	*106*	90	*114*
Total	**636**	***807***	**1,368**	***1,737***	**2,408**	***3,058***	**2,564**	***3,256***

* Including the cost of gratuities and lump sums.

Table 6.5 presents projections of contribution income for the period under review.

Table 6.5 Contribution income

Sector	1997		2012		2027		2042	
	£Ir (m)	*Euro (m)*	£Ir (m)	*Euro (m)*	£Ir (m)	*Euro (m)*	£Ir (m)	*Euro (m)*
Civil Service	7	*9*	14	*18*	29	*37*	52	*66*
Local Authorities	18	*23*	22	*28*	25	*32*	32	*40*
Education	73	*93*	90	*114*	106	*134*	144	*183*
Garda Síochána	9	*11*	13	*16*	21	*27*	28	*36*
Prison Officers	1	*1*	2	*3*	5	*6*	6	*8*
Defence Forces	3	*4*	5	*6*	7	*9*	9	*11*
Health Service	64	*81*	75	*95*	79	*100*	98	*124*
NCSS Bodies	10	*13*	10	*13*	12	*15*	17	*22*
Total	**185**	***235***	**231**	***293***	**284**	***360***	**386**	***490***

6.4.4 Based on the methodology and assumptions set out above, the existing level of gross benefit expenditure for the overall public service is projected, in constant (1997) price terms, to more than double over the next 15 years (i.e. by 2012) and to almost quadruple over the next 30 years (i.e. by 2027).

6.4.5 Thereafter, for the following 20 years, gross benefit expenditure is projected to display limited growth in constant (1997) price terms. This reduction in the rate of growth can be partially attributed to the effects of integration with the State Social Insurance pension for new entrants after 5 April 1995.

6.4.6 The pattern of growth in gross benefit expenditure differs from sector to sector within the overall public service, as shown in Appendix 6.2. In particular, the greater the ratio of active members to existing pensioners, the greater will be the rate of growth for that sector. For example, gross benefit expenditure in the *health service* is set to rise significantly for this reason. In constant (1997) price terms, pension costs are expected to more than double in 15 years' time and to be a multiple of 5 times current levels in 30 years' time. Likewise, in the *education* area, gross benefit expenditure, in constant (1997) price terms, is expected to increase to approximately 2.6 times current levels over the next 15 years, and to more than 4 times current levels in 30 years' time. In the case of the *civil service,* the benefit costs are set to increase, in constant (1997) price terms, to approximately 1.7 times current levels over the next 15 years, and to reach a level of approximately 3.9 times current levels in 30 years' time.

6.4.7 Contributions overall are expected to increase steadily over the next 50 years. In sectors which are already contributory for all benefits (not just spouses' and children's benefits), the growth in member contributions in the early years is diluted by the fact that members who contribute on full salaries will be replaced by new entrants who contribute on integrated salaries for some of their benefits. In sectors which have changed from non-contributory to contributory for post April 1995 new entrants, the total amount of member contributions will increase sharply in the early years. However, salaries for these new entrants have been adjusted to reflect the fact that they will have to pay higher contributions for pension benefits and these salary adjustments will themselves be pensionable (see Paragraph 3.3.57). Hence, the change from non-contributory to contributory status has resulted in some additional cost to the State (in Section 6.8 we discuss the impact upon the State finances as a whole of the change in PRSI status for public servants).

6.4.8 As member contributions will increase at a slower rate than gross benefit expenditure, net benefit expenditure (i.e. the difference between benefit payments and contribution income) is projected to increase at a higher rate than the rate of increase in gross benefit expenditure.

6.5 Present value of accrued liabilities

6.5.1 Based on the methodology and assumptions outlined above, the value in 1997 of the State's accrued liabilities in respect of public service pension schemes was approximately £20 billion (€25.4 billion).[51] The assets of the small number of public service pension funds (held by some universities and non-commercial state-sponsored bodies) amounting to approximately £1 billion (€1.3 billion) should be deducted to arrive at an estimate of the unfunded accrued liabilities of the State.

6.5.2 In Table 6.6, the present value of the accrued liabilities has been broken down between active members and current and preserved pensioners, by sector.

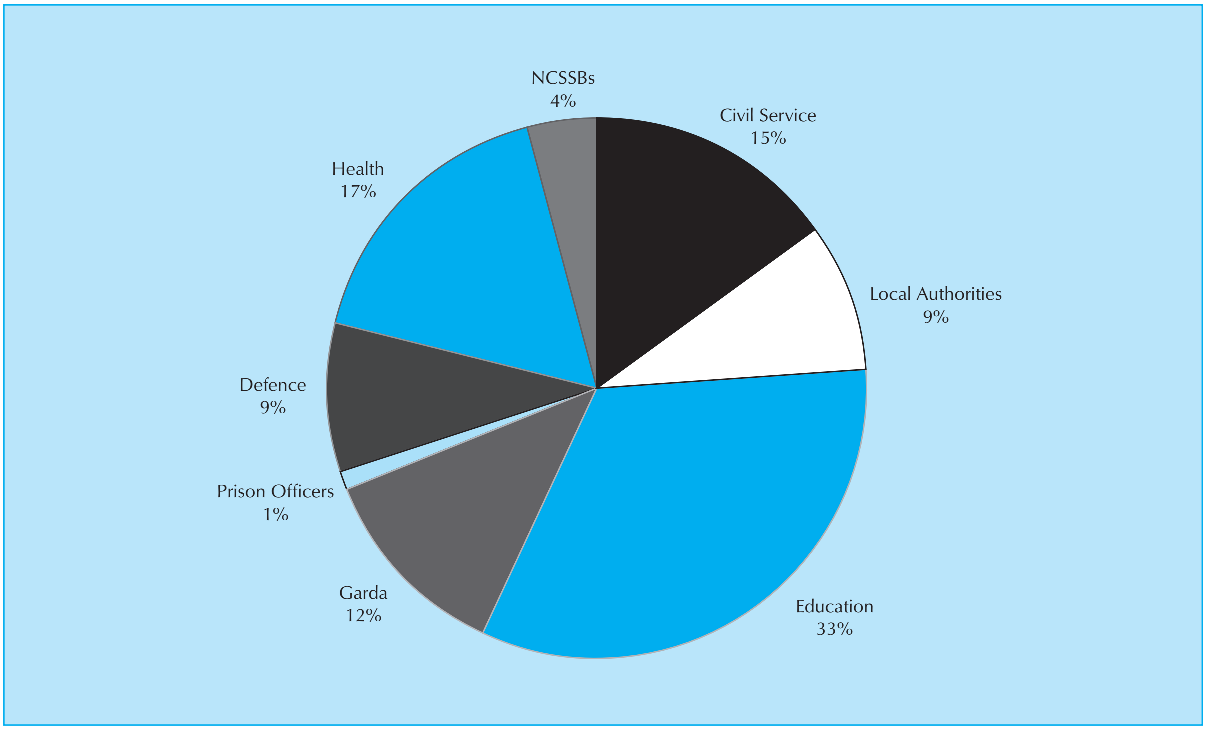
Table 6.6: Present value of accrued liabilities (1997)

Sector	Value of accrued liabilities for active members	Value of accrued liabilities for pensioners and preserved pensioners	Total accrued liability values	
	Ir£ (m)	Ir£ (m)	Ir£ (m)	*Euro (m)*
Civil Service	1,747	1,205	2,952	*3,748*
Local Authorities	1,029	738	1,767	*2,244*
Education	4,696	2,118	6,814	*8,652*
Garda Síochána	1,427	894	2,321	*2,947*
Prison Officers	210	34	244	*310*
Defence Forces	966	848	1,814	*2,303*
Health Service	2,314	1,043	3,357	*4,262*
NCSS Bodies	586	176	762	*968*
Total	**12,975**	**7,056**	**20,031**	***25,434***

The distribution of the value of the accrued liabilities within the public service is illustrated in Table 6.7.

[51] If assets were set aside in a pension fund to meet this liability, a market value adjustment would be made in order to ensure consistency in the way assets and liabilities were valued. Depending on the state of the markets at the time of the fund's establishment, this could mean that the fund assets would have to be somewhat higher than the value of the accrued liabilities.

Table 6.7 Distribution of the value of accrued liabilities within the public service



6.5.3 In addition to the above, the State also has a liability in respect of certain pension costs of Eircom[52] (formerly Telecom Éireann) and a number of commercial state companies, including Coillte Teoranta and the Irish Aviation Authority. The liability relates to pension payments to pensioners and former civil servants arising from service given prior to the establishment of these companies.

6.6 New entrant rates

6.6.1 New entrant rates were calculated for various categories of employment within the eight sectors, based on the methodology outlined at Section 6.2. The rates include the cost of all benefits, i.e. pensions, gratuities, and spouses' and children's benefits, and are inclusive of member contributions. They allow for the fact that new entrants' benefits are integrated with the State Social Insurance pension. For consistency across all sectors, the rates have been expressed as a percentage of the employee's gross salary plus pensionable allowances, ignoring any deduction in respect of the State Social Insurance pension that applies in determining amounts of member contributions.

6.6.2 The new entrant rates for a range of public service grades are given in Table 6.8. As the table shows, new entrant rates vary considerably between sectors, ranging as a percentage of salary plus pensionable allowances from 8% (in the case of male non-established employees in the civil service and local authorities) to 30% (in the case of commissioned officers in the Defence Forces). The new entrant rate applicable to a male or female established civil servant commencing at age 22 at a starting salary of £10,000 per annum would, based on the financial and demographic assumptions made, amount to approximately 16% of salary plus pensionable allowances.

[52] In July 1999, the Minister for Finance announced that part of the proceeds of the privatisation of Telecom Éireann would be used to buy-out the liability in respect of pre-1984 service of Telecom and An Post pensioners and serving staff. An amount of £450 million (€570 million) was subsequently paid to An Post. A final settlement was not agreed with Eircom. It was decided instead to establish a trust into which the Exchequer would pay £800 million (€1,020 million), and that in the event of the trust having insufficient funds to meet the liability in respect of pre-1984 service, the State would meet any residual liability.

Table 6.8 New entrant rates for a range of public service grades (full PRSI class)*

	Category of employment	Assumed starting salary (1997)	Starting age	Male new entrant rate (%)	Female new entrant rate (%)
1	**Civil service**				
	Established	£10,000	22	16	16
	Non-Established	£10,000	25	8	9
	Industrial	£11,000	32	8	9
2	**Local authorities**				
	Officers (without professional added years)	£10,000	22	14	14
	Officers (with professional added years)	£20,000	30	18	18
	Non-established employees	£10,000	25	8	9
	Employees in fire service	£18,000	25	24	23
3	**Education**				
	Primary teachers	£16,500	22	17	16
	Secondary teachers	£17,000	24	16	15
	VECs/RTCs/DIT	£17,000	24	16	15
	Universities	£20,000	30	22	22
4	**Garda Síochána**				
	Garda Síochána	£12,500	22	25	24
5	**Prison Officers**				
	Prison Officer	£16,000	25	21	21
6	**Defence Forces**				
	Commissioned officers	£14,000	20	30	30
	Enlisted personnel	£9,000	18	20	20
7	**Health**				
	Mangement/administration	£10,000	22	14	14
	Consultants	£35,000	35	21	20
	Nurses (general)	£15,000	25	12	11
	Nurses (psychiatric)	£15,000	28	17	16
	Paramedics	£18,000	25	14	13
	Non-officers	£12,000	25	10	10
8	**Non-commercial state-sponsored bodies**				
	Established officer	£10,000	22	16	16

* The new entrant rates include the cost of all benefits, i.e. pensions, gratuities and spouses' and children's benefits, and are inclusive of member contributions.

6.6.3 The rates quoted are for new entrants paying full PRSI to whom integration applies. By way of illustration, the new entrant rate applicable to a male or female new entrant to the civil service (using the same age and salary assumption as above) would amount to approximately 20% of salary plus pensionable allowances if the member's benefits were not integrated with the Social Insurance system.

6.6.4 The degree of variation in the new entrant rates between groups reflects a number of factors:

- the benefit terms and conditions applying to each group. For example, those with earlier retirement ages such as members of the Defence Forces or Prison Officers will have higher relative contribution rates than those on standard terms;

- the promotional salary scale assumed for each group. For example, groups that can expect significant promotional or grade increases during their career will have higher new entrant rates than those for whom more modest increments can be expected;
- the assumed salary level at entry. As benefits are integrated with the State Social Insurance pension, but the new entrant rates are based on un-integrated salaries, the effect is that those on lower salaries at entry have relatively lower new entrant rates;
- the assumed average age at entry. The earlier the age at entry, the longer the period over which costs can be spread, resulting in a lower average contribution rate;
- differences in other actuarial assumptions applying to the various groups, e.g. different rates of withdrawal among different groups (higher among nurses than among civil servants) and different life expectancies (women higher than men).

6.6.5 A further calculation of new entrant rates was carried out to establish the additional cost of benefit scales which offer more favourable pension terms compared with the civil service, i.e. Firefighters/Psychiatric Nurses, primary/secondary teachers, Garda Síochána, Prison Officers.[53] To do this, it was necessary to take the case of an established civil servant, entering at age 22 on a salary of £10,000 per annum, and to apply the same financial and demographic assumptions for a civil servant as in the previous calculations above, except that retirement is assumed to take place at the earliest permitted age under each benefit scale.

6.6.6 On the basis of this methodology, the *additional* cost of each benefit scale compared with the civil service benefit scale was as follows:

• Firefighters/Psychiatric Nurses	48%
• primary/secondary teachers	15%
• Garda Síochána	92%
• Prison Officers	82%

6.6.7 The additional cost of the pension terms of each group may be exaggerated because of the assumption that all civil servants would retire at the earliest available opportunity given more favourable pension and retirement terms. However, the figures do provide some indication of the relative cost of the different benefit scales that currently exist in the public service.

6.7 Sensitivity to variations in financial assumptions

6.7.1 Because of the importance of the financial assumptions in the actuarial review, it was necessary to consider the impact on the results of changes to some of the key assumptions. Accordingly, sensitivity analysis was carried out in relation to variations in general salary increases (and hence pension increases), Social Insurance pension increases and the discount rate used.

Change in general salary increase and Social Insurance pension increases

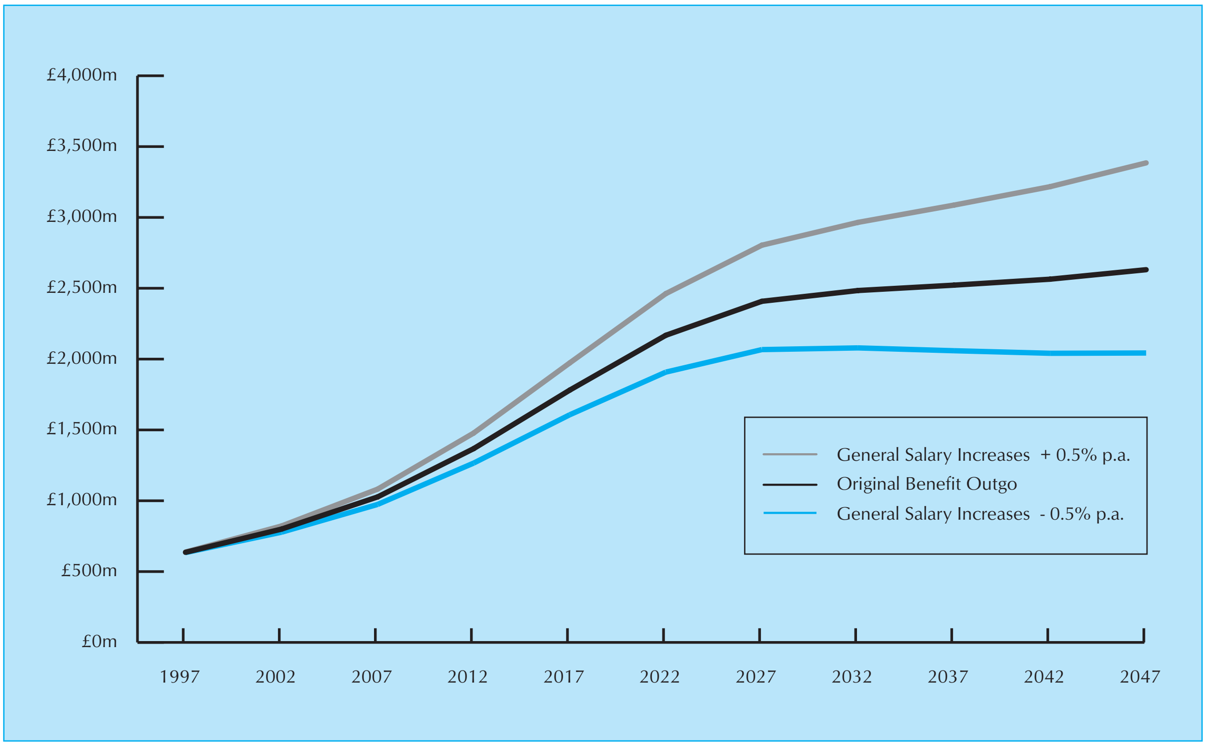
6.7.2 It was decided to examine the impact on projected benefit payments if $\frac{1}{2}$% per annum were added to, or subtracted from, the assumptions regarding the rates of future general salary increase and State Social Insurance pension increases.

[53] The Defence Forces were excluded from this exercise on the grounds that their pension terms and conditions are significantly different from those of other groups.

6.7.3 Adding ½% per annum would lead to revised assumptions that general salary increases would be 2% per annum in excess of price inflation and State Social Insurance pension increases would be 1.5% per annum in excess of price inflation. Subtracting ½% per annum would lead to revised assumptions that general salary increases would be 1% per annum in excess of price inflation and Social Insurance pension increases would be 0.5% per annum in excess of price inflation.

6.7.4 The graph at Table 6.9 outlines the revised benefit payments both before and after these changes.

Table 6.9 Impact of change in assumptions



6.7.5 The total gross benefit expenditure in constant (1997) price terms in 15 years' time would amount to £1.48 billion (€1.88 billion) using the higher rates or £1.27 billion (€1.61 billion) using the lower rates. These figures compare to £1.37 billion (€1.74 billion) on the original basis, representing an increase of 8% or a decrease of 7%, respectively.

6.7.6 The corresponding figures in 30 years' time are £2.8 billion (€3.56 billion) or £2.07 billion (€2.63 billion) versus £2.41 billion (€3.06 billion) on the original basis, representing an increase of 16% or a decrease of 14%, respectively.

Change in discount rate

6.7.7 A change in discount rates would affect the value placed on the accrued liabilities. If the discount rate were changed from 4% per annum to 3½% per annum in excess of price inflation, the revised value of the accrued liabilities would be approximately £21.9 billion (€27.8 billion), which is 9.5% greater than the value determined using a real discount rate of 4% (£20 billion, or €25.4 billion).

6.7.8 The new entrant rates would also be affected by a change in the discount rate. As an example of orders of magnitude, the rate for a male or female established civil servant would increase from 16% to 18.5% of salary plus pensionable allowances if the discount rate were reduced by ½% per annum to 3½% per annum.

6.8 Impact on costs of extension of full PRSI to all public servants

6.8.1 In time, there will be a reduction in the cost of public service occupational pension schemes arising from the implementation of integration on foot of the Government's decision to extend full insurability to all public servants recruited on or after 6 April 1995. As explained in Paragraph 3.3.58, the occupational pension payable under an integrated scheme is lower because it is based on *net* pensionable remuneration (i.e. gross remuneration less the Social Welfare offset). The full impact of this will occur in around 40 years' time, i.e. from around 2035 on, as the majority of post-1995 new entrants reach retirement age.

6.8.2 Public servants paying full PRSI will be entitled to receive Social Insurance pensions in addition to the occupational pension. As the cost of Social Insurance pensions will fall primarily upon the State, the Commission decided to examine whether the long run effect of the change in PRSI status would be to increase or reduce overall pension costs (i.e. combining occupational and Social Insurance pension benefits). This involved consideration of how the combination of changes on introduction of full PRSI status affected the actuarial cost of overall pension benefits to new entrants to the public service.

6.8.3 We summarise the results of our examination in Appendix 6.3. We show that the effect of the change varies by public service group. For a civil servant, the effect of extending full PRSI to new entrants is neutral: the total value of the benefits before the change (i.e. the new entrant rate) is equal to the total value of the benefits after the change.

6.8.4 There is some variation in the results for other sectors of the public service, ranging from a net benefit of 0.2% of career salary in the case of a nurse, to a net loss of 0.7% for a primary teacher, and 1.7% for a Garda.

6.8.5 There are a number of qualifications to these findings as set out in the Appendix.

6.9 Reasons for the increase in public service pension costs

6.9.1 In this Section, we analyse the factors behind the increase in pension costs in the period covered by the actuarial review. Our focus here is upon the cashflow projections reported at Section 6.4.

6.9.2 The first and most important contributing factor is the increase in **public service numbers** which occurred during the 1970s and into the early 1980s. Public service employment levels increased by approximately 35% over the period 1970 to 1983.[54] Recruitment was particularly strong in the period 1977 to 1981. Most public servants who commenced employment in that period will be due to retire from around 2017 onwards, which is when annual pension costs will begin to reach their highest levels. Variation in numbers of public servants recruited has the single greatest impact upon future pension costs.

6.9.3 The impact of the higher recruitment varies from sector to sector, and can be seen in the age profiles of serving employees (see tables in Appendix 6.4). In the public service as a whole, there are large numbers in the younger age cohorts (Table 1). The increased numbers in those age bands is most clear for the civil service (Table 2), and to a lesser degree in the health service (Table 8) and in the education sector (Table 4).

[54] Humphreys, P.C., *Public Service Employment: An Examination of Strategies in Ireland and Other European Countries*, IPA (1983), p. 90.

6.9.4 It should be noted that public service numbers have once again been increasing, although not as rapidly as in the period 1977 to 1981. Over the period 1995 to 2000, there has been an increase of 20,000 in total public service employment.[55] As the actuarial review assumed no change in public service numbers, new recruitment will cause an increase in pension costs in excess of current projections close to the time horizon of the period examined by the Commission.[56]

6.9.5 **Improvements in benefit terms and in pension scheme coverage** is a second factor in the growth in pension costs. The historical development of public service pension terms is outlined in Chapter 3. Changes in terms over the past 30 years which will have most impact on cost include the phased introduction of pension increases in line with pay (from 1969 onwards), the introduction and extension of spouses' and children's pension schemes (from 1968 onwards), and preservation of pension benefits (with effect from 1973). The additional costs arising from the voluntary early retirement schemes of 1987/88 — in the form of added years for pension benefits — are also relevant.

6.9.6 More recent sectoral improvements in benefit terms, e.g. reckoning of past service by secondary teachers at beneficial contribution rates, pensionability of unsocial hours payments in the Gardá Síochána Pension Scheme, will have an impact on costs over the longer run. Apart from improvements in benefit terms, extensions in pension scheme coverage, for example, in relation to temporary and part-time employees, will also add to future costs.

6.9.7 A third factor is the **increase in public service pay** levels relative to price inflation. This impacts on the pension calculation of those retiring in the future as well as the rate of increase of pensions in payment. The actuarial review assumes a future rate of annual general salary growth of 1.5% in excess of price inflation (separate allowances are made for the impact of salary scales and promotional increases). The actual annual rate of increase could in fact be higher: for example, over the period March 1988 to September 1998, public sector earnings increased by an average of 5% per annum,[57] compared with average annual price inflation of 2.6%, giving a differential of 2.4% per annum.

6.9.8 A fourth factor in the growth in pension costs is the **impact of increased life expectancy**. As outlined in Paragraph 7.4.4, it is projected that there will be major improvements in life expectancy in the decades ahead. Projections by the Central Statistics Office indicate an increase of 2.1 years and 2.9 years in the life expectancy of men and women, respectively, at age 65 over the period 1996 to 2026, and these projections may prove conservative. Improved life expectancy will result in an increase in the period over which pensions are paid and so will contribute to increased pension costs.

6.9.9 A number of other factors are also relevant:

- with the ending of the *marriage bar*, there will be a much **greater number of female employees** remaining in service until retirement age than heretofore. As indicated in the actuarial assumptions, females have longer life expectancy than males. While fewer spouses will qualify for spouses' pensions in respect of female public servants compared

[55] Department of Finance, "Analysis of Exchequer Pay and Pensions Bill, 1995—2000" (June 2000), Table XI.
[56] In the short-term, recruitment will reduce costs because additional employee contributions will be paid into pension schemes; however, the long-term position will be an increase in the net cost of public service pensions.
[57] Based on CSO Public Sector Average Earnings Index — see Paragraph 16.5.3.

with male public servants, the overall effect of the increase in the number of females on pension will be an increase in costs;

- the **structure of the public service** has been changing so that there are fewer employees in non-established positions and greater numbers of established public servants. As pension benefits are generally more costly for the latter compared with the former (see new entrant rates in Table 6.8), this change will in time result in increased pension costs;
- as indicated in Section 7.4, there has been a reduction in the **actual age at retirement** in the public service and, it would appear, an increase in numbers retiring early on grounds of ill health; lower retirement ages will mean that pensions have to be paid over a longer period.

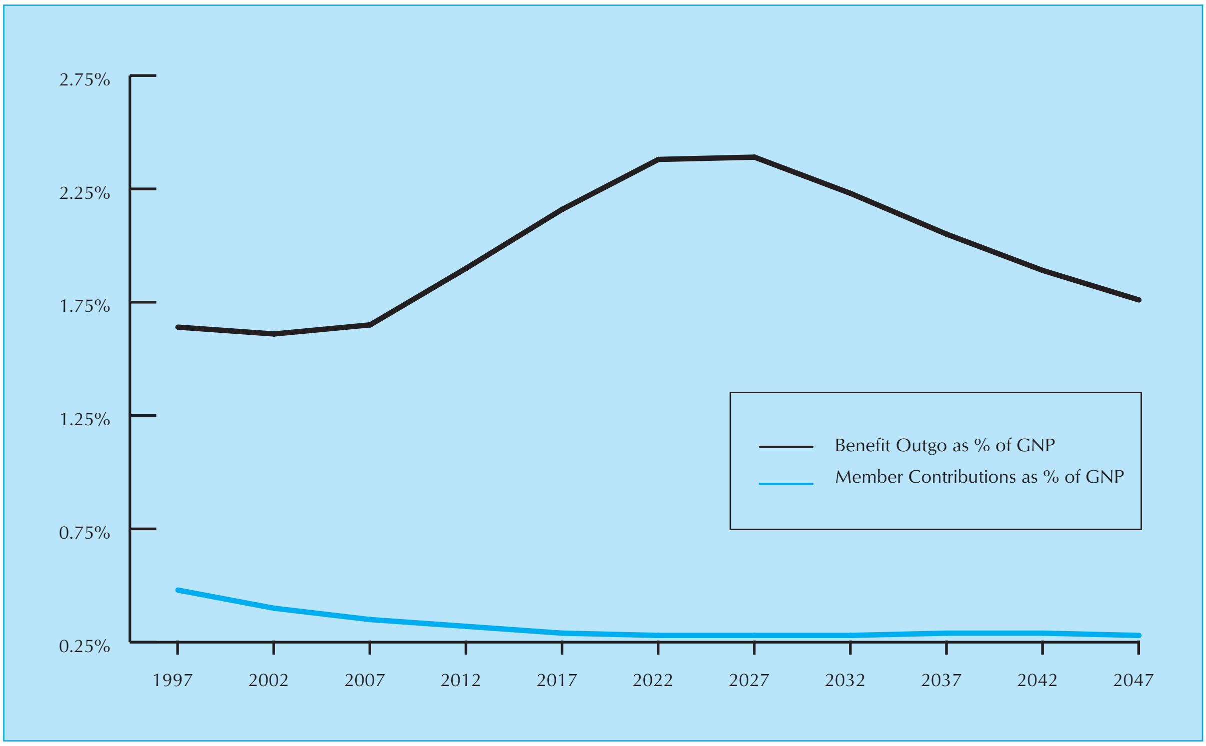
6.10 Affording public service pensions

Estimate of pension costs relative to other measures

6.10.1 Projections of future pension costs relative to other key economic and budgetary variables — such as GNP, public service pay, and tax rates — might not be particularly meaningful since such aggregates would, in any event, be expected to vary in real terms over time in line with the evolution of the economy. Nevertheless, such an approach makes some attempt to place the rise in pension costs into context and to convey a better understanding of the impact which it will have upon the Exchequer.

6.10.2 Table 6.10 takes the projected contribution income and gross benefit expenditure from the actuarial review and expresses them as a percentage of future GNP.

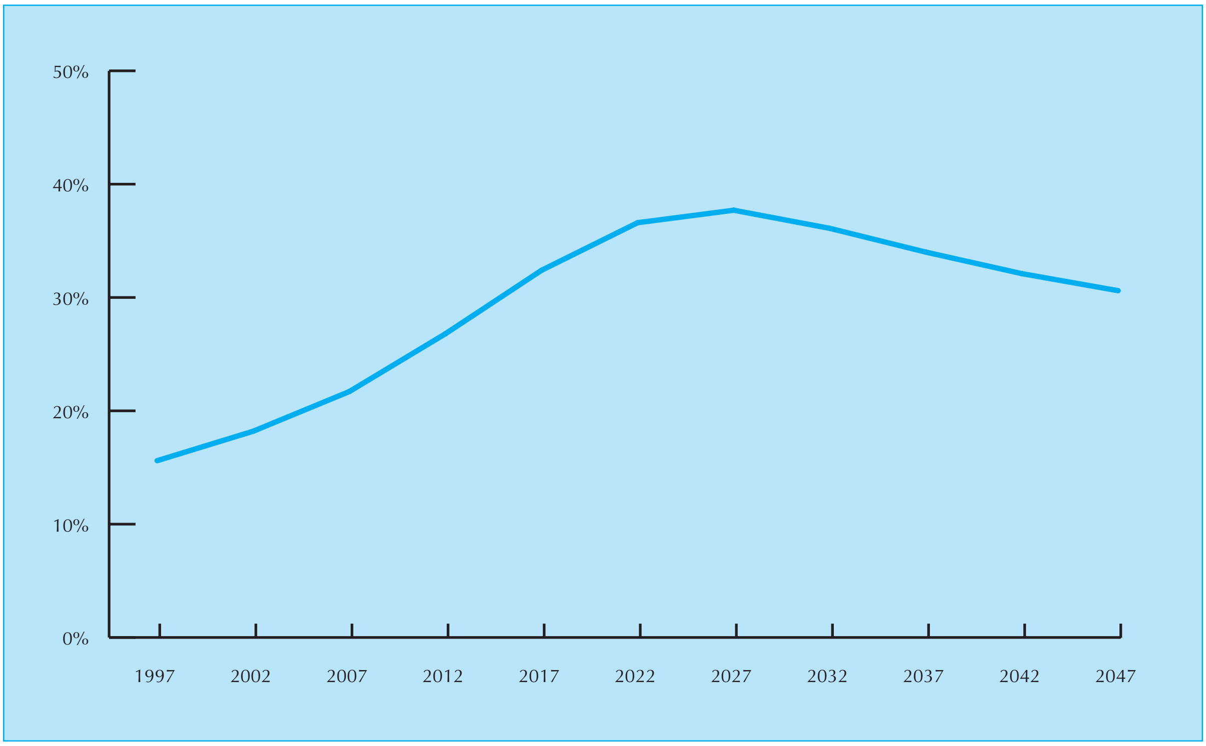
Table 6.10 Future projected benefit expenditure and member contributions as a percentage of GNP



Based on the growth in GNP assumptions used for the purpose of the 1997 *Actuarial Review of Social Welfare Pensions* (see Paragraph 6.2.12), gross benefit expenditure can be expected to remain relatively static as a proportion of GNP for the 10 years to 2007 and then to increase steadily from 1.6% to 2.4% of GNP in approximately 30 years' time. Thereafter, it is projected to return gradually to a level of approximately 1.8% of GNP by the end of the period under review. Member contributions are projected to decrease from approximately 0.5% of GNP to 0.3% of GNP over the period under review.

6.10.3 A second means of assessing the scale of the increase in pension costs is to consider them as a percentage of public service pay over time. This approach makes particularly clear the impact which rising pensioner numbers will have upon the growth in future pension costs. In 1997, gross benefit expenditure represented about 16% of total pensionable pay (which was estimated at £4 billion, i.e. €5 billion). As Table 6.11 illustrates, the expenditure graph rises steadily until gross benefit expenditure reaches a figure of about 38% of pensionable pay in 2027, before falling somewhat to around 30% of pensionable pay in 2047. It is important to note that the projections assume constant public service numbers. Pension costs will represent a smaller percentage of the pay bill over time compared with the projections if public service employment is growing.

Table 6.11 Pension costs as a percentage of pensionable pay



6.10.4 A further means of assessing the scale of future pension costs in current terms is to examine the cost to the Exchequer of a 0.8 per cent of GNP increase in the public service pensions bill from 1.6% of GNP to 2.4% of GNP. According to the Department of Finance, if this increase were to be incurred now, there would be a significant additional charge on the Exchequer which would, if financed through taxation, require an increase of 2p on the standard rate of tax *and* 3p on the top rate of tax.[58]

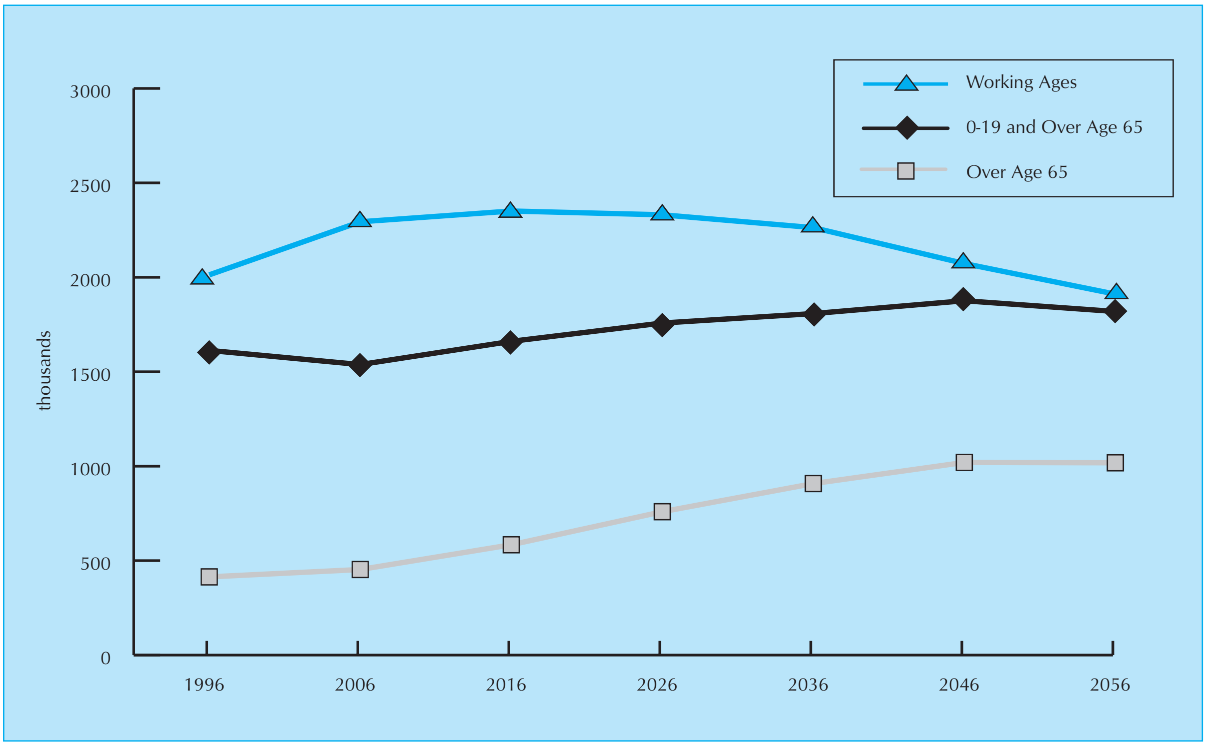
Coping with long-term pension costs

6.10.5 The Commission believes that the growth in public service pension costs should not be considered in isolation. The ability of the State to cope with other long-term demographic trends, including higher Social Welfare and health service costs, must also be considered.

[58] Department of Finance letter of 22 April 1998 responding to the Commission's request for its analysis of the economic implications of the future development of expenditure on public service pensions.

6.10.6 According to demographic projections made in 1997, the number of people in Ireland aged over 65 is expected to increase significantly over the coming decades. Table 6.12 shows in graph form that numbers in that age bracket will rise from 414,000 in 1996 to over 750,000 by the year 2026 and to 1 million by 2046.[59] At the same time, the number of people of working age will rise from 2 million in 1996 to 2.3 million in 2016 and, thereafter, will reduce slowly to 1.9 million in 2056. The table also indicates, however, that the overall dependency level (i.e. the combination of those aged 0-19 and those over 65) will rise more slowly than the old age dependency level, from 1.6 million in 1996 to just over 1.8 million in 2056.

Table 6.12 Projection of future population



Source: Actuarial Review of Social Welfare Pensions, 1997

6.10.7 The increase in the old age dependency level is expected to occur at a time of reducing long-term rates of economic growth, resulting from the eventual fall in the working age population.

6.10.8 It is difficult to gauge the ability of the State in future decades to meet the additional costs attributable to increased public service and Social Welfare pensions and of higher expenditure on health care. Projected economic growth over the next thirty years should help to finance the increased costs. Based on certain assumptions, the Department of Finance estimated in December 1998 that an Exchequer Surplus would be maintained for about 30 years after which time a deficit would emerge which would increase to 2.3% of GNP by 2050.[60] While long-term economic forecasting is an inexact science, these figures would seem to indicate that the necessary revenue will exist into the future to meet ongoing pension and health-care expenditures.

6.10.9 However, the pressures of long-term ageing will come to bear at a time when the dynamics of the demographic structure start to operate in such a way as to significantly reduce Ireland's growth potential. There is a real prospect that the country would be faced with a declining labour force, one that would be asked to shoulder an ever greater dependency level as the century progresses.

[59] The population projections in Table 6.12 are broadly in line with those contained in the more recent *CSO Population and Labour Force Projections 2001-2031* (July 1999).

[60] Department of Finance, "Report of the Long-Term Issues Group" (1998).

6.10.10 The Budget Strategy for Ageing Group of the Department of Finance has attempted to estimate the extra cost which ageing will impose on the Exchequer over 1999 expenditure levels. The Report of the Group concludes that over the next decade *ageing* will require a rise in Exchequer non-capital supply services outlays by 1% of GNP. Ageing costs will rise most rapidly over the following two decades, exceeding 5% of GNP by 2030. By 2056, according to the Group, maintaining Social Welfare and public service pensions in line with earnings for the increased numbers of elderly, and providing them with standard health services, is expected to cost the Exchequer 7% of GNP more than in 1999.

6.10.11 The tight fiscal constraints to which Ireland will be subject in the future are of particular importance in appraising the effect of higher pension and health-care costs. The economic policy environment will be one in which fiscal policy will assume a more important role in macroeconomic policy management. In the medium- and longer-term, apart from dealing with the consequences of demographic ageing, there will be numerous (and conflicting) demands on public resources, such as the need for continuing high investment in infrastructure to facilitate future growth, and the requirement for continuing high levels of investment in manpower development.

6.10.12 The Commission considers that the highest priority for the State is to be afforded the requirement of fiscal flexibility, i.e. ensuring that there is sufficient room for manoeuvre in the conduct of fiscal policy in line with the provisions of the *Stability and Growth Pact*. We would regard the Government's decision to allocate resources to pre-fund part of the long-term cost of public service and Social Welfare pensions as contributing to that objective.

6.11 Conclusions

6.11.1 The Commission devoted considerable time and effort to obtaining these projections on future public service pension costs, particularly from a data gathering perspective. The Commission believes that they provide a reasonable indication of the expected development of gross benefit expenditure and contribution income into the future.

6.11.2 The Commission is satisfied that the assumptions made for the actuarial review are reasonable; the main financial assumptions have been subjected to sensitivity analysis. However, it must be acknowledged that some of the assumptions may not be borne out in practice. In reality, we do not, and cannot, know for sure how the pensions bill will evolve in the future.

6.11.3 But the probability of any significant downsizing of the pensions bill compared with the projections, and hence the likelihood of any significant reduction in the State's liability, due to changed economic or demographic parameters, is small; consequently, concern over the size of the bill is justifiable, particularly when considered in the light of demands for early retirement from a number of public service groups.

6.11.4 In the private sector, such pension liabilities would be supported by an asset portfolio appropriately invested. It is arguable that there is not the same requirement to pre-fund in the public service, as the liabilities of the pension schemes are secured by the Government and its ability to tax. However, this has to be qualified by the fact that at the end of 1997, public service pension liabilities (£20 billion, or €25.4 billion) were equivalent to just under two-thirds of the National Debt (£31 billion, or €39.4 billion), and therefore represent for the State a very substantial additional liability.

6.11.5 The Commission believes that the results of the actuarial review should be used to plan the management of the long-term growth of pension costs, to bring transparency into the incurring of pension liabilities, and to ensure that possible changes to benefit terms do not result in any escalation of costs over current projections. We address these later in this Report.

APPENDIX 6.1

Summary of cashflow amounts in constant (1997) price terms

The following table summarises gross benefit expenditure in 5 year intervals from 1997.

Year	1997	2002	2007	2012	2017	2022	2027	2032	2037	2042	2047
Civil Service	96	109	128	164	230	320	378	398	393	369	346
Local Authorities	80	83	95	112	138	159	170	175	181	186	191
Education	198	267	367	509	655	766	811	807	800	820	858
Garda	71	95	120	159	196	223	238	239	255	269	289
Prison Officers	3	5	10	19	30	39	44	45	46	48	52
Defence	65	79	96	119	139	155	165	172	179	193	207
Health	103	132	167	227	322	426	518	566	588	589	587
NCSS Bodies	20	30	44	59	71	80	84	82	80	90	101
Total Outgo (Ir£m)	**636**	**800**	**1,027**	**1,368**	**1,781**	**2,168**	**2,408**	**2,484**	**2,522**	**2,564**	**2,631**
Total Outgo (Euro)	***807***	***1,016***	***1,304***	***1,737***	***2,261***	***2,753***	***3,058***	***3,154***	***3,202***	***3,256***	***3,341***

The following table summarises contribution income in 5 year intervals from 1997.

Year	1997	2002	2007	2012	2017	2022	2027	2032	2037	2042	2047
Civil Service	7	8	11	14	17	22	29	37	45	52	59
Local Authorities	18	19	20	22	22	23	25	27	29	32	35
Education	73	80	86	90	93	98	106	118	131	144	155
Garda	9	10	11	13	15	18	21	24	26	28	30
Prison Officers	1	1	1	2	3	4	5	5	6	6	7
Defence	3	4	4	5	5	6	7	8	9	9	10
Health	64	67	71	75	76	77	79	83	90	98	107
NCSS Bodies	10	10	10	10	10	11	12	14	16	17	18
Total Income (Ir£m)	**185**	**199**	**214**	**231**	**241**	**259**	**284**	**316**	**352**	**386**	**421**
Total Income (Euro)	***235***	***253***	***272***	***293***	***306***	***329***	***360***	***401***	***447***	***490***	***535***

APPENDIX 6.2

Summary of percentage increases in cashflow amounts in constant (1997) price terms

Appendix 6.1 sets out the projected gross benefit expenditure on public service pensions over the next 50 years. The following table converts the figures into percentage increases over the 1997 level.

Year	1997 %	2002 %	2007 %	2012 %	2017 %	2022 %	2027 %	2032 %	2037 %	2042 %	2047 %
Civil Service	0	14	33	71	140	233	294	315	309	284	260
Local Authorities	0	4	19	40	73	99	113	119	126	133	139
Education	0	35	85	157	231	287	310	308	304	314	333
Garda	0	34	69	124	176	214	235	237	259	279	307
Prison Officers	0	67	233	533	900	1200	1367	1400	1433	1500	1633
Defence	0	22	48	83	114	138	154	165	175	197	218
Health	0	28	62	120	213	314	403	450	471	472	470
NCSS Bodies	0	50	120	195	255	300	320	310	300	350	405
Total Outgo	**0**	**26**	**61**	**115**	**180**	**241**	**279**	**291**	**297**	**303**	**314**

Appendix 6.1 sets out the projected contribution income over the next 50 years. The following table converts the figures into percentage increases over the 1997 level.

Year	1997 %	2002 %	2007 %	2012 %	2017 %	2022 %	2027 %	2032 %	2037 %	2042 %	2047 %
Civil Service	0	14	57	100	143	214	314	429	543	643	743
Local Authorities	0	6	11	22	22	28	39	50	61	78	94
Education	0	10	18	23	27	34	45	62	79	97	112
Garda	0	11	22	44	67	100	133	167	189	211	233
Prison Officers	0	38	75	138	238	350	463	538	613	675	725
Defence	0	13	32	52	71	97	123	152	177	200	223
Health	0	5	11	17	19	21	23	30	40	53	67
NCSS Bodies	0	2	2	1	3	10	22	40	61	73	80
Total Outgo	**0**	**8**	**16**	**25**	**31**	**40**	**53**	**71**	**90**	**109**	**128**

APPENDIX 6.3

Comparison of the value of pension terms of public servants in full and modified PRSI class (in 1998)

1. The Commission analysed the impact on the overall value of pension entitlements arising from the April 1995 change in PRSI status for new entrants to the public service. We also assessed the effect of the April 1995 change on the overall pension costs of the State (including the additional cost to the Social Insurance system). We obtained actuarial advice in carrying out this exercise.[61] We report our findings below. *The Social Insurance contribution rates, thresholds, and benefit levels used are those applying as at October 1998.*

2. The changes to pension terms, and uprating of salary scales in certain cases, following introduction of full PRSI for all public servants, are set out in Paragraph 3.3.57 of the Report.

3. For areas of the public service where the main pension scheme was already contributory, the positive factors following the change, insofar as the individual is concerned, are:

(i) if the post-April 1995 new entrant is entitled to additions to the State Social Insurance pension in respect of qualified adult and child dependants (£2,803 per annum and £790 per annum, respectively), he or she will be better off compared with the pre-April 1995 new entrant;

(ii) if the post-April 1995 new entrant has less than 40 years' service and qualifies for maximum State Social Insurance pension, he or she will also be better off;

(iii) there is an entitlement to a range of non-pension Social Welfare benefits, e.g. death grant, treatment benefit, certain free schemes.

4. The negative factors from the point of view of the individual are:

(i) the post-April 1995 new entrant must pay full PRSI — which is actually lower than the modified rate by 0.9% for annual earnings between £1,040 and £4,160, but higher by 3.6% for annual earnings between £4,160 and £22,300;

(ii) the pre-April 1995 entrant will have his or her full pension increased in line with salary, while the post-April 1995 entrant will receive rates of increase on the State Social Insurance pension element of his or her total pension which, historically, has been lower than the rate of pay increase;

(iii) for the post-April 1995 entrant, a deduction of once the rate of Old Age (Contributory) Pension (OACP) is made when calculating spouses' and children's pensions. For the pre-April 1995 entrant, survivors' contributory pensions are already payable and no deduction is made when calculating the occupational benefits;

(iv) both the pre- and post-April 1995 entrant could leave at a future date and build up sufficient PRSI contributions with other employers to be eligible for a Social Insurance

[61] Commission on Public Service Pensions, "Supplementary Actuarial Information" (October 1998), Report prepared by IPT Actuarial Services Ltd.

pension. However, the post-April 1995 entrant will have the deferred public service pension reduced to allow for integration.

5. In areas of the public service where a contributory pension scheme was introduced following the introduction of full PRSI, the new entrant had two further beneficial effects:

(i) the increase of 1/19th to the individual's salary (lower for members of the Garda Síochána) was greater than the increase in the member contribution required;

(ii) additional pension scheme benefits will be derived from the increased salary.

6. Table 1 sets out the impact on the overall benefit package of a typical new entrant before and after the 1995 change. In the comparison, a value has been placed on the full range of benefits provided. In the case of the public servant in modified PRSI class, the full cost falls onto the occupational pension scheme alone. For the public servant paying full PRSI, the cost of the pensions package falls onto the occupational pension scheme as well as onto the Social Insurance Fund. The table also takes account of the member's pension contributions, as well as the additional PRSI contribution being made by the post-April 1995 new entrant.

7. When comparing the benefit packages of new entrants before and after the changes, it is important to ensure that the position is examined consistently, i.e. either gross or net of tax. Examining the position net of tax would be complicated by the fact that it would require assumptions to be made about the development of the taxation system into the distant future. Consequently, only the gross position has been considered.

8. While individuals will get tax relief on any additional pension contributions they pay, they do not get tax relief on their additional PRSI contributions. It could be argued therefore that some adjustment should be made to the value placed on additional PRSI contributions in the table below. However, such an adjustment would vary according to each individual's tax circumstances, which are dependent on salary progression, marital status, etc. Such an adjustment has not been incorporated, but account should be taken of this when considering the results of this exercise.

9. Taking the example of the civil servant, the table shows that for the pre-April 1995 new entrant the value of the occupational pension, net of member contributions, is 17.8% of career salary. For the post-April 1995 new entrant, taking account of occupational pension, Social Insurance pension benefits, the extra 1/19th of salary, and netting off member contributions and additional PRSI contributions, the table shows that the net value of his or her benefits is also 17.8% of career salary. Thus, there is no gain or loss following the change.

Table 1: Impact of integration on new entrant rates: benefit/cost as percentage of remuneration

	Civil servant (%)	Primary teacher (%)	Nurse (%)	Garda (%)
Before April 1995 change				
(1) Occupational benefits	19.2	19.6	15.7	27.3
(2) Member contributions	–1.4	–6.5	–6.5	–3.2
Net value of occupational benefits	17.8	13.1	9.2	24.1
After April 1995 change				
(1) Occupational benefits	16.4	16.4	11.5	24.5
(2) Contributory old age and invalidity pensions	3.9	3.6	5.5	3.2
(3) Extra 1/19th salary (lower for Gardaí)	5.0	0.0	0.0	2.5
(4) Member contributions	–5.1	–5.3	–5.0	–5.4
(5) Additional PRSI contributions	–2.4	–2.3	–2.6	–2.4
Net value of occupational benefits and additional Social Welfare pensions	17.8	12.4	9.4	22.4
Gain to individual	+0.0	–0.7	+0.2	–1.7

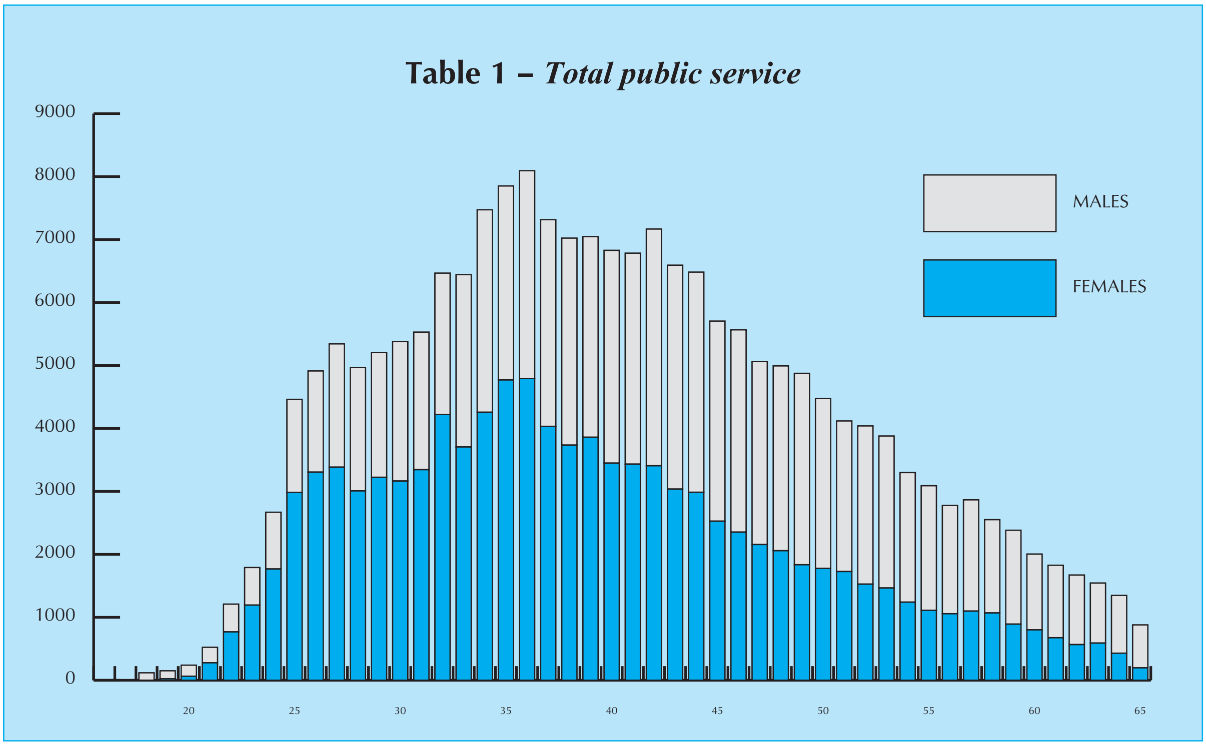
10. The comparable gain/loss figures for teachers, nurses and Gardaí are –0.7%, +0.2%, and –1.7%, respectively. In the case of the Garda Síochána, it seems clear that post-April 1995 new entrants will be at a disadvantage compared with pre-April 1995 new entrants. For example, a post-April 1995 Garda who retires and takes up insurable employment will not be entitled to payment of supplementary pension (which might be equivalent to the amount of OACP); the pre-April 1995 entrant, on the other hand, who takes up employment subsequent to retirement will continue to receive his or her full occupational pension.

11. The figures set out above were subject to some sensitivity analysis. For example, if the rate of increase of Social Insurance pension is more closely in line with earnings increases, i.e. 1.5% ahead of price inflation, rather than 1.0% as is assumed, the gain to the post-April 1995 civil service new entrant changes from 0.0% to 0.3%. Also, if a lower rate of withdrawals is assumed from the civil service into the private sector, the gain to the individual could rise by a further 0.2%.

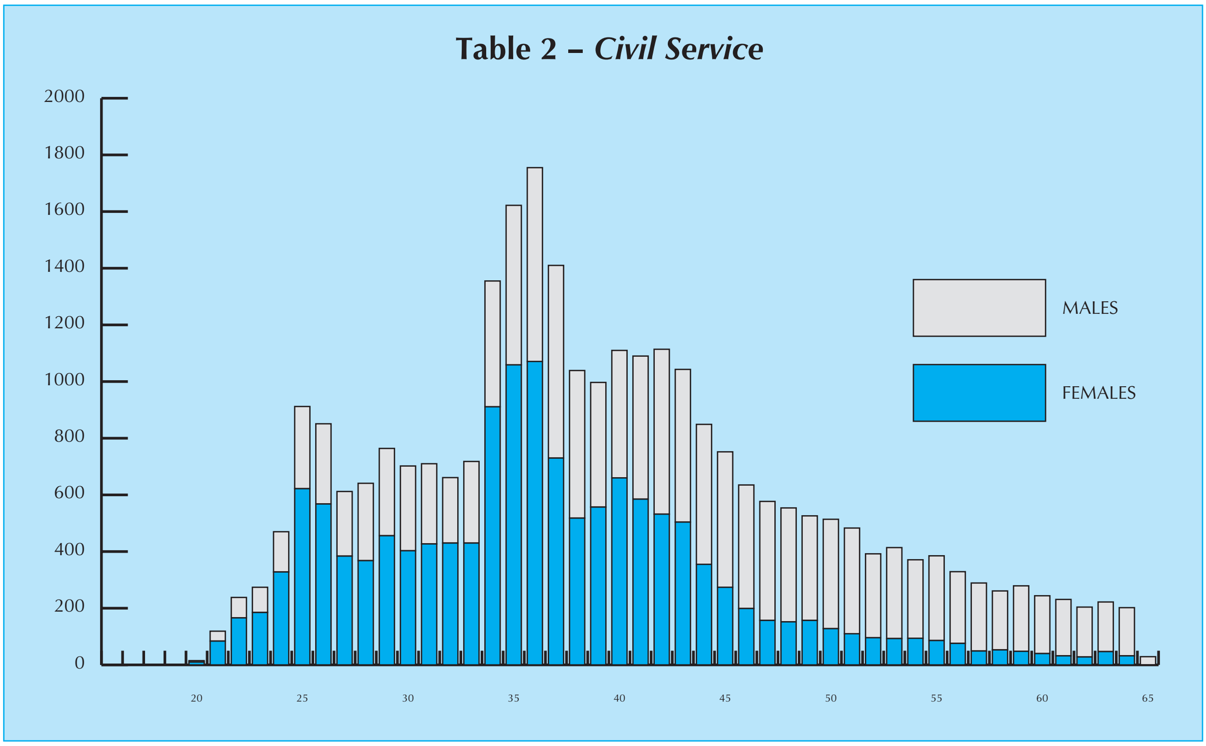
12. It is difficult to draw absolute conclusions about the impact of integration from the results above. It must be noted, for example, that a number of non-pension Social Welfare entitlements, to which post-April 1995 entrants are entitled, are not valued in the analysis. Also, the fact that individuals do not get tax relief on their additional PRSI contributions has not been taken into account. Finally, the basis for increase in Social Insurance pensions is a matter for some debate (see Paragraphs 16.3.24-16.3.26 of the Report). All of these factors impact on the assessment that can be made.

APPENDIX 6.4

Membership profile of the total public service sector by current age (1997)



Membership profile of each public service sector by current age (1997)



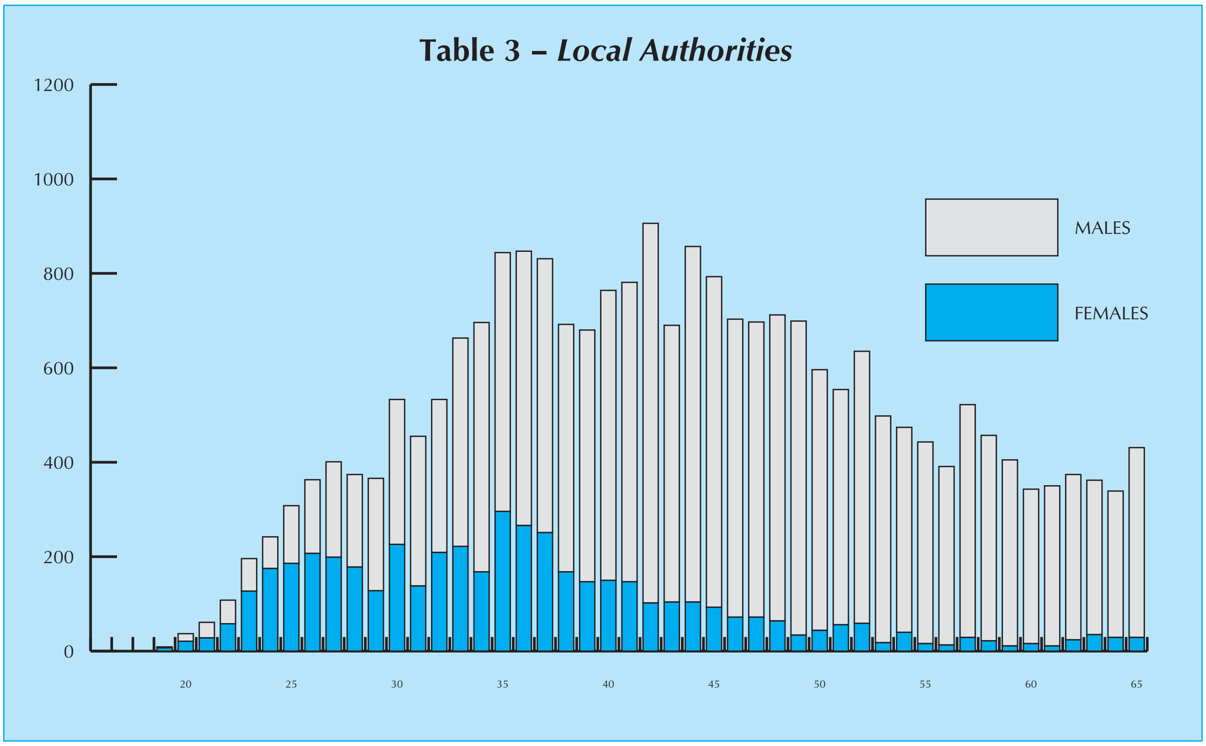


Table 4 – *Education*

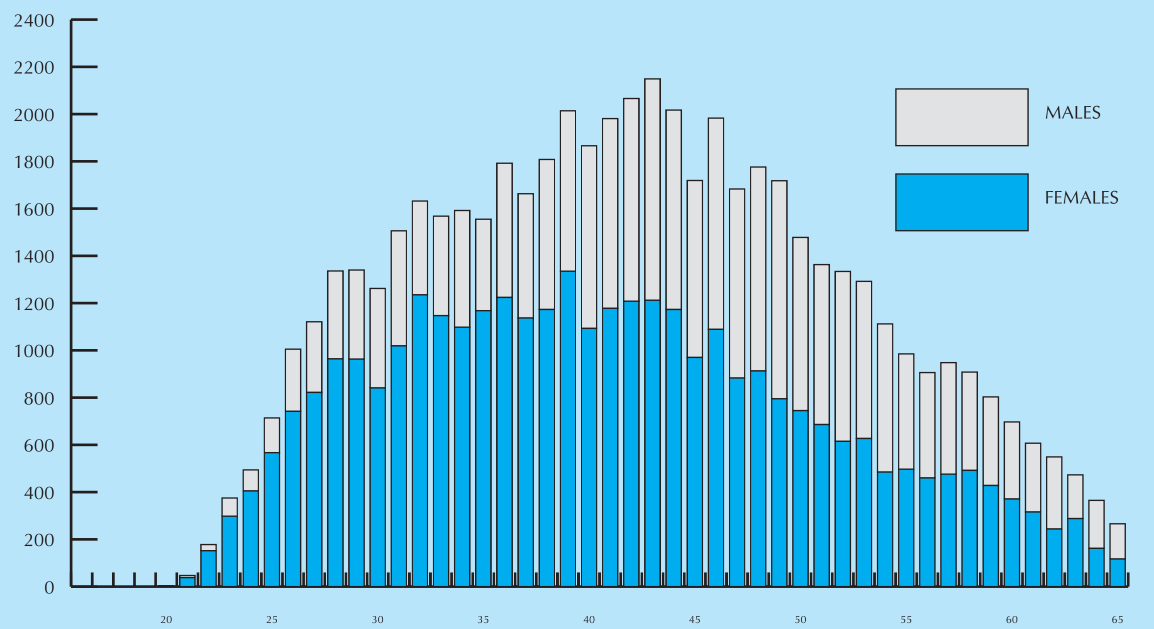
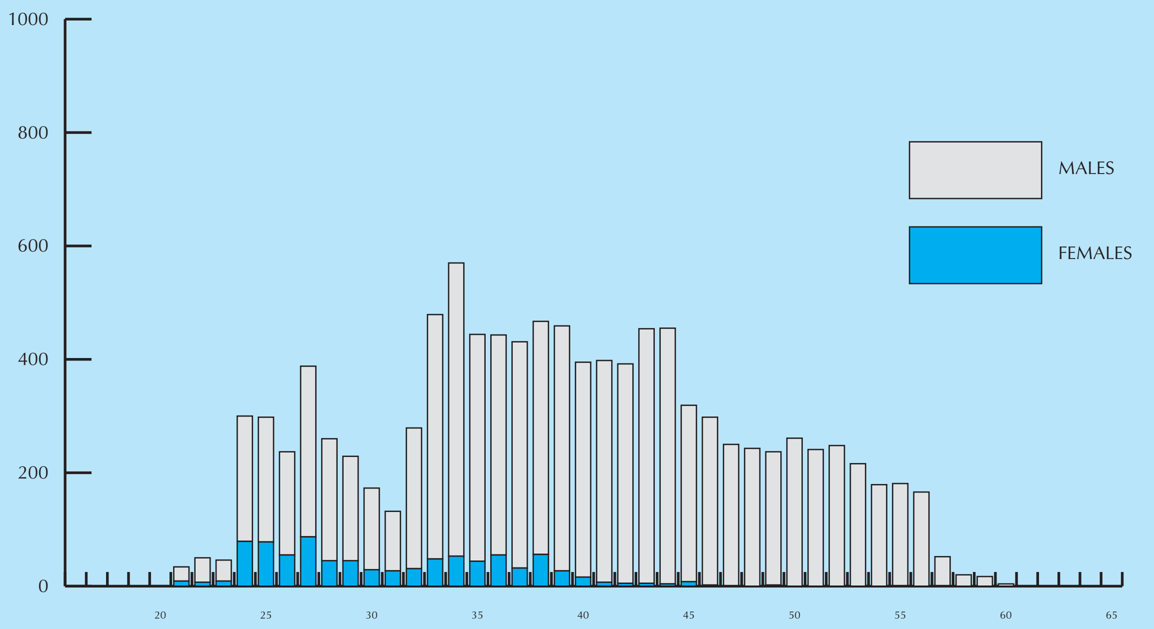


Table 5 – *Garda Síochána*



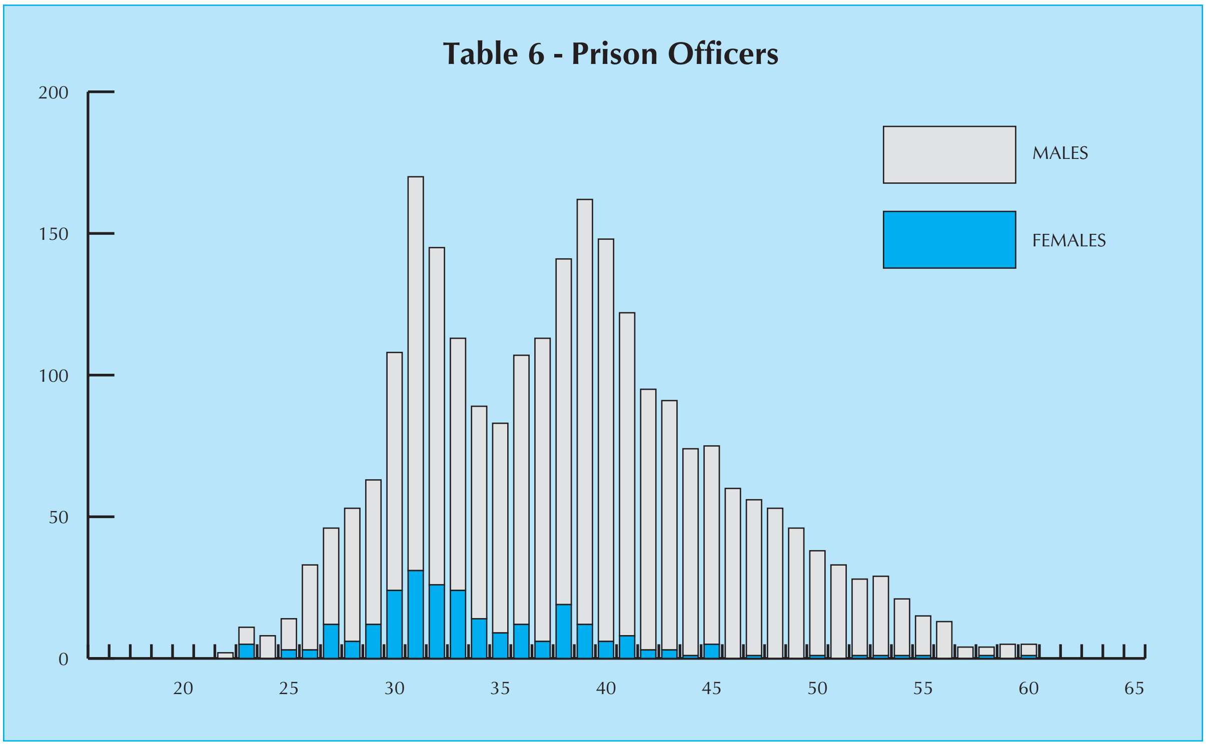


Table 6 - Prison Officers
200
150
100
50
0
MALES
FEMALES
20
25
30
35
40
45
50
55
60
65

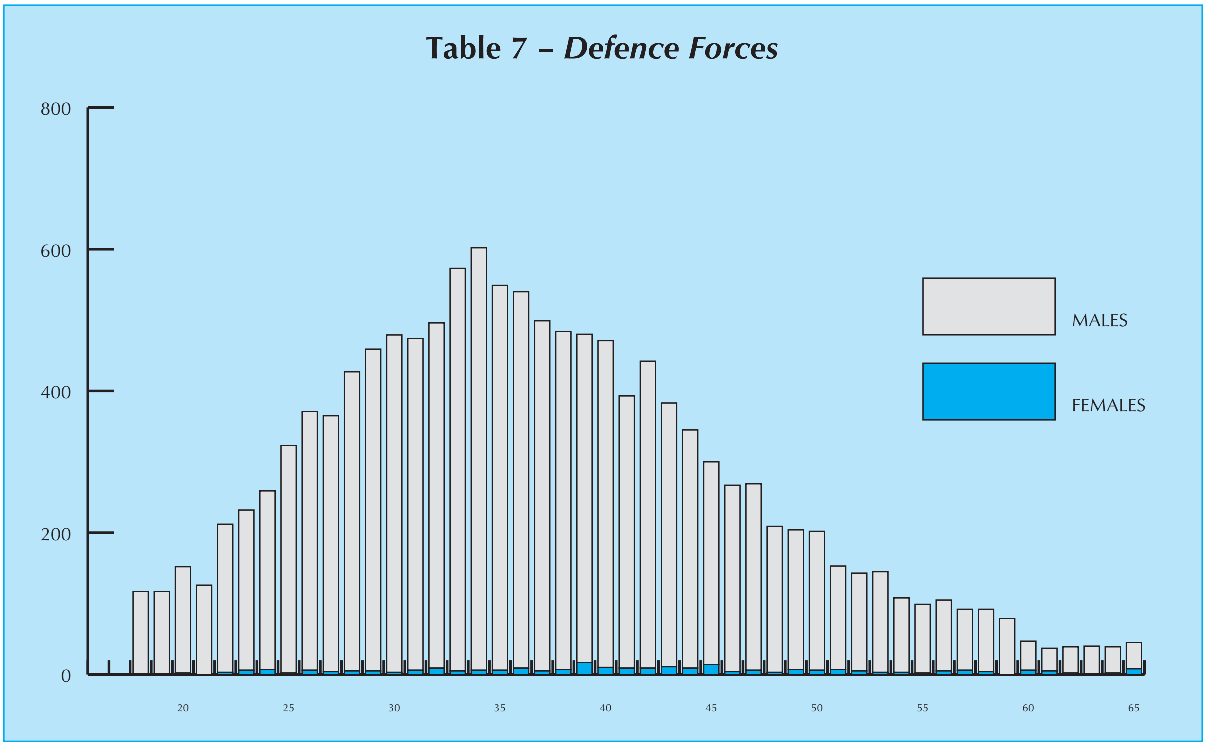


Table 7 – *Defence Forces*
800
600
400
200
0
MALES
FEMALES
20
25
30
35
40
45
50
55
60
65

Table 8 – *Health*

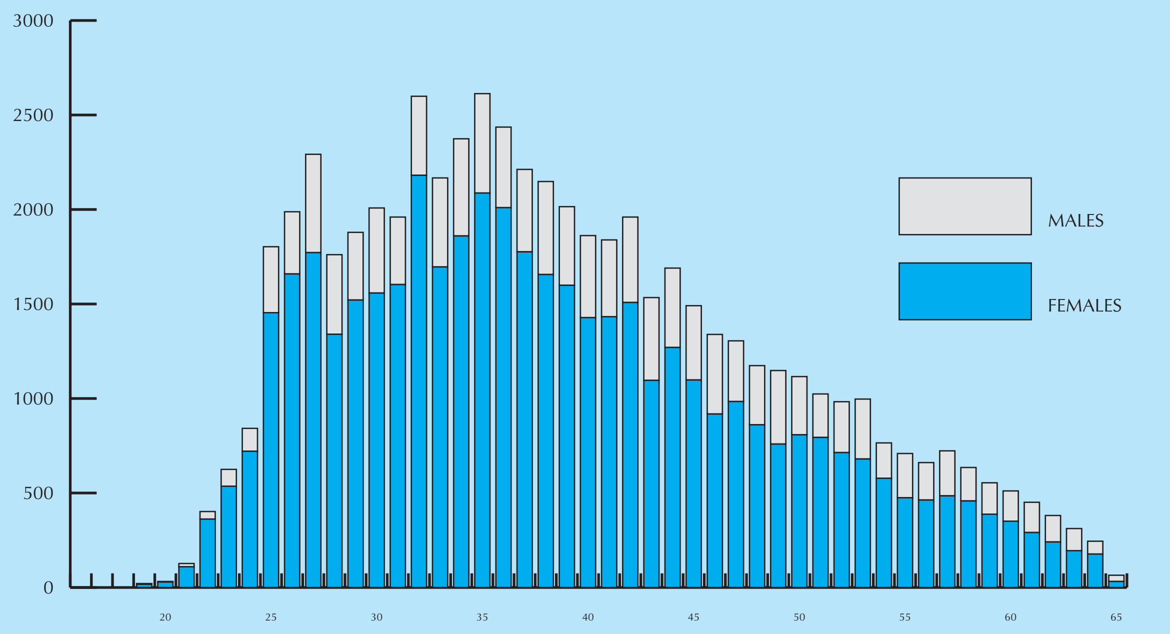


Table 9 – *NCSS Bodies*

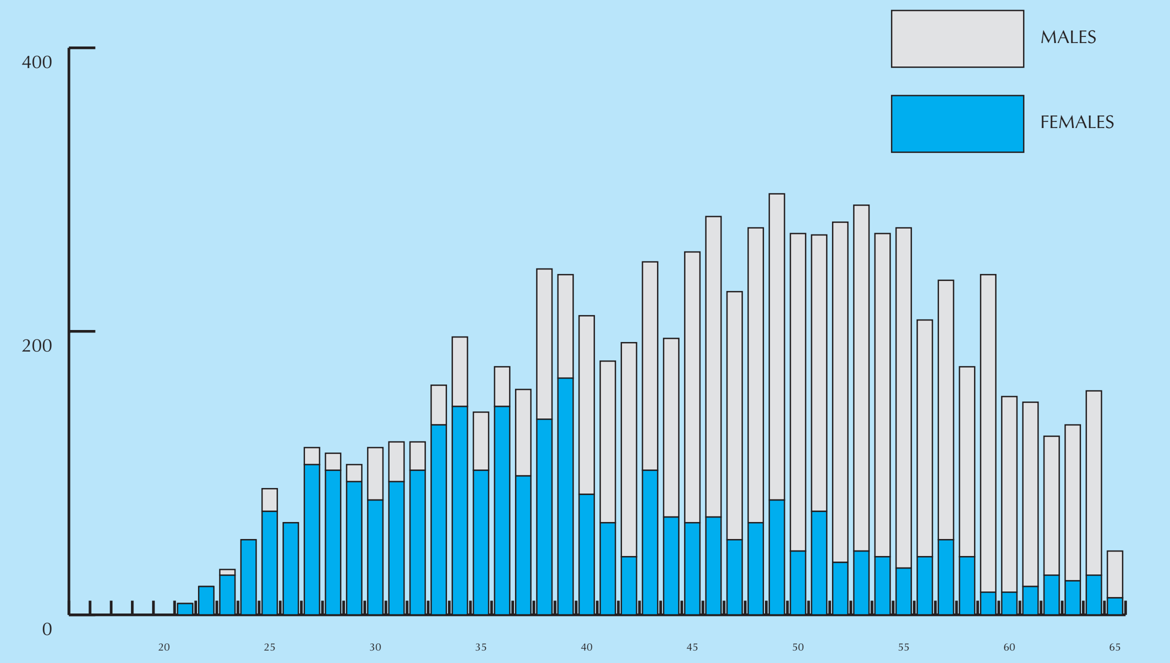


Table 10 – *All Teachers*

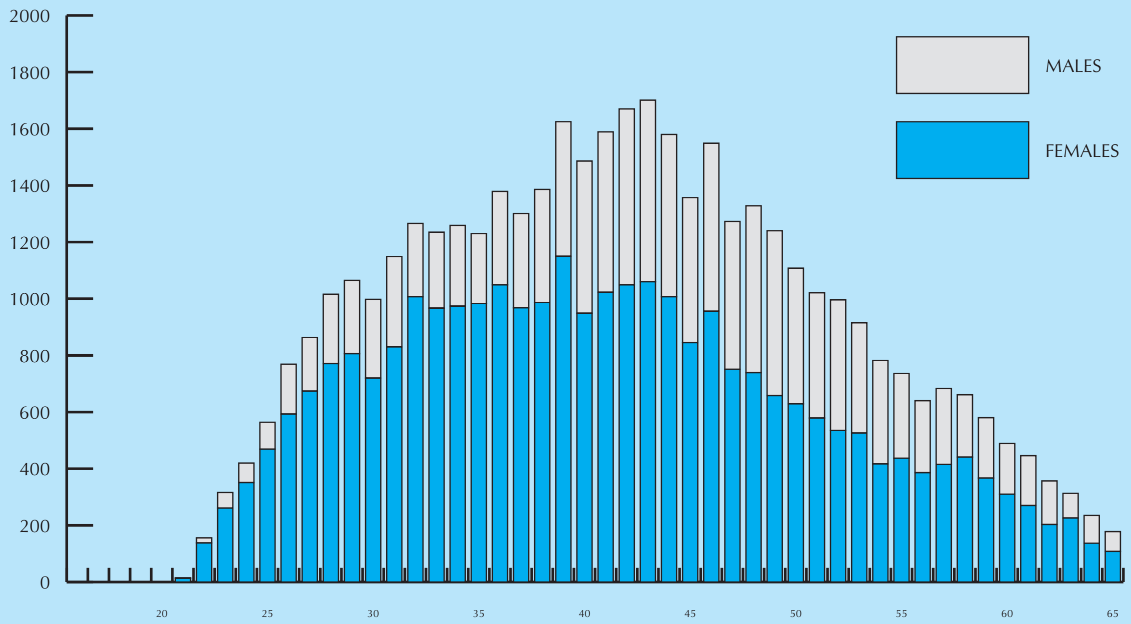


Table 11 – *Nurses*

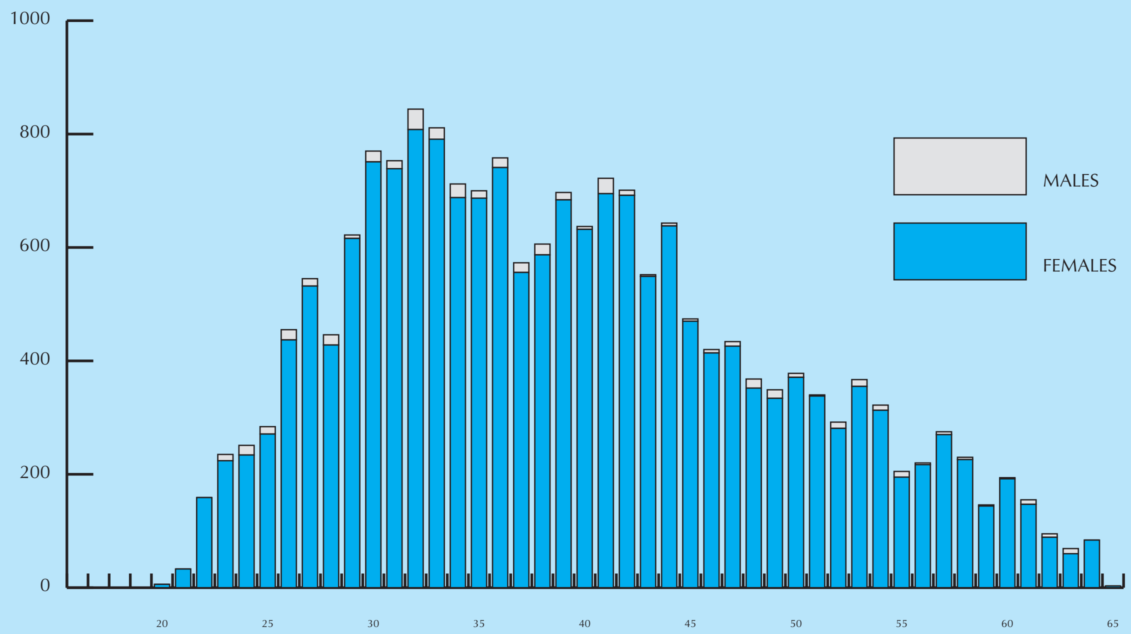
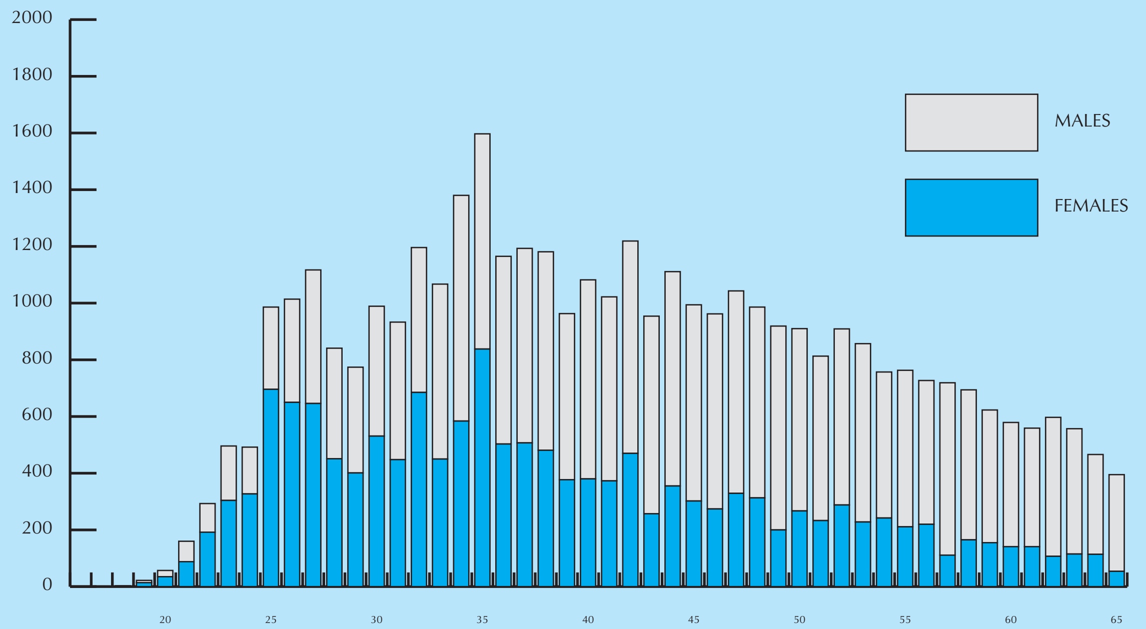


Table 12 – *Pre-95 Co-ordinated*



CHAPTER 7

Changes in Operational Requirements, Working Environment, and Conditions of Employment of Public Servants

7.1 Introduction

7.1.1 As we have shown in Chapter 3, the basic principles of public service pension arrangements were laid down in the nineteenth century. Pension terms were designed to accommodate the generally accepted view of public service employment at that time. Employment was *for life*, commenced usually well before age 20, and the employee worked within the one area of the service until retirement at about age 60. At this stage, the employee was considered unable to continue working because of old age or infirmity, and a reduced maintenance-type payment, or pension, was made by the employer.

7.1.2 In assessing the continued appropriateness of pension terms in today's environment, the Commission believes that account must be taken of changes in the operational requirements, working environment, and conditions of employment of public servants. The process of modernising the public service must also be considered. If the public service is to undergo a process of significant change in the future, corresponding reform of pension arrangements may be necessary. Pension structures interact closely with the labour market and vice versa. To some extent, pension schemes can reinforce loyalty to a particular career path. Also, the career path and its strains and competitive stresses help determine attitudes to certain aspects of pension schemes (early retirement, for example). The Commission considers that pension terms should not be a barrier to change and that they should be capable of adapting to the developing work situation.

7.1.3 Changes in the wider social and economic environment will impact upon the public service and must also be considered when reviewing the conditions of employment of public servants. The relevant factors include improvements in life expectancy, greater flexibility in the work environment, and the consequences of what might be called the quickening pace of life generally.

7.1.4 In this Chapter, the Commission analyses the changes in the working environment and conditions of employment of public servants, as well as the changes in the operational requirements of the public service. We do this under four general headings. It will be clear in a work such as this that it is not possible to examine each area of the public service in detail. However, particular examples and references are made where it is considered helpful to do so. The headings considered are:

- age of entry;
- changing composition of workforce;
- trends in retirement;
- management of performance: implementation of public service change.

7.2 Age of entry

7.2.1 The average age of entry into the public service has been increasing. By way of example, Table 7.1 shows the age of entry to the civil service in recent years.

Table 7.1: Age of entry to the civil service, 1990-97[62]

Year	Under Age 25		Over Age 25		Total		Over Age 30	
	No.	%	No.	%	No.	%	No.	%
1990	634	83	132	17	766	100	94	12
1991	695	82	149	18	844	100	105	12
1992	378	56	303	44	681	100	184	27
1993	212	52	196	48	408	100	131	32
1994	359	51	350	49	709	100	201	28
1995	614	61	400	39	1,014	100	176	17
1996	205	50	205	50	410	100	101	25
1997	213	43	278	57	491	100	147	30

7.2.2 The table shows that in the early 1990s, around 18% of all new entrants to the civil service were aged 25 and over; in later years, the proportion of new entrants in this age category had increased to around 40-50%. The proportion of new entrants over age 30 had also increased significantly in that period. While equivalent details are not readily available for other parts of the public service, indications are that similar trends towards later ages of entry have been experienced.

7.2.3 The later age of entry is due to a combination of factors:

- phased withdrawal of age limits for entry to the public service (the maximum age of entry to the civil service was increased to age 50 in 1991, and to age 65 in 1995).[63] Many newly appointed female civil servants have worked previously in the civil service, having left on marriage grounds;
- educational attainment — greater numbers are joining the workforce from college or university, rather than direct from school;[64]
- work/travel prior to entry — many new entrants have worked elsewhere, whether in the private sector or in employment abroad, prior to taking up public service appointments. Some may have prior pension entitlements in respect of earlier employments.

7.2.4 It is difficult to draw absolute conclusions on the age of entry for the public service generally based on the civil service data presented, as the wide variation in annual recruitment may have had a distorting effect on the outcome. There is no doubt, however, that the average age of entry is rising and will almost certainly continue to do so in the future, due to factors such as those listed.

[62] For established civil servants still in employment as at 1 January 1998.

[63] Clerical Assistants (CAs) made up the majority of new recruits each year. In 1990, around 37% of CAs entering the service in that year were under age 20, while around 4% were over 25; in 1997, however, only about 4% of all new entrant CAs were under age 20, while 41%, approximately, were over age 25.

[64] This may be reflected in the increase in the age of entry for Executive Officers (EOs); in 1990, for instance, approximately 44% of EO new entrants were under age 20, while about 15% were over age 25; in 1997, only about 2% of EOs were under age 20 on entry, while around 48% were over age 25.

7.2.5 In the past, new entrants to many areas of the public service might have expected to be able to accrue maximum pensionable service by retirement age. Special terms were granted to certain groups which had lower retirement ages for operational reasons in order to allow them the same opportunities to earn maximum pension. Other specialist or professional groups were allowed notional added years on the basis that their occupations required pre-entry educational or training qualifications which meant that they entered service at later ages. The fact that the average age of entry is increasing across all public service grades has, in our view, major implications for these special provisions.

7.3 Changing composition of workforce

7.3.1 Since the ending of the *marriage bar* in mid-1973, greater numbers of female employees have decided to remain in, or to rejoin, the public service. Changes in the form of public service employment offered (e.g. atypical employment), and new work-sharing and career break options introduced for those in service, may be seen partly as a response to this development.

7.3.2 *Delivering Better Government* noted that recruitment to the public service was, in the main, restricted to full-time, career-length established service, whereas the exigencies of the current working environment demanded that a more flexible range of options, such as recruitment on a temporary or part-time basis, be available to management. Under the Strategic Management Initiative (see Section 7.5 below), considerable importance is attached to securing greater flexibility in the use of atypical recruitment, such as recruitment on a temporary or part-time basis.[65]

Atypical employment

7.3.3 The development of atypical employment — part-time and temporary working — has enabled many public servants, particularly women, to combine working with family commitments. The introduction of term time (see Paragraph 7.3.12) is also relevant. New developments are ongoing, for example, the proposal in nursing to establish a grade of permanent part-time nurse, and the replacement of job-sharing with a more flexible system of work-sharing in the civil service (see Paragraph 7.3.11). It might be noted that under the *Programme for Prosperity and Fairness*, the Government and the Social Partners have agreed that a National Framework for Family-Friendly Policies should be established to support family-friendly policies at the level of the enterprise.

7.3.4 Types of part-time employment in the public service include the following:

- cleaners in government departments and offices;
- part-time second level teachers;
- substitute national teachers;
- temporary nurses;
- traffic wardens;
- home helps with Health Boards;
- personnel employed during the peak season in the Passport Office;
- exam supervisors.

[65] Government of Ireland, *Delivering Better Government: A Programme of Change for the Irish Civil Service*, Second Report to Government of the Co-ordinating Group of Secretaries (1996), p. 40.

7.3.5 Factors such as hours worked per week, duration of employment, seasonality, subsequent employment in permanent positions, etc. vary considerably for part-time posts in different parts of the public service.

7.3.6 There may be as many as 42,000 individuals working part-time in the public service. However, there are difficulties (e.g. seasonal variation, precise definition of part-time employment) in estimating the numbers of personnel involved. We discuss the incidence of part-time employment in the public service at Appendix 7.1.

7.3.7 It is important to acknowledge that part-time workers have for some time constituted a significant part of total public service employment. For example, figures produced in 1983 indicated that the number of part-time workers had remained reasonably constant between 1970 (21,300) and 1983 (22,900), although falling slightly as a percentage of total public service employment.[66]

Job-sharing and career break schemes

7.3.8 Job-sharing and career breaks — introduced in the 1980s — have quickly been recognised as effective facilities to allow employees combine working with family and other commitments. The level of take-up has been high across many areas of the public service, particularly amongst female employees.

7.3.9 In the civil service, there are approximately 2,900 job-sharers (July 1999), of whom 97% are female. A survey in 1996 estimated that in the public service as a whole there were around 8,000 job-sharers, the vast majority of whom were female.[67] Almost certainly, this number has increased over the last number of years.

7.3.10 Almost all job-sharing appears to be on the basis of either split week arrangements or week on/week off. In the past, job-sharing has applied generally to groups in modified PRSI class; part-time working has not normally been available to these groups, with the exception of teaching. On the other hand, part-time working has applied in relation to groups in full PRSI class.

7.3.11 Proposals are currently being finalised to expand the scope of job-sharing in the civil service by introducing a wider range of attendance patterns (thus changing it from a *job-sharing* to a *work-sharing* scheme). The objectives of the scheme are to facilitate employees who wish to combine work and personal responsibilities or choices, to offer an opportunity to employees near to retirement to ease their transition from full-time work to retirement, and to generate additional employment opportunities where possible.

7.3.12 Term time was first introduced into the civil service in 1998. It is designed to provide new flexibility in working arrangements. The scheme provides for the release of staff with young families or dependent relatives for 10-13 weeks in the summer months. Such periods of leave are unpaid and do not reckon for pension purposes.

7.3.13 Career breaks are available in most areas of the public service. There are no public service wide statistics available on take-up rates. In the civil service, there were 1,136 people on career break in 1998, of whom 78% were female.

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[66] Humphreys, P.C., *Public Service Employment, An Examination of Strategies in Ireland and Other European Countries* (IPA, 1983), pp. 88, 89.

[67] Fynes, B., Morrissey, T., Roche, W.K., Whelan, B.J. and Williams, J., *Flexible Working Lives: The Changing Nature of Working Time Arrangements in Ireland* (Oak Tree Press, 1996).

7.3.14 A greater emphasis on the pensionability of part-time working and other forms of atypical employment, as well as increased usage of provisions allowing individual employees to take breaks from full-time employment, have major implications for public service pension arrangements. In addition, pension schemes need to be sufficiently adaptable to cater for further developments which may be expected to occur in the future.

7.4 Trends in retirement

7.4.1 The normal retirement age for most public servants is age 60-65 (teachers have the option to retire from age 55 with 35 years' service). For public servants who have special pension terms for operational reasons,[68] the normal retirement age is generally age 55 to 60, although some groups have the option to retire from age 50 on achieving maximum service.

7.4.2 For some groups, the *actual* average age of retirement may be lower than the minimum age of retirement when account is taken of early retirement on ill health grounds and any other early retirement facility that may be available.

7.4.3 Generally, the normal retirement age for public servants was set during the 1800s and early 1900s. Since then, there have been significant improvements in life expectancy. We consider the improvement in life expectancy below and then analyse trends in retirement both in the wider economy and in the public service in particular.

7.4.4 Since the mid-1800s, there has been a major increase in life expectancy in Ireland, though not as pronounced as in other Western countries. In 1845, life expectancy for a person aged 65 was 10.9 years for a male and 11.5 years for a female.[69] Recent projections carried out by the Central Statistics Office of changes in life expectancy are given in Table 7.2.

Table 7.2: Projected changes in life expectancy of men and women at age 65[70]

Year	Men (years)	Women (years)
1996	13.5	17.3
2006	14.2	18.3
2016	14.9	19.4
2026	15.6	20.2

7.4.5 In the long-term mortality assumptions used for the actuarial projections of public service pension costs (see Paragraph 6.2.18), life expectancies at age 65 were assumed to be 16.5 years for a male and 20.3 years for a female.

7.4.6 Ireland is significantly behind other major economies in terms of life expectancy and the international experience is that life expectancy at older ages can increase quite rapidly with increasing living standards. Given the experience that for many years actual improvements in life expectancy have generally proved to be a lot greater than anticipated, it seems likely that these projected increases in life expectancy will prove conservative.[71]

[68] Garda Síochána, Prison Officers, fire service personnel, and health service personnel registered under the Mental Treatment Act, 1945 (principally Psychiatric Nurses). Defence Force personnel also have special pension terms. Based on 1997 figures, public servants with special terms make up approximately 31,000 out of the total of 203,000 pensionable public servants, i.e. 15%.

[69] Registrar General, *Life Table and Mean Life Table*, 1845.

[70] Reported in The Pensions Board, *Securing Retirement Income* (1998), p. 96.

[71] The Pensions Board, *Securing Retirement Income* (1998), pp. 95-96.

7.4.7 Increasingly, the newer cohorts of aged people have better health and better educational resources than before. In addition, it has been argued that the process of ageing is not necessarily associated with a loss of functional capacity and productivity.[72]

7.4.8 Notwithstanding the improvements in life expectancy, the employment situation in all industrialised countries over the past 30 years has been characterised by an increasingly early exit from the labour market at end of career.[73] In Ireland, there has been a major fall in numbers (particularly males) in employment above age 50.[74] The contributing factors behind this fall include:

- the declining importance of agriculture. Traditionally, owner-occupier farmers have remained active on their farms later than would be the case for employees working in other sectors of the economy;[75]
- a trend towards earlier retirement, some of which has been driven by companies restructuring in circumstances where strong investment returns on pension funds provided the means to pay higher benefits than would be payable on purely voluntary early retirement;
- an increasing interest in early retirement among people generally.

7.4.9 To some degree, these developments reflected the consensus which existed in many countries amongst the State, enterprises, trade unions, and the community. For the State, early retirement schemes were seen in the 1970s and 1980s as a means of reducing youth unemployment, at its height in those decades. For enterprises, early retirement had a two-fold advantage – productivity could be enhanced through modernising the process of production and the firm restructured without the cost and the embarrassment of rising redundancies. For trade unions, it was a coveted prize in the long struggle to lower the retirement age and so leave workers, who often started their working life young and frequently in strenuous jobs, some years of respite in good health. However, from the 1980s on, there have been signs that the consensus is not as solid as it has been, particularly in relation to the intolerable pressures being placed on pension systems.[76]

7.4.10 Studies indicate that the perception of retirement among individuals has been changing.[77] Increasingly, retirement has ceased to be considered a residue and has progressively become a period of life in its own right, a new stage and a fresh departure that can be prepared for and planned. For the individual, the factors leading to the decision to retire early represent a mixture of *pull* and *push* factors:

- recognition with increasing age that life expectancy is shrinking and that one more year at work means one year less to do those things that he or she has always wanted to do but has not been able to because of the demands of employment;

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[72] Kohli, M., Rein, M., Guillemard, A., van Gunsteren, H., ed., *Time for Retirement: Comparative Studies of Early Exit from the Labour Force* (Cambridge University Press, 1991), p. 42. Also: Delsen, L., Reday-Mulvey, G., ed., *Gradual Retirement in the OECD Countries: Macro and Micro Issues and Policies* (Dartmouth, 1996).

[73] OECD, *Maintaining Prosperity in an Ageing Society* (1998).

[74] CSO, Labour Force Survey, 1997, and National Pensions Board (1993), p. 82.

[75] Fahey, T., Fitzpatrick, J, *Welfare Implications of Demographic Trends* (Oak Tree Press, 1997), p. 70.

[76] Delsen, L., Reday-Mulvey, G., ed., *Gradual Retirement in the OECD Countries: Macro and Micro Issues and Policies* (Dartmouth, 1996). Also, Walker, A., *Combating Age Barriers in Employment*, European Research Report (European Foundation for the Improvement of Living and Working Conditions, Dublin 1997), p. 22.

[77] Delsen, L., Reday-Mulvey, G., ed., *Gradual Retirement in the OECD Countries: Macro and Micro Issues and Policies* (Dartmouth, 1996), p. 8.

- desire for greater personal independence and freedom to choose when, how much, and how to be occupied;
- development of a strong hobby or interest which has become more important than work;
- development of part-time, alternative work which could be more remunerative if more time were available;
- dislike of the present job and wish to withdraw from it;
- a long-term ambition to be independent as soon as income allows.[78]

This changing perception of retirement may have contributed to the greater interest in early retirement which exists amongst a number of public service groups.

Trends in retirement age in the public service

7.4.11 Table 7.3 outlines 1997 data in relation to 3,273 retirements amongst the major public service groups, covering approximately 186,000 serving employees. Assuming the same ratio of retirements to serving staff holds, then for the approximately 17,000 pensionable public servants for whom the relevant data were not readily available (mainly, third level education and non-commercial state-sponsored bodies), an additional 300 retirements can be added, giving a total of about 3,600 retirements in 1997.

Table 7.3: Retirement statistics for major public service groups (1997)

Group	Ill health retirements	Age retirements	Total retirements
Established civil servants	37	215	252
Non-established civil servants	54	125	179
National teachers (i)	67	453	520
Secondary teachers (i)	44	150	194
Garda Síochána	13	258	271
Prison Officers	7	13	20
Army officers (1995) (ii)	0	35	35
Enlisted personnel (1995) (ii)	27	137	164
Local authority officers (includes VECs)	39	256	295
Local authority employees (includes VECs)	127	268	395
Health Board officers (includes nurses)	108	423	531
Health Board non-officers	142	153	295
Voluntary hospitals officers	15	38	53
Voluntary hospitals non-officers	13	15	28
Nominated health agencies	16	25	41
Total	**709**	**2,564**	**3,273**

Source: Government Departments.

Notes:

(i) Total retirement numbers for national and secondary teachers exclude those retiring under the three strands of the limited early retirement initiative.

(ii) A voluntary early retirement scheme operated in the Defence Forces for the period 1996-98. Therefore, 1995 is considered more typical of a standard year for the purposes of this table.

[78] Mallier, A.T., and Shafto, T.A.C., *The Economics of Flexible Retirement* (Academic Press, 1992), p. 82.

7.4.12 We discuss retirement trends amongst a number of public service groups in Appendix 7.2. In Appendix 7.3 we set out past experience as regards age of retirement, service at retirement, and take-up of early retirement options where the relevant information is available. It must be qualified, however, that past experience may be an unreliable indicator of future trends.

7.4.13 Retirement behaviour is not a cohesive and consistent phenomenon across any group of employees or in the public service as a whole. As discussed above, the retirement decision is in each case a personal choice which reflects a wide range of factors. However, based on the available data, we would draw the following conclusions as regards public service retirement trends and experience over the past number of years:

- it would appear that across all groups there was a slight fall in both the average age of retirement and in the average period of pensionable service held at retirement;
- on average, the age of retirement and the period of pensionable service held at retirement was lower for women than for men;
- many public servants who were in a position to do so remained in service until the maximum retirement age or until they had sufficient pensionable service to qualify for maximum pension entitlements;
- over the period, there was an increase in the numbers retiring at the earliest permitted age (or before maximum retirement age), perhaps with less than maximum pensionable service;
- many Gardaí remained in employment when the retirement age was increased from 57 to age 60 for the period November 1989 to December 1992. This suggests the possibility that if the maximum retirement age were increased, many would decide to remain in service for longer. However, there is no evidence available on the impact of an increase in the standard maximum retirement age of 65;
- there was a large degree of variation between groups as regards pensionable service at retirement — many civil servants had maximum service of 40 years, but other public service groups, such as nurses and non-established employees, had lower levels of service;
- those retiring from groups with special *fast accrual* terms (e.g. Garda Síochána, Prison Officers) had a much higher possibility of having maximum pensionable service compared with groups with standard terms;
- there were generally higher numbers of retirements on grounds of ill health amongst non-established public servants compared with established public servants.

7.4.14 There is little research information available on employee attitudes to early retirement in the public service. A report published in 1996[79] contained results of an employee survey carried out in 1994 amongst private and public sector employees under a number of headings, including intentions in relation to early retirement. The public sector sample comprised most public sector bodies and organisations, but excluded a number of important groups (such as civil servants and teachers). The survey results showed that employees in age brackets between 26 and 55 had the highest probabilities of considering early retirement at some future date while the percentage expressing an interest in this option fell significantly for those aged 56 and over. The report noted that the latter might no longer perceive early retirement as being *early* while the former might not

[79] Fynes, B., Morrissey, T., Roche, W.K., Whelan, B.J. and Williams, J., *Flexible Working Lives: The Changing Nature of Working Time Arrangements in Ireland* (Oak Tree Press, 1996), Chapter 6.

have considered in full the financial and other realities of what early retirement could involve. The report also found that while interest in early retirement did not vary significantly between the public and private sectors, a greater number of older public servants expressed interest in early retirement.

7.4.15 The 1994 survey also covered the post-retirement intentions of those who stated that they would be interested in taking up an early retirement option at some date in the future. Only 14% of private sector and 27% of public sector workers said that they would never wish to work again after early retirement. Approximately 53% of both public and private sector employees said that they would like to take up part-time employment, while 32% of private and 18% of public sector employees said that they would consider the option of self-employment after early retirement. The report commented that the net effect of early retirement could be a shift of a section of the labour-force from one form of employment status to another.

7.4.16 Retirement trends have implications both for the design of working arrangements for staff and for pension provision. For example, if public servants are retiring from full-time employment earlier than before, perhaps taking up part-time or contract employment elsewhere after retiring, this may imply that there is a demand to remain working for longer within the public service, but on a commitment of less than full-time. Also, the data show that public servants are retiring with lower levels of pensionable service, on average, than before. Thus, there may be a demand to allow individuals extra pension flexibility to contribute to meet part or all of the gap between actual and maximum benefits on retirement. In conclusion, it is clear that there is no one retirement *solution* — a range of options are needed to cater for different personal choices and circumstances.

7.5 Management of performance: implementation of public service change

7.5.1 A structured approach to managing public service change has come in the form of the Strategic Management Initiative which was introduced in 1994. The modernisation of the public service has implications for occupational pensions, not just in relation to pension terms, but also in relation to the management of pension schemes and of pension costs, both at global and local level. A note on the implementation of change in the public service, with particular reference to atypical employment, employment structures, etc. is contained in Appendix 7.4.

7.5.2 The Government's report, *Delivering Better Government* (May 1996), set out a framework for change embracing a series of independent initiatives which, collectively, are aimed at improving civil and public services. Key areas identified as requiring radical change included:

- human resource management, where there is a need to update practices and systems to ensure a more proactive, strategic approach to the management and development of staff at all levels;
- devolving authority and accountability, so that there is a strong focus, at every level, on achieving results and improving performance;
- financial management, with a view to putting in place comprehensive and effective systems that ensure value for money in every area of public expenditure.

7.5.3 Every significant aspect of human resource management is to be looked at under the Strategic Management Initiative, including recruitment, training and development, performance management including rewards and sanctions, probation, promotion, multiple grade structures, gender-related issues, and terms of employment. It is intended that greater flexibility in human resource management practices will allow the public service to respond more efficiently and effectively to changing needs and demands.

7.5.4 As noted in Paragraph 7.3.2, *Delivering Better Government* stated that while recruitment in the past was generally confined to full-time career-length established service, there was need for the public service to avail of a more flexible range of options – including temporary and part-time work – to meet the exigencies of today's working environment.

7.5.5 One of the features of recent National Programmes has been a marked change in the approach to pay determination in the public service. There has been a move away from the traditional approach of special pay increases based largely on pay comparability and relativities towards local bargaining increases linked to increased productivity, change and the delivery of the public service modernisation programme.

7.5.6 The *Programme for Competitiveness and Work (PCW)* provided for the negotiation of local bargaining increases in one of two ways: what became known as *restructuring* claims under Option A or a straightforward percentage increase under Option B (the vast bulk of settlements were concluded under Option A). There was a requirement in both cases to take account of the need for efficiency, flexibility and change, and the contributions to be made by employees to such a change.

7.5.7 *Partnership 2000* provided for a locally negotiated increase of 2%, payment of which was conditional on the achievement of verified progress to a satisfactory level on implementation of the public service modernisation programme set out in Chapter 10 of the Programme. Unlike the *PCW*, where the flexibility and change measures were negotiated with individual grades, progress on the action modernisation plans was assessed at sectoral and organisational levels.

7.5.8 The *Programme for Prosperity and Fairness* does not include a local bargaining provision. However, the parties commit themselves to full and ongoing co-operation with change, continued adaptation and flexibility and the delivery of the modernisation programme in the public service as set out in Section 1.4 of the Programme. It has been agreed that the payment of the final phase increase of 4%, from a date not earlier than 1 October 2002, is conditional on specific performance indicators being established in each sector by 1 April 2001, and these sectoral targets being achieved by 1 April 2002, with progress in this regard being assessed at organisational level by 1 October 2002.

7.5.9 It is not clear how the overall approach to public service pay determination is likely to evolve over the medium to longer term. The *Programme for Prosperity and Fairness*, which accepts the need to find an appropriate way of benchmarking public service pay to the market, acknowledges that the traditional approach to pay reviews has given rise to serious difficulties in the past and provides for an alternative approach which is to be grounded in a coherent and broadly-based comparison with jobs and pay rates across the economy. In particular, it provides for the establishment of a Public Service Benchmarking Body to examine public service pay and jobs and to make recommendations thereon (the formal establishment of the Benchmarking Body was announced on 19 July 2000). Two aspects of the new approach may be of particular relevance in terms of their possible implications for public service pension schemes, viz:

(i) the stated intention that the Benchmarking Body will take account of the way reward systems are structured in the private sector; and

(ii) the acceptance that issues such as new forms of work organisation embracing innovative work practices, multi-grade and cross-stream teams, and flexibility in grading, including broad-banding, complemented by imaginative reward and recognition systems including an examination of gainsharing are likely to arise from the Benchmarking exercise.

7.6 Conclusions

7.6.1 It is difficult for the Commission to draw clear conclusions on the extent of change which has occurred in the operational requirements, working environment, and conditions of employment of public servants. It is not possible to examine in any detail the specific developments affecting every public service occupation. The changes which have occurred, or which may be expected to occur in the future, in relation to, for example, the form of employment of public servants and their remuneration package, will have fundamental implications for the pension structure and pension terms to be applied. Accordingly, the Commission has endeavoured in this Chapter to analyse these changes for the purposes of determining how radical a change in pension arrangements might be necessary.

7.6.2 The main trends identified by the Commission are summarised below:

- increasing age of entry and trends towards shorter service and greater mobility, on average, in public service employment compared with the past;
- greater usage of atypical, particularly part-time employment (the future position will depend on the level of take-up of available provisions across the public service);
- a stronger focus on ensuring pensionability of atypical employment;
- more frequent breaks in service for many public servants, including periods spent in part-time working, on career breaks, etc.;
- greater interest in retiring earlier than the norm, in some cases with the aim of taking up other forms of working, e.g. part-time working;
- increasing emphasis on delivery of service and management of performance within all areas of the public service;
- modifications in the pay determination system, which has changed in various ways over the last few years and will change further, within the terms of the *Programme for Prosperity and Fairness*.

We consider further the implications of these developments for public service pension arrangements in Chapter 12 of the Report.

7.6.3 A number of responses to increasing longevity and improvements in health and educational resources have been implemented in several OECD countries. These include encouraging working beyond retirement age, more flexible working arrangements at older ages, replacement of the fixed point of retirement with gradual/phased retirement, ensuring availability of job opportunities for older workers and that they are equipped with the necessary skills and competence to take them. In relation to pay-as-you-go public old-age pension systems (state social security systems as well as public service occupational pension schemes), reforms have usually implied changes to several of the basic parameters determining pension benefits, including:

- lengthening the contribution periods required for full pension;
- increase in the standard age of entitlement to public pensions;
- greater flexibility in the age at which benefits can be accessed with actuarial adjustment;
- increase in contribution rates.[80]

[80] OECD, *Maintaining Prosperity in an Ageing Society* (1998), p. 189.

APPENDIX 7.1

Part-time employment in the public service

1. There is no precise definition of what constitutes a part-time employee; many public service bodies appear to consider part-timers to be those working a minimum number of hours a week (around eight hours) for a minimum number of weeks (around 13 weeks). Most bodies appear to make a distinction between employees working a substantial number of hours and paid weekly and those working occasionally and possibly paid a stipend rather than a weekly wage. The definition of a part-time employee is taken here as any employee working less than the standard hours for his or her category of employment.

2. Some part-time staff are permanent, e.g. branch librarians in local authorities (not pensionable); others are temporary. Some part-time employees may have full-time pensionable posts in the private or public sector while also working part-time in the public service, e.g. some part-time VEC teachers. Some persons may have more than one part-time post. Some part-time employees may move to full-time employment at some stage.

3. Based on a review of the available information, it appears that there may be as many as 42,000 part-time public servants, including 12,500 home-helps employed in the health service[81] (in addition, there are perhaps 8,000 job-sharers). This number is subject to seasonal variation. We have attempted to list the main part-time groups below, giving a breakdown by sex where available. For some part-time groups, the majority of employees are male (e.g. non-officers and retained Firefighters in the local authorities); for others, the majority are female (e.g. nursing and support staff in the health service; School Wardens employed by local authorities).

4. It should be emphasised that many part-time employees (e.g. in teaching and nursing) may take up permanent employment in due course; there are arrangements to make prior part-time service pensionable in such circumstances.

Breakdown of part-time employment in the public service

5. ***Health:*** There are 19,700 part-time employees, approximately, broken down as follows: 7,200 mainly concentrated in nursing or support services (about 87% are female) and 12,500 home helps (almost all of whom are female).

6. ***Education:*** There are 14,700 part-time employees, approximately, in the education area, broken down as follows:

(i) Primary sector:

- 800 substitute teachers, employed on a day-to-day basis;

(ii) Secondary sector:

- 900 eligible part-time teachers (employed at least 11 hours per week, i.e. half wholetime hours; on average, they work 16 hours per week and are employed for at least a year);
- 600 part-time hourly-paid teachers (on average, they work a quarter-week, i.e. 6 hours);

[81] While home helps have traditionally been considered as self-employed, we understand that as a result of recent developments, they will in future be considered as employees.

- 2,000 substitute teachers (employed day-to-day; on average, they are employed for one-quarter of the year);
- Part-time cleaners/support staff in schools;

(iii) Third level sector (Higher Education Authority universities and colleges):

- 1,060 academic staff and 990 non-academic staff;

(iv) VECs/Institutes of Technology:

- approximately 6,000 part-time officers employed principally in a part-time teaching/lecturing capacity, of whom 55% are female;
- approximately 2,350 employees, of whom 63% are female.

7. ***Local authorities:*** There are 4,400 part-time employees, approximately, broken down as follows: 2,000 retained Firefighters, 900 Burial Ground Workers and 320 Caretakers (mainly male employees); 650 School Wardens, 230 Cleaners, and 210 Branch Librarians (mainly females employees).

8. ***Garda Síochána:*** There are, approximately, 740 part-timers employed in areas related to the work of the Garda Síochána, broken down as follows: 100 Traffic Wardens, 80 part-time Cleaners/Service Attendants and 560 part-time Cleaners working less than eight hours per week.

9. ***Non-commercial state-sponsored bodies:*** 700 part-time employees, approximately, are employed by the non-commercial state-sponsored bodies.

10. ***Civil service:*** There are 1,600 employees, approximately, broken down as follows: 70 clerical employees in the Passport Office, 300 Caretakers, 300 Water Readers, 250 Guides, 50-100 General Operatives in the Department of Arts, Heritage, Gaeltacht and the Islands/Office of Public Works, 540 temporary Veterinary Inspectors (fee paid) in the Department of Agriculture, Food and Rural Development.

11. The numbers of part-time employees may well be understated because of the lack of clear definition of part-time working and incomplete data.

APPENDIX 7.2

Retirement trends in the public service

1. For the purpose of our analysis, we refer to the tables of retirement statistics presented in Appendix 7.3.

Civil service

2. Table 1 indicates that the average age of retirement for established civil servants has fallen slightly over the period 1980 to 1997. In 1980, the average age for those retiring was 62.7; in 1997, it was 61.6. The average age of all established civil servants retiring in the period 1980-97 was 60.1 (62.1, if the VER scheme is excluded), and was different for men and women: ages 61 and 57.7, respectively. The difference in retirement age for male and female civil servants is explained to a large degree by the greater proportion of women who retire on ill health grounds as compared with men. Table 1 also shows that there has been a decline in the average level of service at retirement from 36.2 years in 1980 to 32.6 years in 1992, stabilising since then at slightly below that level.

3. Table 2 shows retirements categorised by length of service and age at retirement. It is difficult to identify clear trends in these categories in the period reviewed. For example, the numbers choosing to retire at age 60 or between ages 60 and 64 accounted for 30%-50% of annual retirements in the period 1985-91, excluding 1989 when, as a result of the VER scheme, the figure fell to 18%. However, the number of retirements in this category fell to 23% in 1992, before rising steadily (with the exception of 1996) to 38% in 1997.

4. The VER scheme (see Paragraph 3.3.17 of the Report) had a significant impact on retirement patterns in 1988 and 1989 as many civil servants availed of the opportunity to retire before the minimum retirement age of 60. Approximately 1,250 civil servants retired under the scheme; this represented 4.2% of all serving civil servants on 1 January 1988. The VER scheme affected retirement patterns in the subsequent years and probably explains why there was a general fall in the percentage of civil servants retiring voluntarily in the age 60 to 64 category from 1992 on as compared with the 1985-87 period.

5. The percentage of civil servants retiring at maximum age (age 65) fluctuated over the period scrutinised from a low of 8% of retirements in 1988 to a high of 56% in 1992. No coherent pattern emerges other than the fact that, on average, civil servants retiring at age 65 account for a slightly higher percentage of total annual retirements in the latter part of the period as compared with the earlier part.

6. It is not possible to isolate ill health early retirements for the earlier part of the period surveyed because of the inclusion of the VER scheme in the numbers. However, for the period 1994-97 (when the VER scheme is no longer a factor), the number of ill health early retirements ranges from 12% to 19% of total annual retirements.

Prison service

7. During the period 1994-98, there was a total of 71 retirements from the prison service (see Table 3). Of these, 20% retired at the maximum retirement age of 60, 28% retired between the ages of 55 and 59, 15% retired between the ages of 50 and 54, and 37% retired early on ill health grounds. The vast majority of Prison Officers (83%) retiring on age grounds had full pension entitlements, benefiting from the fast accrual nature of their pension arrangements.

Teachers[82]

8. The percentage of national and secondary teachers retiring at maximum age (age 65) declined steadily throughout the period 1985-97 (see Tables 4 and 5). Such retirements as a percentage of total retirements fell from 46% in the case of national teachers, and 49% in the case of secondary teachers, in 1985 to 15% and 19%, respectively, in 1997.

9. The early retirement facility for national teachers (retirement from age 55, provided the teacher has a minimum of 35 years' service) accounted for around 5% of retirements in 1985. This increased to between 18% and 26% of retirements in the period 1990-97. The *55:35* facility was introduced for secondary teachers in 1997 and trends in take-up have not yet been identified.

10. Voluntary age retirements between ages 60 and 64 varied between 24% and 45% of total retirements for both national and secondary teachers over the full period (exceptionally, much lower in 1988 as a result of the VER scheme).

11. The number of national and secondary teachers retiring early on ill health grounds during this period as a percentage of total retirements was 16% and 20%, respectively.

12. A new limited early retirement scheme was introduced as part of the *PCW* restructuring agreement reached between the Department of Education and Science and the teachers' unions. It took effect for national teachers in 1996 and for second level teachers in early 1997 (full details are set out in Appendix 3.4). Take-up under the initiative has been much lower than the overall quota of 400 such retirements per year. A more detailed picture of the take-up rate is contained in Paragraphs 15.3.9-15.3.10.

Garda Síochána

13. As regards the Garda Síochána (see Tables 6 and 7), it is difficult to pick out any discernible trend in retirements during the period 1986 to 1997. The position is complicated by the Government decision to retain until age 60 members of the Force who reached age 57 between 19 November 1989 and 31 December 1992 as a means of temporarily increasing Garda numbers. However, it can be said that the proportion of retirements at maximum retirement age, whether age 57 or age 60, was higher in the period 1994-97 compared with the earlier years of the survey (averaging over 50% as against a figure of less than 40%). On the other hand, throughout the period, many members availed of the opportunity to retire before age 57 on achieving 30 years' service.

14. It is noteworthy that over the period 1989-92 many members availed of the option to remain in service until age 60, eventually retiring in 1993 and 1994. Retirements at age 60 represented 26% and 24%, respectively, of total retirements in those years.

15. The average age of retirement for the overall group over the review period was 55.4. The percentage of members who retired early on ill health grounds was 4%. It should be noted that members of the Garda Síochána, who have fast accrual pension terms (30 years' actual service gives 40 years' pensionable service), almost always have maximum service at retirement.

[82] The data relate to national and secondary teachers. Vocational teachers, who were covered by the Local Government Superannuation Scheme during the period in question, are not included.

Health service (nurses)

16. Contrary to the position with the groups discussed above, data on retirements from the health service are held in a decentralised way and so our comments must be qualified on the basis of limited data availability.

17. Data on retirements from four Health Boards (covered by the Local Government Superannuation Scheme) for the period 1995-97, summarised in the table below, indicate that of 217 General Nurses who retired on age grounds, 20% retired at age 60, 44% between ages 61 and 64, and 36% at age 65. Of the 55 Psychiatric Nurses who retired from the Eastern Health Board during the same period, 28 (51%) were aged between 55 and 59, 3 (5%) were aged 60, 14 (26%) aged 61-64, and 10 (18%) aged 65.

Age at Retirement: 1995-97	55-59	60	61-64	65
	%	%	%	%
General Nurse	–	20	44	36
Psychiatric Nurse	51	5	26	18

A survey of retirements in a number of Health Boards and voluntary hospitals for the period 1995-97 showed that, on average, 37% of all nursing retirements were on early retirement ill health grounds. The figures varied considerably by Health Board/voluntary hospital, ranging from 25% to 64% of total retirements.

18. Based on Eastern Health Board retirements in 1995-97, it appears that most Psychiatric Nurses who have fast accrual terms have maximum service at retirement (73% of all retirements). General Nurses, on the other hand, rarely have maximum service at retirement. For example, based on a sample of 752 retired nurses (the 217 General Nurse retirements considered above, and 535 nurses who had retired under the Voluntary Hospitals Superannuation Scheme), only 8% had 40 years' service while 64% had less than 30 years' service.

Non-established employees (civil service, local authorities, health service)

19. Data available in relation to non-established civil servants and employees in local authorities and the health service indicate that, in general, these groups have less service at retirement than their established or officer equivalents (see also Appendix 11.4 of the Report). The average level of service on retirement for a sample of recent non-established retirements was 21 years. Only 24% of this group had more than 30 years' service. Over the period 1992-95, approximately one-third of all retirements were on ill health grounds.

20. Data on a total of 180 retirements among employees in Dublin Corporation between 1993 and 1996 show that the average service at retirement was 28 years. Just over 60% of employees had more than 30 years' service. Ill health early retirements for the period 1994-96 represented 37% of overall retirements.

21. Information from the Voluntary Hospitals Superannuation Scheme in relation to 477 non-officer pensioners indicates that 87% of this group had less than 30 years' service at retirement, with 64% having less than 20 years. Ill health retirement levels would appear to be particularly high among health service employees with an average figure of 56% of all retirements among a selection of Health Boards and voluntary hospitals for the period 1995-97. The figures ranged from 38% to 67% of all retirements in the bodies surveyed.

APPENDIX 7.3

Table 1: Civil service retirement statistics: established civil servants, excluding Prison Officers

	1980	1985	1990	1992	1994	1995	1996	1997	Overall Total 1980-97
	Years	Years	Years	Years	Years	Years	Years	Years	Years
Service at retirement (i)									
Female	33.6	34.3	32.8	29.8	30.1	32.7	31.1	31.5	32.9
Male	38.1	37.3	33.9	33.7	32.8	32.6	32.9	32.5	34.9
Overall	**36.2**	**36.5**	**33.6**	**32.6**	**32.1**	**32.6**	**32.4**	**32.3**	**34.3**
Age at retirement (ii)									
Female	61.3	60.3	61.4	58.4	57.1	59	57.8	60.7	57.7
Male	63.7	63.3	61.6	61.9	61.7	62.4	62.1	61.8	61
Overall	**62.7**	**62.6**	**61.6**	**60.9**	**60.5**	**61.5**	**61.1**	**61.6**	**60.1 (iii)**

Notes:

(i) Average pensionable service includes added years awarded on retirement on ill health grounds or under the voluntary early retirement (VER) scheme. It excludes any accrued service in excess of 40 years (if such service were included, the average figures would be higher).

(ii) The average age at retirement figures include those who retired on ill health and those who retired under the VER scheme (1,250 civil servants during 1987-88). Most of the persons in these categories retired before age 60.

(iii) Average age at retirement for the period 1980-97 (60.1) is lower than the average age in each of the specimen years shown. The low overall average arises from the effect of the low average age (54.6) among civil servants who availed of the VER scheme in 1988-89.

Table 2: Further civil service retirement statistics: established civil servants, excluding Prison Officers

Category of Retirement (i)	1980		1985-87 (Average)		1990		1992		1994		1995		1996		1997		Total 1980-97	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Aged 60: 40 years' service	2	1	9	3	4	2	1	1	4	2	1	1	7	3	7	3	140	3
Aged 60: < 40 years' service	0	0	9	3	10	6	5	3	8	4	8	4	3	1	17	7	144	3
Aged 60-64: 40 years' service	44	23	86	32	34	20	24	15	40	18	33	16	32	14	47	19	988	21
Aged 60-64: < 40 years' service	13	7	19	7	9	5	6	4	10	5	23	11	16	7	22	9	301	6
Aged 65: 40 years' service (ii)	35	19	66	25	41	24	42	26	46	21	39	19	44	19	45	18	876	18
Aged 65: < 40 years' service	14	7	38	14	42	25	49	30	62	28	69	34	80	35	67	26	784	17
Ill health & VER: 40 years' service	1	1	7	3	4	2	2	1	5	2	3	1	8	3	8	3	308	7
Ill health & VER: < 40 years' service	7	4	15	6	21	12	26	16	38	17	23	11	34	15	29	11	823	17
Retirement after age 65 (iii)	36	19	12	5	6	3	5	3	5	2	4	2	7	3	9	4	258	5
No date of birth available	36	19	4	2	1	1	2	1	2	1	3	1	0	0	1	0	144	3
Total	**188**	**100**	**265**	**100**	**172**	**100**	**162**	**100**	**220**	**100**	**206**	**100**	**231**	**100**	**252**	**100**	**4,766**	**100**

Notes:

(i) These figures are based on the details of pensioners who retired over the period 1980-97 and who continued to be in receipt of pension in 1997.

(ii) Maximum retirement age is 65.

(iii) Although maximum retirement age is 65, some staff may be kept on for a short period after age 65 in special circumstances.

Table 3: Prison Officer retirement statistics

Category of retirement	1994	1995	1996	1997	1998	Total 1994-98	% breakdown
	Nos.	Nos.	Nos.	Nos.	Nos.	Nos.	%
Aged 60: 40 years' service (i)	2	3	2	1	1	9	13
Aged 60: < 40 years' service	0	0	2	3	0	5	7
Aged 55-59: 40 years' service (ii)	0	3	5	5	4	17	24
Aged 55-59: < 40 years' service	1	0	0	0	2	3	4
Aged 50-54: 40 years' service (iii)	1	1	2	4	3	11	15
Ill health	3	5	4	7	7	26	37
Total	**7**	**12**	**15**	**20**	**17**	**71**	**100**

Notes:

(i) Prison Officers must retire by age 60. Every year of service accrued over 20 years is doubled for pension purposes; therefore, 30 years' actual service is equal to 40 years' pensionable service.

(ii) Minimum retirement age is 55 except where (iii) below applies.

(iii) Prison Officers with 30 years' actual service in the prison system may retire with full pension entitlement from age 50.

Table 4: National Teacher retirement statistics

Category of retirement	1985		1987		1988		1990		1992		1994		1995		1996		1997		Total 1984-97	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Compulsory: Age 65	109	46	95	37	98	16	54	19	44	17	54	14	69	16	54	13	90	15	1,074	22
Voluntary: 60-64	75	32	88	34	67	11	69	25	71	27	161	43	194	45	160	38	239	40	1,567	32
Voluntary: 55-59	11	4	27	11	31	5	66	24	67	26	90	24	79	18	95	22	124	21	850	17
Ill health	40	17	43	17	47	7	80	29	61	24	60	16	72	17	67	16	67	11	801	16
Preserved	2	1	4	1	12	2	9	3	15	6	13	3	18	4	13	3	25	4	144	3
VER (i)	–	–	–	–	374	59	–	–	–	–	–	–	–	–	–	–	–	–	374	8
Strand 1(ii)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7	2	21	3	28	1
Strand 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	17	4	24	4	41	1
Strand 3	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7	2	11	2	18	0
Total	**237**	**100**	**257**	**100**	**629**	**100**	**278**	**100**	**258**	**100**	**378**	**100**	**432**	**100**	**420**	**100**	**601**	**100**	**4,897**	**100**

Notes:

(i) 374 national teachers availed of the VER scheme in 1988.

(ii) A new limited early retirement initiative comprising of three strands was introduced in 1996 under the *PCW* Agreement (see Section 3.6 of the Report).

Table 5: Second level teacher (excluding VEC) retirement statistics

Category of retirement	1985		1987		1988		1990		1992		1994		1995		1996		1997		Total 1984-97	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Compulsory: Age 65	65	49	55	45	64	18	53	36	44	31	45	24	41	21	48	23	52	19	727	29
Voluntary: Age 60-64	38	29	30	24	58	17	54	36	39	28	79	41	78	40	79	38	88	32	777	31
Voluntary: Age 55-59 (i)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	10	3	10	1
Ill health	20	15	28	23	30	9	32	21	45	32	45	24	47	24	53	26	44	16	508	20
Preserved	9	7	10	8	19	5	11	7	13	9	21	11	29	15	26	13	18	7	219	9
VER (ii)	–	–	–	–	177	51	–	–	–	–	–	–	–	–	–	–	–	–	183	7
Strand 1 (iii)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	13	5	13	1
Strand 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	32	12	32	1
Strand 3	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	17	6	17	1
Total	**132**	**100**	**123**	**100**	**348**	**100**	**150**	**100**	**141**	**100**	**190**	**100**	**195**	**100**	**206**	**100**	**274**	**100**	**2,486**	**100**

Notes:

(i) The option of retiring from age 55 where a secondary teacher has 35 years' pensionable service was introduced in 1996.

(ii) 177 teachers availed of the VER scheme in 1988.

(iii) A new limited early retirement initiative comprising of three strands was introduced in 1997 under the *PCW* Agreement (see Section 3.6 of the Report).

Table 6: Garda Síochána retirement statistics (Gardaí and Sergeants)

Category of Retirement (i)	1986		1988		1990		1991		1992		1994		1995		1996		1997		Total 1986-97	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Under age 50 (ii)	6	4	12	6	7	7	9	7	2	3	13	4	7	2	17	7	13	5	110	4
Age 50-56 (iii)	70	49	122	56	72	77	90	76	54	75	141	38	153	41	111	44	132	49	1,184	47
Age 57 (Max.) (iv)	34	24	40	18	0	0	1	1	1	1	100	27	130	35	124	49	126	46	769	30
Age 57-59	0	0	1	1	0	0	5	4	6	8	27	7	13	3	0	0	0	0	66	3
Age 60	0	0	0	0	0	0	2	2	9	13	90	24	70	19	0	0	0	0	258	10
Age 60-62 (v)	8	6	18	8	3	3	0	0	0	0	0	0	0	0	0	0	0	0	47	2
Age 63 (Max.)	24	17	25	11	12	13	12	10	0	0	0	0	0	0	0	0	0	0	113	4
Total	**142**	**100**	**218**	**100**	**94**	**100**	**119**	**100**	**72**	**100**	**371**	**100**	**373**	**100**	**252**	**100**	**271**	**100**	**2,547**	**100**

Notes:

(i) These figures are based on the details of pensioners who retired over the period 1986-97 and who continued to be in receipt of pension in 1997.

(ii) It is assumed that almost all of these retirements were on ill health grounds.

(iii) The normal retirement age for Gardaí and for Sergeants is 57. However, retirement is permitted from age 50 where the member has accrued 30 years' actual service in the Force (service in excess of 20 years is doubled for pension purposes; therefore, 30 years' actual service is equal to 40 years' pensionable service).

(iv) A government decision enabled members of the Force who reached age 57 between 19 November 1989 and 31 December 1992 to stay in service until age 60.

(v) Until 1952, new entrants were conditioned to a maximum retirement age of 63. Thus, retirements over age 60 continued up until 1991.

Table 7: Further Garda Síochána retirement statistics (Gardaí and Sergeants)

	1986	1988	1990	1991	1992	1994	1995	1996	1997	Average 1986-97
Average Service (i) (ii) (years)	39.1	39.6	39.1	38.3	39.6	39.6	39.7	39.4	39.7	39.5
% retiring before age 57	53.5	61.5	84	83.2	77.8	41.5	42.9	50.8	53.5	50.8
Average age at retirement	**55.7**	**55.5**	**53.4**	**52.8**	**54.6**	**56.2**	**56.1**	**54.3**	**54.5**	**55.4**

Notes:

(i) Over the period 1986-97, only 6% of Gardaí/Sergeants had less than 40 years' pensionable service at retirement.

(ii) When determining average service, service in excess of 40 years is excluded.

APPENDIX 7.4

Implementation of change in the public service

1. *Civil service*

1.1 Consistent with the implementation of the Strategic Management Initiative, the various restructuring agreements negotiated with the civil service unions under the *Programme for Competitiveness and Work (PCW)* included provision for enhanced grade flexibility in the performance of duties, certain commitments in relation to atypical recruitment (temporary, part-time and contract staff), contracting out of work, varying hours of attendance, redeployment of surplus staff and the development and operation of procedures to deal with underperformance. Specifically,

- the most recent Executive Officer, Administrative Officer and Clerical Officer competitions (the recruitment levels for the general service grades) included provision for the formation of panels for temporary and part-time employees at each of these levels;
- as regards temporary full-time and part-time employment, the civil service currently engages about 300 temporary employees each year to meet short-term needs due, for example, to seasonal or temporary peaks in workloads, staff absences, etc. In the future, temporary requirements among Clerical Officer, Executive Officer and Administrative Officer grades may be met in the first instance from the new atypical panels. With changes to the job-sharing and career break schemes and the introduction of term time, there will be resulting staffing gaps which will be filled with temporary part-time employees. It is not yet clear what level of take-up might be involved in the revised schemes and the consequences for temporary part-time employment;
- in the context of recruitment of greater numbers of atypical civil servants, consideration is being given to the possibility of abolishing the distinction between established and non-established civil servants.

1.2 The Department of Finance has advised that, despite the fact that atypical employment is likely to be a growing category, the most common form of employment in the civil service is likely to remain *long-term* and *wholetime* for the foreseeable future.

2. *Local authorities*

2.1 A series of measures are being implemented with the aim of bringing about local government renewal through implementation of the Strategic Management Initiative. This follows the Department of the Environment document, *Better Local Government: A Programme for Change* (December 1996). The new approach to human resource management is based on local authorities having the freedom to manage their human resources within budget and to deliver more effective services to the public. Some features of the change agenda are as follows:

- a considerable proportion of the control apparatus applying in the human resources area is being dismantled. Further devolution of human resource decisions to local authorities is to take place, subject to a number of guiding principles;
- it is accepted that the present grading arrangements can give rise to rigidities and hierarchical methods of working and that the distinction between the *officer* and *servant* streams is an anachronism which should be addressed in consultation with staff interests;

- as in the civil service, the *PCW* agreements in the local authority service provide for atypical employment. However, temporary employment has been a feature of the local authority service for many years — part-time employment is also a feature;
- it is estimated that the likely incidence of part-time employment (excluding job-sharers) over the next five years will average about 1,600 posts per year. There are also 2,000 part-time retained Firefighters who, on retirement, receive a gratuity. These figures are derived from annual staffing returns on hands and exclude the effect that the proposed introduction of atypical work-sharing arrangements throughout the public service would have on employment in the local authority service;
- job-sharers as a percentage of full-time employees in local authorities is low (1.3%) compared to the Health Boards (7.9%) and the civil service (7.5%). On the basis of these figures, it might be assumed that the evolution of atypical employment is likely to have much less of an effect in the local authority area than in the other areas mentioned.

2.2 The Department of the Environment and Local Government has advised that the bulk of local authority officers and non-officers are permanent full-time employees and that this is unlikely to change over the next five years.

3. *Education*

3.1 The strategy set out in the White Paper, *Charting Our Education Future* (1995), followed by *Implementing the Agenda for Change* (1996), recognised the problems of control, management and monitoring within a highly centralised system. A clear strategic vision for education policy has been formulated linking resources and budgetary accountability with educational demands and quality of services.

3.2 Developments at a macro or national level have been accompanied by changes at the level of the school and by extension in the working environment of individual teachers.

3.3 The concept of partnership is now a central one in education. At the level of policy formulation this has involved continued and active engagement with management groups, unions, and parental interests. The concept, however, extends significantly beyond policy and into the very real world of day-to-day activity at school level where national parents' groups are now very much a central part of the educational landscape and also at the level of the individual school where parental involvement at board of management level is very much the norm.

3.4 Changes in Irish society have impacted particularly upon the world of teaching. It is generally acknowledged that teachers in the classroom face a more stressful environment as they attempt to deal with the problems arising from broken marriages, unemployment, increasing numbers of single parent families, undermotivated pupils and greater pressure for results.

3.5 At the same time, there have been some improvements in the pupil/teacher ratio over the past number of years. Enrolments at second level are expected to drop significantly over the next ten years, while at primary level, enrolments have been falling steadily in recent years and this trend is expected to continue in the years ahead.

3.6 The *PCW* Agreement reached with the teachers' unions focused to a considerable extent on pensions issues, including improved pension arrangements in relation to part-time teachers, early retirement schemes, and purchase of non-pensionable service (these are outlined in Section 3.6).

The Agreement also included measures designed to secure the integrity of the school year and to implement the school management proposals contained in the education White Paper.

3.7 There have always been temporary and part-time teachers at both primary and second level.

4. *Health*

4.1 In the health area, the health strategy statement, *Shaping a Healthier Future*, has redefined the core role of the Department of Health and Children in promoting more effective health and social services: this involves the better targeting of resources towards preventative measures, changing the focus from treatment of illness towards lifestyle improvements and community-based supports and emphasising equity, quality of service, and accountability to users of the services.

4.2 Insofar as a trend for employment in the health service can be discerned, it would be towards less temporary employment and more part-time employment (including permanent part-time employment). In addition, there are indications that there will be pressure to make the job-sharing scheme more flexible in the health area, along similar lines to the changes envisaged for the civil service.

4.3 Given the highly labour-intensive nature of the health service, the Department of Health and Children has advised that there is a case for reviewing traditional work patterns and practices with a view to introducing the flexibility necessary in order to facilitate the deployment of staff in response to service requirements.

4.4 In the particular case of nursing, the *Report of the Commission on Nursing* (1998) has stressed the need for greater flexibility in hours worked, given that it is a predominantly female profession. It has recommended that the Health Service Employers Agency and the nursing unions develop an agreed framework for the provision of permanent part-time contracts of employment for nurses and midwives. The Report supports the view that the level of temporary employment in the service should be kept to the minimum level consistent with operational requirements. It recommends that opportunities for increased use of care assistants and other non-nursing personnel in the performance of non-nursing tasks be examined.

5. *Garda Síochána*

5.1 The *Report of the Steering Group on the Efficiency and Effectiveness of the Garda Síochána* (1997) emphasised the importance of clarifying the core roles and functions of the Garda Síochána and the need to target resources in a more strategic manner. The report places major importance on delivering the policing service, performance management (at individual and organisational level), and control and accountability. The report recommends an accelerated move towards civilianisation of the more routine clerical and administrative functions, thus releasing more Gardaí for operational duties.

6. *Defence Forces*

6.1 Change in the Defence Forces has been underway since 1993, through the report of the Efficiency Audit Group (1994), the *Review of the Defence Forces 1995* (1995), and the *Defence Forces Review Implementation Plan — Phase I* (1996). A White Paper on Defence has recently been published by the Department of Defence.

6.2 It might be noted that the earlier report of the (*Gleeson*) *Commission on Remuneration and Conditions in the Defence Forces* (1990) recommended that a fundamental revision of the

Defence Forces Pension Schemes should be undertaken and highlighted various aspects of the existing arrangements requiring detailed examination in that context. That Commission concluded that the existing arrangements could not be justified on a manpower basis and that fundamental change was required to ensure that the pensions schemes met manpower policy requirements in a cost effective way as well as being fair to different groups of Defence Forces personnel.

6.3 The review of the Defence Forces identified the high age profile of military personnel at all levels as a key issue. Within the required programme of reform, it recommended the development of a manpower policy with the emphasis on lowering the age profile and involving the adoption of a voluntary early retirement (VER) scheme along with continuous recruitment. Such a scheme was implemented over the period 1996-98.

7. *Non-commercial state-sponsored bodies (NCSSBs)*

7.1 There are a wide range of separate bodies under this heading. FÁS and Teagasc, two of the largest NCSSBs, were taken as representative of these.

7.2 Since 1990, FÁS has negotiated a programme for change with its staff which aims to realise major productivity improvements throughout the organisation. FÁS has advised that atypical employment will grow in the medium term, principally with a growth in the numbers of part-time and temporary employees.

7.3 Teagasc has also have experienced a major increase in temporary employment, which is expected to continue. There has been a rapid increase in numbers of staff job-sharing.