

DRAFT

The value to early
career teachers of
participation in the final
salary Public Sector
Pension Scheme

March 2017

1. Introduction and purpose of report

This report assesses the value to early career teachers of their participation in the final salary Public Sector Pension Scheme. It follows on from our report issued on 30th January 2017 on the Single Public Service Pension Scheme and should be read in conjunction with that report.

Pre 01 January 2013 Pension Scheme Arrangements

A defined benefit final salary based scheme applies for public servants employed before 1 January 2013. The terms of the scheme were altered over time but the terms for Full PRSI (Class A) who joined on or after 1 April 2004 are as outlined below.

Final Salary Scheme	Public Servants
Retirement age	65 with an ability to retire earlier
Pension earned in a year	1/200 of pensionable remuneration up to 3.5 times the State pension Plus 1/80 of any pensionable remuneration above 3.5 times the State pension Maximum of 40 years' service for pension accrual
Lump sum earned in a year	3.75% of pensionable remuneration
Public servant's contribution	3.5% of net pensionable remuneration ¹ plus 3.0% of pensionable remuneration

Besides the contributions defined as part of the pension scheme, public servants also pay a pension related deduction (PRD), which in 2017 is:

Earnings between €28,750 and €60,000	10.0%
Earnings over €60,000	10.5%

In addition, in common with other workers, public servants in the above category are entitled to the State Pension (Contributory) and they pay the same PRSI contributions as private sector workers towards this pension. The scheme design incorporates allowance for the State Pension ensuring that there is no duplication of benefit.

¹ Pensionable remuneration less twice the State contributory pension

2. **Method and Assumptions**

Our process of assessing the value of pensions and choosing appropriate assumptions is unchanged from our 30th January 2017 report. The only difference in assumptions made for this report is that of pension increases in payment. For the final salary public sector pension scheme, pension increases have been assumed to reflect pay parity; for the Single Public Service Pension Scheme, pension increases were assumed to reflect inflation.

Our assumptions can be summarised as follows:

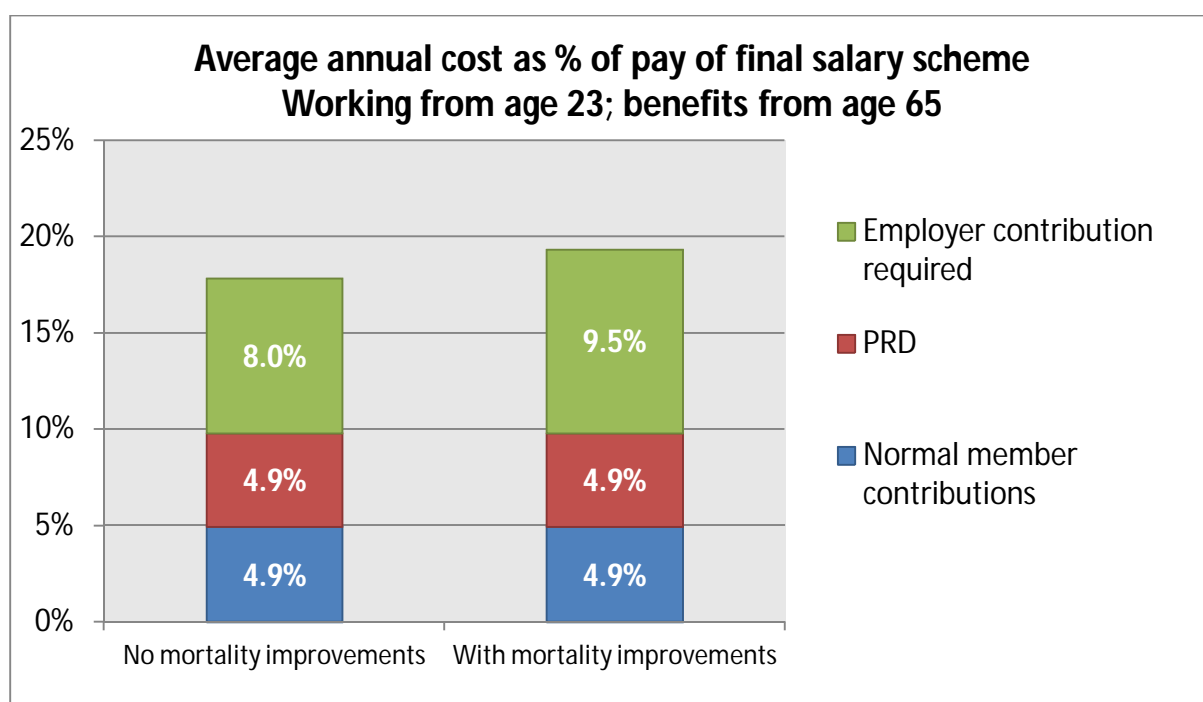
Final Salary Scheme	Assumptions
Pre-retirement discount rate	4.00% p.a.
Post-retirement discount rate	3.00% p.a.
Inflation	1.50% p.a.
Salary growth (in addition to salary scale)	2.25% p.a.
State pension growth	2.25% p.a.
Pre-retirement mortality	Ignored
Post-retirement mortality	58% ILTM15/62% ILTF15 There are two scenarios looked at: <ol style="list-style-type: none">1. No future mortality improvements2. Future mortality improvements in line with Society of Actuaries guidance for leaving service transfer values

We have chosen the same sample teachers for our scenarios below as per the January 2017 report, assuming they joined in 2016 on the pre 2013 final salary pension scheme terms.

3. Results – joiner at age 23 retiring at age 65/68

After working for 42 years from age 23 to age 65 (with service capped at 40 years for benefit purposes), our figures show estimated retirement benefits as follows:

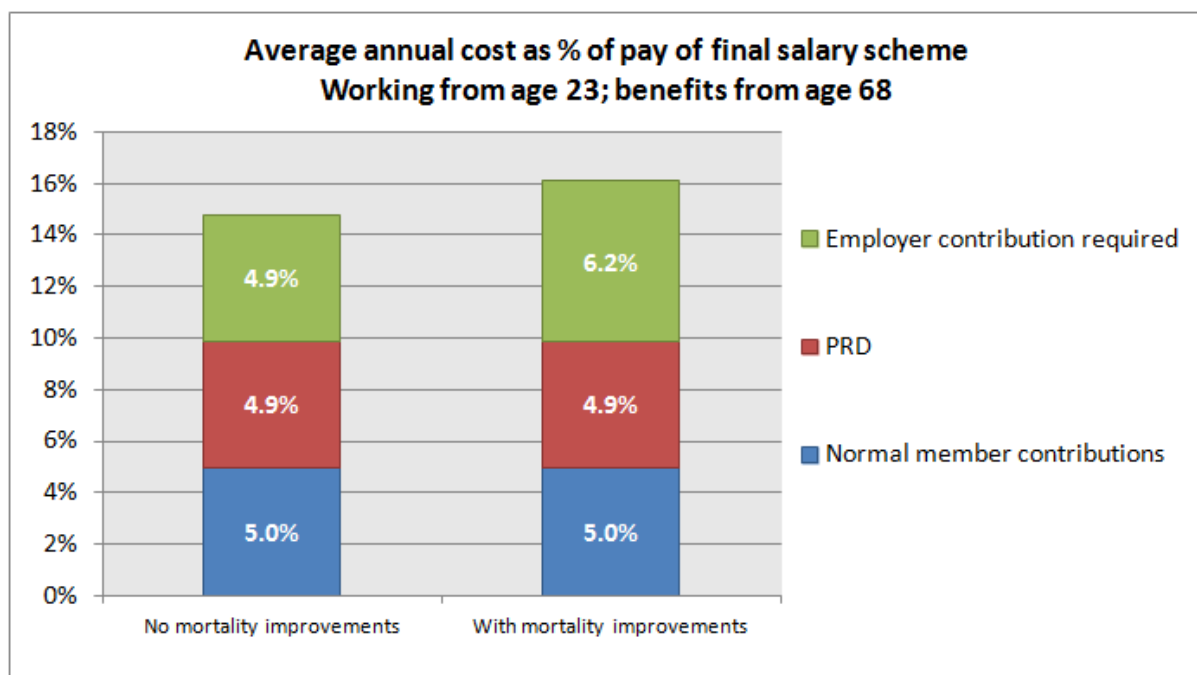
Scheme pension as % of retiring salary	32%
State pension as % of retiring salary	18%
Total pension as % of retiring salary	50%
Lump sum gratuity as % of retiring salary	150%
Average scheme pension (%) per year worked	0.76%
Average lump sum gratuity (%) per year worked	3.57%



On our assumptions, and based on this example, a public servant would contribute 51% - 55% of the cost of the public service pension received (including PRD).

Were this joiner to retire at age 68 having worked 45 years (with service capped at 40 years), the results would be:

Scheme pension as % of retiring salary	32%
State pension as % of retiring salary	18%
Total pension as % of retiring salary	50%
Lump sum gratuity as % of retiring salary	150%
Average scheme pension (%) per year worked	0.71%
Average lump sum gratuity (%) per year worked	3.33%

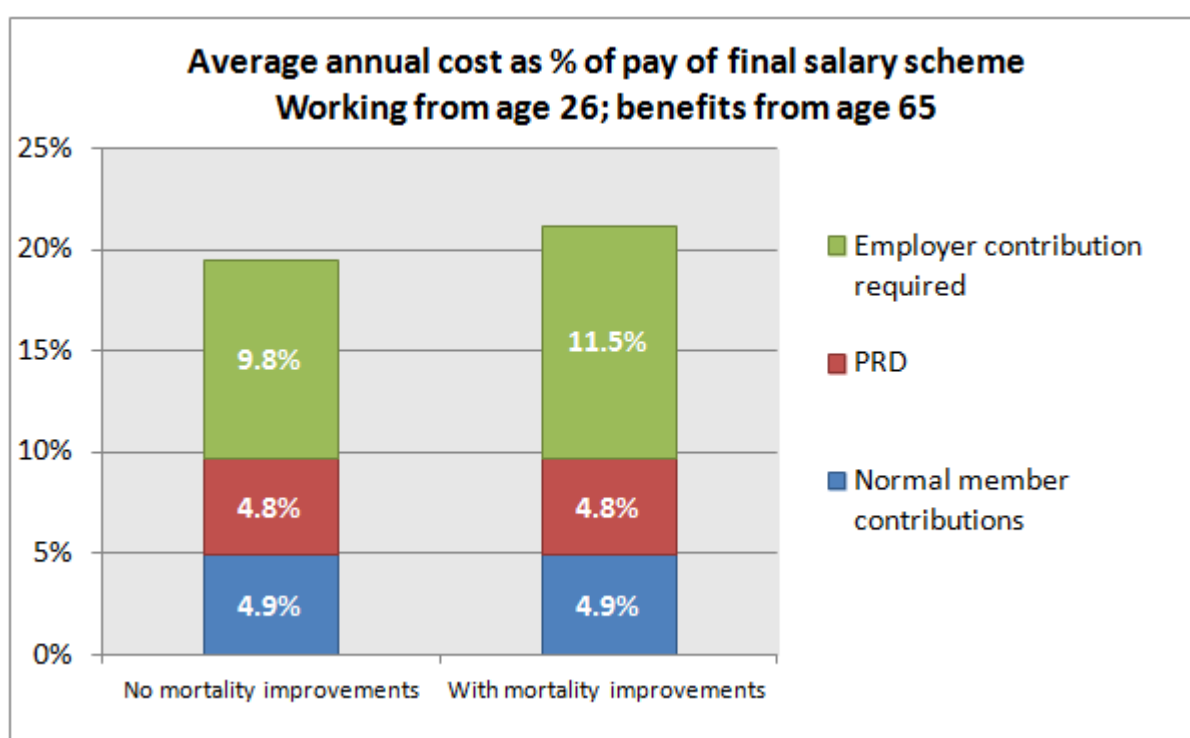


On our assumptions, and based on this example, a public servant would contribute 61% - 67% of the cost of the public service pension received (including PRD).

4. Results – joiner at age 26 retiring at age 65/68

After working for 39 years from age 26 to age 65, our figures show estimated retirement benefits as follows:

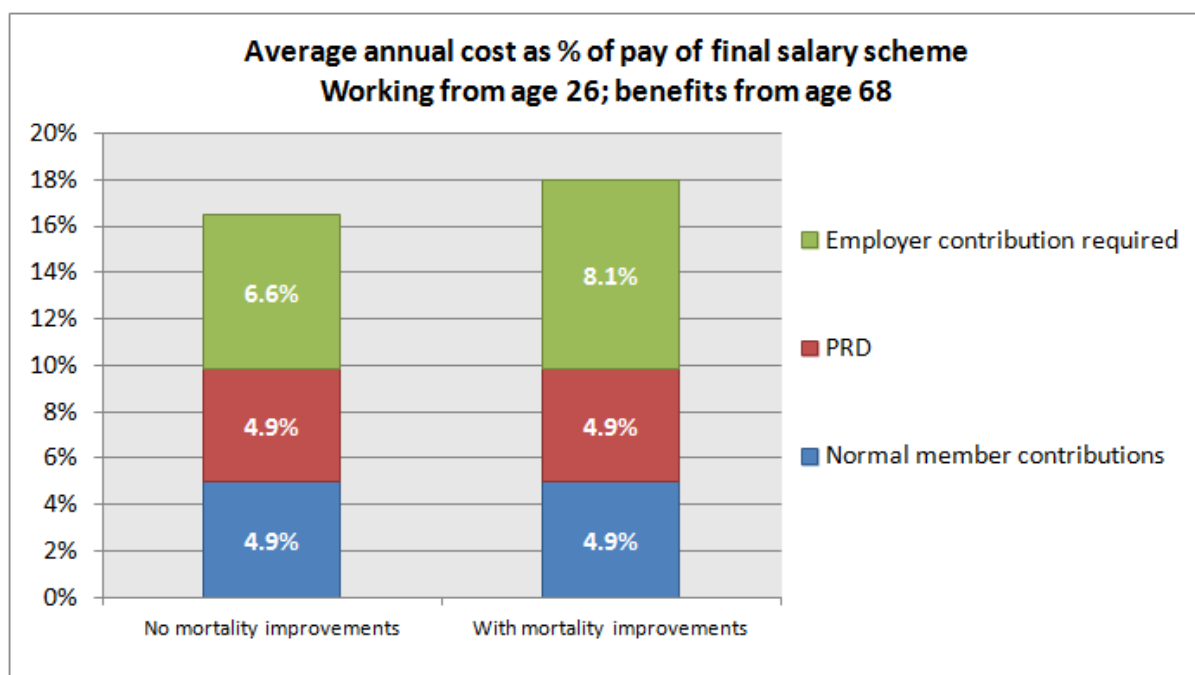
Scheme pension as % of retiring salary	31%
State pension as % of retiring salary	18%
Total pension as % of retiring salary	49%
Lump sum gratuity as % of retiring salary	146%
Average scheme pension (%) per year worked	0.80%
Average lump sum gratuity (%) per year worked	3.75%



On our assumptions, and based on this example, a public servant would contribute 46% - 50% of the cost of the public service pension received (including PRD).

Were this joiner to retire at age 68 having worked 42 years (with service capped at 40 years), the results would be:

Scheme pension as % of retiring salary	32%
State pension as % of retiring salary	18%
Total pension as % of retiring salary	50%
Lump sum gratuity as % of retiring salary	150%
Average scheme pension (%) per year worked	0.76%
Average lump sum gratuity (%) per year worked	3.57%

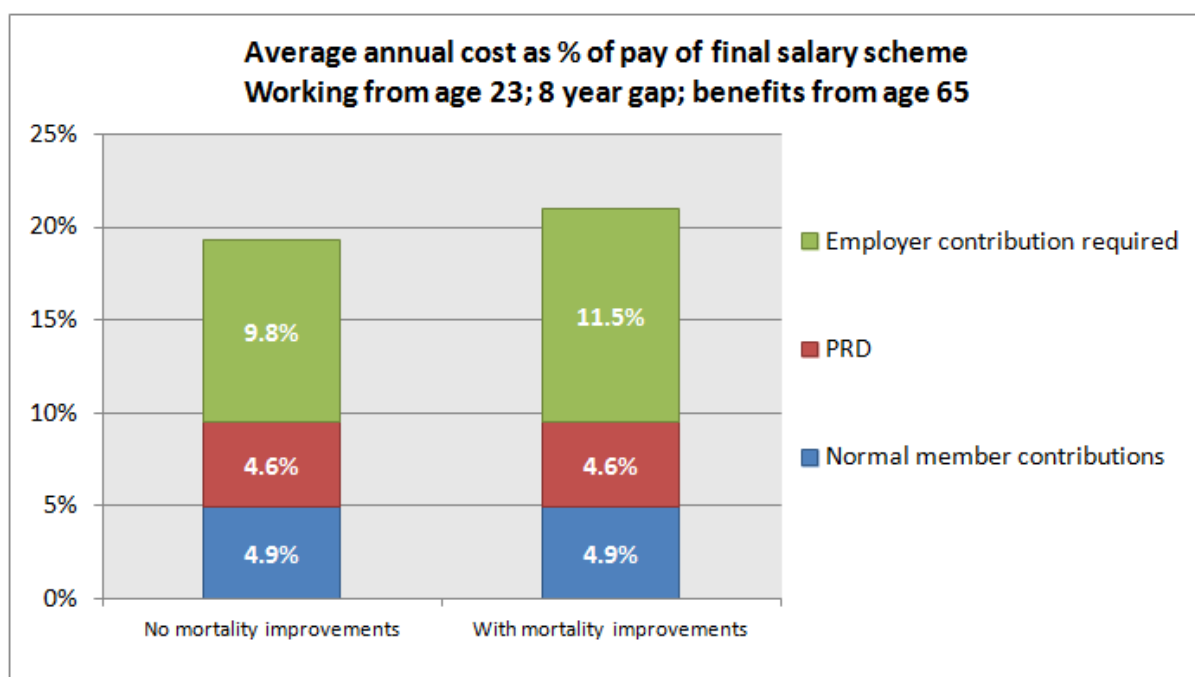


On our assumptions, and based on this example, a public servant would contribute 55% - 60% of the cost of the public service pension received (including PRD).

5. Results – joiner at age 23 retiring at age 65/68 with 8 years’ total career break

After working for 34 years from age 23 to age 65 with an 8 year break, our figures show estimated retirement benefits as follows:

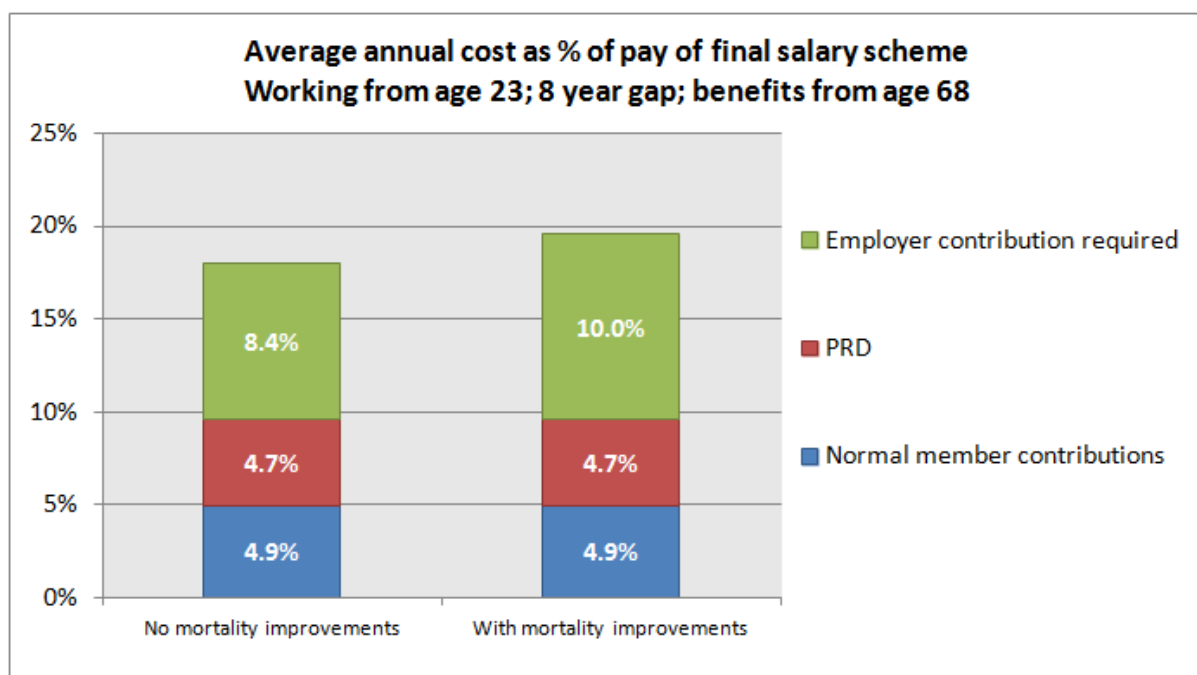
Scheme pension as % of retiring salary	27%
State pension as % of retiring salary	19%
Total pension as % of retiring salary	45%
Lump sum gratuity as % of retiring salary	128%
Average scheme pension (%) per year worked	0.79%
Average lump sum gratuity (%) per year worked	3.75%



On our assumptions, and based on this example, a public servant would contribute 45% - 49% of the cost of the public service pension received (including PRD).

Were this joiner to retire at age 68 having worked 37 years, the results would be:

Scheme pension as % of retiring salary	30%
State pension as % of retiring salary	18%
Total pension as % of retiring salary	48%
Lump sum gratuity as % of retiring salary	139%
Average scheme pension (%) per year worked	0.80%
Average lump sum gratuity (%) per year worked	3.75%



On our assumptions, and based on this example, a public servant would contribute 49% - 53% of the cost of the public service pension received (including PRD).

6. Conclusion

We summarise our results below:

Normal Retirement Age 65

Age of teacher joining the final salary scheme	23		26		23 with career break	
	N	Y	N	Y	N	Y
Mortality improvements?						
Assumed life expectancy for a male at age 65	Age 86	Age 90	Age 86	Age 89	Age 86	Age 90
Assumed life expectancy for a female at age 65	Age 88	Age 91	Age 88	Age 91	Age 88	Age 91
Years of service from date of joining until age 65	42		39		34	
Scheme pension as % of retiring salary	32%		31%		27%	
State pension as % of retiring salary	<u>18%</u>		<u>18%</u>		<u>19%</u>	
Total pension as % of retiring salary	50%		49%		45%	
Lump sum gratuity as % of retiring salary	150%		146%		128%	
Average scheme pension (%) per year worked	0.76%		0.80%		0.79%	
Average lump sum gratuity (%) per year worked	3.57%		3.75%		3.75%	
Average equivalent member final salary cost	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
Average equivalent member PRD cost	<u>4.9%</u>	<u>4.9%</u>	<u>4.8%</u>	<u>4.8%</u>	<u>4.6%</u>	<u>4.6%</u>
Average equivalent annual member total cost	9.8%	9.8%	9.7%	9.7%	9.5%	9.5%
Employer cost	<u>8.0%</u>	<u>9.5%</u>	<u>9.8%</u>	<u>11.5%</u>	<u>9.8%</u>	<u>11.5%</u>
Total cost of benefits	17.8%	19.3%	19.5%	21.2%	19.3%	21.0%
Average percentage of cost paid by member	55%	51%	50%	46%	49%	45%
Annual employer cost required, disregarding PRD	12.9%	14.4%	14.6%	16.3%	14.4%	16.1%

Normal Retirement Age 68

Age of teacher joining the final salary scheme	23		26		23 with career break	
	N	Y	N	Y	N	Y
Mortality improvements?						
Assumed life expectancy for a male at age 68	Age 87	Age 90	Age 87	Age 90	Age 87	Age 90
Assumed life expectancy for a female at age 68	Age 89	Age 92	Age 89	Age 91	Age 89	Age 92
Years of service from date of joining until age 68	45		42		37	
Scheme pension as % of retiring salary	32%		32%		30%	
State pension as % of retiring salary	<u>18%</u>		<u>18%</u>		<u>18%</u>	
Total pension as % of retiring salary	50%		50%		48%	
Lump sum gratuity as % of retiring salary	150%		150%		139%	
Average scheme pension (%) per year worked	0.71%		0.76%		0.80%	
Average lump sum gratuity (%) per year worked	3.33%		3.57%		3.75%	
Average equivalent member final salary cost	5.0%	5.0%	4.9%	4.9%	4.9%	4.9%
Average equivalent member PRD cost	<u>4.9%</u>	<u>4.9%</u>	<u>4.9%</u>	<u>4.9%</u>	<u>4.7%</u>	<u>4.7%</u>
Average equivalent annual member total cost	9.9%	9.9%	9.8%	9.8%	9.6%	9.6%
Employer cost	<u>4.9%</u>	<u>6.2%</u>	<u>6.6%</u>	<u>8.1%</u>	<u>8.4%</u>	<u>10.0%</u>
Total cost of benefits	14.8%	16.1%	16.4%	17.9%	18.0%	19.6%
Average percentage of cost paid by member	67%	61%	60%	55%	53%	49%
Annual employer cost required, disregarding PRD	9.8%	11.1%	11.5%	13.0%	13.1%	14.7%

We have focused our results on early joiners (i.e. 23 and 26) as we understand the vast majority of teachers join at or around these ages and stay for their full career. For joiners at older ages, the member costs reduce as a percentage of overall costs, however we believe that the majority join as teachers at relatively young ages.

Based on the assumptions and methodology stated, early career teachers would pay from 45% to 67% of the cost of the public service pension received, if the terms of the final salary public sector pension scheme applied. In the majority of the scenarios looked at, the employer contribution required is less than that payable by the member (being the member contribution plus PRD).

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Appendix

Earnings of a September 2016 Entrant to Teaching before adjustment for future inflation and general salary increases in excess of inflation.

Point on scale	Total
1	€32,472
2	€36,843
3	€38,723
4	€39,482
5	€40,551
6	€41,843
7	€43,292
8	€44,752
9	€45,972
10	€48,150
11	€49,504
12	€51,122
13	€52,732
14	€54,354
15	€55,710
16	€57,506
17	€57,506
18	€57,506
19	€59,982
20	€59,982
21	€59,982
22	€59,982
23	€63,254
24	€63,254
25	€63,254
26	€63,254
27	€66,869

Long service allowance on completion of 10 years at the top of the salary scale has also been reflected in calculations within this report.