ASSOCIATION OF GARDA SERGEANTS AND INSPECTORS

Submission on the Value of AGSI Pensions

Contents

Introduction

The Association of Garda Sergeants and Inspectors (AGSI) were invited to make a submission to the Public Service Pay Commission (PSPC) in respect of its first module on unwinding the Financial Emergency Measures in the Public Interest (FEMPI) legislation.

The Association of Garda Sergeants and Inspectors reserved the right to correspond with the PSPC on matters relating to pay.

AGSI note the PSPC will take into account the value of pensions in its work and may rely on the Department of Public Expenditure (DPER) estimates of the value of these pensions. In light of this AGSI make the following submission in relation the value of pensions to our members.

At the outset it is important to say that AGSI sought from the PSPC the methodology and assumptions applied by DPER when undertaking their exercise but regrettably it was not made available.

That said, AGSI did consider the matter and have important observations to make which may assist in bringing clarity to the reality of pensions for our members.

The value of Garda pensions have been considered previously and AGSI does not propose to re-examine historic data. AGSI will focus on current pay scales, current pension's contributions and pension related deductions (PRD) in presenting the situation as it currently stands for our members.

Determining the value of AGSI members' pensions

Forced Early retirement

It is important to contextualise Garda pensions within Government policy.

Gardaí, have conditions attaching to their retirement age which are unique and different to other civil or public sector workers. Indeed these conditions are applied as part of government policy.

It is Government policy that Gardaí who joined An Garda Síochána after 2004 must retire at 55 years of age unless the Garda Commissioner deems the fit for duty. There is an annual assessment of their capability to continue in service after 55 until they reach 60 years of age when they are compulsory retired.

Government are considering an increasing the retirement age for Gardaí beyond 60 years of age. Indeed statements from Government Ministers indicate that any consideration to increasing the retirement age within the civil service will exclude Gardaí.

It is therefore vital that in considering Garda pensions this important fact is borne in mind.

The consequence of forced early retirement means our members are deprived of full earnings over a period which impacts their earning capability.

Avoid over-reliance on prevailing market conditions

Having consulted with outside experts AGSI are concerned that there may be an over-reliance on prevailing market conditions.

As of now, AGSI is unaware of the DPER methodology and assumptions. Our advice is that one possible method of valuing public servant pensions is to assess the value of pensions by reference of course to life expectancy but also to prevailing interest rates and/or the rate of return on assets that pension contributions might ordinarily be invested in in the context of funded pension arrangements.

Valuation by reference to prevailing market conditions could mean that the calculated value of defined benefit pensions fluctuates considerably from year to year.

AGSI do not believe that it is sensible to apply a methodology which is vulnerable to significant fluctuation by reference to prevailing market conditions as there is unlikely to be a mechanism which would rebalance pay in the event of a significant increase in interest rates or asset returns, both of which would reduce the measured cost of pensions if valued by reference to prevailing conditions.

Current interest rates have been heavily influenced by Quantitative Easing which has reduced both short and long-term Eurozone interest rates to historically low levels. These historically low interest rates are not a reflection of interest rates that can be anticipated over the medium term.

AGSI favour the use of a method and associated assumptions that fairly arrive at the cost of retirement benefits taking into account long-term conditions. Such an approach would not result in significant shifts in the measured costs of pensions from year to year.

Acknowledge full public servant contributions including pension related deduction (PRD)

Public servants pay an additional amount known as Pension Related Deductions RD, which in 2017 is:

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

The status of the PRD has caused confusion. Sometimes, it appears to be treated by Government as an additional pension contribution while at other times tactically it appears to be treated by Government as a pay cut.

The combined ordinary pension contributions and PRD mean that public servants are paying a substantial contribution towards the cost of their pensions. A fact that is often overlooked by commentators and Government spokespersons when considering the overall contributions made by public servants.

Accelerated accrual for pre-2013 joiners fulfils Government policy regarding retirement ages and must be treated separately

The cost of retirement provision for AGSI members should be split into two components:

(a) That relating to the normal cost of retirement
(b) The additional cost as a result of public policy of earlier retirement

We cannot support the cost of (b) being incorporated as an element of pay since it is a reflection of Government policy.

Accelerated accrual has historically been calculated on the basis that the public service pension payable to a person forced to retire early is the same (together with State pension or supplementary pension if applicable) as that payable to a person who can retire at the normal retirement age. The arrangements for accelerated accrual for pre-2013 members satisfies this objective.

AGSI members are required to retire at age 55. Ignoring inflation and based on a pre-retirement salary of €57,774[1], an **AGSI member receives just over €23,000 less per annum[2] in each of the 10 years between 55 and 65 as opposed to an equivalent public servant** who is allowed to continue working. Cumulatively, the differential is just over €230,000 over 10 years.

This shorter career span has the potential to impact on matters such as

a. The level of mortgage which can be obtained as typically mortgage providers will want repayment prior to retirement and
b. The ability to finance children's education. Both can be more challenging in the context of a trend towards later family/home formation.

Despite the lower overall (pay and pension) remuneration received by AGSI members, the cost of providing a pension at age 55 is higher than the cost of providing a pension at a later age. **This additional cost is a consequence of Government policy and cannot in fairness be set against the pay of AGSI members.**

The appropriate value of the pension of AGSI members should be established as the cost of providing pensions to public servants at the age of 65, <u>with any additional costs simply reflecting Government policy.</u>

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[1] PRSI Class A with at least 12 years' service as Sergeant

[2] Measuring gross pay less pension contributions less PRD for employed persons and gross pension for retired persons.

Accelerated accrual for Single Scheme members is not aligned to Government policy and is flawed

A relatively straightforward approach previously applied to the calculation of pensions for pre-2013 joiners, namely that service in excess of 20 years was doubled subject to a maximum allowable amended service of 40 years. This means that such members retiring after at least 30 years' service will receive a full 50% pension.

The same approach applies to the calculation of lump sum gratuities for pre-2013 joiners, with the result that the full 150% lump sum gratuity applies after the completion of at least 30 years' service.

Inferior accelerated terms apply to members of the Single Scheme which will result in these members being unable to retire with any sense of financial stability at the forced retirement ages that apply.

In simple terms, an average uplift of 33% applies to final salary members as effectively 40 years was counted for members completing at least 30 years' service.

	Standard	Accelerated (effective)	Uplift
Pre-2013			
Pension accrual - first €41,000 of earnings	0.500%	0.667%	33%
Pension accrual - earnings over €41,000	1.250%	1.667%	33%
Lump sum accrual	3.750%	5.000%	33%
Single Scheme members			
Pension accrual - first €46,000 of earnings	0.580%	0.580%	0%
Pension accrual - earnings over €46,000	1.250%	1.430%	14%
Lump sum accrual	3.750%	4.290%	14%

The new Single Scheme terms allow for uplifts of between nothing[3] and 14%. While in the past, the accelerated accrual resulted simply in the loss of the difference between salary and pension for 10 years, for Single Scheme members, those forced to retire will lose both salary for a number of years but also their pensions for life will be significantly lower than for public servants with otherwise similar pay profiles during their career but who are allowed to continue working.

AGSI's projections indicate that all Single Scheme public servant pensions will fall well short of the current 50% level[4], with a likelihood that the combined pension will be around 43-45% of salary for a public servant retiring at age 65 given a normal career progression.

Our projections indicate that the combined pension for a Single Scheme AGSI member on accelerated terms retiring at age 55 will be approximately 38-40% of salary.

[3] In respect of pension accrual for earnings below €46,000.
[4] Combining the public servant and State/supplementary pension.

This very low pension relative to retiring salary challenges the realism of the current Single Scheme terms for those required to retire before the standard normal retirement age range of 65-68.

Ability to Enjoy our Pension

There is a perception about that member of An Garda Síochána have a gold plated pension, significantly better than any other civil servant. Evidence would suggest the contrary.

Taken in isolation pensions, and in the absence of full information, people might be forgiven for misunderstanding the reality of the situation. The value of a pension is only worthwhile if the person can enjoy it. Policing is a 24/7/365 job and this means there is a full time need for members to provide this service. There is clear evidence that people who work shift pattern are exposed to health risks that other people are not. Additionally there is a greater risk of the police offers suffering injury on duty while working and contracting illnesses such as hepatises.

There are currently only c 8,000 retired members drawing pension. This is a clear indication that the opportunity to enjoy a long and extended retirement after a career in An Garda Síochána is reduced. It can only be speculated that the reduced opportunity to benefit from a long life in retirement and subsequently be a serious burden on the state pension scheme is reduced for Gardaí because of the nature of the work they perform in service.

Appropriate allowance for value of pension

Taking into account the requirement to take a long-term view to arrive at values that are robust and likely to stand the test of time, we have sought actuarial input into this matter and our conclusions are as below:

(a) The long-term employer cost of pensions for pre-2013 members is approximately 11%-12% of pay if the PRD is ignored or 6.5%-7.5% of pay if the PRD is acknowledged. These costs do not allow for the cost of accelerated accrual which is required because of Government policy relating to retirement ages.

(b) The long-term employer cost of pensions for Single Scheme members is approximately 8%-9% of pay if the PRD is ignored or 3.5%-4% of pay if the PRD is acknowledged. These costs do not allow for the cost of accelerated accrual which is required because of Government policy relating to retirement ages.

(c) Improvements are required to the accelerated accrual model for Single Scheme members to enable affected public servants to retire on a financially stable basis. The model should satisfy the original objective that those forced to retire early can accumulate a pension equivalent to those allowed to retire later.

All of these figures allow for typical career and pay patterns for our members.

Appendix 1: Actuarial Assessment of AGSI members Pensions

Background and principles

We note the PSPC will take into account the value of pensions in its work and may rely on DPER estimates of the value of these pensions.

We believe that the value of AGSI members' pensions should follow the principles noted below:

1. Any valuation of pension for the purposes of the PSPC work will presumably be used over the long-term and hence should be based on long-term norms rather than short-term conditions which at present are heavily influenced by Quantitative Easing in Europe which through a programme of extensive Government Bond purchases has skewed the Government Bond markets, depressed interest rates and hence inflated the cost of long-term commitments when measured against short-term conditions.

2. The PRD must be acknowledged either as a pay cut or as a pension contribution. When pay and pension are measured together, it must be appropriately acknowledged.

3. Historically, accelerated accrual arrangements allowed affected public servants to retire with reasonable financial security at an age in line with Government policy. The additional cost of accelerated accrual should be acknowledged as a consequence of Government policy and not as a perk of affected public servants.

4. The other aspect of accelerated accrual – the forced early retirement and hence the reduced career earnings – should be acknowledged as part of the equation.

In our workings, we note that the accelerated accrual arrangements for Single Scheme members are significantly inferior to those applying historically and we believe that these arrangements are inadequate and potentially unworkable. The Single Scheme arrangements do not appear to meet a core objective of enabling those forced to retire early to do so with an equivalent pension to equivalent public servants who may retire at a later age.

Career and salary assumptions

For AGSI members, we assume two career paths (both Class A for illustration):

(A) Join the force at age 22, remain at Garda rank for 9 years, promoted to Sergeant with no further promotion, leaving the service at age 55
(B) Join the force at age 22, remain at Garda rank for 9 years, promoted to Sergeant and after 6 more years promoted to Inspector, leaving the service at age 55

Our projections cover the above career paths and the resultant pension entitlements on the basis of two cohorts:

(i) Pre-2013
(ii) Single Scheme

There are therefore four projections.

In our projections, there is little difference between pre-2004 and 2004-2012 members as we are valuing benefits at the standard retirement age of 55 and hence these are grouped together. The difference in practice is that pre-2004 public servants generally have a right to retire early without actuarial reduction but the benefits at normal retirement age are the same.

It is a reasonable argument to say that the option to retire early is valuable and particularly valuable for those who are financially in a position to avail of it; but the requirement to early retire is different. The requirement to retire early brings with it inflexibility and the loss of full earnings for a period of time.

The salary scales used are as outlined below. In order to establish the cost of pensions for an equivalent public servant who is not required to retire early, we assume that the salary at age 55 is unchanged thereafter with the exception of general pay adjustments.

	Promoted to Sergeant after 9 years as a garda		Promoted to Sergeant after 9 years; promoted to Inspector after a further 6 years	
Age	Rank	Pay (2017)	Rank	Pay (2017)
22	Garda	€25,972	Garda	€25,972
23	Garda	€28,802	Garda	€28,802
24	Garda	€30,334	Garda	€30,334
25	Garda	€32,907	Garda	€32,907
26	Garda	€36,340	Garda	€36,340
27	Garda	€38,610	Garda	€38,610
28	Garda	€40,663	Garda	€40,663
29	Garda	€42,638	Garda	€42,638
30	Garda	€42,638	Garda	€42,638
31	Sergeant	€50,884	Sergeant	€50,884
32	Sergeant	€51,992	Sergeant	€51,992
33	Sergeant	€53,148	Sergeant	€53,148
34	Sergeant	€54,410	Sergeant	€54,410
35	Sergeant	€54,410	Sergeant	€54,410
36	Sergeant	€54,410	Sergeant	€54,410
37	Sergeant	€55,689	Inspector	€58,059
38	Sergeant	€55,689	Inspector	€58,960
39	Sergeant	€55,689	Inspector	€60,449
40	Sergeant	€55,689	Inspector	€62,138
41	Sergeant	€55,689	Inspector	€62,138
42	Sergeant	€55,689	Inspector	€62,138
43	Sergeant	€57,774	Inspector	€63,833
44	Sergeant	€57,774	Inspector	€63,833
45	Sergeant	€57,774	Inspector	€63,833
46	Sergeant	€57,774	Inspector	€63,833
47	Sergeant	€57,774	Inspector	€63,833
48	Sergeant	€57,774	Inspector	€63,833
49	Sergeant	€57,774	Inspector	€63,833
50	Sergeant	€57,774	Inspector	€63,833
51	Sergeant	€57,774	Inspector	€63,833
52	Sergeant	€57,774	Inspector	€63,833
53	Sergeant	€57,774	Inspector	€63,833
54	Sergeant	€57,774	Inspector	€63,833
55	Sergeant	€57,774	Inspector	€63,833

Other assumptions

We have used the following assumptions in order to determine the cost of public servant pensions:

- An appropriate discount rate for converting future pre-retirement sums into the present day is 4% p.a., this being consistent with the expected investment returns from the asset profile adopted by the National Pensions Reserve Fund in respect of funds managed under its discretion. However, an amended discount rate of 3% p.a. is used in the period 55-65 in respect of calculations relating to equivalent public servants who can retire at later ages.
- An appropriate discount rate for converting future post-retirement sums into the present day is 3% p.a. in respect of the period over age 55 and 4% in respect of the period prior to that age (as above). A lower discount rate is applied in respect of the period post-retirement reflecting the normal approach of being more conservative in respect of this period.
- Future inflation of 1.5% p.a.
- Future general pay increases of 2.25% p.a.
- Future State pension increases of 2.25% p.a.
- Life expectancy in line with 58% ILTM15 / 62% ILTF15 – these being the mortality tables and adjustments underlying the transfer value basis which determines the minimum value of defined benefit pension, with an adjustment for mortality improvements in the future in line with that normally adopted in association with these tables[5].
- We assume a married male member who contributes to the spouses' and children's scheme who survives to retirement age and who has normal life expectancy thereafter.

The assumption with regard to future inflation is consistent with current actuarial guidance and the assumptions with regard to the pay and State pension are consistent with inflation and projected economic growth and an assumption that a portion of projected economic growth in excess of inflation will result in increases in pay and pensions in excess of the rate of inflation.

<u>Key findings – loss as a result of early retirement</u>

For the purpose of this section, we have curtailed the long-term presumed improvement in mortality such that the expected payment period is to age 93 (joint life pensions). This is to aid comparability between pre-2013 and Single Scheme members.

Pre-2013 employees who are forced to retire early will lose out during the period from their actual retirement date to the normal retirement date. The loss will reflect the annual difference between salary (net of pension contributions) and pension. There is no further loss after age 65 for pre-2013 employees as the lifetime pension is the same.

Our figures below are in present day terms and in this section only ignore discounting, future inflation, future pension increases and future general pay increases[6].

Single Scheme employees will lose the total amounts stated below, when making the same type of comparison, noting two further factors which must be considered:

- Accelerated accrual Single Scheme members pay a higher contribution than those without accelerated accrual.

[5] The adaption of the standard table for the purposes of transfer values includes allowance for a long-term improvement in life expectancy whereby the expected payment period for a person is approximately to age 93 (allowing for joint life). The mortality improvement assumption presumes a sustained improvement in life expectancy which may not materialise.

[6] Note that for Single Scheme members, we have assumed that the annual adjustment of accrued career average will be 0.75% below general pay increases in order to project pension benefits which are realistic relative to salaries at retirement.

- Accelerated accrual Single Scheme members will receive a lower lifetime pension as the parameters underlying the accelerated accrual are diluted.

A significant portion of the loss is sustained over the first ten years after retirement but other two elements noted above are both significant.

Single Scheme loss of remuneration through forced early retirement

Breakdown of loss	Sergeant	Inspector
Additional pension contributions	€10,900	€12,000
Loss in 10 years after retirement	€290,500	€327,100
Lower capital sum	€8,800	€10,200
Loss in lifetime pension other than 10 years post retirement	€80,100	€93,300
Total loss	€390,300	€442,600

The loss of lifetime remuneration as a result of forced early retirement is illustrated below:

Class A Sergeant

Lifetime remuneration - pay less pension contributions less PRD plus pension plus retirement lump sum	**Net pay**	**Pension excl. State pension from age 65**	**Lump sum**	**Total**	**Reduction in lifetime earnings for forced retirement**
Pre-2013 - normal retirement at age 65	€2,033,800	€461,900	€86,700	€2,582,400	
Pre-2013 - forced retirement at age 55	€1,514,000	€750,700	€86,700	€2,351,400	€231,000
Single Scheme - normal retirement at age 65	€2,033,800	€375,200	€73,100	€2,482,100	
Single Scheme - forced retirement at age 55	€1,503,100	€524,500	€64,300	€2,091,900	€390,200

Class A Inspector

Lifetime remuneration - pay less pension contributions less PRD plus pension plus retirement lump sum	**Net pay**	**Pension excl. State pension from age 65**	**Lump sum**	**Total**	**Reduction in lifetime earnings for forced retirement**
Pre-2013 - normal retirement at age 65	€2,169,500	€546,700	€95,700	€2,811,900	
Pre-2013 - forced retirement at age 55	€1,599,300	€865,900	€95,700	€2,560,900	€251,000
Single Scheme - normal retirement at age 65	€2,169,500	€427,100	€78,700	€2,675,300	
Single Scheme - forced retirement at age 55	€1,587,300	€577,000	€68,500	€2,232,800	€442,500

Significant dilution of Single Scheme accelerated accrual terms

An increase in the lifetime loss of between €159,000 and €191,000 – measuring the lifetime loss of Single Scheme members versus pre-2013 employees is very significant and reflects the dilution of the accelerated accrual of the Single Scheme, together with the increased contributions. These changes may have been introduced without sufficient consideration of the ramifications.

While the Single Scheme is a less favourable system for all public servants, it is not clear to us that a dilution of the terms of accelerated accrual of this scale is consistent with the requirement to retire early and presumably an underlying requirement is that early retirement should be on terms which allow the public servant to retire on a financially sound footing and with dignity.

We project that the Single Scheme pension will be 43-45% of retiring salary (on stated assumptions) for a normal retiree and 38-40% of salary for a forced early retiree[7]. While these percentages may seem similar, a difference of a few percent can make a difference between being able to retire on a financially sound basis and not.

Our projections indicate that accelerated accrual Single Scheme members are paying more for a pension approximately 11% below the pension that a normal retirement Single Scheme member would expect.

The situation is worse when the State pension (or supplementary pension as appropriate) is separated from the calculation as that is expected to be a stable proportion of pay. The actual accelerated accrual Single Scheme pension is less than 80% of the normal retirement Single Scheme pension in our projections when viewed on a stand-alone basis without the State pension / supplementary pension.

Key findings – value of public sector pensions for AGSI members

Taking into account only the value of pensions attributable to those retiring at the normal retirement age, and thereby accepting that the additional costs associated with early retirement are a cost of Government policy, the appropriate values are as follows:

Employer cost of pensions	Ignoring PRD	Allowing for PRD
Pre-2013 Sergeant	10.8%	6.5%
Pre-2013 Inspector	12.3%	7.6%
Single Scheme Sergeant	8.1%	3.8%
Single Scheme Inspector	8.7%	4.0%

The costs quoted above ignore the additional costs of accelerated accrual and early retirement which reflect Government policy. All costs are net of member contributions, and PRD if stated.

We could contemplate placing a higher value on accelerated accrual and early retirement if this was an option rather than a requirement.

Please note that the costs for different constituencies within the public sector will vary depending on career progression. We have noted that the costs of AGSI members for final salary are somewhat lower than for groups who are capable of steeper pay progression while conversely the Single Scheme costs are a little higher than groups who are capable of steeper pay progression. The relatively short period over which earnings of AGSI members build to their plateau level is the reason for this result.

[7] These figures based on AGSI members' profile of career earnings.