1. Introduction and purpose of report

The purpose of this report is to respond to the Department of Public Expenditure and Reform Technical Paper entitled "Actuarial Review of Pension Provision in the Irish Public Service and a Comparison with the Private Sector"

We note that this report was issued by the DPER on 30th March 2017, with responses required by 3rd April 2017. It is unusual in our experience for interested parties to be given such a short timeframe to comment on a paper which is potentially of importance to the employment terms of so many public servants.

2. Earnings Compensation

We compare the Garda examples supplied in the DPER report, for the post-2004 and post-2013 groups, with the samples chosen for our report dated 20 March 2017:

	AGSI Accelerated Accrual - Trident	Garda Fast Accrual - DPER
Retirement Age	55	55
Age at Entry	22	25
Salary Scale Sergeant	€25,972 at 22 to €57,774 at 55	€28,400 at 25 to €60,000 at 55
Salary Scale Inspector	€25,972 at 22 to €63,833 at 55	€28,400 at 25 to €60,000 at 55

We note the retirement age of 55 being assumed for pension cost purposes by DPER and therefore, it is essential in our opinion that annual salary is also considered, to enable a proper comparison.

It is our understanding that an entry age of 22 is more typical than that assumed in the DPER report.

As it stands, the report focuses on higher pension costs for AGSI members, which are caused by the requirement to build up adequate retirement benefits over a shorter career. The report does not consider the significant loss of earnings due to retirement at age 55.

Per our report of 20 March 2017, this loss of earnings ranges from €231,000 to €442,500, based on the examples below.

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.

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.
- 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

Our figures above are in present day terms and in this section only ignore discounting, future inflation, future pension increases and future general pay increases[1].

3. Assumption Review

While the timeframe is too short to undertake a full comparison of the impact of the DPER assumptions versus ours (per our 20 March 2017 report), I would comment that general salary increases of 3% p.a. with a salary scale in addition seem high in our opinion. The inflation

[1] 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.

assumption at 2% p.a. could also be seen as high – the rate we have used of 1.5% p.a. seems equally justifiable.

Pension increases have been assumed to keep pace with pay parity and I would question the likelihood of this in practice given our understanding of Government policy. On the other hand, if public servants are being told through this report that future pension increases on a pay parity basis reflect Government policy, then this should be formalised.

Costs have also been provided in the DPER report where pension increases are linked to CPI instead. This seems a more reasonable assumption to us and we have referred to this reduced cost below for the post-2004 scheme.

4. Review of Pension Costs

In our opinion, it is not suitable to compare accelerated accrual pension costs for AGSI members if the loss of earnings due to a retirement age of 55 is not also considered. Therefore, we compare below pension costs for AGSI members at **retirement age 65.**

Post 2004 Pension Cost Comparison

The pension costs can be compared as follows:

Post-2004	AGSI Sergeant - Trident	AGSI Inspector - Trident	Garda Fast Accrual - DPER
Total Cost (% of Salary)	15.60%	17.10%	57.00%
Normal Employee Contribution	4.80%	4.80%	4.00%
PRD	4.30%	4.70%	4.00%
Employer Contribution Rate	**6.50%**	**7.60%**	**49.00%**

Given the exclusion of annual salary comparison in the DPER report, the PRD must in our opinion be treated as a pension contribution. The alternative would be to treat it as a pay cut if total earnings were being compared.

The above comparison shows the Garda cost per the DPER report being around 7 times higher than the costs we have calculated. If we reflect the Garda DPER cost on the more reasonable assumption of pension increases reflecting CPI in payment, this reduces the cost by 8%, to give an employer contribution rate of 41%.

The private sector notional employer contribution rate per the DPER report is 11% of salary. While we have some issues with how this is calculated (see below), nonetheless this represents a higher cost than the employer costs we calculate above.

Post 2013 Pension Cost Comparison

The pension costs for the post-2013 pension scheme can be compared as follows:

Post-2013	AGSI Sergeant - Trident	AGSI Inspector - Trident	Garda Fast Accrual - DPER
Total Cost (% of Salary)	12.80%	13.50%	19.00%
Normal Employee Contribution	4.70%	4.80%	5.00%
PRD	4.30%	4.70%	4.00%
Employer Contribution Rate	**3.80%**	**4.00%**	**10.00%**

While the differences are narrower in this comparison, the Garda employer contribution rate is still 2.5 times our AGSI pension costs.

Potential benefits at retirement should also be borne in mind. The reduced nature of the accelerated accrual that applies for AGSI members in the post-2013 scheme means that benefit adequacy at forced early retirement ages may be a material concern for members of this scheme.

5. Comparison of Costs with Private Sector Pension Costs

The notional employer contribution rate for the “private sector equivalents for the public sector posts considered” in the DPER report for the post-2004 group has been calculated as 22% of salary. This is based on a retirement age of 65. This may be appropriate if total earnings over a member’s lifetime were being considered but as this is not the case, the pension costs should be tailored accordingly with the same retirement age used for a more direct comparison. This could increase the contribution requirement sizeably.

Furthermore, we note that the private sector contribution rate deemed to be appropriate for comparison purposes represents 30% of the notional DB employer contribution rate and 70% of the DC employer contribution rate. This 30%/70% split is based on statistics provided by the Pensions Authority regarding pension scheme membership of private sector employees. Presumably, this statistic is based on current membership of a pension scheme; as we are looking at pension costs over a member’s career, it may be more appropriate to consider accrued benefits also. This would be likely to increase the proportion of DB membership.

In terms of the DC employer contribution rate assumed of 7% of salary, does this reflect death in service costs, for a more direct comparison of costs? Also, does it reflect future increases in contribution rates in schemes where the rates increase with age and/or service? It is the average contribution rate over the member’s career that is appropriate. Furthermore, given the assumptions made in the DPER report regarding future financial circumstances together with increasing longevity, the likelihood is that DC contribution rates will come under pressure to increase. These increases have been reflected in the DPER public sector costs and it seems an unfair comparison to exclude them when assessing an appropriate DC contribution.

6. Summary

(a) It is not appropriate in our opinion for the additional costs associated with providing an adequate pension at an earlier retirement age that reflects Government policy to be considered akin to a job perk. In our opinion, the report is inadequate in its treatment of public servants with accelerated accrual. To give perspective, the differential career pay should be considered in conjunction with the differential pension costs.

(b) We are not in agreement with all of the assumptions chosen.

(c) Adequate time should have been provided for stakeholders to analyse the DPER figures, method and assumptions.

(d) We are not in agreement with short-term conditions having a disproportionate effect on decisions. Interest rates are very low at present and this influences views on prospective investment returns. This will not always be the case. Employees will not have an opportunity to seek compensatory pay increases in the event of a future increase in interest rates which reduces pension costs.

(e) The Government should formalise policy with regard to pension increases. If pay parity pension increases are factored into the calculations, there should be a commitment to provide such increases.

Yours sincerely,

JOHN O'CONNELL & RITA-ANNE KEYES
Fellows of the Society of Actuaries in Ireland
3rd April 2017