



Garda Representative Association

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20th April 2017

Mr. Kevin Duffy
Chairman
Public Services Pay Commission
St. Stephens Green House
Dublin 2

Re: **DPER Technical Paper 30th March 2017 - GRA Analysis**

Dear Mr Duffy,

Thank you for furnishing a copy of the DPER technical paper dated 30th March 2017 titled "Actuarial Review of Pension Provisions in the Irish Public Sector and a Comparison with the Private Sector"

We attach our analysis together with submissions arising from our analysis of the DPER document.

We would welcome the opportunity to present our observations to the PSPC in person. We feel that this will greatly enhance our ability to communicate and expand upon our analysis and the reasoning behind our associated submissions.

We look forward to hearing from you.

Yours sincerely

Pat Ennis
General Secretary

cc. Mr. Michael Culhane, Executive Director of Finance, Garda HQ.



- GRA Analysis of DPER Technical Paper - "Actuarial Review of Pension Provisions in the Irish Public Sector and a Comparison with the Private Sector"

GRA Working Document : Updated 20th April 2017

1. Introduction

On 30th March 2017, DPER published the above titled actuarial review. It was prepared by the Actuary to DPER and peer reviewed by KPMG.

2. Key Conclusions

- Differential in Pension Costs : Public Sector Vs. Private Sector (see section 1.3.9)

Notional Employer Rate	Pre-2013 entrants	Post-2013 entrants
Average Public Service Employer Notional Rate (net of employee contribution)	29%*	9%
Private Sector	11%	7%
Differential (% of pensionable salary)	18%	2%

*If pre-2013 public sector pensions were to rise in line with CPI instead of pay, the average public sector employer notional rate would reduce from 29% to 25%.

- Cost of Garda pensions (see section 6.13)

Garda	Pre-2004	Post-2004	Post-2013
Total Cost (% of Pensionable Salary)	58%	57%	19%
Notional Employer Contribution Rate p.a. (after normal employee contribution)	54%	53%	14%
Normal Employee Contribution p.a.	4%	4%	4%
Pension Related Deduction (not taken into account)	4%	4%	4%

If Garda pensions were to rise in line with CPI instead of pay, the cost of Pre-2013 Garda pensions would reduce by 8%, i.e. from 53% to 45%.

3. Key Assumptions

The overall result is expressed as a notional employer pension cost expressed as a percentage of pensionable salary. The calculations are based on the following: -

- Pension Related Deductions (PRD) are not taken into account. If they were, they would reduce the percentage cost of pensions.
- Supplementary Pension and State Contributory Pension are excluded as these are funded by Class A PRSI contributions. If they were included, they would increase the cost of pensions.
- Actuarial discount rate of 3.5% (used for pre and post retirement)



- Inflation rate of 2%
- General salary increases of 1% above inflation assumed.
- Pre-2013 pensions are assumed to increase in line with general salary increases.
- Post-2013 pensions will increase in line with CPI.
- Pre-1995 Class B pensions are excluded.

4. Opportunity Cost of Retiring at 55

Garda post-2004 must retire at age 55, unless sanctioned on an annual basis by the Commissioner to continue to age 60. These Garda must survive to normal state pension age on a pension. There is an opportunity cost associated with being retired before the normal state old age pension age. This is the lost opportunity to earn a full salary at an age when it is difficult to secure alternative employment yet when family expenses and mortgage commitments will still be significant.

Actuaries to the Benchmarking Body in 2007 made specific mention of this opportunity cost but decided not to take it into account.

For a Garda with a salary (including pensionable allowances) of €60,000 retiring on an occupational pension of €18,000 (excluding supplementary pension or contributory old age pension), the loss of approximately €30,000 in annual income up to normal state retirement age (currently 66) is significant.

GRA Submission >

Because of the significant opportunity cost of earning potential foregone from age 55 to age 66, we submit that the PSPC should adjust the value of Garda pensions for the actuarial value of earnings foregone. This will give a more comprehensive picture of the value and real cost of Garda pensions.

5. Sensitivity of PSPC Conclusions to Changes in Assumptions

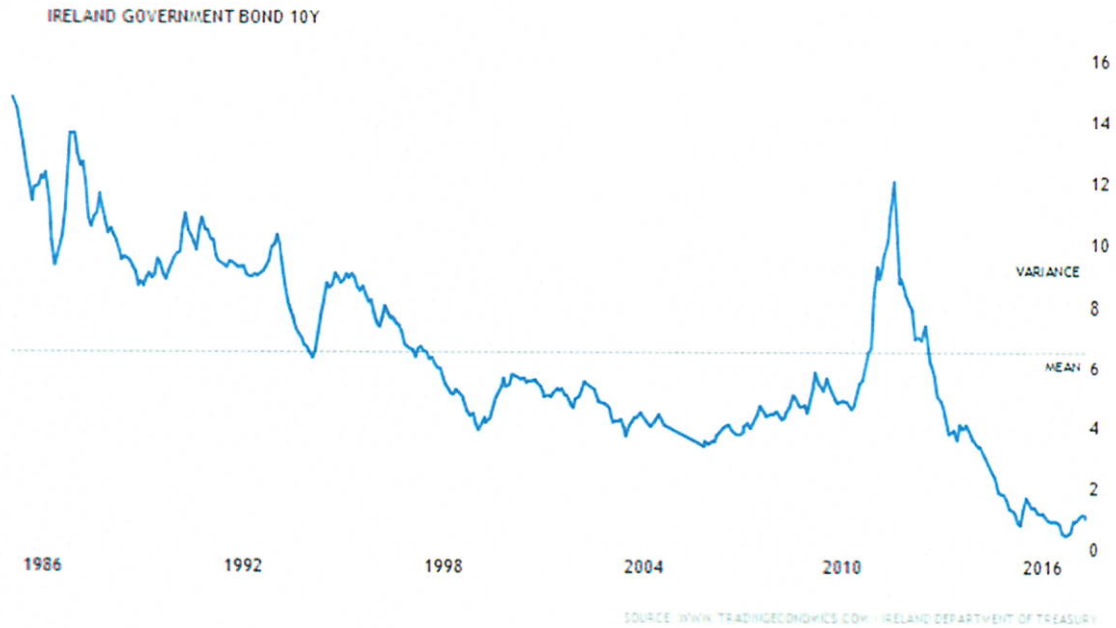
Historically, Ireland Government 10 Year Bonds reached an all-time high of 14.76% in January of 1985 and a record low of 0.35% in September of 2016.¹ The graph below shows that the average interest rate on Government bonds over the last 30 years is in the order of 6.3%

While inflation rates are also historically low in recent years, this does show that current PSPC assumptions on future discount / interest rates (3.5%) may prove to be quite short term.

¹ Source: <http://www.tradingeconomics.com/ireland/government-bond-yield>. This is also the source of the graph of Irish Government Bond yields over the last 30 years.



Irish Government Bond Yields (Interest Rates) over the Last 30 Years



Graph shows percentage Interest rates on 10 Year Government Bonds showing average over the last 30 years.

In chapter 9, the PSPC Actuary calculates the sensitivity of the report conclusions to variations in various factors. Section 9.6 on page 33 shows the sensitivity of the cost of Garda Pensions to changes in basic assumptions.

In the table below, we show how a rise in the discount rate can dramatically reduce the cost of Garda pensions.

PSPC Calculated Cost of Garda Pensions Sensitivity to Discount Rates For Base Case => Pensions Linked to Pay Increases		
Discount Rate or Interest Rate	Cost of Garda Pension*	
	Pre-2013	Post-2013
3.5%	53%	14%
4%	45%	11%
4.5%	37%	8%
5%	29%	5%

* PSPC Cost of Garda Pension net of normal employee contribution but not PRD and with no change to other factors such as inflation. (Based on extrapolation of data in the DPER technical paper)

GRA Submission >

Because of the significant impact of **discount rates** on actuarial calculations, we submit that the PSPC should take into account the ability of the state to make significant returns on long term investment projects with monies that



might otherwise have been set aside to pay for future pension liabilities.

Section 9.6 also sets out the sensitivity of PSPC calculations to reductions in life expectancy. Gardaí work shift work and operate in a stressful work environment. Both of these factors have been shown in many international studies to reduce life expectancy. It is GRA experience that reduced life expectancy is a fact of life for retired Gardaí.

In section 4.11.4, the report projects a current life expectancy² of 86.1 years for male Gardaí and 88.6 years for female Gardaí,

In the table below, we show the impact of reducing life expectancy by up to 5 years.

PSPC Calculated Cost of Garda Pensions Sensitivity to Life Expectancy Base Case => Pensions Linked to Pay Increases		
Male Garda Life Expectancy Years	Cost of Garda Pension*	
	Pre-2013	Post-2013
86.1	53%	14%
85.1	50%	13%
84.1	47%	12%
83.1	44%	11%
82.1	41%	10%
81.1	38%	9%

*Based on extrapolation of data in the DPER technical paper

GRA Submission >

Because of the significant impact of **life expectancy** on actuarial calculations, we submit that the PSPC should adjust for the known impact of shift work and stress-work on the life expectancy of Gardaí as indicated above.

6. Sensitivity of PSPC Conclusions to Two Changes in Assumptions

The above tables show the impact of a single change in basic assumptions.

Where a reduction in life expectancy is combined with a small change in discount rate, we have the following reduction in the cost of the Garda Pension.

² At 65 years of age



PSPC Calculated Cost of Garda Pensions Sensitivity to Life Expectancy & Discount Rate Base Case => Pensions Linked to Pay Increases				
	Life Expectancy Years	Discount Rate	Cost of Garda Pension	
			Pre-2013	Post-2013
Original PSPC Assumptions	*86.1	3.5%	53%	14%
Adjusted Assumptions and Impact	81.1	4.5%	32%	3%

*PSPC assumption on Life Expectancy of male at age 65.

7. Pre-2013 Comparison should be with Private Sector Defined Benefit Schemes

In section 7.7.3, the technical paper attributes a cost of 11% to the private sector schemes that it compares to the state pre-2013 scheme. This 11% is made up of a combination of defined benefit (22% employer cost) and defined contribution schemes (7% employer cost).

In the same way as the technical paper has excluded private sector employments which provide no pension, it should focus only on private sector employments providing defined benefit schemes when making a comparison with the pre-2013 defined benefit schemes in the public sector.

As regards the post-2013 schemes, the paper compares the Single Pension Scheme in the public service with defined contribution schemes in the private sector (7% employer cost). This comparison makes sense as the Single Scheme has many similarities to a defined contribution scheme.

In the following table, we compare our adjusted costs of Garda schemes with the appropriate schemes in the private sector.

PSPC Calculated Cost of Garda Pensions Sensitivity to Life Expectancy & Discount Rate Base Case => Pensions Linked to Pay Increases		
	Cost of Garda Pension	
	Pre-2013	Post-2013
Original PSPC Assumptions	53%	14%
Adjusted Assumptions and Impact	32%	3%
Private Sector Cost	22%	7%

GRA Submission >

Because of the necessity to compare like with like, we submit that the PSPC should only take private sector DB



schemes into account when comparing to the state pre-2013 Defined Benefit scheme. To do otherwise, we submit, is misleading.

Note: The above tables do not take account of the opportunity cost associated with a Garda retiring at age 55 and foregoing the opportunity to earn a full salary to normal state old age pension age (see section 4 above). This opportunity cost is significant.

8. Single Pension Scheme Deficiencies

Currently, the referable amounts in the single scheme are inflated each year in line with CPI. This ignores the fact that wage inflation exceeds CPI over the long term. In section 4.6.1, the technical paper assumes “general salary increases of 1.0% p.a. above inflation”.

The technical paper notes (section 4.6.2) that “a previous review of costs of public sector pensions conducted by the Comptroller and Auditor General in 2009, ..used a real general salary increase rate of 1.75% p.a.”

The technical paper implicitly accepts that wages inflation will exceed CPI. The Single Pension Scheme does not provide for this. The pension pots (referable amounts) of Gardaí under the Single Scheme will fall further and further behind each year.

GRA Submission >

Because of the need for the Single Scheme to adequately grow referable amounts to take account of real wage inflation, we submit that the PSPC should recommend that referable amounts be inflated each year by CPI + a factor to reflect wage inflation.

Actuarial calculations have shown that the Single Scheme accrual rates for Gardaí are not capable of delivering a 50% pension after the normal 30 years of service even if the Garda remains at Garda rank.

GRA Submission >

We submit that the PSPC should recommend that Garda Single Scheme accrual rates be adjusted so as to deliver a realistic prospect for a Garda who remains at Garda rank to receive a 50% pension after the normal 30 years of service.

end

