IRISH HOSPITAL CONSULTANTS ASSOCIATION

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By email and post

Mr Kevin Duffy
Chairman
Public Service Pay Commission
St Stephen's Green House
Dublin 2

Re: DPER Technical Paper: Actuarial Review of Pension Provisions.

Dear Mr Duffy

As outlined in my email to the Commission's Secretary on 3 April, the Association has requested an extension to 20 April to submit its detailed views on the DPER technical paper received on 30 March. Given the complexity of the paper's contents, it is not feasible for the Association to adequately assess the methodology, assumptions, estimates of pension costs and conclusions to comment fully on its contents without the requested extension.

In the interim, I am outlining below the Association's initial comments of the paper and would welcome an opportunity to outline our views in full by letter on 20 April.

1. Comparison by Grades and Professions

The paper includes comparisons for six groupings including average, civil servant, teacher, nurse, engineer and hospital consultant. Taking account of the purpose of the paper and the Commission's terms of reference and the need to ensure full transparency, the Association is strongly of the view that a revised expanded technical paper must be provided by DPER in similar format to the Commission and interested stakeholders. The expanded paper should contain the equivalent detailed assessments for other higher paid civil and public servants. The expanded paper should include detailed assessments for the Secretary General grade. It should also provide detailed assessments for higher grades in the Central Bank, the Workplace Relations Commission, the Labour Court, An Garda Síochána, the Military/Security forces and semi State bodies, the Judiciary, Dáil and Seanad members and government ministers.

Failure to provide detailed assessments for these groups singles out hospital consultants in the paper and there is a very real concern that it could lead to unfair conclusions and recommendations. This would be extremely damaging in the context of the escalating hospital consultant recruitment and retention crisis which is impacting adversely on the delivery of care to patients throughout the acute hospital and mental health services.

2. International and Private Sector Hospital Consultant Remuneration Provisions

As outlined in the Association's submissions to the Commission on 16 December and 15 March, hospital consultants can obtain substantially better remuneration terms based on the combined salary and pension terms abroad and in the private sector. This has resulted in over 400 permanent posts remaining unfilled, a full 15% of the approved consultant posts in the acute hospital and mental health services.

This is evidenced by developments even in the past three months since the Association met with the Commission. In that period, without surveying our members, we are aware of at least ten hospital consultants who have decided to resign from their permanent posts including one member of the delegation which met the Commission. The resignations were in Dublin, Cork, Limerick, Galway and other hospitals located throughout the country. In addition the resignations are across all cohort consultant groups including pre and post 2004, pre and post the introduction of the new entrant consultant discriminatory salary in 2012 and the pre and post career average pension scheme in 2013.

3. Overestimation of State/Employer Contribution

The paper excludes the Pension Related Deduction (PRD) or pension levy, introduced in 2009, in determining the employee contribution towards providing for their benefits. This is only reasonable on the basis that it is a temporary measure which will be removed in full in the near future as the financial crisis has abated.

4. Hospital Consultant Employee Contributions

Hospital consultants currently pay a number of contributions from their monthly salaries to obtain their pension benefit, including:
i) superannuation contributions at 5% of salary;
ii) spouse's/civil partner's and the children's pension scheme contributions at 1.5% of salary;
iii) PRD equivalent to between 8.5% and 9% depending on the consultants salary.

Consequently hospital consultants currently pay 15.5% of their pensionable salaries towards funding their pension benefits, which is significantly more than the level of contributions in other cases.

5. Hospital Consultant Salaries Used in Projections

Pensionable salaries used to project and determine the cost of pension benefits were provided by the HSE and are based on recent consultant retirements. The salary scales of future retirees will be lower as the grace period to retire on the pre 2010 FEMPI cuts has now expired and the 2010 and 2013 FEMPI cuts have yet to be reversed in full for consultants approaching retirement. In addition, new entrant hospital consultants are on salaries up to 30% lower than those retiring hospital consultants. Until the FEMPI cuts are reversed in full and the discriminatory new entrant salaries are removed and salary parity with other consultants is reinstated, the salaries used in projecting hospital consultant future pension benefits represents an overestimation of their benefits and hence the cost to the State.

6. Lower Benefits for Post-2013 Entrants

Hospital consultants who commenced employment post October 2012 have reduced pension benefits as follows:
i) Retirement age has increased to 68 resulting in lower pension payments;

ii) Benefits are based on a career-average instead of a final salary;
iii) Hospital consultants are more likely to have incurred a break in their service while pursuing fellowship and sub-specialty training abroad in the past when arrangements were not in place for a career break for such studies;
iv) Pensions in payment and deferred benefits increase in line with CPI instead of pay parity/salary inflation;
v) Salaries for new entrants are lower than non-new entrant colleagues.

7. Low Bond Yields

The paper argues that current relatively low bond yields have increased the present value of pension liabilities. While this has been correct in recent years it is inappropriate to base what is by its nature a medium to long term pension assessment on what are significantly depressed bond yields. The much lower yields are the result of substantial quantitative easing measures entered into by central banks including the ECB, the Fed, the Bank of Japan and the Bank of England. These institutions have commenced programmes and some have outlined timelines for ending quantitative easing. As the central banks taper back and end their quantitative easing programmes bond yields will increase. Accordingly, there is a stronger reason to expect that bond yields will progressively increase towards historic average levels than has been allowed for in the paper.

Increased bond yields would result in:
i) An increase in the discount factor used;
ii) A decrease in the present value of pension liabilities;
iii) A reduction or elimination of pension deficits and potentially result in pension surpluses;
iv) Reductions in the State's cost of providing public service pensions.

This is highlighted by a sensitivity analysis in section 9 of the report whereby a 0.5% increase in the discount rate would reduce the State's employer contribution by 7% for pre-2013 hospital consultants and by 3% for post-2013 hospital consultants.

To put this in context, the yield on 10 year Irish government bonds at end-March was 0.98% whereas the average yield from January 2002 to end-March 2017 was approximately 4.3%. German Bunds are considered the safest government bonds which can be purchased and have had a safe haven status. Over the same period the average 10 year Bund yield was 2.79% and the 30 year Bund yield was 3.38% versus an assumed bond yield of 1.55% used in the DPER paper to determine the discount factor used to project future pension liabilities and hence the State's cost of meeting these obligations.

There are clear indications in the markets that this is currently happening as historically low bond yields have been increasing since year-end. The yields on 10 year benchmark government bonds from end-December 2016 to end March-2017 have increased as follows: German: 0.12%; Irish: 0.24%; Spanish: 0.27%; French: 0.29%; and Italian: 0.50%.

8. Lack of competitiveness in recruiting and retaining hospital consultants

Consultants who are in high demand internationally took up their posts in the Irish health service on the basis that the salary and pension terms entered into would be honoured. However, since early 2009 the State and hospital employers have not paid the full salary included in the 2008 Consultant

Contract entered into by over 2,500 consultants with their employers. Furthermore, consultant salaries have been subjected to the additional 2009 pension levy equivalent to between 8.5% and 9% of salary and FEMPI cuts in 2010 and 2013. New entrant consultants have had further reduced discriminatory salary scales imposed on them. The combined effect is a consultant recruitment and retention crisis as described in the IHCA's submission to the Commission in December and March.

The significant additional charges and changes that are now applicable to consultant gross salaries and pension arrangements compared with 2008 have further undermined the attractiveness of hospital consultant posts in the Irish Health Service. These include:

i) Higher paid public servants and hospital consultants are exposed to exceptional additional tax on the value of their public service pensions if they exceed new significantly reduced Standard Pension Fund Thresholds (SFT), which limit the value of pensions. The additional tax is levied at the marginal taxation rate on the arbitrarily calculated value of a public servant's pension at the time of retirement. This is in addition to the application of the usual tax deductions being applied as the pension is paid during retirement. The SFT limits have been reduced on two occasions in 2010 and 2014 and the arbitrary multipliers used to calculate the value of the pension were increased in 2014. The net effect is that hospital consultants are exposed to the payment of exceptional increased tax on their pensions. Where applied it is equivalent to the charging the marginal taxation rate twice on a portion of a consultant's pension at an effective cumulative rate of approximately 70%.

ii) The Pension Related Deduction (pension levy) introduce in 2009 is tiered and equivalent to between 8.5% and 9% of a consultant's salary. This is in addition to the superannuation deduction of 6.5%.

iii) It should be noted that since 2011 the Universal Social Charge, equivalent to about 6.5% of a consultant's gross salary, is applied to salaries in addition to the standard and marginal rates of taxation.

iv) The Career Average Single Public Service Pension Scheme introduced in 2013 significantly impacts on consultant pensions more so than other public servants because consultants are more likely to have breaks in service. This arises due to the need to complete fellowship and other sub-specialty training abroad after completing specialist training. The net effect is that the value of such consultant pensions are reduced compared with equivalent higher paid public servants who do not incur breaks in their service.

It is widely acknowledged that to arrest the crisis and start rebuilding the Irish health service's competitiveness in the effective recruitment and retention of hospital consultants it is necessary for the State to honour the 2008 Consultant Contract terms, reverse the FEMPI cuts, abolish the pension levy and end the discrimination against new entrant consultants.

Conclusions

There is an opportunity for the State and the Irish health service to address the current difficulties in recruiting and retaining doctors and consultants. This will require the restoration of trust and a number of fundamental actions to provide an improved platform to start rebuilding our international competiveness in the effective recruitment and retention of hospital consultants.

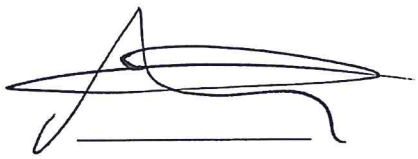
The key actions that are required to improve the Irish Health Services competitiveness in recruiting and retaining hospital consultants includes the reversal of the 2010 and 2013 FEMPI salary cuts, the

abolition of the PRD/pension levy introduced in 2009, the honouring the 2008 Consultant Contract terms, and the ending the discrimination against new entrant consultants.

To prevent further ongoing deterioration of the crisis, we would welcome the Commission's acknowledgement of the scale of the problem and its support in the implementation of the above actions in the Commission's Report to be submitted to the Minister for Public Expenditure and Reform.

The Association would welcome an opportunity to submit its more detailed views on the DPER paper to the Commission on 20 April.

Yours sincerely



Martin Varley
Secretary General