RCPSA
RETIRED CIVIL AND PUBLIC SERVANTS ASSOCIATION
Comhlachas Iar-Sheirbhíseach Poiblí Agus Stáit Established 1945

c/o A.H.C.P.S., Fleming's House, 12 Fleming's Place, Dublin 4

Mr David Denny
Secretary
Public Service Pay Commission
St Stephen's Green House
Earlsfort Terrace
Dublin 2

RECEIVED
- 2 MAR 2017
PUBLIC SERVICE PAY COMMISSION

Dear Mr Denny,

The Retired Civil and Public Servants' Association was founded in 1945 to promote and represent the interests of civil service pensioners including their surviving spouses in receipt of a civil service pension. The Association is a founder member of the Alliance of Retired Public Servants.

Given the mention in your Commission's Terms of Reference that when reaching its findings it should have regard, inter alia, to the Superannuation and other benefits applying in the Public Service, my Council have directed me to make this submission.

In Appendix A the Association outlines its concern that Government is attempting to influence the Commission to overvalue public service pensions, notwithstanding available evidence that they have fallen in value since the 2007 Public Service Benchmarking Body evaluation. Accordingly the Commission is respectfully requested to ensure that any findings on pension valuation are fact and evidence based.

In addition the Association has identified another major issue, which it would ask the Commission to examine urgently in the context of unwinding FEMPI pay matters. This concerns the grossly unfair treatment of serving public servants who will retire before their pre FEMPI pay levels have been fully restored.

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This problem has already manifested among persons who retired post February 2012 whose pensions were determined by reference to salaries, which had incurred cuts under FEMPI legislation. Unlike pensioners who retired pre March 2012 and their colleagues who continue to serve no provision has been made to restore their pensions to pre emergency levels.

Uniquely, therefore, they and potentially their surviving spouses and dependents are destined to carry these cuts to their graves. This is grossly unfair treatment especially given the contribution these pensioners have made in the delivery of such unprecedented change and savings across the public service over the crisis months and years prior to their retirement.

Although your terms of reference exclude reference to the unwinding of FEMPI pension cuts my Council wish me to set out for your information in Appendix B a paper on the need for early abolition of all these cuts including the removal of the anomalous treatment of those who retired post February 2012 (Appendix B page 3) who have been excluded from restoration to date.

In view of the issues involved the Association is sending a copy of this letter and enclosures to the Department of Public Expenditure and Reform for information. However, representatives of the Association are available to meet the Commission to elaborate in more detail on any of the important issues raised in this letter and its Appendices.

Yours sincerely

Brian Fitzpatrick

Brian Fitzpatrick
Honorary Secretary
28 February 2017

APPENDIX A

RCPSA SUBMISSION ON THE VALUE OF PUBLIC SERVICE PENSIONS

Introduction

1.1 The RCPSA notes the specific inclusion in the Commission's terms of reference that in reaching its findings it will, inter alia, have regard to pension and other benefits applying in the public service.

1.2 The Association welcomes the Minister for Public Expenditure and Reform's statement that work on determining future pay rates should be fact and evidence based. At the same time we firmly contest his contention that the value of public service pensions had increased given that it has actually fallen in recent years.

2007 Public Service Benchmarking Body Valuation of Pensions

2.1 The Public Service Benchmarking Body (PSBB), in Chapter 7 and Appendix 8 of its report in 2007, valued pensions by reference to the effective contribution (as a % of salary) required, throughout the working life of a 2007 public service recruit, to fund the pension. It found a contribution of 25% per annum would be sufficient, based on underlying assumptions considered appropriate at that time.

2.2 In view of the wide range of public service staff groups the PSBB adopted a single valuation figure for pension valuation of 25%, which was consistent with the gross costs of public service pensions across all groups.

2.3 This gross cost reflects a 5% employee contribution and an employer contribution of 20%. The PSBB found that the actual pension contribution costs for employers of broadly comparable jobs in the private sector was 8%. Therefore it concluded that, for pay determination purposes, the difference in the value of the public service pension over its private sector comparator was 12% and "*that a discount of this amount should be applied in comparing remuneration levels in the public service and the private sector*" (see summary on page 7 and Chapter7 of PSBB Report).

2.4 However, in the 10 years since the PSBB findings, evidence shows that the 2007 PSBB valuation of 25% for the gross cost of public service pensions was too high and that, rather than rising in value, public service pensions must now be valued much lower. A preliminary analysis suggests that the gross cost of pension terms for new recruits to the public service is now likely to be well below 15%. The net effect therefore, is that the discount rate for pensions should now be far lower than the 12% adopted by the PSBB.

2.5 The nature of this costing process, profiled by reference to new recruits, was not as meaningful for older serving staff and pensioners but it did facilitate the placement of a capital value on a pension at retirement. This took the form of the value of €1 of pension paid from retirement in 2047 and provided a more relevant measure of value to older staff and pensioners (see page 205 PSBB 2007).

2.6 The capital sum required to provide for €1 of pension paid (including lump sum) was calculated by the PSBB as €29.82, having regard to appropriate assumptions including those related to future pension increases. These assumptions have been overestimated in respect of the last 10 years.

Evidence of Over Valuation of Public Service Pensions

3.1 The evidence for the overvaluation of pensions arises from:
- the far less favourable pension terms of new recruits and
- the erroneous assumptions used that pensions would increase annually by 2% above inflation when in fact they have fallen.

3.2 Indeed for those retiring in 2017 the PSBB assumed in 2007 that their pension would increase by 25% in real terms over the factors and assumptions to be applied over decades of service and across a wide range of different public service groups.

5.2 The choice of a discount rate is crucial in determining the value of pensions. This rate is essential to convert future pension payments to a single current value. The lower the rate the higher the value placed on future payments and a small change in the rate can have a very large effect on a pension's valuation.

5.3 The PSBB Report adopted a discount rate of 4% above inflation in respect of pre retirement years and 2% above inflation for post retirement years. There is no correct rate and experts differ. Given the apparent pressure to inflate the value placed on public service pensions there may be pressure on consultants to use as low a rate as possible in order to increase the apparent value of the pensions.

5.4 Since there is no correct discount rate for valuing pensions it is suggested that the rate to be used for the Commission's purposes be the rate set down by Eurostat for valuing public service pension liabilities for National Account purposes. For 2012 Eurostat set down a single rate of 3% in excess of prices.

5.5 Adopting this approach would avoid the Commission having to engage with many complexities of interest rate matters and avoid the risk of consultants selecting a rate with the objective of inflating the value of public service pensions.

Future Pension Increase Assumptions

6.1 Future pension valuations require clarity on the future terms for increasing pensions. Post retirement increases for those recruited after 2012 have been linked by legislation to Consumer Price Increase movements [Section 40, Public Service Pensions (Single scheme and Other Provisions) Act 2012].

6.2 No similar clarity exists in respect of pre 2012 recruits who traditionally attracted increases on a par with pay and who have a legitimate expectation that this link would continue.

6.3 Pension costs are further complicated by reference to whether the public service pensioner is in receipt of just a public service pension or a pension comprising a Contributory State Pension co-ordinated with a public service element. As the State pension increases at a higher rate than CPI the total amount of pension paid to a non co-ordinated pensioner over their life time will be massively lower than that paid to a co-ordinated pensioner if parity with pay is not restored.

6.4 Any allowance for pension in a pay determination context may not be easily captured by the application of a single value figure. At the same time the practicality of applying a proliferation of pay scales for individual grades is not feasible and judgement based on available evidence needs to be exercised to determine a reasonable valuation.

6.5 The findings of the Commission regarding the value of pensions to be factored into future pay determination will undoubtedly have implications not only for future levels of pay in the public service but also for the levels of pay on which future pensions will be calculated.

6.6 In all the circumstances the Association trusts that the Commission will adopt a fair and reasonable approach in exercising careful judgement in its pension valuation process having due regard to objective analysis of the evidence available.

RCPSA

28 February 2017

APPENDIX B

RCPSA PAPER ON RESTORATION OF PUBLIC SERVICE PENSIONS

Introduction

1.1 There are three principal matters of concern to RCPSA members and, no doubt, to the wider family of 150,000 public service pensioners, viz:

- The restoration of pensions reduced under the Financial Emergency Measures in the Public Interest (FEMPI) Acts (including full restoration for post February 2012 pensioners who are being seriously discriminated against);
- Provision for increases in pensions and
- Access for retired public servants to State industrial relations machinery.

1.2 The Alliance of Retired Public Servants represents public service pension organisations in discussions with the Minister and Department of Public Expenditure and Reform but has no access to independent mediation or arbitration.

The FEMPI Acts

2.1 The entitlement of public service pensioners to their pensions is a property right under Article 43 of the Constitution. It is difficult to see how continuing public service pension deductions beyond 2018 would come within the constitutional framework under which such rights may safely be regulated by law.

2.2 The principal FEMPI Acts relating to public service pension reductions were the 2010 and 2013 Acts. The main effect of these was to provide for:

- reductions of between 6% and 28% on pensions above €12,000 p.a. of those who retired pre March 2012 and
- reductions of between 2% and 8% in relation to annual pensions above €32,500 of those who retired post February 2012. FEMPI cuts from salary had already been made from the post February 2012 retirees generating an ongoing reduced pension.

The FEMPI Act, 2015 – Partial Restoration

3.1 The 2015 FEMPI Act provided for partial restoration of pay and pensions. The position on pension restoration is set out in the Statement by the Minister for Public Expenditure and Reform dated 16th June 2015 (copy attached).

3.2 Briefly, the legislation provided for restoration for individual pensioners of up to €400 in 2016, €500 in 2017 and, if still within the deduction net, €780 in 2018.

3.3 The cost of this restoration is €30m in each of the three years 2016 to 2018 and would at the end of 2018 leave approximately 25,000 public servants with pensions over €34,132 per annum still subject to emergency deductions initiated in 2011. The annual pension deduction remaining at the end of 2018 is understood to be in the order of €45m (substantially less when net of tax).

Pension Restoration for Pre March, 2012 Public Service Retirees

4.1 The current position in relation to pension restoration under the 2015 FEMPI Act, for pensioners who retired pre March 2012, is outlined in Table 1.

TABLE 1 PENSION RESTORATION OF PENSIONERS WHO RETIRED PRE MARCH 2012 [1]

PENSION 2009 €	PENSION CUTS 2011-2013 €	PENSION RESTORED BY 2017 €	PENSION RESTORATION DUE 2018 €	PENSION CUT REMAINING 2018 €
20,000	***480***	19,922	-	-
30,000	***1,260***	29,142	360	-
40,000	***2,880***	*37,520*	780	***1,200***
50,000	***4,080***	*46,320*	780	***2,400***

[1] *The pensions of those who retired between January 2010 and end February 2012 are based on pre-cut salaries with 2011 pension cut applied.*

4.2 It should be noted that pay restoration under the 2015 FEMPI Act is on a basis agreed with public service unions under the Lansdowne Road Agreement and was brokered under the auspices of the WRC. While the Alliance of Retired Public Servants made a submission in 2015 to the Minister for Public Expenditure and Reform on pension restoration and had consultations with his Department it did not have the option of a third-party intervention to facilitate agreement.

4.3 Furthermore pay restoration for serving public servants under the Lansdowne Road Agreement has recently been enhanced, following a Labour Court recommendation in relation to Gardai. The Alliance of Retired Public

Servants is seeking an equivalent appropriate beneficial adjustment in the pension restoration schedule but this request has, so far, been rejected.

4.4 This is clearly inconsistent with the view expressed in Dail Eireann by the then Minister for Public Expenditure and Reform during the discussions on the 2015 Act and, subsequently in public, that priority should be given in future to the early restoration of pensions.

Grossly Unfair Treatment of Post February 2012 Public Service Retirees

5.1 The current position in relation to pension restoration under the 2015 FEMPI Act for Post February, 2012 retirees is set out in Table 2 below:

TABLE 2 NON RESTORATION OF PENSIONS OF POST FEBRUARY 2012 RETIREES

PRE 2010 FEMPI PENSION VALUE[1] €	***POST MARCH 2012 FEMPI SALARY REDUCED PENSION***[2] €	**JULY 2013 FEMPI PENSION REDUCTION**[3] €	**2016-2018 RESTORED PENSION** €	**REDUCED PENSION NOT RESTORED** €
20,000	***18,875***	-	-	**1,125**
30,000	***28,125***	-	-	**1,875**
40,000	***37,250***	638	638	**2,750**
50,000	***46,250***	908	908	**3,750**

[1] Pension values here are based on final service salary (before cuts) and full service.

[2] Pensions in this column are based on 2010 reduced salaries (under FEMPI Act, 2010).

[3] Pension cuts in this column are in respect of pensioners who retired post February 2012 whose pensions were above €32,500 on 1 July 2013.

5.2 Table 2 illustrates the extent to which post February 2012 public service pensioners will not return to full pension rates even when full pay has been restored to their serving counterparts. This group of pensioners will be in an extraordinary situation in that pre-March 2012 pensioner counterparts will return to full pension and serving staff to pre FEMPI pay levels (allowing them to retire with full pre FEMPI pensions).

5.3 The pension of a public servant who retired post March 2012 was calculated on the FEMPI reduced salary of 2010 (column 2), which generated a significantly reduced pension compared to the pre FEMPI pension in (column1). Column 3 illustrates the impact of the 1 July 2013 FEMPI pension cut for this group. This is the only element of their emergency reduced pension, which benefitted from the 2016 to 2018 restoration measure (column 4 refers).

5.4 Column 5 highlights how the post February 2012 pensioners will, under present arrangements, continue as if they were in a bubble of their own condemned to exclusion from restoration of the bulk of their emergency induced cuts. This is a grossly unfair penal measure and should be reversed as a priority in forthcoming restoration talks.

Pension Restoration and Unwinding FEMPI

6.1 The financial emergency that gave rise to the use of emergency powers in relation to public service pensions is over, and a wide range of new services is increasingly being put in place.

6.2 The decreasing amount of pension deduction collected each year is no longer of significance in overall financial or budgetary terms. The benefit to the State is no longer proportional to the continuing burden being suffered by individual pensioners who also have to deal with wider austerity measures.

6.3 Public service pensioners are private citizens who have completed their contract with government and are in a separate legal and practical situation from serving staff who are in continuing employment with government and who have access to the industrial relations machinery of the State and have a much wider range of income increase options open to them.

6.4 The age and health status of retired public servants and related financial liabilities arising in this regard are hugely important issues which, along with life expectancy, should be taken into account in relation to pension restoration.

6.5 Despite popular misconceptions that public service pensioners are privileged the reality is that the average public service pension is in the order of €20,000 per annum and that public service pensioners do not additionally receive the State pension.

6.6 Equally, the treatment of public service pensioners who are required to pay the Universal Social Charge on all their pension income is fundamentally unfair in comparison with their private sector counterparts who pay no USC on their State pensions.

6.7 The treatment of public service pensioners contrasts most unfairly with the approach adopted by government in 2011 when it recognised the property rights of AIB (99% State owned) private sector pensioners and authorised €1.1bn of State funds to be put into the AIB pension funds.

6.8 Responsibility for any new financial emergencies or the provision of increased services is a community responsibility and should be addressed in the context of general taxation and not visited on public service pensioners on foot of continuing use of emergency powers.

6.9 The justification, recognised by successive Ministers for Public Expenditure and Reform, and by the Public Service Committee of ICTU in its submission to the Pay Commission, for priority treatment in restoring public service pensions, should now be matched by full pension restoration not later than 2018.

Increases in Pension

7.1 The framework for increases in pension is a matter which is of great importance, not least because there were over 50,000 retired public servants on pensions of up to €12,000 who were never subject to pension reductions and who have received no increases in pension notwithstanding the fact that their equivalent serving public servants have received increases in pay.

7.2 The parity based framework, whereby pensions increased in line with pay, was, in effect, suspended during the emergency but, with the unwinding of the FEMPI legislation, the legitimate expectation of retired public servants is that custom and practice should be followed and the principle of parity restored.

7.3 Retired public servants contributed to their pension (which included a parity based approach to increases) at rates deemed appropriate by successive governments. Furthermore the value of pensions, based on the actuarially calculated pension costs of the Public Service Benchmarking Body in 2007 have reduced over the past ten years with substantial reductions in pay and pensions and given the absence of assumed pension increases based on CPI plus 2%, not to mention the reduced pension costs for newly recruited public servants.

7.4 It should be further noted in this regard that there are scheduled increases in social protection payments (which are to be maintained above CPI rates) whereas the comparative position of the lowest paid public service pensioners, who have received no increases in pension, is further deteriorating.

Access to Industrial Relations Machinery

8.1 Serving public servants have both direct access and access through their unions to in house or ad hoc mediation or arbitration and through the formal industrial relations machinery of the State.

8.2 The Croke Park, Haddington Road and Lansdowne Road Agreements would not have been concluded without ad hoc involvement by the LRC/WRC nor would the recent Garda dispute have been resolved without the involvement of the Labour Court. These mechanisms have been an absolutely vital element for government and serving staff in the unwinding by agreement of the FEMPI legislation in relation to pay.

8.3 The unwinding of FEMPI in relation to pension deductions is of equal importance to retired public servants and it is difficult to comprehend the blank refusal by government to provide any form of third party mechanism to help resolve difficulties in this regard.

8.5 This question should now be addressed. Public service pensions are deferred pay and arise directly from employment by the State. It is, in the Association's view, increasingly untenable and unjust for any government to continue to maintain that they will provide no third-party access for 150,000 retired public servants on any matter relating to pensions.

RCPSA

28 February 2017

PRESS RELEASES - JUNE 16TH, 2015

Statement by the Minister for Public Expenditure and Reform, Mr Brendan Howlin T.D., on Government agreement to reduce Public Service Pension Reductions

Government agrees to reduce Public Service Pension Reductions

By 2018 65,000 lower paid pensioners to be removed from pension reduction

In January 2011, as part of the response to the fiscal crisis then faced by the country, an emergency measure to reduce public service pensions (Public Service Pension Reduction- PSPR) in payment was introduced. A further reduction for higher value pensions was introduced in July 2013.

In welcoming the proposals developed between public service employers and the representative associations and unions for an extension to the Haddington Road Agreement out to September 2018, I indicated that I intended to bring forward separate proposals to Government to provide for a commensurate reduction in the Public Service Pension Reduction as it applies to retired public servants.

The proposals approved today deliver upon my stated commitment to move towards reducing the burden of public service pension reductions, with the initial focus on the people in receipt of low pensions, at the earliest date economic progress permits.

These proposals in respect of public service pensioners are prudent in the context of the fiscal space available to the Government and will not compromise the ongoing recovery in the Government finances.

The changes provide for a restoration of pension income subjected to the Public Service Pension Reduction on a phased basis over three years as follows,

- 1 January 2016 – return of €400 to most PSPR-impacted pensioners
- 1 January 2017 – return of €500 to most PSPR-impacted pensioners
- 1 January 2018 – return of €780 to most PSPR-impacted pensioners

and/or removing pensioners from the PSPR "net" entirely;

Note to Editors:

The Public Service Pension Reduction (PSPR), commencing 1 January 2011, imposed reductions on annual public service pensions in payment in excess of €12,000, using a progressively tiered set of bands and rates with a top rate of 12% on any public service pension amount over €60,000. The legislation was amended from 1 January 2012 to increase the top rate of PSPR from 12% to 20% on the portion of any public service pension amount in excess of €100,000.

The Financial Emergency Measures in the Public Interest Act 2013 also provided for additional Public Service Pension Reduction rates ranging from 2% to 8% to be applied to all annual public service pensions in payment in excess of €32,500 from 1 July 2013.

Full-year savings from these pension measures is currently in excess of €125 million.

The cost of the measures is estimated at some €30m per annum or a cumulative cost of €90m over the three years to end 2018.

The number of pensioners affected by PSPR is 90,000.

PSPR Amelioration

On the proposal of the Minister for Public Expenditure and Reform, Mr Brendan Howlin TD, the Government has agreed to proceed with the necessary legislative amendments to ameliorate the effects of the "Public Service Pension Reduction" (PSPR), which reduces the pensions of many public service pensioners under the Financial Emergency Measures in the Public Interest Act 2010.

The agreed changes, which are to be implemented in three stages on 1 January 2016, 1 January 2017 and 1 January 2018, will deliver a significant income boost to many PSPR-affected pensioners.

The details of the changes for each year are set out below, along with tables which illustrate the effects on pensioners at different income levels. Note that the changes impact on the following three pensioner groups (who are currently impacted by separate PSPR reduction tables under the legislation):

Group 1: Pensions (pre-PSPR) above €12,000 and below €34,132, retirements before March 2012.

Group 2: Pensions (pre-PSPR) above €34,132, retirements before March 2012.

Group 3: Pensions (pre-PSPR) above €32,500, retirements from March 2012.

2016 PSPR Changes

Group 1: Increase exemption threshold (0% band) from €12,000 to €18,700.

Group 2: Increase 0% band upper limit from €12,000 to €17,000.

Group 3: Increase 0% band upper limit from €12,000 to €29,300.

2016 Annualised Benefit of PSPR amendments

Gross Pension	Retired before 1 March 2012		Retired after 1 March 2012	
	€	%	€	%
14,000	120	0.9%		
16,000	240	1.5%		
18,000	360	2.0%		
20,000	402	2.0%		
25,000	402	1.6%		
30,000	402	1.3%		
32,000	402	1.3%		
35,000	400	1.1%	399	1.1%
40,000	400	1.0%	399	1.0%
50,000	400	0.8%	399	0.8%
60,000	400	0.7%	399	0.7%
70,000	400	0.6%	399	0.6%
80,000	400	0.5%	399	0.5%
100,000	400	0.4%	399	0.4%

2017 PSPR Changes

Group 1: Increase exemption threshold (0% band) from €18,700 to €26,000.

Group 2: Increase 0% band upper limit from €17,000 to €22,000;

Reduce rate on pension amount between €22,000 and €24,000 from 8% to 3%.

Group 3: Increase 0% band upper limit from €29,300 to €39,000;

Reduce rate on pension amount between €39,000 and €60,000 from 3% to 2%.

2017 Annualised Benefit of PSPR amendments

Gross Pension	Retired before 1 March 2012		Retired after 1 March 2012	
	€	%	€	%
14,000	–	0.0%		
16,000	–	0.0%		
18,000	–	0.0%		
20,000	78	0.4%		
25,000	408	1.6%		
30,000	498	1.7%		
32,000	498	1.6%		
35,000	500	1.4%	171	0.5%
40,000	500	1.3%	301	0.8%
50,000	500	1.0%	401	0.8%
60,000	500	0.8%	501	0.8%
70,000	500	0.7%	501	0.7%
80,000	500	0.6%	501	0.6%
100,000	500	0.5%	501	0.5%

2018 PSPR Changes

Group 1: Increase exemption threshold (0% band) from €26,000 to €34,132, thereby removing PSPR from this Group entirely.

Group 2: Increase 0% band upper limit from €22,000 to €30,000.

Group 3: Increase 0% band upper limit from €39,000 to €60,000.

2018 Annualised Benefit of PSPR amendments

Gross Pension	Retired before 1 March 2012		Retired after 1 March 2012	
	€	%	€	%

14,000	–	0.0%		
16,000	–	0.0%		
18,000	–	0.0%		
20,000	–	0.0%		
25,000	–	0.0%		
30,000	360	1.2%		
32,000	540	1.7%		
35,000	780	2.2%	0	0.0%
40,000	780	2.0%	20	0.1%
50,000	780	1.6%	220	0.4%
60,000	780	1.3%	420	0.7%
70,000	780	1.1%	420	0.6%
80,000	780	1.0%	420	0.5%
100,000	780	0.8%	420	0.4%

PSPR Changes – Cumulative Annual Benefit from January 2018

3 Year Cumulative Annualised Benefit of PSPR amendments

Gross Pension	Retired before 1 March 2012		Retired after 1 March 2012	
	€	%	€	%
14,000	120	0.9%		
16,000	240	1.5%		
18,000	360	2.0%		
20,000	480	2.4%		
25,000	810	3.2%		
30,000	1,260	4.2%		
32,000	1,440	4.5%		
35,000	1,680	4.8%	570	1.6%
40,000	1,680	4.2%	720	1.8%
50,000	1,680	3.4%	1,020	2.0%
60,000	1,680	2.8%	1,320	2.2%
70,000	1,680	2.4%	1,320	1.9%
80,000	1,680	2.1%	1,320	1.7%
100,000	1,680	1.7%	1,320	1.3%

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