COUNTRY SPOTLIGHT IRELAND

Extra luck needed?

Adam Cadle looks at the struggle to resolve the debate between the Irish government and public-sector trade unions over pension contributions

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Telling members of the public they should pay increased taxes to offset expenditure costs elsewhere never goes down too well, as most governments across Europe have experienced somewhere along the line.

The same can be said for rising household bills, insurance and so too pension contribution hikes for Irish public servants. These public workers are experiencing this exact feeling, as they find themselves at loggerheads with the Irish government over the latter's proposals to implement rises in permanent contributions towards the former's pensions to help resolve a growing funding problem.

IAPF director of policy Jerry Moriarty explains why there is such an issue. "It is a particularly complex area as there are clearly sustainability issues around public sector pensions in Ireland, which are entirely underfunded and operate on a pay-as-you-go basis," he states.

"There have been reforms in recent years but those only apply to new entrants so the financial impact will not be seen for many years."

These reforms include The Single Public Service Pension Scheme, which was introduced in the context of the fiscal crisis. The Department of Public Expenditure and Reform argues that this will help to boost the sustainability of the public service pension system.

"This landmark reform targets very substantial long-run savings of about one third of pension outgoing, with those savings deriving mainly from career-average (not final-salary) pension accrual, inflation (not pay) linkage of benefits, and higher minimum pension age (effectively 68 years for most new joiners). As the single scheme commenced in January 2013 pension liabilities for new-hire workers from that date are reduced. It is fundamentally different to all pre-2013 schemes, as benefits are based on career-average earnings. All pre-2014 schemes, which are based on final salary and calculation and administration of pension benefits, occur at the point of retirement," a spokesperson for the Department of Public Expenditure and Reform states.

Furthermore, the Public Service Pensions Act 2012 made certain changes affecting pre-existing (non-single scheme) public-service pension arrangements, including the introduction with effect from 28 July 2012 of a 40-year limit on the total service that can be counted towards

a pension where a person has been a member of more than one existing public service pension scheme. It also includes the extension with effect from 1 November 2012 of pension abatement, so that a retiree's public service pension is liable to abatement on re-entering public service employment in future, even where the new employment is in a different area of the public service.

The government also introduced the 2009 to 2013 financial emergency or FEMPI laws, which consist mainly of multiple cost-saving (revenue-raising) measures to reduce the cost of public service pay and pensions. The key FEMPI measures connected to pensions are the Pension-related Deduction (PRD) which is a levy imposed on the pay of pensionable public servants. Its design is progressive, meaning that higher-paid workers pay proportionately more, and workers with annual earnings below a prescribed threshold are exempt. PRD originally extracted earning on average 7 per cent from salaries, saving some €950 million annually; that annual saving fell to about €700 million in 2017, as the PRD terms were eased under the FEMPI 2015 law, the spokesperson states.

The Public Service Pension Reduction (PSPR) was also introduced in January 2011. It cuts the value of public service pensions above a specified exemption threshold. Like PRD, it is being eased under the FEMPI 2015 law. Maximum annual yield reached was around €135 million; forecast for 2018: €45 million.

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Costs

However, a funding issue remains and is exemplified within the

UNIONS ACCEPT THAT PUBLIC SERVICE OCCUPATIONAL PENSIONS ARE GENERALLY MORE VALUABLE THAN THOSE AVAILABLE IN THE PRIVATE SECTOR, BUT PUBLIC SERVANTS CURRENTLY PAY SUBSTANTIAL CONTRIBUTIONS TOWARDS THEIR RETIREMENT INCOME

Report of the Public Service Pay Commission, which states that in 2016, the cost of pensions in payment to public servants totalled in excess of €3.3 billion.

"It is clear, that in the case of the earlier (pre-2013) legacy public service pension schemes, benefits are still considerably more valuable than for equivalent employees in the private sector," the report outlines.

"These benefits were previously assessed in 2007 to be on average 12 per cent more valuable than private-sector benefits," it adds.

The figures don't stop there. According to the report, the standard accrual legacy public service pension schemes are now, depending on assumptions made, worth between 13 to 14 per cent more than private sector pensions for pre-2013 members. As a result, the commission believes that the values identified for those on legacy pre-2013 standard accrual pensions schemes and fast accrual schemes should be addressed by providing for an increased employee pension contribution for those who continue to benefit from those schemes.

"The rate of increase and the grades and categories to which it should apply is a matter for negotiation between the parties, taking account of the level of benefits accruing," the report states.

Furthermore, the commission argues that for the bulk of public service personnel – those appointed before 2013 – the amount the state contributes to cover their pension is 29 per cent of pensionable salary, compared to the equivalent of 11 per cent in the private sector. This rises to 70 per cent for a High Court judge and more than 50 per cent for a Garda. It suggests the 29 per cent average state contribution could fall to 25 per cent if pension rises in the future were linked to CPI.

Minister for Public Expenditure Paschal Donohoe has since welcomed the report, but discussions with unions remain on tentative hooks as the route forward is mapped out.

Currently, 23,000 public servants are on the best pension deals, including judges, guards, prison officers and members of the defence forces, but unions are fighting to have newer entrants who are on a less beneficial pension scheme, since 2013 included.

Pushing the issue of those on fast accrual schemes, who clock up a full pension with less service than most public servants into a separate set of talks has been mooted but the government has not pressed ahead with this at the present time.

The unions

The unions, unsurprisingly, have been vocal in their dismay at the news of potential contribution hikes and are determined to enforce a strong resistance to prevent contribution hikes taking place.

"Unions accept that public service occupational pensions are generally more valuable than those available in the private sector, but public servants currently pay substantial contributions towards their retirement income," Impact head of communications Bernard Harbor argues.

"Public servants pay full PRSI and pension contribution of 6.5 per cent of salary, plus the pension levy, which was introduced in 2009. Together, this means that 20 per cent of every euro earned above €28,500 currently goes towards pension contributions of some kind.

"We know the government wants to increase employee contributions as the existing pension levy is unwound. Impact and other unions will work to increase the thresholds as much as possible. The government will want to maximise the take. The navigation between this rock and that hard place may determine success or failure." ■