

P18/161/04

To: All Personnel Officers

13 July 2005

Dear Personnel Officer

**Cost neutral early retirement: supplementary note to Department of Finance
Circular 10/2005**

As you are aware, a new facility for public servants to retire early with immediate payment of actuarially reduced superannuation benefits was introduced in April 2005 by means of Department of Finance Circular 10/2005 (*Public Service Pension Reform: Introduction of cost neutral early retirement*). This note provides information and clarification on various points arising from the Circular which have been raised by officials and potential applicants across the public service:

1. **Deductions from lump sum:** Deduction of unpaid Spouses' and Children's Pension Scheme contributions should be made from the "preserved" lump sum, i.e. the preserved gross lump sum should first be calculated and the unpaid S&CPS contributions should then be deducted from this amount. *The appropriate cost neutral early retirement factor should be applied to the resultant net lump sum.* In relation to other deductions from the lump sum which may arise, the Department of Finance or parent Department should be consulted as appropriate.
2. **Applicable date for persons who have already resigned:** Public servants who resigned since 1 April 2004 can apply for cost neutral early retirement (see paragraph 6 of the Circular). The calculation of actuarially reduced benefits in such cases should be made by reference to, and effective immediately following, the date of resignation.
3. **Retirement in the twelve months preceding preserved pension age:** This means retirement between ages 59 and 60 years for persons with a preserved pension age of 60 years, and retirement between ages 64 and 65 years for persons with a preserved pension age of 65 years. In such cases, the actuarial reduction factors to be applied

should be determined by means of the formula in paragraph 10 of the Circular, with “C” (*actuarial reduction factor at next birthday*), set at 100%.

4. **Purchase of notional service:** The value of purchased service should be determined under the rules of the relevant purchase scheme by reference to preserved pension age (see paragraph 14 of the Circular). This means that purchase scheme reduction arrangements applying in the case of cessation of periodic contributions *in addition* (where appropriate) to purchase scheme actuarial reduction factors (e.g. in the revised civil service scheme), must first be applied in order to determine the amount of service which a person would be credited with as if that person had resigned with a preserved benefit. The resultant service (when added to actual service) provides the basis for the calculation of lump sum and pension benefits on a preserved basis; the amounts thus calculated will then be subject to reduction by application of the appropriate cost neutral early retirement factors.

5. **Supplementary pensions/Implications for Social Welfare benefit:** There is no change in the arrangements for payment of supplementary pensions i.e. such pensions are payable to eligible staff on reaching the relevant preserved pension age (60 or 65 years, as appropriate). If the person is a member of a pension scheme which is subject to integration with social welfare benefits, you should clarify for them the conditions under which a supplementary pension may be payable when they reach preserved pension age. Staff should liaise with the Department of Social and Family Affairs to ensure that, where appropriate, social insurance “credits” are recorded. Failure to do so (in the case of full PRSI staff) could have implications for the payment of supplementary pensions. In this connection the sample letter to be given to a person availing of cost neutral early retirement has been amended (copy attached).

6. **Dismissal:** Persons dismissed from service may apply for cost neutral early retirement provided they meet the eligibility criteria set out in paragraphs 5-7 of the Circular and should be informed of this fact. However, applications from such persons must be approved by the Department of Finance in the case of dismissed civil servants, and by the parent Department in the case of dismissed employees of public service bodies other than the Civil Service.

7. **Career break:** Employees on career break who avail of cost neutral early retirement should have their pension *and* lump sum determined by reference to the *uprated pensionable remuneration applying at the time of their resignation*.

8. **Service decimal:** In calculating or updating pension benefits (e.g. to reflect pay increases) the service decimal or pay multiplier to be used is arrived at by *dividing the pension payable (i.e. following application of the relevant cost neutral early retirement factor) by the total reckonable remuneration*.

9. **Examples for staff in coordinated superannuation schemes:** While the main purpose of the examples, in *Appendix 1, Part B* of the Circular, is to compare the different outcomes under preserved benefits and actuarial adjustment, it may be of interest to point out that the underlying calculations use the new formula for integration of public service occupational pension and social insurance pension (a Circular setting out details of the new arrangement is expected to issue shortly). The formula does not involve deducting an amount for the Old Age Contributory Pension

(OACP); instead pension is calculated on a $1/200^{\text{th}}$ basis on remuneration up to $3/3^{\text{rd}}$ times OACP and on a $1/80^{\text{th}}$ basis on the balance. (Note also that references to the purchase of service scheme in *Appendix 1 (Examples 3 and 7)* relate to the revised civil service purchase of service scheme.)

10. **Appendix 1, Part B, Example 8:** The age at retirement in this example should read 55, not 60 as in the Circular. Consistent with this change, “(i.e. in 10 years’ time)” should replace “(i.e. in 5 years’ time)”.

11. **General:** Circular 10/2005 applies only to public service bodies as defined in the Public Service Superannuation (Miscellaneous Provisions) Act 2004. If a public sector body which is not covered by the Act wishes to introduce a similar cost neutral early retirement facility, such proposal should be considered by the parent Department and submitted to the Department of Finance in the normal way.

A copy of Circular 10/2005 should be given to each person who is availing of the cost neutral early retirement facility.

Please bring the contents of this note to the attention of all relevant public service bodies under the aegis of your Department.

Yours sincerely,

Cloda Ryan/Sarah Kyne (worksharing)
Principal
Pensions Section

Sample letter to be given to a person availing of cost neutral early retirement

Dear Mr/Ms ...,

You will retire from the Department of on , aged ... years and ... days and with pensionable service of ... years and ... days.

Your retirement will take place earlier than the standard preserved pension age, which in your case is [*60 or 65, insert as appropriate*] years. This reflects the fact that you have applied to avail of, and have been accepted for inclusion in, the public service cost neutral early retirement scheme, whose terms are set out in *Department of Finance Circular 10/2005*, a copy of which has been given to you. This means that, on retirement, you will receive immediate payment of lump sum and pension, both of which will be actuarially reduced.

If, on reaching preserved pension age, you consider that you may be entitled to a supplementary pension, then you should contact this Department/Office/organization at that time.

You understand and accept that your inclusion in the cost neutral early retirement scheme means that all of the relevant conditions of the scheme, as set out in *Department of Finance Circular 10/2005*, apply to your retirement. In particular you accept that:

- The actuarially reduced rate of pension payable to you will apply throughout the lifetime of the pension (subject to normal adjustments in line with public service pensions generally).
- Once you have retired on actuarially reduced superannuation benefits, you cannot subsequently switch to payment of a preserved pension at normal preservation age.
- You have no right of return to work in the public service, other than through normal recruitment/selection procedures.
- The implications for your social welfare benefits are your responsibility (paragraph 18 of Circular 10/2005 refers).

I would be grateful if you would confirm your acceptance of these terms by signing and returning this form.

Yours sincerely,

Personnel Officer

I accept the retirement terms as set out above.

Name:

Signed: Date: