Vote 12 PAC Briefing
Questions & Answers

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Questions asked by the Comptroller & Auditor General as part of annual audit process:

Why did the Superannuation Vote got a supplementary estimate of €22m in December 2014, when the final out turn was €16 million below the estimate?

Response
It is important to note that the €16 million referenced in the question is **net** of Appropriations in Aid. However, under Government accounting the Vote cannot have a **gross** spend that is higher than the voted amount, regardless of what the net position is.

€12 million of the under spend is attributable to higher than forecast Appropriations in Aid. The largest component of this contributions for the Single Public Service Pension Scheme (SPSPS). The underestimation happened because the timing of receipt of SPSPS contributions is very variable and a considerable portion of those receipts was credited to the Vote during December, following application for the Supplementary Estimate. This was only the second full year of the scheme, and so there were no reliable previous year trends that could be used to anticipate this year end surge.

With regard to gross expenditure, €4m variance is primarily attributable to the €4m variance on A4 (lump sums to established officers). In order to ensure that all lump sums could be paid within the allocation a contingency of €2 million was built into the supplementary estimate, and in the event this was not required.

Annex 1 explains all material variances in detail.

How did the Vote estimate Pension Payments and lump sums for 2014?
The detailed assumptions underpinning the original estimate of A1 and A4 are set out below:

2014 ASSUMPTIONS		
		€ '000
Average Pension		23
Average Lump sum		69
Number of retirees in 2014 (established)	850	
Number of deaths in 2014 (established)	350	
Net increase in number of pensioners (established)	500	
Estimated payroll cost of net increase in pensioners*		5,750
**Assume net additions occur evenly through year - so 50% of full year cost*		
A1		
	€m	**€m**
Amount of fortnightly payroll at end 2013:	12.3	
If no change 26 payrolls in 2014 would be:		319.8
Additional pension for net increase of 500 pensioners:		5.7
Estimate for 2014		325.5
Say		**325.0**
Basis for 2014 estimate A4		
Estimated cost of lump sums based on assumptions above		58

What data was used to produce the estimate?
Gross Expenditure: The key drivers of total gross expenditure in any one year are A1 and A4, and these are determined by the number of established pensioners who join (and leave) the scheme each year. Therefore the main driver of the estimate is a forecast of the number of established staff members who will retire in the year, and the likely average cost of those retirees. For all established staff who joined the civil

service before 2004 there is a window of 5 years within which they may retire on full pension (between ages 60 and 65).

At the beginning of the estimates process the Vote section uses the internal CENSIS system (which aggregates workforce information from the HRMS database) to profile the number of people who will be eligible to retire within the forecast year (i.e. those who will fall within the age group 60 to 65 before the end of the year). This amounted to 3,600 established employees for 2014. An assumption is made that c. one quarter of those eligible to retire in the year will do so. An average pension and lump sum amount is then used to estimate the cost of these retirements. For 2014, the basis of the original estimate (gross provision of €444.8) is c. 850 retirements (*642 established officers retired in 2013*) at average lump sum of €69,000 and average pension of €23,000 – offset by deaths of 350.

It is important to make clear that the volume of retirements have a different impact on pensions in payment and on lump sums. A1 is mostly made up of payments to the stock of established pensioners – payments to new retirees are a relatively small part of the total, and accrue over the course of the year. Therefore the timing of retirements is a factor that must be taken into account. A review of recent retirement patterns indicates that there is no particular annual pattern – the exception being 2012 when due to the grace period effect retirements were skewed to the first 2 months of the year.

A4 is subject to significantly higher variability. It is sensitive to grade mix, as lump sums will be up to three times the pension amount, and there is no smoothing effect due to timing, as the full lump sum is (usually) paid on retirement. For these reasons it is very difficult to accurately estimate total annual lump sums.

Appropriations in Aid (A in A): Prior to the introduction of the single scheme, this was reasonably predictable, and the best forecast of A in A was prior year experience. Total Appropriations in Aid amounted to €87m in 2011, €88m in 2012 and €89m in 2013. However, the introduction of the SPSPS in 2013 has introduced significant variability, and when the 2014 estimate was prepared there was no reliable trend on which to base single scheme receipts. Work is underway to improve the process of estimating this subhead. Given that these contributions are related to recruitment in the wider public service, their scale can expected to grow considerably in future years and could approach or exceed expenditure on the Vote. Consequently, the use of Vote 12 for the remittance of these contributions is under review.

How was the supplementary estimate calculated?

In the fourth quarter a forecast of pension and lump sums to the year end is done, based on cases on hand at Peoplepoint and in the delegated departments. It is on this basis that any necessary supplementary estimate for gross expenditure is calculated. Because gross expenditure cannot exceed the voted amount a contingency of c. €2 million is built into the estimate.

The appropriations in aid component of the supplementary estimate is based on receipts to date plus likely receipts to the year end, based on previous year trends. However, the timing of receipt of SPSPS contributions is very variable and a considerable (and higher than expected) portion of those receipts was credited to the Vote during December, following application for the Supplementary Estimate. This was only the second full year of the scheme, and so there were no reliable previous year trends that could be used to anticipate this year end surge.

Calculation of Supplementary Estimate

	A1 (€000)	**A2 (€000)**	**A4 (€000)**	**A5 (€000)**	**Other Subheads (€000)**	**Totals (€000)**
Original Estimate	325,000	40,000	58,180	20,000	1,620	444,800
Expenditure YTD as at end November	**298,816**	**37,608**	**75,119**	**21,429**	**1,164**	**434,136**
YTD under/(over) estimate **A**	**26,184**	**2,392**	**(16,939)**	**(1,429)**	**456**	
Anticipated Spend To End Year (P50 & P52) **B**	26,500	3,200	12,264	1,500	200	41,400
Supplementary required (B-A)	**316**	**808**	**29,203**	**2,929**	**(256)**	**33,000**

How does the Vote monitor numbers?

The Vote section reviews reports on pensioner numbers each month. These show the numbers of retirees and the number of new pensioners. For forecasting purposes, the Vote section looks at the distribution of the workforce that will be age 60 or older by the end of the estimate year broken down by grade. However, there is a five year window within which most civil servants can choose to retire.

Why did the number of established pensioners increase by 6% but the payroll cost just increased by 1.6%?

	2014	2013	% age variance
A1	323,985	319,010	1.6%
A1 pensioners in payment	13,633	12,806	6.6%

One driver of this is the Haddington Road pension cut which was in effect for just half of 2013, but would have had a full year impact in 2014, thus reducing the year-on-year cost increase. In addition, the increase in pensioner numbers was spread over the year, so the impact on the payroll was reduced. The fortnightly payroll increased gradually over calendar year 2014, from €12.3m at end 2013 to €12.9m at end 2014 (a 5% increase).

Can you explain the large variation to the supplementary and then also to the outturn on A4?

1,110 people joined the established scheme in 2014 vs. 642 the year before. For all established staff who joined the civil service before 2004 there is a window of 5 years within which they may retire on full pension (between ages 60 and 65). External factors also act to distort whatever trends there might be – for example the grace period phenomenon. Accordingly, while the long term average is around 1,000 per annum, there are significant variations each year. Because the lump sum is 1.5 times salary, A4 is particularly sensitive to both the numbers and grades retiring each year. There is no cost effective way to forecast this number in advance.

The supplementary estimate was calculated based on the cases on hand at the end of November that we were aware would need to be processed by year end (€10m). For prudence, an additional €2m was provided, so that any other lump sums that might arise could be legally paid out of the Vote. In the event this cushion was not required.

Can you explain the large variation to the supplementary and then also to the outturn on A5?

The original estimate was in line with the previous year's outturn. In the event, lump sums were €4 million higher than for the previous year, and this accounts for almost all of the variation. The reason for the variance from the supplementary is that there was a miscommunication about a batch of lump sums to be paid by the OPW in December – at the time of the supplementary the Vote section understood that this was for established staff (A4), but it was actually unestablished, and so an A5 expense. The Supplementary Estimate was calculated on the invoice to be charged to A4 – however in the outturn the invoice is correctly charged to A5.

Why is B3 – Contributions to spouses and children's pension scheme - difficult to predict?

All new entrants are now in the single scheme (which does not separately identify spouses and children's contributions) so Vote 12 contributions for spouses should decline gradually each year due to general attrition of pre 2013 staff. However, it is difficult to predict in any one year what the level of staff attrition will be.

Why is B4 – Receipts in respect of contributory scheme for Civil servants appointed on or after 6 April 1995 – difficult to predict?

As this is a receipt the original estimate was a conservative one (in accordance with accounting principles). All new entrants are now in the single scheme so contributions for the post 95 scheme should decline gradually each year due to general attrition. The level of decline was (prudently) overestimated for 2014. In any one year it is difficult to predict what the level of staff attrition will be.

Why isn't there a subhead for Single Public Service Pension Scheme?

A new subhead (B7), with estimated receipts of €25m, has been created within the Vote for 2015 in respect of Single Pension Scheme contributions from civil and public servants. Given that these contributions are related to recruitment in the wider public service, their scale can expected to grow considerably in future years. Consequently, the use of Vote 12 for the remittance of these contributions is under review.

Other Q&A on 2014 Accounts:

If the estimated average lump sum is €69,000, then 250 extra lump sums should cost €17.5 million, not €25 million. Explain.

Although the long run average lump sum is €69,000, there can be significant variation in any one year. In 2014 the number of lump sums paid out was 1,372, amounting to €83,328,000. Of these 61 were balancing payments made to individuals who had received an interim lump sum payment on their retirement date. Adjusting for this, 1,311 individuals received a lump sum payment in 2014, broken out as follows:

	No	Total A4 Lump Sums	Average
Retiree	1,110	€72,402,000	€65,300
ISER balancing payment *	141	€7,473,000	€53,000
Died in service	60	€3,453,000	€57,500
Total	1,311	€83,328,000	

The higher than estimated out turn was caused an additional 250 retirements however, the average lump sum was in fact lower than estimated, as set out in the table above.

*People who retired under the ISER scheme in 2009 are entitled to receive 90% of their lump sum in the year that they reach minimum retirement age. There were 141 such individuals in 2014. They distort the average because their lump sum received appears in the numerator (total lump sums) but they do not count as a new retiree in the denominator (total number of retirees).

What is the average pension for established and unestablished pensioners?
The average pension under the established scheme was €24,400, while that for unestablished personnel, who also qualify for the Social Welfare pension, was €4,000.

Is the pension scheme too generous and should it be cut back?

Pensions in payment have been reduced under the FEMPI legislation using the mechanism of the PSPR (Public Service Pension Reduction) in 2011 and again (for higher paid pensioners only) in 2013. The effect of this can be seen in a reduction in the average established pension from €27,700 in 2010 to €24,400 in 2014.

In addition, fundamental structural changes to public service pensions, executed by way of the introduction of a new single pension scheme for all new entrants to the Public Service from 1 January 2013 will drive considerable future pension savings, reducing the future annual pension cost by a third mainly attributable to the following features:

- career average earnings are used to calculate benefits (final salary was used previously)
- post retirement pension increases are linked to CPI (increases were linked to increases in pay previously); and
- the retirement age has increased.

What is the Minister planning to do about the retirement age?
A key reform incorporated in the single pension scheme is to increase the minimum age at which pension can be claimed, in line with increase in the State pension minimum age. Accordingly, for all members of the single scheme the minimum pension age is currently 66. This will increase to 67 in 2021 and 68 in 2028.

Can the Secretary General account for the substantial increase in expenditure on Vote 12 in recent years?
Expenditure on the Vote is directly related to the number of pensioners, which has increased substantially in recent years in line with overall government strategy to reduce public service numbers, combined with the effect of the aging demographics of the civil service workforce.

What will be the impact of the Lansdowne Road Agreement on Pensioners?
The proposed changes to the PSPR will ensure that meaningful gains devolve on PSPR-affected pensioners, in all cases providing

- significant pension increases, generally amounting to a cumulative gain of €1,680 annually per pensioner by 2018, broken down 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; the package ensures that, by 2018, only about 25,000 pensions will remain subject to PSPR out of an originally hit total of about 90,000 pensions, meaning that
    - less than 30% of currently PSPR-hit pensions will remain affected by PSPR, and
    - less than 20% of all public service pensions will remain affected by PSPR.

What is the Impact of this on the Exchequer?
The cumulative additional annual cost to the public finances of the proposed PSPR changes is estimated at about €90 million, comprised of estimated extra annual costs of €31.5 million in 2016, €28.2 million in 2017 and €29 million in 2018.

This €90 million cost will significantly decrease the estimated annual PSPR "yield" of €135 million, and the effective revenue loss thereby sustained will be proportionately greater than in the case of the pay restoration proposals in the Haddington Road and Lansdowne Road Agreements (eventual full-year annual pay restoration of €884 million out of €2.2 billion savings). The Minister is satisfied on balance that this deeper restoration for pensioners is appropriate, based in part on the reality that pensioners are in general on lower rates of income and with fewer opportunities to make up for income lost through additional earning capacity.

What are the voluntary pension deductions referred to in note 2.4?
Generally health and Life Insurance deductions taken direct from pension at the request of pensioners.

What do the debit and credit suspense balances in notes 2.3 and 2.4 represent?
The majority of the accounts are payroll accounts for payroll deductions and it would be normal for them to have balances at year end because payroll deductions are not paid over in the period of deduction, but afterwards. Consequently, deductions made in December would be paid over in January and, therefore, shown as a creditor. The debit balances consist mostly of recoupable pensions and the PMG balance etc.

What is behind the large change in the PMG balance and cash figure from 2013 to 2014.

The 2013 figure was adjusted at the request of the C&AG to remove costs in respect of the period 2 payroll which had been allocated to 2014 as that payroll was processed before year end. In order to reduce the overall spend it was necessary to increase the balance and cash figure.

In the case of 2014 the balance arises primarily due to the requirement to process the fortnightly payroll for 1/1/15 before the end of 2014.

Why is the balance on Other Debit Suspense Items so large in 2014?
The issue is again related to the need to process the fortnightly ahead of its actual pay date. While 1/1/15 was the date of payroll cash could not be paid into an account on that date due to it being a bank holiday. Therefore, payment to pensioners' accounts had to be made in advance of this date and this balance reflects the fact that BoI must be funded centrally in order for them to distribute payments to individual pensioners

Can the Secretary General explain the difference between the established and unestablished Schemes?

The key difference between the terms for established and un-established staff is in terms of minimum pension age. Established civil servants appointed before 1 April 2004 have a minimum pension age of 60 whereas un-established civil servants have a minimum pension age of 65. This distinction has been removed since 1st April 2004 and a minimum pension age of 65 now applies to any civil servant appointed after that date who is a 'new entrant' under the 2004 Act. Approximately 10% of the civil service workforce are in the unestablished scheme, with large employers of unestablished staff including the OPW, the Department of Foreign Affairs and the Defence forces (*civilian employees in the defence forces are largely unestablished*).

For persons who are appointed to the civil service on or after 1st January 2013 and are "new entrants" for the purposes of the Public Service Pensions (Single Scheme and Other Provisions) Act 2012, the same pension arrangements apply irrespective of whether they are appointed to an Established or to an Unestablished position.

Has the Secretary General ever considered that perhaps death gratuities should be provided under an insurance scheme from the private sector? It would be a good deal cheaper to underwrite it in the private sector by way of paying an annual premium, rather than be faced with a bill for large sums. The Minister would have a steady annual premium to pay rather than having to mete out day-to-day expenses.

Where an officer dies during service, his/her legal personal representative is paid a gratuity equal to the greater of:

(a) the officer's pensionable remuneration (usually a year's salary); or

(b) the amount of the retirement lump sum which the officer would have received if he/she had retired on grounds of ill-health on the date of his/her death.

The cost of death gratuities for established civil servants for the past years is as follows:

Year	Cost
2005	€2.4 million
2006	€2.0 million
2007	€3.4 million
2008	€2.8 million
2009	€3.2 million
2011	€2.6 million
2012	€3.7 million
2013	€2.2 million
2014	€3.4 million

State Carrying its Own Insurance – General Comments

Public Financial Procedures provide that the general rule is that no insurance policy should be effected against the risk of any loss which, if it arose, would fall wholly and directly on public funds.

This is based on the understanding that the risks for which the Government are liable are innumerable and widely distributed and that losses maturing in any one year are never so large as materially to disturb the financial position of the year so that it is cheaper in the long term for the Exchequer to 'carry its own insurance'.

However, each category of risk must be considered on its merits in order to establish whether a departure from the general rule would be justified. There are a number of reasons why the State should bear the cost of its own activities and these can be summarised as follows:

A. Costs arising in any year are never so large as to materially affect the Exchequer position;
B. The State avoids the costs associated with purchasing insurance policies where the premiums would be set having regard to (i) Expected level of claim costs; (ii) Expenses, (iii) Profit margin and (iv) Cost of reserves

In summary, when allowance is made for all costs, it would appear that it would be significantly more expensive for the State to purchase life insurance cover for civil servants rather than continue with the current arrangement.

Questions on the 2015 Vote 12 Estimate

What is the 2015 estimate for Vote 12?

The Original Gross 2015 Estimate for the Vote was €474.0 million. On the basis of expenditure as at mid November a supplementary estimate will be required. This will amount to €37 million, bringing total gross expenditure to €511 million. This will be offset by higher than estimate receipts of c. €124 million (vs the estimate of €104m) giving a net supplementary required of €17 million.

Why is a supplementary estimate required for Vote 12 in 2015?

The 2015 provision was based on an estimated 950 retirements from the established scheme, but there have been 969 retirements as at the end of October, and the trend in retirements to date indicates that there could be of the order of 1,200 retirements this year. The effect of the higher number of retirements than forecast has been to put upward pressure on A1 (pension payroll) and A4 (pension lump sums) forecasts. **It is against this trend in retirements that €37m gross is sought as a supplementary estimate for Vote 12 in respect of 2015,** to be confident of avoiding an excess Vote situation**.**

Why was the original 2015 expectation for the cost of retirement lump sums etc. so out of line with the 2014 outturn?

The 2014 experience was considered to be on the high side of what might be expected mainly because of the accelerated retirements arising from the expectation that the grace period would come to an end and at the time the estimate was prepared it was considered that it would be sufficient. In the event, retirements have been higher than expected.

How does the 2016 estimate reflect recent years' experience of higher than forecast gross spend on Vote 12?

The Gross 2016 Estimate for the Vote is €527 million and the net estimate is €392 million. This is based on an assumption of 1,250 retirees on the established scheme (vs. 1,110 in 2014, and 1,200 expected for 2015). The increase reflects an increase in the number of civil servants eligible to retire. It also builds in the effect on the payroll of the first phase of PSPR reduction which will happen in 2016 (estimated as increasing the Vote 12 pay bill by €5 million in the year).

Does the 2016 Estimate need to be adjusted to take account of the extension of the grace period?

The Vote provides for the pension costs of some twenty two thousand retired persons while the extension of the grace period is expected to affect some hundreds. In the circumstances, bearing in mind also the difficulty in estimating elements of the Vote with precision, there are no proposals to modify the Vote at this stage.

Annex 1 – Detailed Analysis of Material Variances

Table 1: Original and Supplementary estimate and outturn:

Superannuation and retired allowances		Estimate	Outturn	Variance
Gross expenditure				
Original	444,800			
Supplementary	33,000	**477,800**	**473,868**	**3,932**
Less Appropriations-in-aid				
Original	82,250			
Supplementary	10,750			
		93,000	**105,129**	**12,129**
Net expenditure				
Original	362,550			
Supplementary	22,250			
		384,800	**368,739**	**16,061**

Table 2 – Analysis of material variances in gross expenditure:

	A1 (€000)	**A2 (€000)**	**A4 (€000)**	**A5 (€000)**	**Other Subheads (€000)**	**Totals (€000)**
Original Estimate	325,000	40,000	58,180	20,000	1,620	444,800
Expenditure YTD as at end November	**298,816**	**37,608**	**75,119**	**21,429**	**1,164**	**434,136**
Anticipated Spend To End Year (P50 & P52)	26,500	3,200	12,264	1,500	200	41,400
Supplementary required	316	808	29,203	2,929	(256)	33,000
TOTAL	325,316	40,808	87,383	22,929	1,364	477,800
Actual Outturn	323,985	40,832	83,328	24,505	1,217	473,868
Variance	**-1,331**	**24**	**-4,055**	**1,576**	**-147**	**-3,932**

Expenditures and estimates on the Vote were monitored monthly via the Monthly MAC reports.

The material variances are with respect to A1, A4 and A5

A1 – The estimate was €1.3 million less than the outturn. The estimate included a provision for the payment of additional pensions which did not materialise in 2014. This is approximately 0.4%

A4 – Spend at the end November was c. €17 million over the estimate for the year. Cases on hand in Peoplepoint (as noted below) and at the delegated departments indicated that (at a minimum) a further €8 million in lump sums would be paid out by 31 December. In order to be sure that all lump sums could be paid out within the allocation an additional contingency of €2 million was included in the supplementary estimate.

According to a forecast undertaken on 26/11/2014 by Peoplepoint, the estimate of anticipated payments to year end was €2.5 million. However, their actual spend on this was €1.6 million. This accounts for €0.9m of the variance.

A5 – Lump sums paid out of this subhead in December amount to c 25% of total lump sums for the year – however, the supplementary estimate was based on the pattern to end November. In December the OPW submitted an invoice which was paid on 30 Dec. The Supplementary Estimate was calculated on the invoice to be charged to A4 – however the invoice was proper for A5.

Table 3 below gives details of those subheads where there was a significant variation between the estimate and the outturn.

Table 3 – Analysis of material variances in appropriations in aid

	B3 (€000)	**B4 (€000)**	**B6 (€000)**	**B7 (€000)**	**Other Subheads (€000)**	**Totals (€000)**
Original Estimate	21,500	25,237	3,197	110	32,206	82,250
Supplementary estimate	-2,500	1,763	-197	12,890	-1,206	10,750
TOTAL	19,000	27,000	3,000	13,000	31,000	93,000
Actual Outturn	20,021	28,455	5,484	19,359	31,810	105,129
Variance	**1,021**	**1,455**	**2,484**	**6,359**	**810**	**12,129**

The final outturn is €12m ahead of the amount anticipated at the time of the Supplementary Estimate, with more than half of the variance attributable to receipts with respect to the Single Public Service Pension Scheme (SPSPS) (**B7**). This is because the timing of receipt of SPSPS contributions is very variable and a considerable portion of those receipts was credited to the Vote during December, following application for the Supplementary Estimate. This was only the second full year of the scheme, and so there were no reliable previous year trends that could be used to anticipate this year end surge. In addition, the level of contributions received during December in respect of the main schemes was higher than anticipated.

Receipts in respect of the single scheme are directly correlated to the number of new entrants to the civil service, and this has increased in line with the end of the public service recruitment moratorium, which was announced in October 2014. It should be noted that in requesting a S/E for Vote 12 for 2014 the Finance Committee were advised that further additional receipts would accrue to the Vote before 31st December 2014, which would have the effect of reducing further the Revised Net 2014 Estimate.

The second largest variance is on **B6**. The outturn is in line with the 2013 outturn. The lower estimate reflects a conservative approach.

There are also variances of over a million on **B3** and **B4**. In both cases the outturn is in line with the 2013 outturn. The estimate in both cases is what would have seemed likely based on receipts to end November. However, higher volumes of receipts came in in the last month. This pattern will inform future estimates.

Annex 2: FEMPI - PUBLIC SERVICE PENSION REDUCTION (PSPR)

1. The Public Service Pension Reduction (PSPR) was introduced on 1 January 2011 under terms set out in the *Financial Emergency Measures in the Public Interest (FEMPI) Act 2010*. It applied as a once–off cut to the pensions of existing public service pensioners and to the pensions of those retiring until the end of the 2010-2012 grace period; pensions below €12,000 were exempted from PSPR.

2. As originally legislated, PSPR secured an average pension reduction with effect from 1 January 2011 of about 4% of pension, arising from application of the following rates and bands:

Annual Public Service Pension (€)	*Reduction Rate*
First 12,000	0%
Between 12,000 and 24,000	6%
Between 24,000 and 60,000	9%
Between 60,000 and 100,000	12%
Balance above 100,000	20%*

* The 20% rate above €100,000 applied from 1 Jan 2012 (previously 12%).

3. The annual yield or saving from the PSPR as per the rates prevailing at its launch in 2011 is estimated at some €100 million in a full year. In late-2011, arising from concerns about large public service pensions, Minister Howlin amended the legislation to increase the reduction on pension amounts over €100,000 by introducing, effective 1 January 2012, a 20% rate on that band. More significant changes took place in July 2013, when "FEMPI 2013" PSPR increases / extension took effect, reducing pensions above €32,500 (further details below) and driving the PSPR yield to over €130 million annually (estimated).

4. The public service pay cuts of 1 January 2010 reduced the size of public service pensions awarded after the ending of the original 'grace period' (29 February 2012). On average, this reduced retirement pensions coming into payment after that date by 7%.

5. Commencing 1 July 2013, and carried through by way of the FEMPI 2013 Act, a modified (higher) PSPR regime was set for public service pensions in excess of €32,500 where those pensions were awarded in respect of retirements up to the end of February 2012, based on the following rates:

Annual Public Service Pension (€)	*Reduction Rate*
First 12,000	0%
Between 12,000 and 24,000	8%
Between 24,000 and 60,000	12%
Between 60,000 and 100,000	17%
Balance above 100,000	28%

6. A separate PSPR exposure was at the same time created for pensioners who retire after the end-February 2012 up to end of the FEMPI 2013 grace period (expires end-June 2015) for public service pensions in excess of €32,500. Unlike earlier-awarded pensions, these pensions already reflect the downward impact (at award time) of the 2010 public service pay cuts, and hence a lower-rate PSPR matrix or table applies. Under section 9(2)(a) of the FEMPI 2013 Act, public servants who retire during the current grace period have their pension and lump sum calculated by reference to the pay rates in force before the pay cuts (above €65,000) of 1 July 2013, as set out in the table below:

Annual Public Service Pension (€)	*Reduction Rate*
First 12,000	0%
Between 12,000 and 24,000	2%
Between 24,000 and 60,000	3%
Between 60,000 and 100,000	5%
Balance above 100,000	8%

7. PSPR will not be applied to the pensions of persons who retire after June 2015 (when the grace period expires) since their pensions and lump sum will reflect their actual final salary (i.e. grace period concession of basing pension on pre-cut salary will no longer apply).

8. <u>Aggregation of pensions for purposes of applying PSPR:</u>

In essence, this "aggregation" development means that the small minority of public service pensioners who have two or more public service pensions (e.g. TD pension and ministerial pension), and provided those pensions are collectively valued above €32,500, now have PSPR applied to their combined pension income, not to each pension individually. This means an effective additional pension reduction for those persons, fully warranted in the Minister's view on grounds of fairness.

The annual yield (saving) attributable to PSPR aggregation is estimated at over €2.5 million, and about 1,300 pensioners have been affected.