

P18/075/05

20 July 2005

Circular 19/2005: Public Service Pension Reform: Revised method of calculation of pension entitlement for public servants whose pensions are integrated with social welfare benefits

A Dhuine Uasail,

1. I am directed by the Minister for Finance to announce the introduction of a revised method of calculation of pension entitlement for public servants whose pensions are integrated with social welfare (i.e. where the occupational pension is integrated with the Old Age Contributory Pension (OACP) to provide a combined pension).

Background

2. The Commission on Public Service Pensions, as part of its terms of reference, had regard to claims for improvements in existing pension scheme benefits, including claims for improvement of pensions for lower paid workers.

3. Following consideration of the issue, the Commission recommended the introduction of a revised method of integration which would ensure that all eligible employees would get an occupational pension. Under the current method used for integration, a person would have no entitlement to an occupational pension if their pensionable remuneration was less than a prescribed multiple of the OACP (usually twice the current rate of OACP) at the time of retirement.

4. In *Budget 2004*, the Minister for Finance announced that the Government had decided to implement the bulk of the recommendations of the Commission on Public Service Pensions. Discussions were held with the Staff Side on the method of integration and other issues. The Minister announced the introduction of the measure on 14 September 2004 following Government approval.

To: All Heads of Departments/Offices

Scope

5. This Circular applies to staff
- a. who are serving in a public service body as defined in the Public Service Superannuation (Miscellaneous Provisions) Act 2004,
 - b. who are members of the appropriate superannuation scheme of that body and that scheme is a public service pension scheme, as defined in the Public Service Superannuation (Miscellaneous Provisions) Act 2004

and

- c. whose pensions are subject to integration with social welfare benefits.

6. Former public servants who retired/resigned before this Circular issued and who fell within the scope of this Circular, as outlined above, at the time of their retirement/resignation, will have their pension position reviewed with effect from 1 January 2004 (or the date of their retirement, if later). This includes retired public servants who did not receive an occupational pension because their pensionable remuneration at retirement was less than the amount of OACP offset.

7. While this Circular may, in certain cases, because of the revised basis of calculation, confer pension benefit where none previously was payable, it does not confer eligibility for pension where such eligibility does not currently exist under the rules of the relevant pension scheme.

8. The revised method of integration described in this Circular applies to calculation of pension benefits only. There is no change in the way in which integration is used for purposes of calculating pension contributions.

Calculation

9. The revised method of calculation of pension for public servants who fall within the scope of this Circular is as follows:

- $\frac{1}{200}$ th of pensionable remuneration below $3\frac{1}{3}$ times OACP [1]
- multiplied by the total number of years reckonable service

plus (where applicable)

- $\frac{1}{80}$ th of pensionable remuneration in excess of $3\frac{1}{3}$ times OACP
- multiplied by the total number of years reckonable service.

Notes: The same total number of years is used in both the above calculations. It has been agreed that a multiplier of 3.333333 (i.e. to 6 decimal places) will be used to

calculate $3\frac{1}{3}$ times OACP. The revised method of calculation should be used in all cases which are subject to integration and which fall within the scope of this Circular, regardless of the overall amount of pensionable remuneration.

10. Detailed examples are included in the *Appendix* attached. The examples are based on civil service pension scheme terms.

11. The revised approach improves the position for people on lower rates of pay and ensures that every person who meets the requirements of the pension scheme will, regardless of income, get an occupational pension. The formula, as structured, ensures that where pensionable remuneration exceeds $3\frac{1}{3}$ times the current rate of OACP (i.e. €31,186.24 per annum based on the OACP rate of €179.30 per week as at 7 January 2005) retirement pension entitlements remain unchanged.

12. In the case of retired public servants who qualify under paragraph 6 above, the pensionable remuneration and the OACP rate applicable at the time of retirement should be used to recalculate the occupational pension which would have been due had the revised formula applied at the time. The resulting pension amount should then be uprated in the normal way and any increase in benefit paid with effect from 1 January 2004 (or the date of retirement, if later). Where the pensionable remuneration at the time of retirement was equal to or greater than $3\frac{1}{3}$ times the OACP rate, no recalculation is necessary and no change in pension rate should be made.

13. In the case of public servants who fall within the scope of this Circular and who retired before this Circular issued, where the application of the revised integration formula would result in a lower pension than that which is already in payment, the revised method of calculation should not be applied.

Pension Adjustment Orders (PAO)

14. It should be noted that, in general, payments on foot of a PAO will not fall to be revised if the terms of a pension scheme are revised with effect from a date after the date of the decree of divorce or judicial separation. **Because of the legal complexity and sensitivity of such cases, the Pensions Section of the Department of Finance should be consulted about all cases in the Civil Service which fall within the scope of this Circular which include a PAO on retirement benefits.**

Effective Date

15. The effective date for this Circular is 1 January 2004. Retrospective payments arising from this Circular will apply from 1 January 2004 only.

Spouses' and Children's Pension entitlement

16. The revision of retirement pension entitlement may give rise to new or enhanced Spouses' and Children's entitlement.

17. It will be necessary for Departments/Offices and public service bodies to make every reasonable effort to identify such cases to ensure that the spouse and/or children receive appropriate entitlements under the Spouses and Children's Schemes.

18. The terms of paragraph 15 of Department of Finance Circular 6/95 (and similar arrangements in other public service pension schemes) will continue to apply where appropriate. In the case of spouses and/or children of former public servants, whose pensions fall within the scope of this Circular, where the application of the revised integration formula would result in a lower pension than that which is already in payment at the time this Circular issues, the revised method of calculation should not be applied.

Supplementary Pension

19. Where a supplementary pension has been assessed and paid on the basis of the existing method of calculation, the amount of supplementary pension must be reviewed in the light of the revised calculation method set out in this Circular and any retrospective payments due from 1 January 2004 reduced accordingly as necessary. The provision in paragraph 13 should be noted in this regard also.

Balancing Gratuity

20. Where a Balancing Gratuity has been paid on the basis of the existing method of integration, the amount of the gratuity paid should be taken account of and any retrospective payments due from 1 January 2004 reduced accordingly as necessary. The provision in paragraph 13 should be noted in this regard also.

Tasks Arising

21. It is necessary for Departments/Offices and public service bodies, among other things, to establish procedures to:

- a. use the revised method of calculation with immediate effect in calculating the pensions of those who retire after this Circular issues and who fall within the scope of this Circular – ref paragraphs 5-7 above;
- b. review the pension calculation of those who retired before this Circular issued and who fall within the scope of this Circular – ref paragraphs 5-7 above and revise their pension if necessary, with effect from 1 January 2004, or the date of retirement, if later;
- c. review the pension calculation of those who qualify for or are in receipt of a spouse's or child's pension and who fall within the scope of this Circular – ref paragraphs 5-7 above and revise their pension if necessary, with effect from 1 January 2004, or the date of the member's death, if later;
- d. maintain records in relation to additional pension expenditure incurred as a result of the process at (b) and (c)

and (in the case of the Civil Service only)

- e. consult the Pensions Section of the Department of Finance in relation to any cases which involve a PAO – ref paragraph 14 above.

Interaction with other Public Service Pension Reforms

22. Departments/Offices and public service bodies should note that the use of a pro rata integration method for part-time public servants also forms part of the overall Public Service Pension Reform arrangements. Department of Finance Circular 20/2005 sets out in detail the revised arrangements for part-time public servants. Those revised arrangements will apply with effect from 20 December 2001.

General

23. Civil servants are reminded that the Pensions Modeller (available on www.cspensions.gov.ie) can be of assistance in estimating pension benefits. The Modeller is a self-service facility which allows staff to enter basic salary and service details and receive an estimate of projected retirement benefits and certain other superannuation benefits. It will allow staff to model various 'what if' scenarios. The website also includes a Frequently Asked Questions (FAQ) section which gives basic information on pensions scheme rules and benefits. The Modeller is designed to take account of the new method of integration and other reforms which have been introduced this year. The Modeller may also be of benefit to employees of other public service bodies with pension schemes similar to the civil service model.

Circulation

24. Please bring this Circular to the notice of all staff serving in your Department/Office and to the attention of all public service bodies under the aegis of your Department.

Queries

25. Queries from individual staff members should be directed to the Personnel Section of their own Department/Office/public service body. Queries from Departments/Offices relating to this Circular should be made to either of the following officials of the Pensions Section of the Department of Finance: John O'Connell (01-6045405), e-mail john.o'connell@finance.gov.ie or Camillus Farrell (01-6045701), e-mail Camillus.farrell@finance.gov.ie. In the case of queries from public service bodies, the appropriate parent Department should be consulted in the first instance.

Mise le meas,

John C O'Connell

Assistant Secretary

Appendix to Circular 19/2005

TABLE 1 – EFFECT OF NEW FORMULA

The examples below show the effect of applying the new formula on a range of weekly rates of pay, assuming pensionable service of 40 years at retirement. The examples are based on civil service pension scheme terms. The 2005 Social Welfare rates have been used [2].

Final pensionable pay on retirement (weekly)	€400	€450	€500	€550	€600
Current occupational pension	€20.70	€45.70	€70.70	€95.70	€120.70
Revised occupational pension	€80.00	€90.00	€100.00	€110.00	€120.70
Gain in pension (weekly)	€59.30	€44.30	€29.30	€14.30	€0.00
Social Welfare max OACP (no change)	€179.30	€179.30	€179.30	€179.30	€179.30
Current Total pension (incl OACP)	€200.00	€225.00	€250.00	€275.00	€300.00
Revised Total pension (incl OACP)	€259.30	€269.30	€279.30	€289.30	€300.00
Gain in pension (weekly)	€59.30	€44.30	€29.30	€14.30	€0.00

TABLE 2 – COMPUTATION OF NEW FORMULA

The examples are based on civil service pension scheme terms. The 2005 Social Welfare rates have been used.

Example 1 Example 2

	Current	Revised		Current	Revised
Pensionable service	40 years			40 years	
Pensionable remuneration (weekly)	€400.00			€800.00	
OACP X 2	€179.30 x 2 = €358.60	not applicable		€179.30 x 2 = €358.60	not applicable
OACP X 3¹/₃	not applicable	€179.30 x 3.333333 = €597.67		not applicable	€179.30 x 3.333333 = €597.67
Net Pensionable Remuneration	€41.40	not applicable		€441.40	not applicable
Calculation 1	$\frac{1}{80} \times €41.40 \times 40 = €20.70$	$\frac{1}{200} \times €400 \times 40 = €80.00$		$\frac{1}{80} \times €441.40 \times 40 = €220.70$	$\frac{1}{200} \times €597.67 \times 40 = €119.53$
Calculation 2	not applicable	€0.00 (no pensionable remuneration in excess of 3 ¹ / ₃ times OACP)		not applicable	$\frac{1}{80} \times (€800 - €597.67) \times 40 = €101.17$
Occupational Pension (1+2)	€20.70	€80.00		€220.70	€220.70

[1] The OACP used is the maximum rate payable to a single adult with no dependant.

[2] The OACP used is the maximum rate payable to a single adult with no dependant.