Draft at 30 May 2013

Pensions

[Note: Certain changes to public service pensions are to apply from 1 July 2013; these are not part of the Haddington Road Agreement.]

Q. Are public service pensions being reduced under the Financial Emergency Measures in the Public Interest Bill 2013?

Yes, but only higher-value pensions are being reduced. The legislation provides that public service pensions valued in excess of €32,500 will be reduced with effect from 1 July 2013.

The reduction will range from 2% at the threshold level of €32,500 (subject to no pension being reduced below €32,500) to 5% for the highest value pensions.

Pensions of up to €32,500 are not being reduced.

Q. How will the legislation bring about these pension reductions?

From 1 July 2013 onwards, the existing **"Public Service Pension Reduction"** (PSPR) will be amended and adapted in such a way that

- all pensioners already retired on pensions of €32,500 or more, and
- all serving staff who retire by end-August 2014 on pensions of €32,500 or more,

will have the appropriate pension reduction (i.e. pension to be cut by between 2% and 5%) applied to their pensions.

Q. What is the Public Service Pension Reduction?

The Public Service Pension Reduction is a tiered reduction of certain public service pensions above €12,000, in place since 1 January 2011.

The PSPR was introduced by the Financial Emergency Measures in the Public Interest Act 2010. It has been applied to all public service pensions above €12,000 awarded up to end-February 2012 (i.e. the end of the previous "grace period").

The rates of PSPR prevailing before the changes in the 2013 legislation, and which will continue to apply to pensions below €32,500 awarded up to the end-February 2012, are set out in Table 1 below.

(NB: In Table 1 and in the other PSPR tables, the band-specific reduction rates apply to the slices of pension income in each band; they do not apply to the entire pension.)

Table 1: PSPR rates on pensions awarded up to end-February 2012 below €32,500	
Annualised amount of public service pension	*Reduction*
Up to €12,000	Exempt
Any amount over €12,000 but not over €24,000	6 per cent
Any amount over €24,000 but not over €60,000	9 per cent
Any amount over €60,000 but not over €100,000	12 per cent
Any amount over €100,000	20 per cent

Q. How will the PSPR be changed in the Bill to bring about the intended pension reductions?

For pensioners who retired up to end-February 2012 on pensions in excess of €32,500, the PSPR rates to which they are currently subject (see Table 1) will be increased to the rates in Table 2 below with effect from 1 July 2013:

Table 2: Revised PSPR rates for pre-March 2012 pensions that exceed €32,500 from 1 July 2013	
Annualised amount of public service pension	*Reduction*
Up to €12,000	Exempt
Any amount over €12,000 but not over €24,000	8 per cent
Any amount over €24,000 but not over €60,000	12 per cent
Any amount over €60,000 but not over €100,000	17 per cent
Any amount over €100,000	28 per cent

Pensioners who retired after end-February 2012 are not currently subject to the PSPR, but their pensions reflect the downward impact of the 2010 public service pay cuts. **For these post-February 2012 pensioners, and for public servants who retire on pension up to end-August 2014,** PSPR will be introduced with effect from 1 July 2013 at the rates in Table 3 below:

Table 3: New PSPR rates on March 2012 to August 2014 pensions that exceed €32,500	
Annualised amount of public service pension	*Reduction*
Up to €12,000	Exempt
Any amount over €12,000 but not over €24,000	2 per cent
Any amount over €24,000 but not over €60,000	3 per cent
Any amount over €60,000 but not over €100,000	5 per cent
Any amount over €100,000	8 per cent

Q. What is the significance of August 2014? Does it mean there will be another "grace period" for persons who may be retire from the public service?

Yes. To facilitate public service management in planning for staff departures in an orderly fashion, the legislation provides that public servants who retire before the end of August 2014 will have their pension and lump sum calculated by reference to the current pay rates, that is, the pay rates in force before the pay reductions (on pay rates above €65.000) which will apply from 1 July 2013.

The legislation also allows the Minister for Public Expenditure and Reform to extend the grace period beyond the 31 August 2014 expiry date.

On this basis **public servants who retire on pensions between 1 July 2012 and 31 August 2014, and whose pay is reduced due to the 1 July 2013 pay cuts, will enjoy the grace period concession of having their pension and lump sums awards based on their higher pre-cut pay rates.** This cohort of retirees will of course be subject to the new PSPR on their pensions with effect from 1 July 201.

Q. What about public servants who retire after the new grace period, i.e. from 1 September 2014 onwards?

On expiry of the new grace period proposed in the legislation (due to expire at end-August 2014), all new (non-Single Scheme) public service pension and lump sum awards thereafter will be based on actual pay at retirement.

For persons whose pay has been impacted by the 1 July 2013 pay cuts, this will mean that their pension and lump awards will reflect the **removal** of the concessionary award basis applicable during the grace period.

PSPR will not apply to the pensions of persons retiring after the new grace period.