Submission by the Public Service Employers to the Public Service Benchmarking Body

July 2006

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Summary of Key points

(I) The basic Government policy on public service pay is that the public service should be in a position to attract and retain its fair share of good quality staff at all levels. It should neither lead the market nor trail it. It is submitted that this is a sound underlying principle for the Benchmarking Body to adopt in its examination.

(II) The public service employers would also urge the Benchmarking Body to regard competitiveness as a central criterion to be adopted in its work. In this context competitiveness has a number of implications:

(a) the need for the public service to be able to compete in the labour market while at the same time not bidding up the price of labour,

(b) the need for a rigorous assessment by the Benchmarking Body of what constitutes an appropriate market rate and

(c) the need to avoid public service pay increases damaging competitiveness either by provoking follow on increases in the private sector or by unduly increasing the overall cost of public service pay with consequent negative effects on taxation and the scope for necessary public investment elsewhere.

(III) The public service employers are not aware of any clear evidence of significant upward drift in pay levels in the wider economy since the Benchmarking Body completed its first report in 2002. If the Benchmarking Body concludes that no increase is warranted in the pay of some or most or all of the grades which it is to examine it should so report.

(IV) There have been a number of reports indicating that public service pay has moved ahead of that in the private sector. While these reports tend to deal with the public service in general rather than job-specific terms, taken together they constitute an important viewpoint which merits serious consideration.

(V) The terms of reference for this benchmarking review provide that the Benchmarking Body in its work should have regard to the differences between the public service and the private sector and between the various public service groups within its remit in terms of working conditions, the organization of work, perquisites, and conditions of employment and other relevant benefits, including security of tenure and superannuation benefits. This submission describes a range of the conditions applying across the public service. It demonstrates that in a number of areas,

particularly in relation to family-friendly and work–life balance issues, the public service is a favourable employment at the leading end of what is available in the economy generally.

(VI) In this regard the Benchmarking Body is asked to give particular attention to the question of superannuation. Pensions are becoming more expensive for private sector employers to fund and many firms are having difficulty in meeting their obligations under defined benefit schemes. There is clear evidence of a shift towards defined contribution schemes where the pension payable is determined by the yield on the amount invested. Against that the standard public service pension, a defined benefit scheme based on final salary and with post-retirement increases based on subsequent increases in that final salary, is obviously very attractive. There is strong prima facie evidence that the relative value of public service pensions is greater now than was the case even in the recent past. The Benchmarking Body should ensure that full account is taken and appropriate adjustments made for the relatively greater value of public service pension terms when recommending pay rates.

(VII) Another important feature of public service employment to which the Benchmarking Body should have particular regard is security of tenure. This is in contrast to the private sector where there is a threat of job loss if a particular business runs into difficulties or is restructuring.

1. Introduction

Submission by the Public Service Employers

1.1 This submission has been prepared to acquaint the Public Service Benchmarking Body with the views of the public service employers on a number of issues that the Body will be considering in its work.

1.2 While the employers will be responding individually at the oral hearings on the grades being examined, a number of concerns that are cross-sectoral and of general application are covered in this submission.

1.3 The public service employers would be happy to elaborate or clarify any particular points arising from this submission. The employers are also ready to respond to any points raised in the submissions by the union side if required.

Procedures

1.4 It is assumed that the Benchmarking Body will adopt the job evaluation and salary survey approach used by the Body in the 2000 to 2002 benchmarking exercise. The public service employers support this approach as the primary methodology. Regard should also be had to any other available sources on relative job sizes and pay levels in the public and private sectors and other issues such as recruitment and retention levels as a useful check on the results of job evaluation and salary surveys.

1.5 This approach will allow for an up to date comparison of jobs and pay across the sectors. One can expect that some of the unions making submissions to the Benchmarking Body will advance arguments that the jobs of the grades they represent have changed or become more onerous or complex since the last benchmarking review. Even if that is the case, these changes should be captured in a current comparative exercise and would not be grounds for an upward adjustment beyond that indicated by the exercise. The public service employers would point out that jobs generally across the economy tend to evolve over time with changes in the priorities of their employers, the environment in which they operate, developments in technology, increasing demands arising from competition, etc.

Transparency

1.6 The issue of transparency was an aspect of the first benchmarking review which attracted particular criticism and continues to do so. The terms of reference of the Benchmarking Body on this occasion include the provision that:

> "The level of detail to be provided by the Body in its report is a matter for the Body itself taking into account any confidentiality constraints and its own judgement on the level of detail that should be provided. However, the Body should seek to ensure the optimum level of transparency consistent with the efficient and effective operation of the benchmarking process, regarding the factors and their import, which the Body took into account in determining the appropriate pay levels".

1.7 It is not accepted that all of the criticism about lack of transparency in relation to the first review was justified. It is appreciated that constraints apply; for example, that much of the information from the private sector is obtained on the understanding of confidentiality and that the more data that is published the greater the risk of groups who are dissatisfied with the outcome seeking to re-open issues after the report has been issued, thereby giving rise to lengthy and futile disputes.

1.8 On the other hand, it must be recognised that the benchmarking process, like any public service pay determination system, must have credibility not just with the Government and industrial relations practitioners and the public service generally but also with the general public.

1.9 While it is acknowledged that striking the right balance in this area is a delicate task, the public service employers are confident that the Body will give particular attention to ensuring optimum transparency so as to reduce the risk of criticism on this front.

The National Economic and Budgetary Context

Economy

2.1 The economy is expected to grow at an annual rate of 4-5 percent over the coming three years.

2.2 **Growth and Associated Factors – Department of Finance Budget 2006 Projections**

	2005	2006	2007	2008
GNP growth at constant market prices	4.8	4.6	4.8	4.6
GDP growth at constant market prices	4.6	4.8	5.0	4.8
HICP change	2.2	2.0	2.0	1.8
CPI change	2.5	2.7	2.5	2.2
Employment growth	4.7	3.1	2.2	1.9
Unemployment rate	4.3	4.3	4.4	4.5
Labour productivity growth	-0.2*	1.7	2.7	2.8

[* It was the sectoral composition of economic growth in 2005 that resulted in low productivity growth. Growth was concentrated in labour-intensive sectors such as construction and retail, with the result that economic growth in 2005 was accounted for by employment growth and not improved productivity.]

2.3 These rates of growth are more sustainable than the double digit growth rates experienced in the l990s which set the back drop for the establishment of the first benchmarking exercise. In the period l999-2001 average growth rates were of the order of 7.5%.

2.4 As with any set of forecasts there are downside risks. The open nature of the Irish economy makes it particularly vulnerable to any negative shock in the world economy while the current rising cost of oil could also have an impact directly through its adverse effects on energy and transport costs and indirectly in its effects on international economic growth.

The Budgetary Position

2.5 The state of the economy is a key determinant of the budgetary position. The current forecast for 2006 is for a General Government deficit of 0.3% of GDP and deficits of 0.8% of GDP for 2007 and 2008. Since the objective is that the General Government balance should be framed to be close to balance, this implies that there is

limited room for manoeuvre on tax or spending. One of the key determinants of Government spending is of course public service pay.

2.6 As with the economic forecasts it is important to recognise that budgetary forecasts make little provision for periodic unexpected demands put on the Exchequer for extra spending such as has arisen recently in the context of the repayment of nursing home charges. Other such examples would include Army deafness payments and the redress offered to victims of abuse. Therefore, it is always prudent to ensure that spending and taxation are set to achieve a budgetary position that can allow for unexpected changes.

Stability and Growth Pact

2.7 It has to be recognised also that Irish economic policy is set within a European dimension. The current Stability and Growth Pact (SGP) imposes certain obligations on us in running our economic policy. The Pact has recently been modified to make it more realistic and relevant. The principal changes involve (i) more flexibility for countries experiencing prolonged economic downturns to consolidate their budgets over a longer timeframe, (ii) a greater focus on the need to consolidate budgets in good economic times, and (iii) more budgetary freedom of movement across the economic cycle for countries with sustainable budgetary positions.

2.8 The last-mentioned change needs to be properly understood and applied prudently. Specifically, the revised rules allow countries with low debt and high potential growth (such as Ireland) to deviate from the 'close-to-balance' budgetary objective, and to run a deficit of up to 1% of GDP, particularly to facilitate public investment needs. However, the revised SGP makes it clear that, for economies growing at or above potential, the emphasis should be on budgetary sustainability, with the extra leeway only to be availed of in the light of economic downturns, i.e. there should be enough room to deal with the budgetary impact of an economic shock without threatening a breach of the 3% deficit limit of the Maastricht Treaty. Having regard to the above, it would be inappropriate and imprudent to run deficits in excess of those currently planned by the Government.

2.9 The key message is that as a country we must continue to run the Budget on a sustainable basis and within the parameters of what should be expected of a country in our economic and budgetary position. With the economy now growing close to or above its potential level, the focus must be on securing sustainable increases in prices and wages: failure to do so will undermine competitiveness and jobs.

Competitiveness

2.10 Competitiveness of the economy is the key and helps determine the future of the country. An uncompetitive economy will impact on growth, jobs and the budgetary position. Competitiveness is determined by a number of factors and not all apply equally to all businesses. However, pay and earnings are central to most companies and especially in some sectors are the key element in dictating the price of goods and services.

2.11 Losing competitiveness will impact on future growth and reduce our ability to deal with social issues. We have lost competitiveness in recent years. Wage growth has exceeded that justified by productivity growth, implying an increase in labour costs. When very strong productivity growth in a few modern sectors with low employment shares is 'stripped out' the decline in competitiveness in recent years is seen to be even more severe. In many exposed sectors of the economy, in particular in indigenous industry and the tourism sector, there has been a significant loss of competitiveness. It must also be remembered that as one of the most open economies in Europe, Ireland is very exposed to sharp swings in the exchange rate, with implications for national competitiveness. The restoration and enhancement of competitiveness is a central objective and to that end wage growth must not exceed that justified by productivity, and in addition must reflect the risks faced by the economy from exchange rate developments and increasing competition from emerging economies.

2.12 In recent years Ireland has suffered a deterioration in wage competitiveness. Last year, for instance, productivity growth in Ireland was very modest, resulting in an increase in unit labour costs (i.e. the rate of change in compensation per employee over the rate of change in GDP per person employed). Indeed, unit labour costs in Ireland have risen more rapidly than in our major trading partners for most of this decade, implying a loss in competitiveness.

Impact of Public Service Pay

2.13 Public service pay policy affects competitiveness in a number of ways. Firstly, and most directly, if public service pay rates were to be set above the level of the private sector, particularly the traded goods sector, wage levels in that sector would be forced upwards, increasing the costs in the sector and making it less competitive.

2.14 Secondly, higher public service wage costs increase the burden on the economy by taking up limited resources. Higher public service wage costs have to be met from taxation or through diversion of funds from other areas of public expenditure or both. If such wage costs are met from taxation, an increased tax burden creates disincentive effects in terms of job creation and investment because it costs more to employ people and after-tax profits are reduced.

2.15 Where increased public service wage costs are met through reduction in other areas of public expenditure, there are opportunity costs for example in terms of infrastructural investment forgone. In our current economic situation where there are severe pressures on infrastructure, such opportunity costs could be significant.

2.16 For all of the above reasons, it is essential that public service pay levels do not lead wage levels in the economy. Establishing appropriate public service pay levels, in the context of the imperative to maintain competitiveness, will involve taking account of three key elements:

1. ensuring that the public service can compete in the labour market while at the same time not bidding up the price of labour;

2. undertaking a rigorous assessment of what constitutes an appropriate market rate; and

3. establishing a framework to operate within so that the overall cost of public service pay is contained while the provision of efficient/effective services is maintained.

2.17 The essential and central element of the Body's task will be to situate public service pay levels in an appropriate position vis-à-vis the private sector without setting new pay norms for the economy generally and within a wider framework which would deliver more effective and efficient services to the public.

Public Service Pay Bill

2.18 A central determinant of Government spending is public service pay. In turn spending helps dictate Government tax policy and ultimately this can impact on the private sector and on competitiveness through the tax burden. Control of the public service paybill has been a priority for the Government and one aim is to ensure an orderly evolution of the pay element of the public finances. Attached is a copy of the Analysis of the Public Service Paybill 2005 published by the Department in June 2006.

2.19 The Public Service is the biggest employer in the State with about 331,000 employees currently whose salaries are funded by the Exchequer.

2.20 In summary the position is:

- the net paybill in 2006 (pay and pensions spending after offsetting any receipts from pension contributions) will be €16,186m, an increase of 8.1% over 2005;

- 53.5% of the increase is accounted for by the increases paid under *Sustaining Progress* and the last phase of benchmarking increases; the remainder is accounted for by extra employees and technical factors;

- over the period 2001 to 2006, the paybill is to increase by over 59%;

- 63% of the increase will be due to pay increases (national general pay rounds and other pay increases such as the first benchmarking awards);

- from 2001 to 2003 the paybill increased slightly as a percentage of GNP and GDP but has remained fairly constant since: it now comprises over 11.2% of GNP;

- the paybill is about 48% of net non-capital Exchequer spending and about 40% of total Exchequer spending;

- pensions account for about 9.8% of the Paybill, up from 8.6% in 2001: overall the pension spend has increased from €876m in 2001 to €1,588m in 2006; and

- in terms of sectors, the health sector accounts for about 41% of the paybill up from 39.5% in 2001, education has risen slightly with the civil service and security sectors having decreased slightly.

2.21 As can be seen from these figures the Exchequer burden imposed by the paybill is significant and a key determinant of Government budgetary policy. As a result of the last benchmarking exercise it is estimated that the extra cost to the Exchequer was €1.2bn per annum.

Public Service Pay Determination

3.1 This section sets out recent developments in the public service which will be of interest to the Benchmarking Body in terms of the thrust of public service pay policy and the programme of reform and modernisation which forms a background to recent developments. That programme will be a key feature of the future development of the public service and of public service pay. It will obviously influence the working environment and the jobs and tasks of the whole public service.

Public Service Pay Policy

3.2 Public service pay policy is concerned with pay developments across the entire public service. Since l987, the evolution of public service pay has been governed by pay agreements which formed part of successive national programmes. These programmes were negotiated between the Social Partners – Government, the employer organisations, the Irish Congress of Trade Unions, the farmer organisations and a range of other bodies representing community and voluntary organisations.

3.3. A cornerstone of the national partnership process is the willingness of all the parties to seek to ensure that the benefits of economic prosperity are shared. It is this interdependence between different groups in society and the interaction between different elements of public policy that is at the heart of social partnership. Public service pay policy must be firmly grounded in this context.

3.4 A new partnership programme has just been negotiated. These negotiations have delivered *Towards 2016*, a ten year framework social partnership agreement. The agreement sets out a ten year agenda for social and economic development while providing for a 10% pay agreement phased over a twenty seven month period. In the case of the public service, the first phase will take effect on 1 December 2006. The payment of the phases is contingent on the verifiable delivery of further public service modernisation and on the maintenance of industrial peace.

Background to Benchmarking

3.5 One problem which was formerly central in the conduct of public service pay policy was that of cross-sectoral relativities. This problem was particularly evident during the period covered by the *Programme for Competitiveness and Work* (PCW).

3.6 In the early 1990s the public service pay agreements under the *Programme for Economic and Social Progress* (the PESP) and the PCW permitted local bargaining on claims, subject to agreement on flexibility and change and the contribution to be made by employees to such change, within a cap of 3% of basic pay cost – to take

account of the passage of time this cap was subsequently extended to a “norm” of 5.5%. As an alternative to "restructuring" a group could process a traditional claim but this would be limited to the cap.

3.7 Difficulties arose when some groups secured settlements above the level of the established norm. The concept of historical pay relativities remained so embedded within the public service pay scene that it was virtually impossible to deal with any one group in isolation. The result was an upward spiral of PCW settlements which reflected a mix of persistent residual traditional relativities and successive settlements setting target norms for other groups even where there had been no traditional relationships. The experience illustrated the problem of cross-sectoral relativities that had dogged the public service pay area for many years.

3.8 In the years prior to the establishment of the Public Service Benchmarking Body there was a series of public service disputes, particularly notable examples being the nurses’ strike and the “blue flu”. Those who had settled within the PCW norm began to advance claims to recover what they saw as ground lost and also to “catch-up” with the private sector which they considered was outstripping the public service as private sector wages rose in response to the booming economy and the tight labour market. Their sense of grievance was added to considerably by the view that they had lost out because they had played by the rules while others had not. If piecemeal settlements had been arrived at in these cases, almost certainly some at least of those who now saw their earlier comparative gains being eroded would have made further claims to restore their position.

3.9 All informed commentators knew that some better way had to be found to set public service pay. Following from an initiative in 1998 by the Taoiseach there were detailed discussions between the public service employers and unions to find a preferable way forward. The eventual agreement reached in the context of the negotiations leading to the *Programme for Prosperity and Fairness* in July 2000 provided for the “PCW early settlers” increase of 3% from 1 October 2000 and the establishment of the benchmarking process. A major advantage for the employers was that the unions agreed that the old system of cross-sectoral relativities was dead. This was a fundamental change.

3.10 The Benchmarking Body issued its report in 2002. The first benchmarking report was accepted by the unions. Only one union challenged the findings (Civil and Public Services Union on equality grounds). The Report, and its broad acceptance, copper-fastens the break with the old cross-sectoral relativities.

3.11 The first report recommended that the implementation of the awards (other than the first quarter) should be made dependent on agreement on modernisation and

change and with a validation process. Arising from the report of the Benchmarking Body the two sides negotiated its implementation as part of the first public service pay agreement under *Sustaining Progress*. It had previously been agreed that the first quarter of the increases would be paid with effect from 1 December 2001. It was then agreed in the *Sustaining Progress* talks that half of the total increases would be paid on 1 January 2004 and the final quarter on 1 June 2005.

Conditionality and Verification

3.12 Importantly in this context it was agreed that the payment of the final two phases of the benchmarking increases and the general round increases under *Sustaining Progress* would be dependent on verified achievement of certain sectoral targets. To this end a verification process was set up with sectoral Performance Verification Groups (which included an independent chairperson and members) to assess periodically the achievement or otherwise of the conditions attaching to the payments, i.e. industrial peace and achievement of the targets in the sectoral action plans.

3.13 To date this system has worked well. There has been a virtual absence of industrial disputes and disruption in the public service. This is particularly noticeable in the Health Sector which had been plagued with local and national stoppages by various groups under the PPF. The verification process has also been particularly successful in securing commitment to co-operation with flexibility, ongoing change and implementing a modernisation agenda from the groups covered by the parallel benchmarking exercise. Securing change from these groups had traditionally been difficult and this new verification process has resulted in a considerable amount of change in a short time. This is a considerable and welcome improvement.

3.14 It is also clear that the verification process has provided an impetus across the public service to implement the modernisation commitments set out in the *Delivering Quality Public Services* section of *Sustaining Progress.* Although the pace and range of this progress have varied between the sectors, in overall terms significant progress has been achieved. The verification process has been maintained in the recently negotiated partnership agreement, *Towards 2016*, as a mechanism of linking pay increases to verifiable co-operation with modernisation.

Modernisation

3.15 In the **Civil Service** the modernisation agenda has been implemented across a wide front, with particularly good progress having been made in the areas of better customer service; eGovernment (especially the introduction of online services such as ROS in Revenue, and payment of motor tax); the Management Information

Framework and human resource management (especially embedding PMDS, developing HRM strategies at organisational level and bringing forward legislation to reform the recruitment process and the 1956 Civil Service Regulation Act).

3.16 In **An Garda Síochána** the modernisation agenda has included IT-enabled change projects, where the most significant changes related largely to the introduction and roll out of the PULSE system. The fixed charge processing system for road traffic offences has also been rolled out. A new accountability framework has been introduced. The Garda Síochána Act 2005 has provided a new basis for the governance of the Force. Among other changes, the Act provides for a new independent oversight of the Garda Síochána and a new three-person Ombudsman Commission that will have the power, inter alia, to investigate independently complaints against members of the Force. The Act will also establish an independent Garda Inspectorate to ensure that the resources of the Force are used to achieve the highest levels of efficiency and effectiveness. The Act also provides for joint policing committees to be established in each Local Authority area as a forum for consultation and recommendation on matters relating to policing the area. In addition, the establishment of a volunteer reserve force constitutes a radical change for the Force.

3.17 In the **education sector** there have been changes to the guidelines governing parent-teacher meetings. Three parent-teacher meetings per academic year are now held outside school time. This change has facilitated the easier access by parents to such meetings. In respect of one staff meeting per term (formerly, entirely held within school hours), the time allotted is now drawn from within, and without, normal school hours on a 50:50 basis. In relation to the standardisation of the school year the outcome has been to avoid problems for families caused by variation in closure arrangements where children are attending different schools. Standardisation has also confirmed the requirement for a school to be open for a minimum of 167 days at post-primary level and 183 days at primary level.

3.18. There has been significant progress throughout the **local authority** sector in implementing change and modernisation programmes particularly in such areas as: enhanced customer service, the implementation of a Performance Management and Development System (PMDS), further development of workplace partnership in local

authorities and the adaptation of technology and flexible working arrangements. There is a growing range of on-line services to which the general public have access in areas such as environment, planning and registration processes; local authority staff have facilitated this ease of access on an on-going basis. The establishment of the Local Authority National Council, the code of practice on dispute procedures and the handling of significant change through partnership protocol have delivered benefits in the area of industrial peace.

3.19. In the **health sector,** the main benefit has been in the area of industrial peace and the establishment of new procedures to defuse problems before they escalate into disputes. There have been advances in the further roll-out of the Health Care Assistant (HCA) grade including agreement which will see HCAs performing routine nursing duties, e.g. taking of blood pressure, temperatures etc. and in hospital "pilot" arrangements in radiography, therapeutic and laboratory analysis. There is a growing trend towards longer opening hours of health facilities in response to public demand. This involves earlier starts and later finishes (8am – 6pm/8pm) in a range of out-patient facilities, including dedicated out-patient diabetes, physiotherapy and cancer clinics, radiography departments and weekly late night dental clinics and ante-natal classes in a growing number of locations.

3.20 In the **Defence Forces**, there is a more customer focused approach. A number of Memoranda of Understanding (MOUs) and Service Level Agreements (SLAs) were implemented. The agreed programme of modernisation includes:

- reduction in numbers from 11,500 to 10,500 since 2001, with subsequent investment ratio of 70:30 (pay:non-pay) achieved
- new officer promotion schemes for Army, Naval Service and Air Corps
- new officer induction and training schemes
- substantial investment in new equipment and full co-operation with its deployment and significantly higher training requirements
- substantial investment in new infrastructure and cooperation with accompanying changes
- introduction of family friendly policies
- Reorganisation of the Reserve
- Closure and sale of barracks.

Issues for consideration

Earnings

4.1 The Body has been asked to recommend the appropriate pay rates for the grades listed by the parties (the so called List A). The Body may wish to consider as background the trends in earnings across the economy in recent years. The only broad, regular survey available is the CSO earnings data.

4.2 Based on the latest CSO earnings figures average Public Sector earnings increased by 6.2% to the year ended December 2005 (It should be noted that the CSO figures for the Public Sector exclude the health sector but include the commercial State companies which are governed by private sector wage arrangements rather than public service ones).

4.3 The table below shows the comparison with the other sectors for the same period. We have also included a category Public Sector II which is exclusive of the commercial state companies. This measure is closer to the public service which is Exchequer-funded than the CSO definition although it still excludes the health sector. It is always difficult in an exercise like this to compare the different sectors since they will always have different characteristics and timing factors affect comparisons. Therefore, in terms of weekly pay the public service because of its age profile, the average length of service and the preponderance of higher qualifications would be expected to be higher than some State sectors. However, if we look at the rate of change then the position is as set out below.

Weekly earnings, year-on-year percentage change

	2005			
	q1	**q2**	**q3**	**q4**
Public Sector I (CSO)	6.2	5.5	5.7	6.2
Public Sector II (excl commercial companies)	6.4	6.4	6.3	6.3
Industry	5.3	2.7	3.0	3.1
Construction	7.7	6.3	6.0	6.4
Financial	5.0	5.5	1.7	5.1

This would appear to show that the public sector and the construction sector are racing ahead of the other sectors.

4.4 Taking one year in isolation when looking at pay increases can be very misleading. The main reason public service pay rose more than pay in other sectors in

2005 was because the final instalment of the benchmarking increases (on average 2.5%) was paid in 2005. Since this was a "catching up" increase it was inevitable that in the year it was paid public service pay would increase more than elsewhere.

4.5 Since benchmarking was a **catch up** increase and because of timing factors which mean pay increases under national agreements have different payment dates in the public service and in the private sector it is necessary to look at a longer period to measure the relative changes in the sectors.

4.6 The following table shows the figures over the period 1998-2005.

	1998 (€)	**2005** (€)	**Increase** (€)	**% Increase**
Public Sector I (CSO)	566.99	868.32	301.33	53.2%
Public Sector II (excl commercial companies)	560.45	849.58	289.13	51.6%
Financial	551.65	782.92	231.27	41.9%
Construction	448.78	772.51	323.73	72.1%
Industrial	395.88	592.05	196.17	49.6%

This shows that increases in the public sector were ahead of the financial and industrial sectors but less than the increases in the construction sector.

4.7 Over the more immediate recent period from 2001 to 2005 the divergences are smaller and may be accounted for, in part, by timing factors for payment of general rounds and benchmarking increases.

	2001 (€)	**2005** (€)	**Increase** (€)	**% Increase**
Public Sector I	672.10	868.32	196.22	29.2%
Public Sector II	661.70	849.58	187.88	28.4 %
Financial	658.10	782.92	124.82	19.0%
Construction	586.69	772.51	185.82	31.7%
Industrial	489.20	592.05	102.85	21.0%

Overview of Pay Levels

4.8 The benchmarking review was carried out in 2000/2002. This followed and overlapped with a period when pay across the economy was rising rapidly. During *Partnership 2000* and particularly for a period under the *Programme for Prosperity*

and Fairness (2000/2002), a substantial number of private sector firms reached settlements well in excess of the standard round terms of the agreements.

4.9 From the information available the situation under *Sustaining Progress* to date would appear to have been quite different. From what we can see, there have been very few private sector settlements above the national agreement norms. While this may change over the next year or so, at this stage there is nothing to suggest that there is any broad disparity between the rate of increase in the public service and in other sectors.

Payscales

4.10 In the past some unions have raised the issue of long pay scales. The employers are of the view that the Body is not precluded from looking at this issue where they perceive a problem but consider that the present scales properly reflect the circumstances of the various grades.

List B

4.11 A list of grades to be reviewed has been given to the Body. The Body should also be aware that in addition an agreement has been reached which will link these grades not listed on List A to grades on List A. This is unavoidable unless every grade (some with small numbers) were to be examined by the Body; something that would not be possible in the time available. Therefore, the rates recommended by the Body for any one group will have an impact on other grades.

Commentary on Public Service Pay Levels

4.12. Over the past two years, there have been several reports indicating that public service pay levels are ahead of those in the private sector:

- the 'Maynooth Report' of 2004, entitled: 'Public-Private Wage Differentials in Ireland 1994 – 2001' (by Boyle McElligot and O'Leary), which concluded that public service workers are paid more than private sector workers and that in 2001 the premium enjoyed by public servants was about 13 per cent. This report found that the premium is significantly bigger for those near the bottom of the earnings distribution than for those near the top, was significantly bigger for women than men in the mid-1990s but not at the end of the 1990s, and did not vary significantly across different levels of educational attainment. They estimated the premium for 2001 to be not significantly different from that estimated for 1994 despite a period of exceptionally rapid output and employment growth, and correspondingly sharp tightening of labour market conditions in the Irish economy. They considered that the most remarkable difference between their results and those of other researchers for other countries related to the absolute size of the premium. [summary available: http://ideas.repec.org/p/may/mayecw/n1421004.html]

- The ISME Report of June 2005, undertaken by economist Jim Power, which claimed that public sector wages were 41% ahead of the average industrial wage. They considered that the number of new jobs in the public sector, including health, in recent years confirms that there is not problem with retaining and recruiting staff. They concluded that 'another agreement along the lines of Benchmarking 1, would seriously undermine competitiveness and economic prospects'. [summary available: http://www.isme.ie/presspage27406.html#Thursday%2030th%20Jun%20205]
- The ESRI Quarterly Economic Commentary (Winter 2005), concluded that the aforementioned paper on Public-Private Wage Differentials 'appears to have provided compelling evidence that public service employees were earning more than private sector employees, even before the benchmarking exercise.' They also cited a paper by Russell, Smyth and O'Connell, based on a survey of recent third-level graduates in 2004, which found that wages for this group (which they conceded was a narrow group) were 20% higher in the public sector. The ESRI commentary further remarks that neither of these studies factored in the value of pension entitlements when analysing relative wages. The view was expressed that both the coverage and nature of public service pensions would add further to the public sector gap over the private sector and concluded by noting that 'on balance, the economy would be best served by holding public sector wage increases to rates below those granted in the private sector.'
- The Central Statistics Office, National Employment Survey, 2003 (published in 2006), found that in the public sector, workers earned an average of 40% above the private sector rate. They also noted that one half of the public sector workforce is in professional and technical areas, whereas the corresponding fraction for the private sector is about one eighth; again, one half of public sector workers have third-level qualifications, compared to a quarter in the private sector. (http://www.cso.ie/releasespublications/pr_nationalemploymentsurvey2003.htm)

It is important to note that these reports are based on fairly general comparisons between the public and private sector and did not involve job-specific comparisons. As such, their findings must be treated with some caution. That being said, the reports were prepared by reputable experts and were based on serious research in the area. Accordingly, they represent a perspective that must be seriously considered and the Benchmarking Body is asked to give due weight to their findings.

Recruitment and Retention

4.13 The Body is also asked in its considerations to have regard to recruitment and retention issues. It is the view of the employers that there is no general problem with recruitment to the public service. In some specialities skills are in short supply but the

number of vacancies arising because of inability to recruit suitable candidates is not high. In some cases expansion of services had run ahead of the ability of our education system to produce suitably qualified people but this is a matter that can be resolved through increasing the supply of qualified people. In any event it has been possible to attract suitably qualified people (for example nurses, non-consultant doctors) from abroad to take up this work; the pay rates by implication would seem therefore to be attractive enough to ensure that the jobs are filled by competent candidates.

4.14 In relation to retention issues while there are always individuals with skills who will move between the public service and the private sector, the general picture is one where there is no significant loss of staff to the private sector.

Public Service Benefits

4.15 The Body should consider the benefits that public servants enjoy such as secure tenure and pension terms. The latter issue is dealt with in detail in section 5.

Security of tenure

4.16 In the main, public servants, once they have served a probationary period, can look forward to continued employment unless they contravene the conditions attached to their employment. In contrast in the private sector there is the threat of jobs loss if the particular business runs into difficulties or restructures. In the recent past the growth in employment in Ireland has been strong with most businesses thriving rather than losing staff. However, this general situation does not disguise the fact that within the overall picture individual firms have closed and in others staff have been let go to allow for restructuring. While economic growth has been sufficient to allow most to be reabsorbed into the workplace it is nevertheless a factor that most public servants do not have to face at any stage during their working lives.

4.17 It is not clear how a value can be put on this benefit but in assessing the appropriate rate for public service jobs the Body will need to take adequate account of this feature. In the previous Report the Body dealt with the issue briefly in paragraph 6.4 where it concluded that it was a material benefit.

Other Non-pay Benefits

4.18 There is a wide range of family friendly and work life balance schemes in operation across the public service. While there has been an increase in awareness in the public and private sectors of the need to address work life balance issues generally, the public service is generally acknowledged as offering a more generous range of flexible and family friendly options. Family Friendly and Work Life Balance policies help employees to combine their work with responsibilities and choices outside of the workplace.

Flexible Working

4.19 The main schemes in operation in the civil service are: part-time work (Work-sharing), flexitime and term-time. Work-sharing allows staff to job share or to opt for a part-time attendance pattern. Work-sharing staff are paid on a pro-rata basis. Flexitime gives staff flexibility to vary their starting and finishing times. Term Time allows staff with children up to 18 years of age to take 8, 10 or 13 weeks unpaid leave from June until the end of August to match their working arrangements to their children's summer holidays. Requests for access to work life balance schemes are facilitated as far as possible, subject to business requirements. There are also a number of tele-working or e-working schemes in operation, whereby employees work from a home office for some days each week. Worksharing, term-time and flexitime are also available in the local government sector. An e-working scheme is currently being piloted in the local government sector with a view to national application to allow employees work from home. The work-life balance schemes in An Garda Síochána consist primarily of job-sharing; discussions are on-going with the staff associations in relation to the provision of term-time on a limited basis. In the health sector there is a variety of flexible working arrangements and almost a quarter of all nurses now job-share or work part-time hours. At present, the Defence Forces have no arrangements for flexible hours arrangements (Flexi-time), e-working from home, annualised hours, job-sharing/job-splitting/work-sharing and part-time work. It is acknowledged that there are intrinsic difficulties in the military environment in striking a balance between work life balance policies and the demands of military service at home and abroad. Access to some non-statutory schemes is restricted due to the nature of military service.

Leave for Family Purposes

4.20 A civil servant is entitled to three days' paid paternity leave on the birth or adoption of a child. Officers are also entitled to up to 5 days' paid leave at the time of marriage subject to an overall total of 26 days between annual leave and marriage leave. Civil servants can also avail of 3 or 5 days' paid leave on the death of an immediate relative. The civil service provides a flexible approach to the operation of the statutory entitlement to parental leave to allow parents, subject to work requirements, to take the leave in the manner that most suits their own circumstances. Arrangements similar to those in operation in the civil service in this area are also available in the local government and health sectors. Members of An Garda Síochána are entitled to 3 days paid Paternity leave and may avail of between 3 and 5 days on the death of an immediate relative. Similar arrangements apply in the Defence Forces.

Career Breaks

4.21 The civil service also allows staff to take up to two career breaks during their career. A career break is a period of unpaid leave from work of between six months and five years. A career break may be allowed for domestic reasons, including child care, education or travel abroad. A person on a career break may not take up paid employment in Ireland. Career breaks of up to three years are available for self employment purposes. Similar career break schemes are also available in the health and the local government sectors and in the Garda Siochána where members may avail of a career break of between 1 and 5 years for strictly limited purposes of further education, or domestic and child care purposes. In the Defence Forces, members may seek one career break for up to three years.

Unpaid Leave for Domestic Purposes

4.22 Unpaid leave to deal with domestic difficulties is also available to care for an ill spouse or children (up to 6 months), to travel abroad to visit an ill relative (up to 2 months) and to deal with other urgent domestic problems (up to 2 months). A similar scheme applies in the teaching area. The Garda Siochána also provide special leave for up to six months in respect of urgent domestic affairs or the serious illness of an immediate family member. Similar policies covering compassionate leave are also available in the Defence Forces, the health sector and in the local authority area.

Crèches

4.23 Workplace crèches are available in various areas of the public service. Crèches for the children of civil servants have been provided in six locations: Dublin, Kildare, Athlone, Ennis and Sligo. The operation of the crèches is subsidised to ensure that high quality care is provided at reduced cost. In the health sector, workplace crèches are in place in many large Dublin hospitals and a further roll-out of this facility is ongoing.

Sick leave

4.24 The arrangements in regard to sick leave and other forms of absence from work are a significant part of the terms and conditions of employment of all public servants. There is no statutory right to paid sick leave in Ireland. Against the background of the statutory obligations which apply to all employers, the public service has developed a complex set of rules and procedures in relation to sick leave and other forms of leave.

Sick leave scheme - benefits

4.25 In the civil service the provisions allow 183 days certified paid sick leave in any period of 1 year, and 365 days paid sick leave in any period of 4 years. During the first six months (183 days) of illness, full pay is allowed. This is followed by half pay for a further six months. Comparable provisions apply in the Garda Síochána, the **local** government and health sectors and to officers in the Defence Forces (the latter are subject to medical board assessments before going on to reduced pay and are also subject to discharge for not meeting the medical standards). There is no reduction in pay provision for enlisted men in the Defence Forces and no time limit applies to sick leave. They are however subject to medical board discharge for failing to meet medical fitness requirements. In the teaching sector, the provisions allow for 365 days' sick leave (certified and uncertified) in any period of 4 consecutive years. During the first 365 days of sick leave, full pay is allowed.

Sick leave at pension rate of pay

4.26. When the certified paid sick leave entitlement is exhausted, a civil servant may be put on pension rate of pay (if the medical opinion is that the officer will be fit to return to work in due course). Pension rate of pay is the equivalent of the pension that the officer would receive if he were retiring at that point. The rules do not state any time limit for pension rate of pay, although the Personnel Section would carefully monitor an officer who is on pension rate of pay with a view to decisions about either a return to work or retirement. Similar provisions apply in other parts of the public service – for example in the local government and health sectors and in the Garda Síochána.

Sick leave without pay

4.27 In the Garda Siochána, sick leave without pay may be granted to officers when the period of certified paid sick leave has been exhausted and whose service does not qualify them for sick pay at pension rate. Sick leave without pay is granted to members who have exhausted their period of certified sick leave and applies to members who pay PRSI at "A" rate. These members are eligible to claim benefits from the Department of Social and Family Affairs. Teachers who, on completion of the maximum period of sick leave, are unfit to resume duty may be granted an extra period of unpaid sick leave, not exceeding six months in the primary area and up to two years in the case of secondary, community and comprehensive teachers.

Uncertified sick leave

4.28 In the public service, there is also provision for limited uncertified sick leave.

Non-pay benefits in the public service - overview

4.29 In the private sector generally this range of options is not available to employees to the same extent. While some employers may offer some of the options, very few, if any, would offer all. In reaching its decisions the Body should bear in mind this non-monetary aspect of public service employment which has a value to employees.

Public Service Pension Terms

5.1. This section sets out many of the issue that the body may wish to consider in allowing for pensions in the pay determination process.

Key points

5.2 Pensions in context of remuneration and conditions

The issue of public service pension arrangements is of major importance in any consideration of remuneration and benefits in that sector and how they compare with the private sector. The increasing tendency in the private sector to move towards Defined Contribution (DC) schemes is particularly relevant in this context. (**Paragraph 5.7)**.

5.3 Pensions and Public Expenditure

The Benchmarking Body is operating against a background of an expected very large future increase in Exchequer expenditure on pensions. Total expenditure on pensions covering Social Welfare pensions and public service occupational pensions is projected to increase steadily from 4.3% of GNP in 2006 to 13.8% in 2056. The public service pension component of this bill is expected to rise from 1.3% in 2006 to 3.7% in 2056. In constant pay terms (i.e. before allowing for any future pay increase), the public service pension bill is expected to increase by 50% over the next 7 years, to double in 15 years and to almost treble by mid century i.e. to increase from €2bn in 2006 to some €6 billion in around 50 years (**Paragraphs 5.8. to 5.11**).

5.4 Impact on pension costs of Pay Increases

Before arriving at its recommendations on pay, the Body may need to give careful consideration to the implications for pension costs from any changes in pay rates being considered. It is the view of the Department of Finance that it is essential that the process of pay determination take full account of the additional pensions costs created by pay increases. The final salary Defined Benefit (DB) public service schemes are clearly costly for the Exchequer to finance and also valuable for individual public servants. Many persons retiring in the near future from the public service will receive a pension of 50% of final pay (paid, on average, for perhaps 25 years), a lump sum of 1.5 times final pay and be covered for a spouse's pension of 25% of pay. Final pay will, in many cases, be in excess of double the pay at time of entry in real terms. In addition, pension increases are currently paid in line with the pay of the grade in which the former public servant once served (**Paragraphs 5.14 to 5.19**).

5.5 Assumptions

In its report the Body might set out the approach adopted and main assumptions used by it in valuing public service pension terms. The Body might also disclose the estimated effect on the long term pension's bill arising from its recommendations (**Paragraphs 5.21 to 5.23**).

5.6. Comparison with Private Sector

Outside experts will be needed to provide help in valuing these public service pension entitlements. It will also be necessary for the Body to carry out research into benefit structures across the private sector to allow for a proper comparison with pay and pension terms in the public service. To assist with such comparisons it may be useful

for the Body to compare the notional cost to the Exchequer of providing €1 of a public service pension at retirement with the current prices charged by annuity providers (**Paragraphs 5.29 to 5.41**).

A. Introduction: background to consideration of pensions

Pensions in context of remuneration and conditions

5.7. The issue of public service pension arrangements is of major importance in any consideration of remuneration and benefits in that sector and how they compare with the private sector. The Benchmarking Body in its first report took account of cost differences between the private and public sectors in the area of pension arrangements when arriving at its recommendations on salary and pay levels. The issue of comparative pension terms and conditions in the public and private sectors has assumed an even greater importance in the period since the Benchmarking Body last reported. The increasing tendency in the private sector to move towards Defined Contribution (DC) schemes, while the public service retains Defined Benefit (DB) schemes is particularly relevant in this context.

Expenditure projections

5.8 The Benchmarking Body is operating against a background of an expected very large future increase in Exchequer expenditure on pensions. Total expenditure on pensions covering Social Welfare pensions and public service occupational pensions is projected to increase steadily from 4.3% of GNP in 2006 to 7.7% in 2026 and to continue to increase to 13.8% in 2056 (projections of State pensions given in this note are taken from table 5.3 of the recent National Pensions Review Report). The sheer scale of this increase will be of major concern to future governments. It is the view of the Department of Finance that it is essential that the process of pay determination take full account of the additional pensions costs created by pay increases.

5.9 The public service component of this sharply upward projection for state pension spending is likely to be of particular interest to the Body. Expressed in terms of GNP, expenditure on public service occupational pensions is projected to increase from 1.3% in 2006 to 3.7% in 2056. These cost projections reflect the expected future growth in retirements from the public service, the impact of the increasing life expectancy of pensioners, the valuable final pay DB pension terms applying to public servants and the relatively high pay at retirement of many public servants. Future pay increases which are above those assumed in the projections or which are more favourable to pensioners (e.g. a higher than average increase at the maximum of a scale) will add to this growing burden. All these forecasts take account of savings that will accrue from the recent increase in pension age for new-entrant public servants from 60 to 65 years.

5.10 The above sets out projected expenditure on public service pensions as a percentage of GNP. For pay determination purposes it may also be useful to consider expected levels of actual expenditure. In constant pay terms (i.e. before allowing for future pay increases), the public service pension bill is expected to increase by 50% over the next 7 years, to double in 15 years and to almost treble by mid-century i.e. to increase from €2bn in 2006 to some €6 billion in around 50 years. Actual levels of expenditure in any year will depend on pay at the time and therefore the level of future pay increase and also the structure of such pay increases will be key

determinants of the actual level of future expenditure on public service pensions in future years.

5.11 As shown above, over the next fifteen years expenditure on public service occupational pensions is projected approximately to double even before an allowance is made for any future pay increases. This means that even if there were no pay increases at all to public servants over the next 15 years the pension's bill is still expected to double and most forms of future pay increases will add to this burden (an exception would be increases at lower points of a scale). This real rate of increase may well be unique among areas of government expenditure since the increase appears unavoidable in view of present mortality assumptions.

Life expectancy

5.12 Future life expectancy of pensioners is a critical factor in assessing the benefit of a public service pension. While it is not possible to predict with any certainty the level of future mortality, there is now widespread agreement that the life expectancy of pensioners in future is likely to be substantially greater than in the past. It is easy to find support for this view: in 1986 the average life expectancy in Ireland for a male aged 65 was 12.6 years and by 2001 this had increased to 15.4 years; projections by the CSO are for this figure to rise to 20.6 by 2036. It might also be noted that the relevant life expectancy assumption for the Benchmarking Body should be even greater than these figures would indicate since public service pensioners can be expected to live for longer than the national average. A mortality table used by consultants to the National Pensions Review suggests that males retiring from the public service in the near future can expect, on average, to live to 87.

Commission on Public Service Pensions

5.13 The Body may find the report of the Commission on Public Service Pensions which was completed in 2000 to be helpful, particularly in terms of its detailed description of pension schemes applying in the public service. The report's various costings will be less relevant, however, dating as they do from the late 1990s.

B. Allowing for public service pensions in a pay determination context

Assessing the Benefits

5.14 A key task of the Body in relation to pensions will be to assess the financial benefits of public service pension terms for pay determination purposes for the public service grades under review on a basis that is consistent and comparable with the value of pension terms in comparable private sector employments. Given the financial and budgetary importance of public service terms and the complexity of the issues involved, the Body will need to give careful consideration to this task.

5.15 There are a number of occupational pension schemes applying in the public service and each scheme also contains a great number of individual benefit terms (the Body will need to obtain details of the main terms applying to each grade being examined). However, in financial terms, the important benefits provided *in respect of each year of service* for most pre-1995 entrants to the public service can be summarised as follows:

- An annual pension of 1/80 of pay at retirement
- A lump sum of 3/80 of pay at retirement
- A spouse's pension of 1/160 of pay
- Retirement age: optional at any time between 60 and 65
- Pay parity increases apply to pensions in payment.

Under these terms many person retiring in the near future from the public service will receive a pension of 50% of final pay, a lump sum of 1.5 times final pay and be covered for a spouses pension of 25% of pay. Given that final pay, in many cases, is likely to be at least twice entry pay (in real terms) and given that average life expectancy at age 60 for males retiring from the public service in future is expected to be around 27 years an annual pension of 50% of final pay is clearly a very valuable benefit. In addition, the pay parity increase arrangement has proven to be beneficial since pay increases have consistently outstripped price inflation.

5.16 An alternative presentation of the financial importance of a public service pension which is of relevance to the pay determination process is as follows: in broad terms, for each €100 most pre-1995 public servants get in pay during their career, it is expected that they will in due course receive, assuming retirement at age 60 and average life expectancy, a series of pension payments which will amount to €50 (index linked to pay); i.e. the total expected deferred pay associated with each pay cheque will amount to 50% of the actual pay. This proportion will vary depending on current age, age at retirement, grade and the precise pension terms that apply.

5.17 This figure of 50% of pay is a useful rule of thumb for illustrating in rough terms the average financial benefits of public service pension terms for pre-1995 recruits to the public service. However a more detailed analysis is required before a figure can be used for a particular grade for pay determination purposes. There are substantial difficulties in attempting to place a precise value on public service pension terms as can be seen from the following example of a person recruited as an Executive Officer since 1995: the actual pay of €28,000 in year one is a straightforward matter; estimating the associated deferred pay or cost of the pension promise arising from this year of service is however a problematic task as can be see from the following:

- if this person leaves within two years the pension benefit is just a refund of contributions – around 5% of pay;

- if the person leaves after 2 years but before age 60 the benefits are a preserved pension paid from age 60 and linked to the grade at time of leaving;

- if the person continues to normal age retirement (ill health retirement being a separate matter) initial payments will depend on final grade (Executive Officer or Higher Executive Officer or Assistant Principal etc), service (which depends on age at entry and breaks in service) and on the rate of old age pension at retirement;

- total pension payments will then depend on age at death and years of spouse's pension, if any.

The possible range of pension amounts associated with this single grade is clearly very large and this uncertainty makes it difficult to absorb pensions into a pay determination process. A further difficulty arises from the need to allow for the timing of pension payments when converting those uncertain future payments to current values. The Body will need to consider how much a future pension payment is worth now in order to compare future pension payments with current pay amounts. In this context it is generally accepted that a single payment of €1 at some future time, even if linked to pay, has a lower value than €1 paid now.

Notional funding approach

5.18 Despite the difficulties involved it is important that pensions are taken fully into account and it is suggested that the approach the Body might adopt in assessing the financial benefit of public service terms is to calculate the notional cost of funding a public service pension for each grade under review. This cost could be taken to be the percentage of pay that would be required to fund a given set of pension terms over the working life of a typical new recruit to a grade (new entrant cost); for example, the notional cost of funding a pension for an Executive Officer recruit would then be given as X% of annual pay from entry to retirement. This means that if X % of pay were invested each year in a fund earning the interest rate assumed by the Body then the fund at retirement should be sufficient to pay the expected benefits.

Application to pay determination

5.19 An allowance for pension terms in arriving at a pay rate could then be made as follows: assume the notional employer cost of public service pension terms for a particular public service grade was estimated at 25%; assume also that the pay for a comparator grade in the private sector was €40,000 and that the associated private sector pension terms had a value of 10% of pay; then the guideline pay rate for this public service grade might be set simply as €44,000/1.25 or €35,000; the total of annual pay and deferred pay for both the public service and private service would then be €44,000. However, there are difficulties to be overcome before this model can be applied not least of which is that different experts may come up with very different pension cost figures for a given grade. These differences will be mainly due to the wide range of reasonable assumptions that can be used to arrive at pension cost figures. It is also accepted that pay determination cannot be solely based on such a single and simple model and many different refinements and adjustments are likely to be necessary before any final pay figures are produced. **Nonetheless, the Department considers that such an approach should provide an essential component of the pay determination process**.

Expert advice

5.20 Given the complexities of pensions, the Body will need to engage outside experts to provide help with the task of choosing a method of assessing pensions. Outside experts will also be needed to carry out the detailed calculations required in this area. However, while in the past pension 'values' may have been often obtained by means of an "off the shelf" set of figures provided by outside consultants, it is suggested that such figures should now only be used after careful consideration by the Body. A pragmatic judgement by the Body may be unavoidable in using any pension cost figures for pay determination purposes.

C. Assumptions to be used in assessing the benefits of a public service pension

Significance of assumptions

5.21 Whatever approach is adopted by the Body to assess the benefits of public service terms, assumptions will need to be made under various headings. The choice that is made in respect of the many important assumptions can have a very large impact on the corresponding notional cost of a public service pension. These assumptions can be grouped under two headings - those that are the same for all public service grades and those that may vary depending on the grade in question. The following paragraphs set out, for the information of the Body, some background to the task of choosing an appropriate set of assumptions.

Relevant assumptions

5.22 In assessing the benefits of public service pensions, two key assumptions will be common to all grades: discount rate and mortality assumption. In approaching the task of choosing appropriate assumptions under these and other headings, the Body might consider the following points:

- **Discount rate:** the choice of discount rate has an enormous effect on the value placed on public service pension terms. For example, a change of 1% in the discount rate assumed would change the notional cost of pension terms for a pre-1995 Executive Officer by around 10%. While the Body is likely to rely heavily on expert advice on this difficult technical matter, it will be important that it obtains a broad understanding of the reasons for the choice of rate used to value public service pensions; the State now has a pension fund in the form of the National Pensions Reserve Fund (NPRF) and it may therefore be helpful for the Body to consult with the NPRF in relation to the likely future returns on this fund. Eurostat carry out an annual actuarial assessment of the Pension Scheme of European officials and the discount rate assumption used there may be of interest to the Body. Appendix 1 also provides some general comments.

- **Mortality:** consultants engaged by the Pensions Board devised a mortality table for use in projecting public service pension costs for the recent National Pensions Review Report. Given that this is the only mortality table devised specifically for public service pensioners, the Body might consider using this as the basis for their pension costings. One feature which may complicate matters for the Body is the consensus among demographers that improvements in life expectancy will continue for the foreseeable future. According to CSO projection, life expectancy at retirement is projected to increase by around one year for each six years into the future. A person retiring in 2036 is then expected to life for 5 years longer than a person retiring in 2006. This means that the value of a pension at retirement will depend on current age.

- **General pay increases:** it may be possible to arrive at pension cost figures without an explicit assumption in respect of the level of future pay increases. However, the Body may still find it useful to examine the increases awarded in the public service in the past for various purposes including, in particular, as background to the choice of a discount rate. For example, the average

increase awarded to Executive Officers (on Long Service Increment 2) over the past 10 years was 5.6% p.a. By comparison over the same period the average interest rate on long term government debt was around 5.2%.

- **Pension increases:** pension increases in the public service are currently determined on the basis of pay parity, that is, in line with the pay of the grade at retirement. The report of the Commission on Public Service Pensions noted that "this has proven an advantageous arrangement for the pensioner mainly because pay has increased at a consistently higher rate than price inflation". As further background to the choice of discount rate, and to assist in comparisons between public and private sector pension benefits, the Body may find it useful to compare the historical rates of increase in public service pay with increases in price inflation. In this regard the Pension Commission, having examined the rates of increase in several public service grades over the 15- and 30-year period to 1997, found that the increases fell mostly in the range 1% to 2% in excess of price inflation. Over the past 10 years the average annual increase in Executive Officer pay was 5.6% as compared to a 3.0% p.a. increase in the CPI - a differential of 2.6% p.a.

5.23 In addition to the above, a number of further important assumptions will need to be made for each individual grade. Different assumptions will apply to different grades depending, for example, on career patterns or on pension terms and, as a result, different pension cost figure may apply to different grades. In choosing assumptions, the Body might consider the following:

- **Career increases:** public service pension benefits are based on pay at the time of retirement with pay levels at all prior career points being of little or no relevance; almost all recruits to the public service are, in effect, guaranteed substantial increase from incremental scales and in many parts of the public service many staff will be promoted at least once during their careers; however the average level of such increases can vary greatly from one public service group to another; also within each group the level of career increases can vary greatly – one person recruited as an Executive Officer might retire as an Executive Officer while another might retire as a Secretary General. The Pensions Commission examined average salaries by age for certain public service groups and found wide variations as the following example shows: over a typical career from entry to retirement the pay for Gardai was found to increase, on average, by 72% in constant pay terms, while the corresponding figure was 170% for civil servants. Allowing for a career increase of, say, 170% would add around 10% to the notional cost of a pension as compared to an assumption of a zero career pay increase. To help with its consideration of this matter, the Body may need to obtain information on career patterns from many parts of the public service.

- **Pension terms:** one of two standard pension terms apply to most public servants; the difference is that integration applies under one set of terms and does not apply under the other (integration is the process where public servants who are in receipt of social welfare pension have their occupational pension reduced to allow for the SW pension). There are also important variations from these standard terms: some groups have the facility to retire

before age 60 and others may be granted additional periods of pensionable service. For example, up to 10 additional years may be granted to certain staff in many parts of the public service and an award of 10 years to, say, a university lecturer could add perhaps 5% -10% to the notional annual cost of their pension. Also, staff recruited since 2005 to most part of the public service cannot retire before age 65. The Body will need to obtain details on the particular pension terms applying to each public service grade under review.

- **Ages at retirement:** almost all currently serving public servants have the option to retire at age 60 (in some cases before age 60) while a retirement age of 65 would appear to apply in most private sector DB schemes. In valuing pensions, the retirement age assumption chosen can have a large effect: for example, the notional cost of providing a pension to a pre-1995 teacher on the basis of retirement at 65 (having entered at 25) would be of the order of 5%-10% lower than the cost for a teacher who is assumed to retire at 57 (having entered at 22). In arriving at pension cost figures, the Body might also consider making an allowance for ill health retirements.

- **Recruitment patterns:** many staff are now recruited at older ages and many staff are working less than full time. For example, in the civil service the average age of recruitment of staff was around 20 until the early 1990s while the average age of recruits in recent years has been over 30. There are now many staff working less than full-time in the public service and many other staff are taking, or have taken, breaks in service. These changing patterns may need to be kept in mind in assessing the potential value of public service pension terms.

- **Staff turnover:** staff who leave with less than two years service receive a refund of contributions and otherwise staff who leave before retirement receive a preserved pension. Staff who leave early will not receive any further career increase while, on average, some career increase will apply to those who continue in service to retirement. Therefore the pension benefits per year of service for early leaver are likely to be less valuable than the corresponding benefits for staff who remain in service until age 65. The assumption made with regard to the pattern of leaving to take up employment in the private sector will affect the notional pension cost for a grade and for this and other reasons the Body may need to examine relevant data on turnover in the public service.

D. Other technical issues

PRSI class/integration

5.24 The examples of the cost of public service terms given above apply to established public servants who are in modified PRSI and who would not therefore normally qualify for a social welfare pension. However, in assessing the value of public service pensions, attention should also be paid to those public servants who are in full PRSI class; in general those paying full PRSI will receive an old age pension (OAP) and have their occupational pension reduced to allow for this. All post 1995

recruits to the public service are in full PRSI and it is likely that a majority of public servants are now in that category.

5.25 Integration means that there will be cases where the total of pay and occupational pensions will be very different for similar work. For example, consider a pre-1995 entrant and a post-1995 entrant to teaching: both may be doing similar work for, in effect, identical current pay. However the pension cost for the pre-1995 person will be perhaps 5% greater and as a result the total of the pay and occupational pension package will be more favourable for the pre-1995 entrant. This outcome creates difficulties in arriving at a notional pension cost for a grade.

5.26 However, the combination of OAP and occupational pension for a public servant on full PRSI class will generally be at least as great (and in a number of circumstances significantly greater) than the total pension for a modified public servant. There are a number of other differences in the arrangements covering those on modified and full PRSI (see Appendix 3). The body may consider that OAP and other differences in terms between pre- and post-1995 entrants should be taken into account for pay determination purposes.

Linked grades

5.27 In valuing pension terms the Body may also need to assess the implications of some linked grades having different pension terms as for instance is the case with staff nurses and psychiatric nurses. For example, the value placed on staff nurse pension terms will be significantly different from the value of psychiatric nurse terms. This difference in the value of pension terms creates problems for pay determination purposes since it may be necessary to set the same pay rate for both groups. Difficulties also arise in valuing pension benefits in respect of grades which are not recruitment grades and also in respect of grades which are both promotion and recruitment grades. Allowance will also need to be made for the various levels of employee contribution paid by different grades in the public service. The Body will need to consider these and other elements of public service pension arrangements in their assessment of the value of public service terms.

Implications for notional pension costs of any new pay rates

5.28 The structure of pay increases can have a significant effect on the notional cost of pension terms. A level increase at all points of the pay scale of a grade should have no effect on the associated notional pension cost figure which is expressed as a percentage of pay. For example, a level increase of 20% at all points of the teachers pay scale will have no effect on the notional cost of pension terms for a pre-1995 teacher (all such level pay increases will, of course, increase the current and future pension's bill). However, a favourable increase at the maximum of a scale will lead to an increase in the value of pension for one or more grades. On the other hand a shortening of scales will have virtually no effect on the current or future pension's bill. The Body may need to give careful consideration to the possible complicated consequences for pensions arising from changes in pay rates.

E. Comparing with private sector pension benefit terms

5.29 Many of the issues which have to be considered in assessing the financial benefits of public service terms have been set out in the paragraphs above. It will also be necessary for the Body to consider private sector pension terms in the pay determination process to allow for a proper comparison with pay and pension terms in the public service.

Comparison with private sector employees who are in DB arrangements

5.30 For those employees still covered by DB arrangements, determining the comparative valuation of private sector terms will follow the approach adopted for public service schemes with appropriate adjustments to allow for any significant differences in terms. For the small minority of private sector employees covered by good quality DB schemes (providing CPI or close to CPI increases), the comparison should be relatively straightforward: the conclusion may be to the effect that the value of the benefits provided by good private sector DB schemes and by public service schemes are broadly the same since, at age 65, the cost of a 2/3rds pension with CPI increases is roughly the same as the cost of a standard public service benefit of 50% of pay with a lump sum of 1.5 times pay and where pay parity increases are assumed to be 1.5% in excess of CPI increases. However, this conclusion may be subject to a number of qualifications including:

- the maximum occupational pension of post-1995 public servants is significantly lower than 50% of pay due to the effect of integration (the majority of private sector employees in DB schemes are also subject to integration);

- public servants may have more favourable retirement age options;

- in reality most private sector employees are likely to opt for a lump sum rather than just a pension and the value of the pension terms then depends on the terms of this conversion i.e. how much pension has to be given up in return for any lump sum payment;

- any comparison depends on the assumptions made with regard to discount rate and life expectancy;

- pay parity versus CPI increases: the figure of 1.5% assumed above for the difference between pay parity and CPI increases may be on the low side. For example, compared to CPI increases, pay parity was worth around 2.6% p.a. to the Executive Officer grade over the past 10 years; in the case of a pensioner retiring at age 65 with average life expectancy, a 2.6% differential would mean that the total income for each €1 of initial pension would be around 50% greater under pay parity as compared to a person in receipt of CPI increases;

- there appears to be a growing risk that some private sector DB schemes will fail to meet all the pension promises made to staff.

The material at Appendix 2 may be relevant in relation to the issues discussed above.

Comparison with private sector employees in Defined Contribution (DC) plans

5.31 It appears from the annual report of the Pensions Board that fewer than 200,000 private sector employees are covered by DB schemes - perhaps not much more than 10% of all private sector employees (and some of these schemes will provide less than CPI level of increases). Comparisons with persons who are not in DB schemes are more difficult: in such cases the amount of a persons pension will depend on the contribution paid into a fund, the growth in the pension fund and on annuity rates at time of retirement. In particular, an individual in the private sector who is not covered by a DB arrangement cannot buy a pension prior to retirement and, at retirement, cannot buy a pension which increases in line with pay; for such persons there is inevitably a great deal of uncertainty about the level of pension that will arise from any given contribution rate. There are of course many individuals (around 50% of the working population) who have no pensions coverage.

5.32 To assist with comparisons it may be helpful for the Body to consider the following question:

> What proportion of pay would an individual in the private sector working from, say, age 25 to age 65 need to contribute each year to a DC pension plan in order to fund public service type benefits from age 65?

The answer will, of course, depend on the assumptions used. If, for example, it is assumed that career increases are 2% p.a., that the personal pension plan achieves net investment return (after expenses) of 1% over pay and that pay parity increases are 4% p.a., then based on current annuity rates the annual contribution rate would be around 50% of pay.

5.33 However, the total of employer and employee contributions to most DC plans appears to be at or below 10% of pay. This suggests that the pension emerging from the better DC plans will only amount to around $1/5^{th}$ of the pension provided to pre 1995 public servants. In effect, a pre-1995 entrant retiring from the public service after 40 years service will receive a pension of 50% of final pay; by comparison if they were retiring from a good DC plan their equivalent pension would be around $1/5^{th}$ of this or just 10% of final pay. This gives an indication of the very large difference in value between public service occupational pension terms and those likely to apply to the vast majority of private service workers.

5.34 The simple comparison given above may even overstate the relative benefits of a DC plan for a number of reasons: future annuity prices are likely to be significantly higher if, as expected, mortality continue to improve, pay parity increases might easily be above the assumed average of 4% p.a. and the comparison does not allow for the cost of ill health benefits; the difficulty of funding for an uncertain level of career increases and changing work patterns in a DC plan will also be a factor. As against these points some may argue that an assumed net investment return of 1% in excess of pay is conservative.

5.35 It may be noted that estimates of the cost of providing pensions in the private sector usually show figures much lower than the illustrative figure of 50% quoted above. It might be useful to note the main reasons for the higher figure quoted here:

- a career increase of 2% p.a. is assumed above i.e. in constant pay terms final pay is assumed to be 2.2 times pay at entry; many estimates of the cost of providing pensions in the private sector appear to make no allowance for such career increases. However, most public servant can expect a significant increase in pay from increments and possibly from promotions throughout their career. For example the basic scale for a teacher goes from €28,000 to €56,000 (excluding allowances) i.e. up by 100% from entry to retirement; in reality many private sector employees can also expect to retire on pay which in real terms will be far in excess of their starting pay at age 25;
- illustrative figures for the private sector are generally not based on public service level of benefits. In particular, estimates of private sector costs are usually based on pensions increasing in line with CPI increases (at best) and these increase are often assumed to be at 2% p.a.; pay parity increases are assumed above to be at 4% p.a.

In assessing the cost of pensions for a public service grade it is essential that an appropriate allowance is made for career increases and also that a realistic assumption is made for the value of pay parity increases.

Annuity prices

5.36 One feature which may be of interest to the Body in assessing the cost of pensions in the private sector is the price charged for an annuity. In order to provide a retirement income, many of those retiring from the private sector have to buy an annuity and in the long term, given the apparent decline in DB coverage, it is possible that this may be the only means of providing a pension in the private sector. In recent years, annuity prices have risen steadily in line with falling interest rates and with improvements in mortality. The expectation is that the prices will continue to rise in future if, as expected, mortality continues to improve (see Appendix 4).

5.37 Table 1 below sets out the current prices (as of June 2006) charged for an annuity of €1 p.a. to a male aged 60 with specimen levels of increase. It is not possible to buy an annuity which increases in line with pay. However the price of an annuity increasing at 4% p.a. (= €34 cost per €1 of annual pension) might be a reasonable basis for comparison with the cost of a pay parity public service pension. Public service pension are financed on a pay-as-you-go basis and therefore no actual comparative figure for the cost of a public service pension is readily available. However, for pay determination purposes it will be necessary for the Body to arrive at a notional cost of providing €1 of public service pension and this figure might usefully be compared with current annuity prices.

Table 1: Price as of June 2006 for an annuity of €1 p.a. paid from age 60 to a male (including a spouses pension of 50%)

annual increase in pension	cost per €1 of annual pension
2% p.a.	€25
in line with CPI	€32
4% p.a.	€34

5% p.a.	€41

5.38 It appears, until recently at least, that most actuaries would have assessed the notional cost of providing an annual €1 of public service pension at age 60 (with spouses benefits) at €20 or less. By comparison the actual current price for an annuity increasing at 4% p.a. is €34 or 70% higher than a notional cost of €20.

5.39 The Body may find it helpful to examine the reasons for the above differential and to assess the extent to which it is still appropriate to assume that the notional cost to the Exchequer of providing €1 of pension at retirement is far lower than the price charged by annuity providers. This large differential is the main reason that estimates of the notional cost of funding public service pensions have to date generally been far lower than the estimated cost of providing comparable benefits in the private sector under a DC plan. For this and for general background an examination of annuity prices should provide useful information to the Body. In addition the Body may wish to look more closely at the overall estimated cost of providing benefits in DC plans.

Security of benefits

5.40 Any comparison between pension coverage in the private sector and the public service will highlight a number of differences including the fact that pay parity increases and the Exchequer under-pinning of benefits are unique features of the public service pension schemes. While it may be possible to attach a value to the favourable public service pension increase, no precise extra value can, strictly speaking, be placed on the Exchequer under-pin. However, the inherent worth of the Exchequer backing is becoming more and more apparent according as DB schemes experience funding problems and as individuals are increasingly being covered by DC schemes with their associated investment and annuity risks. It may be appropriate that the Body, in its findings, would allows for this feature of public service schemes in a pragmatic across-the–board way.

Research by the Body vis-à-vis private sector pension arrangements

5.41 In our view, it is essential that research commissioned by the Body should provide it with the data needed to carry out an assessment of the financial benefit of the pension terms applying in private sector employment to allow a proper comparison with pay and pension terms in the public service. Complementing this, the Body will find it useful, we suggest, also to consider overall developments in private sector pension provision. In this context, it will be apparent that there is a shift away from DB to DC schemes in the private sector, reflecting moves by private sector employers to limit escalating pension costs. Given the importance of recent and likely future developments in the private pension area and in particular, the likely worsening of private sector terms, the Body might consult with the Pensions Board and possibly with some of the larger pension consultancies on this matter.

F. Costing of pay recommendations

5.42 Estimating the effect on the pay bill of any set of pay increases is generally a straightforward task and the result can often be usefully described by a single overall

figure – for example, the increase in pay arising from the last benchmarking exercise was given at €1.2bn or at 8.9% of pay. No such figure is available for the corresponding increase in pension costs. In any case pensions are different and a single figure showing the effect of pay increase on pension costs in a single year is of limited use. For example, an increase in pay to a group such as nurses may lead to a modest increase in pension costs in the short term given the relatively low number of nurses currently on pensions. However, over time, the effect of that increase on the nurses pension bill will grow steadily in line with the expected future large increase in the number of nurse pensioners.

5.43 The structure of any pay increase can have an effect on the current and future pension bill. An average increase of X% could be made up of relatively high increases at the lower points of scales and lower increases at higher points. The effect of this would be to increase the current pension's bill by less than X% since the great bulk of pension payments are likely to be paid to persons who retired at or near the maximum of a scale at time of retirement. By contrast, a relatively high increase at the maximum points of a scale will lead to a far greater increase than X% in the pension's bill. Similarly, increases to grades which are over-represented among pensioners will have a proportionately higher effect on pension costs. The Body may therefore need to give consideration to the likely effect on the future pension's bill of possible changes in pay rates; in this context, the effect on the current pension's bill may be of limited relevance.

5.44 Given the potential large increase in pension costs that may arise over the long term from increases in public service pay, the Body may wish to consider making an estimate of the long term increase in pension costs arising from any pay recommendations.

G. Disclosures in Body's report

5.45 In its report the Body might set out the approach adopted and main assumption used by it in valuing public service pension terms. In particular, some insight into the Board's evaluation of these terms in a (private sector) comparative context would be useful and appropriate. The Body might also disclose in its report the estimated effect on pension costs arising from its recommendations.

Appendix 1: Pension shocker for workers under 50: Retirement costs have been systematically underestimated (Financial Times editorial of 29/3/2005)

The idea that 30 years of retirement can be funded by a working life of 40 years is becoming increasingly un-sustainable at the current level of investment returns and contributions. Yet most corporate pension schemes continue to promise just that. One reason why there has been so little debate over the viability of these promises is that accounting rules obscure their true dimensions.

For example, UK corporate schemes are underfunded to the tune of Pounds 128bn, according to estimates by Mercer, a consultancy. This is just an accounting number, as those pension payments do not need to be made for many years. But the funding gap would be even bigger were the liabilities not discounted at an unrealistic rate.

Ordinarily, long-term liabilities are discounted by the rate at which inflation is expected to erode them. The best proxy for this rate is the yield on long-term government bonds. But under current accounting rules, the discount rate in the UK and US is the AA corporate bond yield - and even then, companies may pick and choose.

Yields on corporate bonds are higher than on government bonds to reflect factors such as credit risk, as well as inflation. But there is no justification for assuming these other factors will shrink pension liabilities. Yet by using a higher discount rate, those liabilities are reduced, sometimes substantially. The resulting shortfalls are often revealed after corporate collapses such as that of United Airlines.

There is a growing body of opinion in the pensions world that the discount rate should be changed. It would force employees and corporate sponsors to face some troubling truths about the affordability of final-salary schemes

While most companies are increasing pension contributions, they are also relying on superior equity returns to help close the funding gap. One justification for using a higher discount rate is that equity investments will outperform bond returns in the long term. However, the recent bear market has demonstrated the risks with equities.

Unless an investment return higher than the government bond rate can be guaranteed, most pension promises are unaffordable. A traditional final-salary pension funded entirely by gilts would require savings of more than 30 per cent of salary. That is unrealistic for all but the highest paid.

The alternative is to raise the retirement age, so people work longer to fund a shorter retirement. However, the fuss when the British government tried to raise the public-sector retirement age from 60 to 65 suggests this will not be easy. The US public has reacted little better to a similar suggestion for social security. Nor is it simple to phase in retirement with final-salary schemes that base the pension on salary just before stopping work.

The unpalatable truth is that most people under the age of 50 will not be able to retire in their 60s, but must carry on working part-time. Either that or live in penury.

Appendix 2: FINAL SALARY SCHEMES: Cost of providing pension up by 80% (Extract from Financial Times article of 16/6/2006)

The annual cost to an employer of providing a basic final salary pension has jumped by 80 per cent between 1995 and 2005, according to research from Fidelity International, the fund management company.

The analysis concluded that the cost of providing a single year's benefit - the cost of accruing an additional 1/60th of final pay in retirement - rose from 9.2 per cent of salary in 1995 to 23.8 per cent of pay in 2005. The analysis looked at the percentage of pay that would have to be set aside to cover the future benefits for a 40-year-old man.

Paul Sweeting, director of portfolio strategies at Fidelity, said: "If you are providing the same benefits to a worker as you were 10 years ago, you've given someone an 80 per cent pay rise.

"Over the past 10 years, the cost of providing final salary pension benefits amounts to an annual pay rise of around 6 per cent."

Mr Sweeting said the main factor driving the sharp rise in pension costs had been the drop in real yields on gilts, a fact little appreciated at the time it was happening by employers, trustees or many actuaries. Although the rise in life expectancy has also contributed to the increase in costs, the drop in gilts yields has had a bigger impact, he said.

Perhaps because the shift in rates occurred during a raging bull market in share prices, it was little noticed. "The truth is that lots of trustees were in love with equities," Mr Sweeting said.

Moreover, actuarial models tried to "smooth" the values they assigned to stocks and bonds, a practice that is less prevalent today and one that tended to mask the impact real movements in the underlying markets were having on pension costs.

Real interest rates on gilts are used to determine the price of annuities in the private market, although Fidelity's model also assumes that assets are partly invested in equities, which deliver a 3 per cent premium to gilts.

In April 1997, the real yield on long-dated index-linked government gilts was 3.744 per cent. By April 2000, the yield had more than halved to 1.76 per cent and is currently just above 1 per cent.

Broadly speaking, the cost of providing pensions roughly doubled between 1997 and 2000, although few market participants were discussing it.

Appendix 3: PRSI class /integration

With effect from 6 April 1995 full PRSI was introduced for all new entrants to the public service with the following being the main changes:

- all new entrants to the public service pay full class A PRSI contributions;
- all new entrants may become entitled to additional social welfare benefits including the old age pension (OAP);
- all new entrants have their occupational pension reduced to allow for the SW pension (an arrangement known as integration);
- contributions were introduced to those areas of the public service where pre 1995 recruits made no contribution to the main pension scheme (with the exception of those groups who were in full PRSI prior to 1995 whose schemes remained non contributory) ; this new contribution is 1.5% of pay plus 3.5% of an amount equal to pay less twice the OAP; this new rate also applies to post 1995 recruits to the Gardai (previously their contribution was 1.75% of pay);
- where the above contribution was introduced salaries were increased by a factor of 1/19th to compensate for the higher contribution;
- in areas of the public service, where main scheme contributions were at 5% of full pay, the contributions were reduced to 1.5% of pay plus 3.5% of an amount equal to pay less twice the old age pension i.e. the rate was reduced to the rate that now applies to most post 1995 entrants.

Groups who were already in full PRSI prior to 1995 were not affected by the above changes. These groups are mainly non-established and industrial civil servants, non-officers in the education, local authority and health sectors, groups in certain state sponsored bodies and enlisted personnel in the Defence Forces. The contribution rate to the spouses' and children's scheme for all public servants were also unchanged remaining at a rate of 1.5% of pay or of 1.5% of pay less twice the old age pension depending on the area of the public service.

Table 1 below compares the initial annual pension that is paid at retirement to integrated and non integrated staff where final pay is €40,000. For this example, in the case of person retiring with 40 years service, the non integrated occupational pension is double the integrated pension - €20,000 compared to €9,930. In general, the difference varies directly with length of service and amounts to OAP/40 for each year of service.

However, as table 1 illustrates, the combination of OAP and occupational pension for a public servant on full PRSI class will generally be at least as great (and in a number of circumstances significantly greater) than the total pension for a modified public servant.

Table 1: Comparison of occupation pension and total pension for integrated and non integrated case retiring on annual pay of €40,000 (OAP at €10,070)

	calculation of occupational pension	occupational pension	total pension (inc OAP)
retiring with 40 years service			
non integrated	400000 X 40/80	€20,000	€20,000
integrated	(40000 - 2* 10070) X 40/80	€9,930	€20,000
retiring with 20 years service			
non integrated	400000 X 20/80	€10,000	€10,000
integrated	(40000 - 2* 10070) X 20/80	€4,965	€15,035

Appendix 4: Pensions cut by 80 per cent from 10 years ago (extract from press release from Watson Wyatt in the UK)

UK, February 27, 2006 – The annual income that a pension saver receives has been cut by nearly 80 per cent in the last 10 years. Lower returns on investments mean that the pension pot after saving for 20 years is less than half what it would have been 10 years ago and annuity rates used to convert pension pots into income have also reduced by nearly half over the same period. Once these two cuts are combined, the resulting income is down by 78 per cent, for savings of identical amounts.

The cost of pensions has risen due to lower investment returns and greater longevity. People saving for their own pension need to respond by saving more or working for longer. Those who are lucky enough to have a Defined Benefit pension provided by their employer will not be affected, though the figures do shed light on why the cost of this type of pension has risen so sharply. Unfortunately, private sector employers are now in sharp retreat from sharing any of the risks of providing pensions and the Pensions Commission's recommendations will do little to arrest this trend.