

Chapter 5 Central Government

Public Service Pensions

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5.1 Pension schemes¹¹ in the public service cover over 300,000 staff and over 100,000 pensioners, and dependents. Almost all public service pension schemes are defined benefit schemes under which the pension benefits payable are based on the level of final salary at the date of retirement and, in general, post retirement increases are awarded in line with pay increases with the approval of the Minister for Finance.

Special Report

5.2 A Special Report on Public Service Pensions, following an examination under Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, was signed by me on 21 August 2009 and sent to the Minister for Finance. The Minister will present the report to Dáil Éireann within three months.

Accrued Liability for Pensions

5.3 The accrued value of Public Service pension liabilities at 31 December 2008 was estimated to be approximately €08 billion. Assets held within funded pension schemes were valued at €1.9 billion¹² at that date. After taking account of these assets and a proportion of the value of the National Pensions Reserve Fund (NPRF) it is estimated that the net present value of those pension liabilities that had accrued to that date was €01 billion. Figure 15 outlines the composition of the gross liability by sector as well as the numbers of staff, pensioners and preserved pensioners to which the liability relates.

5.4 The accrued liability reported in Figure 15 represents the present value of expected future pension payments to current public service staff and their dependents in respect of service to date, along with the full liability for all future payments to current pensioners and their dependents and to former employees with preserved pensions. The figure covers occupational pensions for public servants only and does not cover the State's liability for Social Welfare pensions for either those in the private or public sector. The aggregate pension payments arising from the liabilities will be spread over 60 or more years into the future. The accrued liability figure is based on service to-date and uses the salary points of staff at the valuation date. It does not take account of future increases in pensionable remuneration which may arise from increments or from promotions.

¹¹ Pension schemes usually comprise a main superannuation scheme and an associated contributory spouses' and children's scheme.

¹² This includes assets valued at €1.7 billion to be transferred to the National Pensions Reserve Fund under legislation enacted in 2009.

Figure 15 Accrued Pension Liabilities at 31 December 2008

Sector	Gross Liability €m	Number of Serving Staff	Number of Pensioners	Number of Preserved Pension Cases
Civil Service	13,518	38,600	14,800	4,600
Health	22,892	112,500	29,500	46,200
Gardaí	8,342	13,400	7,800	—
Prison Officers	1,246	3,300	900	—
Defence Forces	8,574	9,500	11,700	—
Teachers ^a	28,167	57,400	17,700	11,000
VECs and ITs	6,009	21,100	4,700	4,200
Universities	4,832	14,000	2,800	5,400
Non Commercial State Sponsored Bodies	6,560	12,200	7,000	1,700
Constitutional, Ministerial and Judicial Office-Holders	785	400	600	—
Local Authorities ^b	7,499	34,900	15,900	1,100
Total	108,424	317,300	113,400	74,200
Assets	(1,865)			
Net Liability for Public Service	106,559			
One third of National Pensions Reserve Fund ^c	(5,381)			
Liability net of NPRF allocated assets	101,178			

Notes:

- a Includes primary teachers, post-primary teachers, special needs assistants and non-teaching staff in schools.
- b The estimate for local authorities was a limited exercise based on relativities derived from the Report of the Commission on Public Service Pensions (2000).
- c At 31 December 2008 the NPRF was valued at €16,142 million. One-third of this amount has been notionally allocated towards the cost of Public Service pensions and two-thirds towards the cost of the State pension.

5.5 The discount rate used to calculate the present value of expected future payments is based on an accounting standard issued in February 2008 by the International Public Sector Accounting Standards Board, IPSAS 25. Although the standard does not become effective until January 2011 its provisions were deemed the most appropriate basis for calculating public sector pension liabilities.

5.6 The calculation of the accrued liability is affected by a range of assumptions dependent, in turn, on conditions prevailing at the time the estimates are made. Many of the economic assumptions, in particular, are likely to be subject to variability in the current economic climate. For example, the effect of increasing the discount rate used by 0.5% would reduce the accrued liability from €108 billion to €9 billion. A reduction in the discount rate would have a similar impact in the opposite direction.

Funding of Pension Schemes

5.7 Most public service pension schemes are financed on a pay-as-you-go basis, with the annual cost of pensions being met from current revenue in the year of payment. A small number are funded schemes operated in some non commercial State sponsored bodies and universities.

5.8 With the passing of the Financial Measures (Miscellaneous Provisions) Act in June 2009, the assets of most of these pension funds will be transferred to and managed by the NPRF. The assets of the transferred schemes at the end of 2008 were approximately €1.7 billion with related liabilities estimated at €3 billion. Following the transfer, liabilities will be met on a pay-as-you-go basis.

5.9 Pension contributions by staff, including the recently introduced Pension Related Deduction¹³ are applied as current revenue, in most instances. These contributions are recorded under the appropriations in aid heading of the appropriate Vote and are assigned for current expenditure purposes, rather than netted against pension payments. Pension deductions from staff of non commercial State sponsored bodies are generally applied for current purposes.

Accounting for Pensions

5.10 Under the cash-based approach to accounting for State pension costs operated in Departments and Offices, the accrued cost of pensions earned by staff is not captured in the Appropriation Accounts. Instead, pension payments made are accounted for as a charge to a central Superannuation Vote and analogous arrangements apply to HSE staff, teachers, Gardaí and the Defence Forces with the relevant Votes reflecting payments of pensions in those sectors.

5.11 Non commercial State sponsored bodies and universities use accrual accounting in preparing annual financial statements with the result that the net pension cost for the year of account is measured and reported in the income and expenditure account and the gross accumulated liabilities and any related funds are recorded on their Balance Sheets.

Conclusions

The detailed findings, which are set out in Special Report Number 68 submitted to the Minister for Finance for presentation to Dáil Éireann, include

- At 31 December 2008, €108 billion had accrued in respect of the State's obligations for public service pensions.
- The pension burden will increase substantially over the next 50 years. Currently net pensions paid are equivalent to 0.5% of GNP. This will rise over time to 1.8% assuming the new pension related deduction introduced in 2009 is maintained.

¹³ The Government introduced a Pension Related Deduction for staff in the Public Service under the Financial Emergency Measures in the Public Interest Act, 2009. Deductions have been made with effect from 1 March 2009.

