13 Irish Blood Transfusion Service Pension Funding

13.1 The Irish Blood Transfusion Service[1] (IBTS) was established in 1965. It operates under the aegis of the Department of Health. Its functions include

- administering a blood transfusion service including the processing or supply of blood derivatives or other blood products, and blood group and other tests in relation to specimens of blood received by IBTS
- making available blood and blood products
- making available equipment or re-agents suitable for use in relation to the service.

13.2 IBTS's functions were expanded on a number of occasions to include

- reporting on and assessing reports on unexpected or undesirable effects of transfusion of blood or blood components made available by IBTS
- making available clotting factor concentrates which do not contain blood or blood products, and other biological medicinal agents used for the treatment of coagulation disorders and certain other congenital or acquired disorders
- the administration of an eye banking service.

13.3 It is also tasked with organising, providing and assisting research and the training and teaching of persons in matters relating to blood transfusion and the preparation of blood products.

13.4 Following the enactment of the Clotting Factor Concentrates and Other Biological Products Act 2012, responsibility for the procurement and making available of blood products for the treatment of haemophilia transferred from the IBTS to St James's Hospital Board with effect from 30 April 2012.[2]

Financial Performance since 2009

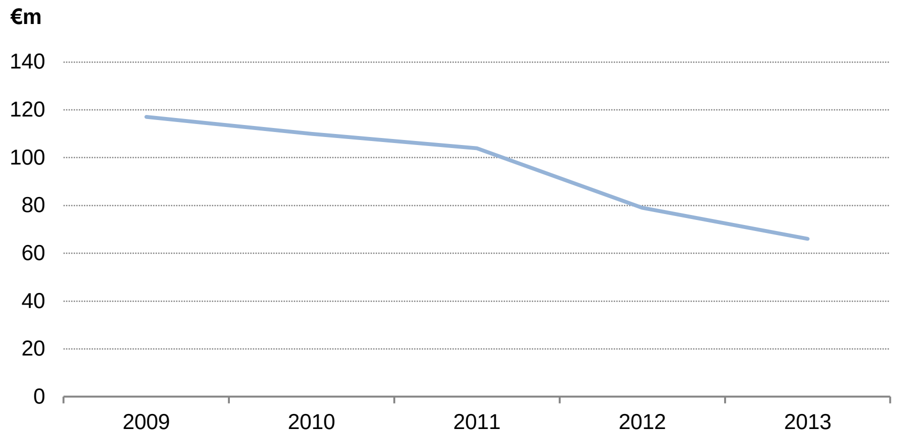
13.5 The IBTS has a statutory right to charge for the services it provides. The charge out rates for services provided are decided by the Minister for Health. All of the IBTS's recurring income is derived from charges in respect of the supply and testing of blood and blood products. It does not receive State funding by way of an annual grant and/or appropriation, but State funding can be provided for major capital expenditure.

13.6 Figure 13.1 presents the movement in the IBTS's income since 2009, when it earned income of around €118 million. By 2013, its income had fallen to around €66 million, reflecting the transfer of responsibilities to St James's, changes in demand for certain products and price reductions.

1 Formerly known as the Blood Transfusion Service Board.

2 The Act provided that St James's Hospital would procure and make available clotting factor concentrates and other biological medicinal products, including recombinant protein preparations for the purpose of treating coagulation disorders and other congenital or acquired disorders that are characterised by diminished levels of, or dysfunctional forms of plasma protein.

Figure 13.1 IBTS income, 2009 – 2013



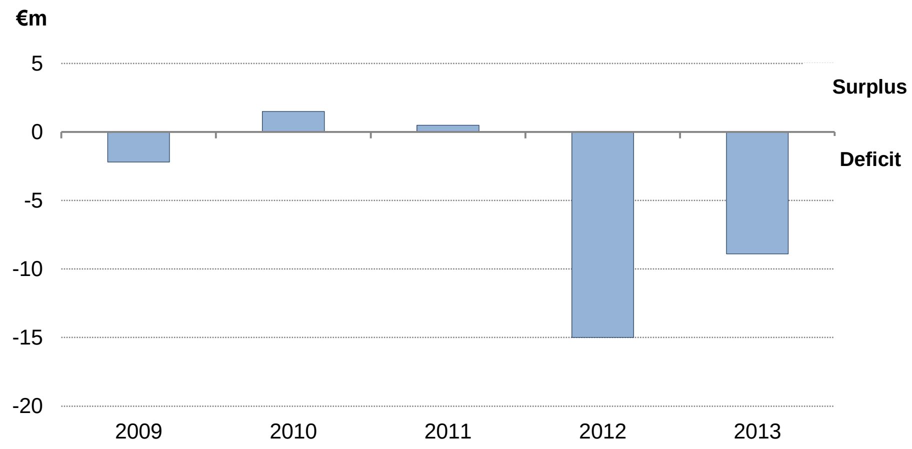
Source: IBTS annual financial statements

13.7 Up to 2011, IBTS charges for clotting factor concentrates included the direct costs incurred in procuring these products and a mark up to reflect the administration costs incurred by IBTS in delivering the service. In 2011, the mark up received by the IBTS as part of its charging mechanism in relation to clotting factor concentrates was replaced by once-off grants from the Health Service Executive (HSE). The HSE paid grants of €3 million and €1.5 million to IBTS in 2011 and 2012, respectively. No further grants were provided thereafter, reflecting the transfer of responsibilities to St James's Hospital.

13.8 IBTS's cumulative reserves for the period 2009 to 2013 are set out in Figure 13.2. The reserves are affected by

- IBTS's operating surplus or deficit
- the effect of actuarial changes on IBTS's pension liability.

Figure 13.2 IBTS accumulated surplus/deficit, 2009 – 2013



Source: IBTS annual financial statements

Pension Related Deduction

13.9 The Financial Emergency Measures in the Public Interest Act 2009 (FEMPI Act) provided for a pension related deduction at specified rates from the remuneration of public servants with effect from 1 March 2009.

13.10 The FEMPI Act provided that the deduction was to be made by certain public sector employers and the amounts deducted are to be paid into, or disposed of for the benefit of the Exchequer in accordance with the directions of the Minister for Public Expenditure and Reform. In practice, each public sector employer is required either to remit the amounts deducted from employee salaries to its parent Department, or to retain the deductions and accept a corresponding deduction in the amount of its grant.

13.11 The net voted expenditure estimates for the Department of Health (the Department) for 2009 – 2013 included appropriations-in-aid of the vote in the form of remittance of the pension related deductions from a number of State bodies under its aegis, including the IBTS.

13.12 The IBTS commenced the deduction from staff remuneration with effect from 1 March 2009 in accordance with the legislation.[1] The Department requested that amounts deducted be remitted to it in accordance with the provisions of the legislation. Notwithstanding the Department's instruction, no amounts have yet been paid over to the Department.

13.13 Unlike other Health bodies that receive the majority of their funding in the form of a grant from either the Department of Health or the HSE, the IBTS is funded mainly from the sales of blood products. The Department therefore does not have the option to collect the pension related deduction by way of a reduction in the annual grant allocation.

13.14 Figure 13.3 summarises the amounts deducted by IBTS in each of the years from 2009 to 2013. The IBTS balance sheet shows a pension related deduction creditor of €8.7 million at end 2013.

Figure 13.3 Pension related deductions held by IBTS, 2009 – 2013

	Deducted in the year €000	**Cumulative €000**
2009	1,680	1,680
2010	1,850	3,530
2011	1,740	5,270
2012	1,759	7,029
2013	1,672	8,701

Source: IBTS annual financial statements

13.15 Negotiations have been ongoing between the Department and the IBTS since 2009 through meetings and exchange of letters. The IBTS contends that it wants to comply with the legislative requirements but that it also has obligations to honour contractual arrangements with staff to fund the provision of superannuation benefits to staff on retirement.

13.16 The Department has insisted that the accumulated pension related deduction amount should be paid over to the Exchequer in accordance with the FEMPI legislation.

1 The Department initially informed IBTS that the FEMPI Act did not apply to its staff but subsequently reversed this instruction. Deductions commenced in April 2009, backdated to 1 March 2009.

Pension Scheme and Related Deficit

13.17 The IBTS operates a funded, defined-benefit pension scheme for its employees, which is contributory. The assets of the scheme are held separately from the IBTS in a trust which is administered by employer and employee trustees, under the terms of the pension trust deed.

13.18 The pension related charges in the IBTS's financial statements and the deficit at each year end since 2009 are shown in Figure 13.4.

Figure 13.4 IBTS pension charges, assets and liabilities, 2009 – 2013

Pension charges

	Amount charged to I&E	Actuarial (gain) or loss	Total
	€000	€000	€000
2009	4,471	(577)	3,894
2010	4,714	523	5,237
2011	4,743	12,217	16,960
2012	5,820	12,504	18,324
2013	6,746	(8,245)	(1,499)

Pension assets and liabilities

	Fair value of plan assets	Present value of accrued liabilities	Pension fund deficit
	€000	€000	€000
2009	58,379	(84,842)	(26,463)
2010	72,571	(96,494)	(23,923)
2011	74,212	(109,944)	(35,732)
2012	85,699	(134,394)	(48,695)
2013	96,137	(138,290)	(42,153)

Source: IBTS annual financial statements

13.19 The benefits under the pension scheme are funded by contributions from the IBTS (employer) and the members of the scheme (employees). Under the trust deed and rules of the pension scheme

- employee contributions are set at rates between 5% and 6.5% of salary depending on the employee's category of membership
- the level of employer contributions is determined following an actuarial valuation carried out by an independent actuary to the scheme every three years in accordance with the Pensions Act.

13.20 In common with many other funded, defined-benefit schemes, the IBTS scheme is a 'balance of cost' scheme, meaning that while the contribution rate for employees is fixed, the contribution from IBTS goes up or down as required to ensure that the funding is on target to meet the liabilities when due.

13.21 In January 2009, an actuarial review of the pension scheme as at 1 May 2008 identified the need to increase contributions in order to deal with the pension deficit that existed at that time and the cost of future service. At that time, the IBTS was contributing 14% of pensionable salary to the pension scheme. The actuary recommended an additional contribution of 5.5% of salary costs from IBTS in order to reduce the deficit in the Fund.

13.22 In 2009, the IBTS was in negotiations with employees under the auspices of the Labour Relations Commission seeking an increase in contributions from the employees to fund the deficit. However, the prospect of agreement was impacted by the introduction of pension related deductions under the FEMPI Act in 2009.

13.23 In 2009, the IBTS intended to make an additional payment of €1.5 million to meet the increased contributions for 2009. However, in 2010 the Department of Health outlined its concerns in relation to the payment of monies by the IBTS into its pension fund from the accumulated operating surplus generated by it without reference to the Department. The Department requested that no decisions regarding the use of surplus funds or the payment of monies to the existing pension fund be taken until the matters had been discussed further at official level.

13.24 In April 2011, the Board of IBTS sanctioned the payment of €4.5 million by IBTS to cover the accrued funding shortfall for the years 2009 – 2011. The additional contribution represented 5.5% of pensionable salary costs

13.25 Further additional contributions amounting to approximately €4.8 million were paid by the IBTS into the pension scheme between 2012 and April 2014. The additional contribution represented 5.8% of pensionable salary costs. [1]

13.26 In 2011, the Department of Public Expenditure and Reform undertook to provide funding of €1 (to be funded from pension related deduction receipts and/or an IBTS surplus) for every €1 provided by scheme members/trustees in order to assist in resolving the IBTS pension scheme solvency issues. That Department stated that the employee contribution could be made as follows

- an increase in the employee contribution
- a reduction in benefits payable, including adoption of an 'integrated benefits' model
- a combination of the above.

13.27 The IBTS was requested to submit a detailed proposal aimed at ensuring that the scheme remained solvent and viable in the long term. It was envisaged that this would involve a review and/or a renegotiation of the terms of the scheme by the trustees.

1 The additional contribution increased to 5.8%of salary costs as a result of an actuarial valuation as at 1 May 2011.

Conclusion

13.28 Based on the application of the FEMPI Act, the Department is obliged to seek remittance of the total amount deducted by the IBTS in relation to pension related deductions. On that basis, the €8.7 million balance at 31 December 2013 is payable to the Department.

13.29 A number of matters are in dispute between the Department and the IBTS. As a result, appropriations-in-aid receipts budgeted in the Department's accounts in relation to pension related deductions from the IBTS each year are not being received. In addition, the IBTS financial statements record a creditor in relation to pension related deductions which is increasing each year because the amounts deducted from staff salaries have not been paid over to the Department.

13.30 Disagreement between the Department and the IBTS in relation to pension related deductions has been ongoing since the deductions commenced in 2009. The resolution of the issue will involve the IBTS, the Department and the Department of Public Expenditure and Reform. It is not evident that the processes employed by the agencies concerned will result in a resolution of the issues in dispute in the short term.