

2 Collection of pension contributions due to the Exchequer

- 2.1** Defined benefit pension schemes operated in the private and commercial semi-state sector generally require both employees and employers to make payments into a pension fund, which is invested and held as an asset to meet future pension liabilities. The value of the pension fund asset must be sufficient to meet future pension liabilities as they fall due.
- 2.2** In contrast, most public service pension schemes are unfunded, and benefits are financed on a 'pay-as-you-go' basis with the annual cost of pensions in payment being met from current revenue.
- 2.3** In respect of public servants employed before 1 January 2013
- Contributions collected from employees are either retained by the State body and form part of its current revenue, or are remitted to the parent department.
 - The majority of State bodies do not make an employer contribution.
- 2.4** The new Single Public Service Pension Scheme (the 'Single Scheme') established under the Public Service Pensions (Single Scheme and Other Provisions) Act 2012 (the Act) commenced with effect from 1 January 2013. All new entrants to pensionable public service employment on or after 1 January 2013 are, in general, members of the Single Scheme.
- 2.5** The legislation establishing the Single Scheme provided for employer pension contributions in relation to entities not fully funded by the Exchequer.¹ The intention was that public service bodies financed wholly or mainly from sources other than the Central Fund could be required to make employer contributions to take account of the cost of pension benefits accrued by staff in the period. The employer contribution rate was specified as the actuarially-determined cost of providing for the benefits concerned after taking account of employee contributions, with the employer contribution capped at three times the employees' contributions.
- 2.6** The Department of Public Expenditure and Reform (the Department) gave effect to this provision of the Act in December 2016 and issued Circular 28/2016 (the Circular). This directed that employer contributions were payable at the rate of three times the employee contributions where
- a public service body is self-financing, or
 - an activity of a public body on which Single Scheme employees are engaged is mainly or wholly self-financing (e.g. a commercially-funded research project conducted through a higher education body).

¹ Section 16(4) of the Act.

- 2.7** Although the Circular issued in December 2016, the effective date in respect of the requirement to pay employer contributions was deemed to be 1 January 2013, the date on which the Single Scheme commenced. The Circular (paragraph 4) stated that relevant State bodies that were required to remit employer contributions would be contacted directly by the Department 'in due course' and in this context, the Department would liaise as appropriate with parent departments and oversight agencies.
- 2.8** A number of bodies whose financial statements are subject to audit by the Comptroller and Auditor General have sought clarification from the Department in relation to whether the requirements of the Circular apply to them but have not received a reply in that regard.
- 2.9** When the Department issued the Circular in December 2016, it did not have an estimate of the number of bodies that it applied to or the amount collectible on foot of its provisions.
- 2.10** The Accounting Officer of the Department noted that the Circular was issued to establish an appropriate employer contribution rate in accordance with the Act. He noted that, at the time the Circular was issued,
- it was not possible to estimate the number of bodies to which the Circular would apply or the income it would generate as the required detailed review and analysis had not been undertaken by the Department
 - the need to conduct discussions with relevant sectors and State bodies was recognised and reflected in the Circular.
- 2.11** He stated that work on the detailed review had been hampered by staff changes and retirements in the Department but noted that recent reassignment of staff would facilitate completion of the review in the final quarter of 2018.
- 2.12** As a result of the work completed to date, 14 bodies (see Figure 2.1) are making employer contributions and at 14 September 2018 had made contributions totalling €4.35 million.

Figure 2.1 State bodies remitting employer pension contributions in accordance with the Department Circular 28/2016

▪ Commission for Regulation of Utilities	▪ Nursing and Midwifery Board of Ireland
▪ Galway-Mayo Institute of Technology	▪ The Teaching Council
▪ Institute of Technology Tralee	▪ Medical Council
▪ National University of Ireland Galway	▪ The Pharmaceutical Society of Ireland
▪ Higher Education Authority	▪ Regulator of the National Lottery
▪ Housing Finance Agency	▪ Road Safety Authority
▪ National Oil Reserves Agency	▪ Financial Services and Pensions Ombudsman

Source: Office of the Comptroller and Auditor General

- 2.13** The employer contributions are submitted to the Department and are accounted for as appropriations-in-aid of Vote 12 — Superannuation and Retired Allowances. They are included under subhead B7 of the Vote along with employee contributions.
- 2.14** The Department has identified a number of other bodies that, in its view, are required to make employer contributions. This process of identification is ongoing and further clarification and agreement is required. The Accounting Officer stated that the next stage of the review will involve his Department engaging further with the relevant sectors and State bodies to reach a conclusion.

Conclusions and recommendation

- 2.15** The introduction of employer contributions under the Single Scheme in relation to staff employed by self-financing operations established the concept of payments to the Exchequer to recognise the full cost of pension benefits earned by the relevant staff. In the majority of cases, the employer contributions are a source of revenue since they derive (in whole or in part) from funds generated by the relevant State body.
- 2.16** Entities required to make employer contributions will have to factor this cost into their budgeting procedures, in particular in relation to setting fees charged for the services they provide.
- 2.17** As of September 2018, the Department has yet to finalise the list of all State bodies that will be required to make employer pension contributions in respect of Single Scheme employees. The Department has indicated that it plans to complete this exercise in the final quarter of 2018.
- 2.18** As the funding required to make employer pension contributions is derived from fees and other income generated by the relevant authorities, the non-collection of amounts due with effect from 1 January 2013 represents a shortfall in appropriations-in-aid. The Department is not in a position to estimate the value of amounts due.
- 2.19** The Circular provided for back-dating of employer contributions to 1 January 2013. The application of the requirements of this Circular in 2018, or later, to individual entities will have significant implications for the affected entities, as five years' contributions will become payable. This potentially has implications for the cash flow of each entity concerned.

Recommendation 2.1

The Department should complete the work required to identify the bodies that are required to make employer contributions without delay.

Accounting Officer's response

Agreed.

My Department is currently undertaking the necessary review to identify and engage with bodies affected, with the aim of finalising this matter in quarter four of 2018.

