PAPS Public Authority Pension Services

Irish Institute of Pensions Management

Presentation on Single Public Service Pension Scheme to IIPM

Presented by Damian Smyth PAPS

THE IRISH INSTITUTE OF PENSIONS MANAGEMENT

Summary of Existing Scheme Terms

- Membership compulsory
- Different conditions apply depending on when a person joined the public service and PRSI status:
  - pre 6th April 1995
  - between 6th April 1995 and 31st March 2004
  - on or after 1st April 2004
- Defined Benefit.
- Pay-as-you-go.

Main Scheme Benefits

On Retirement

- Provides a retirement gratuity (lump sum) and pension for members who reach retirement age or who retire early on ill health grounds before normal retirement age.

On Death in Service

- Provides for the payment of a lump sum death benefit (minimum of a year’s pay) to the member’s estate/legal personal representative should the member die in service plus a spouse’s/civil partner’s pension.

Qualifying Service for Benefits

Retirement Benefits

- 2 years for age-related retirement pension and lump sum
- 5 years for ill-health retirement pension and lump sum

Death Benefits

- No minimum qualifying service needed – coverage from day one
- Spouse's and Children's (S&C) pension requires potential of 2 years' service by age 65

How much do members pay towards pension?

If Class A PRSI:

1.5% of full pay (basic pay plus any pensionable allowances) and 3.5% of net pay (as above less 2 x Contributory State Pension (“CSP”))

Plus additional 1.5% of full pay (net pay in some areas) for Spouses’ and Children’s Scheme

If Class B/D PRSI:

5% of full pay (basic pay plus any pensionable allowances)

Plus additional 1.5% of full pay for Spouses’ and Children’s Scheme

Contributions are paid out of gross salary. Income tax relief is provided at source.

How many years are needed for a full pension and gratuity?

40 years’ service is needed for maximum benefits

What are retirement benefits based on?

- Pensionable salary
- Pensionable service

What counts as pensionable service?

- Permanent service
- Previous temporary and part-time subject to certain conditions and for which contributions have been paid
- Service transferred from other Public Sector bodies (who are members of the transfer of service networks)
- Purchased Service
- Notional Added Years (ill-health/professional post)
- Service credited arising from transfer value paid by non-Transfer Network body
- **Note: Time spent on career break or periods of unpaid leave are not counted as service.**
- ***Service is counted in years and days***

What is pensionable salary?

- Basic annual salary
- However, if a member's grade changes in the 3 years prior to retirement, it is adjusted to reflect the rate of pay applicable to each grade during the previous 3 years (including average of pensionable allowances, if any)
- Pensionable allowances are now averaged on the basis of the best 3 consecutive years in the last 10 years of service

When can a member retire?

- *If joined on or before 31 March 2004*, the member can retire any time between age 60 and 65 (but you must retire at age 65)
- *If joined on or after 1 April 2004*, the member can retire only at age 65 (but may work on and continue to accrue pensionable service after age 65)

Category	Minimum Pension Age	Maximum Pension Age
Pre 1 April 2004	60	65
Post 31 March 2004 “new entrant”	65	none

Calculating retirement benefits

If paying Class A PRSI:

Annual Pension

Pensionable Remuneration up to 3 1/3rd CSP *(currently €40,057)* X Y/200

Plus Pensionable Remuneration over 3 1/3rd CSP x Y/80

Plus State Pension

Lump Sum

Pensionable Remuneration x Y x 3/80

If paying Class D PRSI:

Annual Pension

Pensionable Remuneration x Y/80

Lump Sum

Pensionable Remuneration x Y x 3/80

Y = years of service

Can a member retire early?

- Provided the member 2 years service, he/she can retire early:
  - after age 50 if joined before 1st April 2004
  - after age 55 if joined on or after 1st April 2004.

- Benefits would be based on service to date of early retirement - then reduced by an actuarial factor to take account of early payment (“cost neutral early retirement”).

- Early retirement/redundancy schemes may apply or have applied in certain areas of the public service by agreement. Some enhancements may apply (e.g. immediate payment without actuarial reduction).

Increasing Pension Benefits I

- For members who will have less than maximum benefits at retirement it is possible to increase benefits by one or both of the following methods:

Purchase of Notional Service (PNS)
OR
Additional Voluntary Contributions (AVCs)

- Tax relief if available on both methods subject to limits set by the Revenue Commissioners.

New Single Pension Scheme

Public Service Pensions (Single Scheme and Other Provisions) Act 2012

New Single Pension Scheme – Summary 1

- **Applies to new entrants to public service from 1 January 2013.**
- **Raises minimum pension age to 66 and links it to State Pension age** ***[current schemes 60 if joined pre 1 April 2004 or 65 if joined between 1 April 2004 and 31 December 2012].***
- **Maximum retirement age of 70** ***[current schemes 65 if joined pre 1 April 2004 and no age-limit if joined between 1 April 2004 and 31 December 2012].***

New Single Pension Scheme – Summary 2

- **Career average revalued earnings** ***[current schemes final salary].***
- **Employee pension contribution rate unchanged for "standard" employees.**
- **Different accrual rate to that of old scheme.**
- **Legislation for new scheme enacted 28 July 2012 and commenced 1 January 2013.**

Single Scheme Act
Section 52 – Slide 1

The Act enables the extension of pension abatement so that a retiree's public service pension is liable to abatement on re-entering public service employment, even where the new employment is in a different area of the public service.

(This change also applies to existing schemes in those cases where a person with a public service pension in payment takes up a public service post on or after 1 November 2012; a person who took up an appointment in the public service before that date will not be affected by the change while he or she continues to hold that appointment)

Single Scheme Act
Section 52 – Slide 2

The Act imposes a 40-year limit on the total service which can be counted towards pension where a person has been a member of more than one existing public service pension scheme; such a limit already applies to service in any one scheme.

(This extended 40-year limit came into effect on 28 July 2012, though persons exceeding the limit on that date will not lose any service accrued up to that point. (See section 52, subsections (6) and (7), of the Act.)

New Single Pension Scheme

Standard Terms (i.e. terms applicable to public servants other than those in special categories (e.g. Oireachtas members including the President, the Judiciary, the Comptroller and Auditor General and qualifying and designated office holders, Gardaí, Permanent Defence Force, Prison Officers and Fire Fighters)

New Single Pension Scheme
Coverage

- **New Joiners recruited on or after 1 January 2013 but not**
  - those returning to the public service after a break of less than 26 weeks from a previous pensionable post
  - those on secondment
  - those on leave (with or without pay)
  - those offered appointments in writing before 1 January 2013 who take up the appointment on or after that date
  - those coming back into pensionable employment under the same contract of employment.

New Single Pension Scheme
Vesting Period

- **A standard vesting period of two calendar years (i.e. 24 months' service as a Scheme member) must be served before becoming eligible for retirement benefits from the Scheme.**

- **There is no distinction therefore in terms of eligibility for benefits between wholetime and part-time employees.**

New Single Pension Scheme
Pension and Retirement Ages

- **Minimum pension age of 66 rising to 67 (2021) and 68 (2028) in line with State Pension eligibility age increase.**

- **Maximum retirement age of 70.**

- **Actuarially-reduced early retirement facility from age 55.**

- **Preserved benefits for those who serve the vesting period but resign before minimum retirement age.**

New Single Pension Scheme
Accrual Rate

- **Money amounts (referable amounts) building towards pension and lump sum are separately accrued each year using the following formulae:**
  - **Pension: Accrual rate of 0.58% of pensionable remuneration up to a ceiling of 3.74 times the State Pension Contributory (SPC) (currently €45,000) PLUS *(where applicable)* 1.25% of pensionable remuneration above that level.**
  - **Lump Sum: 3.75% of pensionable remuneration.**

New Single Pension Scheme
Purchase and Transfer

- The option to allow purchase of additional pension and lump sum on a full cost basis to the member is catered for in the Scheme. The Scheme can also cater for transfers from funded schemes. The Minister for Public Expenditure and Reform is to make regulations to provide for this.

- It is anticipated the Scheme will allow for once-off or periodic purchase and that the money paid in would be recorded in the lump sum 'referable amount' being accrued for the year in question and then up-rated until retirement where it could be commuted to pension or payable as part of the lump sum.

New Single Pension Scheme
Contribution Rate

- **3.5% of net pensionable remuneration PLUS**
- **3% of pensionable remuneration.**
  - **Net pensionable remuneration = pensionable remuneration less twice the rate of the State Pension Contributory (SPC).**

New Single Pension Scheme
Calculation of Benefits

- **During Scheme membership, the amounts accrued each year will be increased to reflect the CPI increase between that year and retirement.**
- **The annual pension and lump sum payable at retirement will equal the total of these CPI adjusted amounts.**

New Single Pension Scheme
Ill-Health Retirement

- **Members with less than 2 years' service**
  - **Gratuity of 8.5% of pensionable remuneration per year of service.**

- **Members with more than 2 years' service**
  - **Immediate payment of retirement benefits accrued to point of retirement (with no actuarial reduction).**
  - **Regulations will provide enhanced benefits (up to 10 times the value of the most recent full year referable amounts) related to various factors such as the member's expected career to retirement and service.**

New Single Pension Scheme
Dependants' Benefits

- **Lump sum payable to the estate of the deceased member equal to twice the member's pensionable remuneration in the 12 months prior to death *less any retirement lump sum/death gratuity already paid under the Scheme or other public sector pension scheme*.**

- **Spouse's/civil partner's pension equal to 50% of member's pension *or potential ill-health pension had the member retired on medical grounds on the date of death*. Also children's benefits payable (total payments not to exceed 100% of member's pension or potential pension).**

New Single Pension Scheme
Post Retirement Increases

- Pension increases will be based on increases in the CPI.

New Single Pension Scheme
Allowances

- The referable amounts (% of pensionable remuneration) each year will reflect pensionable allowances payable in respect of that year.
- Pensionable allowances or emoluments or premium payments or equivalent in existence and payable before Scheme commencement on 1 January 2013 are treated as pensionable remuneration under the Scheme.
- Allowances or premium payments first arising after commencement are pensionable provided they are
  - (i) approved as being pensionable,
  - (ii) permanent in nature,
  - (iii) subject to contributions and
  - (iv) have been advised to the Scheme member as being pensionable.

New Single Pension Scheme
Refunds of Contributions

- **Contributions are refunded where less than 2 years' service given and membership ceases otherwise than on medical grounds or death, less any income tax or other statutory liability.**

New Single Pension Scheme
More than One Public Service Salary

- **If pensionable remuneration is being earned in respect of simultaneous employment by a person as a public servant in one or more than one public service body, then his/her pensionable remuneration in respect of one full-time employment only or the aggregated equivalent of one full-time employment only shall be taken into account to calculate the referable amounts.**

New Single Pension Scheme
Regulations

- **The Minister may make regulations covering, among other things –**
  - **Appeals**
  - **Review of the Scheme**
  - **Enhanced terms for retirements on medical grounds**
  - **Inclusion of certain money amounts as referable amounts, including transfer values and personal purchases**
  - **Relevant authorities.**

New Single Pension Scheme
Relevant Authorities

- **These Regulations prescribe Ministers of the Government, public service bodies and bodies corporate (377 in all) as “relevant authorities” for the purposes of the Single Public Service Pension Scheme as provided for in Part 2 of the Act .**

- **Relevant authorities represent the paying authority or employer equivalent in the Single Scheme’s functioning and operation; their responsibilities include ensuring the correct collection and remittance of member contributions, the calculation and recording of accrued benefits, and communications with members.**

http://per.gov.ie/wp-content/uploads/S-I-No-581-of-2012-relevant-authorities.pdf

New Single Pension Scheme
Collection & Remittance of Contributions

- It is the responsibility of all relevant authorities to collect and remit Single Scheme member contributions for the benefit of the Exchequer. For this purpose a new Paymaster General Account has been established and Government Departments are required to deposit contributions on a monthly basis directly into this account.

- A public bank account has been established to receive Single Scheme member contribution receipts from bodies that are not part of central Government (e.g. State Bodies, local authorities). This account will be swept monthly to the Paymaster General Account.

New Single Pension Scheme
Collection & Remittance of Contributions
Letter to Personnel Officers 30 January 2013 (1)

- **Contributions from all Scheme members must be collected in respect of each pay period and at each payroll run.**
- **Relevant authorities must remit member contributions on a monthly basis.**
- **Remittances must be made in respect of each calendar month by the 20th of the following month.**
- **Remittances should be made once per month.**

New Single Pension Scheme

Collection & Remittance of Contributions

Letter to Personnel Officers 30 January 2013 (2)

- **There is no scope for a relevant authority to withhold remittances of member contributions, notwithstanding any arrangement that may currently apply in the case of other public service pension schemes.**

- **Relevant authorities must prepare and retain details of contributions deducted from each Scheme member in connection with each monthly remittance in a standard format excel spreadsheet.**

- **Information will be provided to relevant authorities in due course as to how they can avail of restricted access to information in the account to which they remit contributions concerning their lodgements into that account.**

New Single Pension Scheme
Benefit Statements

- **Members will receive an annual benefit statement. The statement will show –**
  - **(*a*) the total amount of contributions paid by the Scheme member concerned in the previous tax year,**
  - **(*b*) the total referable amounts accrued by the Scheme member in such tax year, and**
  - **(*c*) the total referable amounts accrued by the Scheme member in previous tax years (including any periods in previous employments in respect of which he or she was a Scheme member), as adjusted**

New Single Pension Scheme

Career Average Revalued Earnings (CARE)

and now for examples …..

New Single Pension Scheme (CARE)

Example A

In Year 1 a new recruit earns €25,000.

- **This yields a referable amount towards pension of €145 using a 0.58% accrual rate (up to €45,000) and a referable amount towards lump sum of €937.50 using a 3.75% accrual rate.**
- **Thereafter that €145 (pension) and €937.50 (lump sum) are indexed to the CPI (All Items).**
- **Assuming 2% inflation annually and 40 years to pension age, the pension of €145 and the lump sum of €937.50 will grow to about €320 and €2,070 respectively at retirement.**

New Single Pension Scheme (CARE)

Example B

In Year 1 a new recruit earns €50,000.

- **This yields a referable amount towards pension of €323.50 using a 0.58% accrual rate (up to €45,000) and 1.25% accrual rate(excess above €45,000) and a referable amount towards lump sum of €1,875 using a 3.75% accrual rate.**
- **Thereafter that €323.50 (pension) and €1,875 (lump sum) are indexed to the CPI (All Items).**
- **Assuming 2% inflation annually and 40 years to pension age, the pension of €323.50 and the lump sum of €1,875 will grow to about €715 and €4,140 respectively at retirement.**

Over to You

Any questions or comments?

Irish Institute of Pensions Management

Finance Bill 2013 & Current Revenue Issues

Clive Slattery

Pensions: what crisis?

- Disastrous few years
- Exchequer assault on prudent savers
- Bail Out demanded cuts of €700M, actual closer to €1.2billion.
- Pensions Reserve Fund looted
- Investment Performance?
- Government Policy?

Topics

- Revenue Discretion
- Illiquid Assets Example
- Revenue's Relationship with Customers
- Some topical technical teasers
- Finance Bill 2013
- Quo Vadis?

Revenue Discretion (1)

- Is there scope for flexibility in dealing with unusual circumstances?
- What powers do Revenue have?
- Sec.772(1): mandatory approval:
- Revenue “shall approve” a scheme once certain basic conditions are satisfied.
- This limits what a scheme can provide.
- Strict accrual of benefits

Revenue Discretion (2)

- Sec.772 (4): discretionary approval
- Revenue “may if they think fit having regard to the facts of a particular case and subject to such conditions, if any, as they think proper to attach to the approval, approve”
- 99.9% of approvals are under 772 (4).
- Revenue discretion has developed into a Code of Practice

Revenue Discretion (3)

- Detailed “rules” in the Revenue Pensions Manual
- Introduction to the Manual:
- “The Act grants discretionary powers to Revenue in relation to the approval of occupational pension schemes. The Revenue Pensions Manual gives general guidance on how these powers are exercised.”

Revenue Discretion (4)

- “While the Manual reflects the current tax position at the time of writing, it is not binding in law. In any particular case, Revenue reserve the right to apply different treatment”.
- Suggests an option available to approach Revenue in any particular case.

Revenue Discretion (5)

- Manual in need of updating.
- Sec.16 Freedom of Information Act
- Revenue operating the Principal of the Dangerous Precedent: Nothing should ever be done for the first time.
- What do you do with difficult & unusual cases?
- Any point in making a submission to Revenue?

Illiquid Assets (1)

- Revenue borrowing rules: loan should be repaid in full prior to normal retirement age.
- Rules apply to direct borrowing.
- Possible to use a unit trust?
- Lump sum benefits must be taken as cash.
- Death pre or post retirement

Illiquid Assets (2)

- Death pre-retirement.
- Trustees should insure the risk.
- Death of ARF owner
- In specie transfer of assets from an ARF is possible.

Case Study (1)

- Fred is age 55, salary 60K, 20 years service
- Scheme assets:
- Commercial property cost 100K (current value 50K)
- Quoted shares & cash 40K
- Loan on property 30K
- Rental income 5K p.a.
- Life cover policy lapsed

Case Study (2)

- What happens if Fred dies?
- Revenue rules allow payment of lump sum of 4 times salary to estate.
- Lump sum must be cash & paid within 2 years of death
- Sell property, clear loan, 60K to estate.
- Does anyone benefit?
- Both beneficiary & Revenue lose.

Case Study (3)

- What happens if Fred becomes ill or wishes to retire immediately?
- Similar problems if required to clear loan & pay lump sum benefits as cash.
- Are Revenue willing to explore other options?
- What happens if the Trustees can't sell the property?

Revenue Customer Service Standards

- “we want to make it easy for you to do business with us”

- “The Revenue website will contain up-to-date information on all Taxes and Duties”

Customer Service Charter(1)

- What we can expect:
- “Revenue will administer the tax and duty regimes in a way that will minimise, as far as possible, compliance costs”
- “to be treated as honest in your dealings with Revenue unless there is clear reason to believe otherwise”

Customer Service Charter (2)

- “to be given the necessary information and all reasonable assistance to enable you to clearly understand and meet your tax obligations”

- Have your expectations been met?

If you don’t like the answer?

- If you are dissatisfied with a decision made by Revenue you may:
- (a) seek a review via the internal review procedure
- (b) appeal decision to the Appeal Commissioner

Internal Review(1)

- Viewpoint on a particular issue has not been given due consideration at District level.
- Rights under Charter of Rights have not been fully respected
- District has adopted an unreasonable approach that is technically/legally incorrect.
- Process is separate from and does not affect your right to a formal Appeal

Internal Review (2)

- Review carried out by either:
- Revenue's Director of Customer Services
- 0R

  Above & External Reviewer

Contact: Internal Review Unit, Revenue, Dublin Castle.

Other Options

- Public Service Ombudsman
- “investigate complaints from members of the public who feel they have been unfairly treated by ….. Public bodies”
- Must do internal review first.
- Don’t engage with Revenue.
- Take a view that you are comfortable with.

Overseas Transfers

- Revenue circular 19/04/2012
- Use of an overseas transfer payment to circumvent Irish pension tax legislation and rules would be contrary to Irish approval conditions
- Transfer should be for bona fide reasons
- Individual must complete & submit a Declaration stating the reason for the transfer

Points to Ponder

- What is the client hoping to achieve?
- Do you need to move to get a result?
- Early retirement available here
- Costs?
- Benefit Crystallisation Event
- How will any lump sum received be treated for Irish tax purposes?
- Other rules in Chapter 13

Balanced Approach Needed

- S.I. No.716/2003
- Free movement of goods & services in EU.
- Definition of “relevant benefits”.
- Blanket prohibition on transfers is illegal.
- Better for Providers to engage with customers

Salary Sacrifice

- Revenue Pensions Manual 3.8:
- “Any arrangement under which an employee waives an entitlement to remuneration or accepts a reduction in remuneration, in return for a corresponding payment by the employer into a pension scheme, is an application of the employee’s income and is not acceptable for approval purposes.”

Individual Relief Restricted

- Reduction in Earnings Cap
- PRSI relief gone
- No respite from USC
- Renewed focus on employer contributions.
- Self-employed incorporating.
- Remuneration packages have been reviewed

Take Care

- A bona fide renegotiation of an existing contract of employment to provide a mixture of salary & benefits is probably OK.
- Where remuneration is entirely discretionary and the employee has no prior entitlement to it (bonus), the payment may be made by way of a benefit.

Leaving Service

- 50% employees have either ceased or reduced pension contributions.
- Relief for contributions is linked to remuneration from the employment with which the scheme is associated.
- Must be an employee when the contribution is made

Backdating Relief

- Employees can backdate relief to previous year on similar basis as self-employed.
- Must be the same employment.
- Contribution must be paid & relief claimed before the return filing date.
- Maximise avc prior to leaving service.
- Bonus received after leaving make a PRSA contribution

Finance Bill 2013

- Pension provisions in Sec. 16
- Introduces a new Sec. 782A and Schedule 23C to provide for limited pre-retirement access to AVC funds
- Self-employed excluded: why?
- Up to 30% of accumulated value of AVCs may be accessed

AVC Access (1)

- Access period for 3 years from passing of Act
- AVC fund includes avcs made to an AVC PRSA
- Applies to both approved & statutory schemes
- Includes avcs transferred in from another OPS or AVC PRSA
- Access option is once-off
- If PAO, independent access option available to “non-member”

AVC Access Exclusions

employer contributions of any kind

avcs made to purchase notional service

"ordinary" employee contributions.

individual contributions made to a PRSA other than those made to an AVC PRSA

Access Rules

- Any amounts accessed subject to PAYE but not PRSI or USC
- Will not be treated as a BCE for SFT purposes
- Overrules Sec.32 Pensions Act (prohibits refund of preserved benefits)
- Individual must make irrevocable instruction
- Administrator retain member instructions for 6 years

Issues for Professionals (1)

- Administrator to make quarterly electronic return to Revenue from 31/06/2013 detailing number of transfers, the aggregate value and the tax deducted.
- What is the likely level of interest?
- System to manage the process
- Tracking PRSAs & AVC PRSAs
- Customer with more than one avc
- Amend Scheme Rules

Issues for Professionals (2)

- Format of irrevocable instruction
- Are we giving advice?
- Customer strapped for cash
- Client with SFT issues
- Cheaper than ARF withdrawal
- Using avc for extra TFLS
- Cash available to creditors
- Reduce level of pension pot

AMRF U-Turn

- Finance Act 2011 extended ARF options to DC
- Specified income 12700 to 18000
- AMRF 63500 to 119800
- Lower limits reinstated
- Only for 3 years??
- Welcome change
- Who benefitted from the original increase?
- Abolish the AMRF

ARF Option since 6/02/2011

- If owner has specified income of €12,700, the AMRF becomes an ARF
- If AMRF assets exceed €63,500, the excess amount becomes an ARF
- All AMRFs set up since 06/02/2011 will need to be reviewed

CAT Anomaly

- Sec. 87 amends sec. 85, CAT Act, 2003
- CAT exemption for child over 21 on inheritance from an ARF/AMRF
- Same treatment to be applied to similar inheritances from a vested PRSA

Other Changes

- Significant amounts of cash on deposit.
- Unearned income subject to PRSI from next year.
- Increase in DIRT & CGT rates.
- Changes to CAT impacts on ARF.
- Top Slicing
- Time to revisit pensions?

Budget Speech

- If the Minister follows through on what he said, 3 important policy decisions.
- Pensions Levy will not be renewed after 2014
- Tax relief on pension contributions will continue @ marginal rate.
- From 2014, relief will be limited to schemes that provide income of up to €60,000 p.a.

What does €60K p.a. mean?

- Further reduction in Standard Fund Threshold?
- Annuity costs have doubled since 1994.
- Age 65, joint life, 3% annual increase: 2.83%.
- 60K pension costs €2.120,143
- Current factor used is 20 so reduce SFT to €1.2M?
- But €1.2M buys a pension of €33960

Industry Response

- Accept the €60K cap.
- Equates to €45K net of PAYE & USC.
- Must be applied equally across all pension arrangements.
- Include the real value of DB benefits
- Individuals with private sector pensions are not criminals.
- Any chance of a united industry response?

Help is Available

- If you, your colleagues or your clients have been affected or traumatised by any of the issues featured in this presentation please seek immediate professional assistance & contact:
- Clive Slattery
- 0876791759
- cslatz1@gmail.com

QUESTIONS