



*To: Colleges of Education &
Colleges of Home Economics*

CIRCULAR 0029/2015

**Public Service Pension Reform:
Revised rate of compound interest
for use in the calculation of refunds to the Exchequer**

1. The Minister for Public Expenditure and Reform has announced a reduction in the rate of compound interest to be applied in the calculation of refunds to the Exchequer (e.g. Repayment of refunded pension contributions, repayment of refunded Pension-Related Deduction (PRD) amounts and the recovery of financial loss to the Exchequer).

BACKGROUND

2. In 2000 the Commission on Public Service Pensions recommended a compound interest rate of 4% per annum on such payments and that the compound interest rate should be reviewed periodically.
3. This recommendation was implemented in 2004 as part of wider public service pension reforms and the application of the 4% compound interest rate was backdated to 14 November 2000 as per Department of Finance Circular 9/2005: Public Service Pension Reform: Revised rate of compound interest for use in the calculation of refunds to the Exchequer.
4. Having reviewed the matter, the Minister has approved a reduced rate of 3.5% to apply from 1 December 2014.

SCOPE

5. This Circular applies to all refunds where
 - 5.1. a rate of compound interest currently applies in calculating the amount of refund due (including payment of outstanding employee contributions and recovery of financial loss to the Exchequer) *and*
 - 5.2. the refund is in respect of a period or periods on or after 1 December 2014

Note :that in the case of the Colleges of Education and Colleges of Home Economics Pension Schemes, service in respect of which a marriage gratuity has been paid may be reinstated only through repayment of the gratuity as uprated by reference to salary scales current at the date of repayment. The provisions of this Circular do not, therefore, apply to repayment of marriage gratuities under the Colleges of Education or Colleges of Home Economics Pension Schemes.



EFFECTIVE DATE

6. The effective date for this Circular is 1 December 2014

CALCULATION

7. The compound interest rates for relevant refunds which now apply are:

- a) Up to 31 March 1971: 3% per annum.
- b) From 1 April 1971 to 13 November 2000: 6% per annum.
- c) From 14 November 2000 to 30 November 2014 4% per annum.
- d) From 01 December 2014 onwards 3.5% per annum

An example is shown in the Appendix to this Circular.

CIRCULATION

8. This Circular letter should be brought to the notice of all employees.

Anne Killian
Principal Officer
Pensions Unit
24 April 2015

Examples of application of change in Compound Interest Rate

Scenario:

A person resigned from a College of Education or College of Home Economics on 1 June 1969 and received a refund of contributions amounting to £1,087.43 (€1,380.75). The person is reappointed to the public service subsequently. That person decided to reckon their previous service for superannuation purposes and will be required to repay the contributions. The repayment may be made in one lump sum when the decision to repay is made, in one lump sum when that person retires from the public service or on an instalment basis.

Example - Repayment in one lump sum on 31 Dec 2014

Interest rates applicable:

PERIOD	INTEREST RATE PER ANNUM
1 June 1969 to 31 March 1971	3%
1 April 1971 to 13 November 2000	6%
14 November 2000 to 30 November 2014	4%
1 December 2014 to 31 December 2014	3.5%

Starting Principal amount:	€1,380.75
First Compound interest rate:	3%
No. of Years Compound rate applies:	1.83
Amount to be carried forward	€1,457.62
Second Principal amount:	€1,457.62
Second Compound interest rate:	6%
No. of Years Compound rate applies:	29.62
Amount to be carried forward:	€8,189.41
Third Principal amount:	€8,189.41
Third Compound interest rate:	4%
No. of Years Compound rate applies:	14.05
Amount to be carried forward:	€14,207.33



Fourth Principal amount:	€ 14,207.33
Fourth Compound interest rate:	3.5%
No. of Years Compound rate applies:	0.08
Amount to be carried forward:	€14,248.90
Total amount due	€14,248.90