

P18/046/05

4 April 2005

To: All Heads of Department/Office

**Circular 9/2005: Public Service Pension Reform: Revised rate of compound interest for use in the calculation of refunds to the Exchequer**

A Dhuine Uasail,

1. I am directed by the Minister for Finance to announce a reduction in the rate of compound interest to be applied in the calculation of refund of marriage gratuity, payment of outstanding employee contributions, and recovery of financial loss to the Exchequer. The reduced rate will apply to refunds which are in respect of periods on or after 14 November 2000.

**Background**

2. The Commission on Public Service Pensions, as part of its terms of reference, had regard to claims for improvements in existing pension scheme benefits, including claims for review of the rate of compound interest to be charged for refunds.

3. Following consideration of the issue, the Commission recommended the reduction of the rate to 4% per annum and that the rate should be reviewed as a matter of course.

4. In *Budget 2004*, the Minister for Finance announced that the Government had decided to implement the bulk of the recommendations of the Commission on Public Service Pensions. Discussions were held with the Staff Side on the rate of compound interest and other issues. The Minister announced the introduction of the measure on 14 September 2004 following Government approval.

**Scope**

5. This Circular applies to all refunds where

(a) a rate of compound interest currently applies in calculating the amount of refund due (including refund of marriage gratuity, payment of outstanding employee contributions and recovery of financial loss to the Exchequer) *and*

(b) the refund is in respect of a period or periods on or after 14 November 2000.

**Effective Date**

6. The effective date for this Circular is 14 November 2000.

**Calculation**

7. The rate of compound interest to be applied to all relevant refunds which are in respect of periods on or after 14 November 2000 is to be reduced to 4% per annum. The rate of compound interest to be applied to refunds in respect of periods before 14 November 2000 will remain unchanged.

8. In the Civil Service, the compound interest rates for relevant refunds which now apply are:

- (i) Up to 31 March 1971: 3% per annum.
- (ii) From 1 April 1971 to 13 November 2000: 6% per annum.
- (iii) From 14 November 2000 onwards: 4% per annum.

Some examples are shown in the Appendix to this Circular.

9. Where calculations are revised as a result of the reduced rate, income tax at a rate of 20% should be deducted from any repayments due as a result of the revision.

### **Circulation**

10. Please bring this Circular to the notice of all staff serving in your Department/Office and to the attention of all public service bodies under the aegis of your Department.

### **Queries**

11. Queries from individual staff members should be directed to the Personnel Section of their own Department/Office/public service body. Queries from Departments/Offices relating to this Circular should be made to either of the following officials of this Department: John O'Connell (01-6045405), e-mail [john.o'connell@finance.gov.ie](mailto:john.o'connell@finance.gov.ie) or Camillus Farrell (01-6045701), e-mail [Camillus.farrell@finance.gov.ie](mailto:Camillus.farrell@finance.gov.ie). In the case of queries from public service bodies, the appropriate parent Department should be consulted in the first instance.

Mise le meas,

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John C O'Connell

Assistant Secretary

### **Circular 9/2005: Appendix**

#### **Examples of application of change in Compound Interest Rate in the Civil Service**

##### **Scenario:**

A person resigned from the Civil Service on marriage on 1 June 1969 and received a marriage gratuity of £1,087.43 (€1,380.75). The person is reappointed to the Civil Service

on 13 June 2002. Assume a date of birth of 4 January 1945. If the person wants to reckon their previous service in the Civil Service for superannuation purposes, s/he will be required to repay the marriage gratuity. The repayment may be made (a) in one lump sum on return to the Civil Service, (b) in one lump sum on retirement or (c) on an instalment basis.

### **Example 1 - One lump sum on return to the Civil Service**

Interest rates applicable:

1 June 1969 to 31 March 1971:	3% per annum.
1 April 1971 to 13 November 2000:	6% per annum.
14 November 2000 to 13 June 2002:	4% per annum.

**Total amount due: €8,713.23**

### **Example 2 - One lump sum on retirement from the Civil Service (aged 65)**

Interest rates applicable:

1 June 1969 to 31 March 1971:	3% per annum.
1 April 1971 to 13 November 2000:	6% per annum.
14 November 2000 to 4 January 2010:	4% per annum.

**Total amount due: €11,721.40**

### **Example 3 - Periodic payments of €50 [\[1\]](#) a week, commencing on return to Civil Service**

Interest rates applicable:

1 June 1969 to 31 March 1971:	3% per annum.
1 April 1971 to 13 November 2000:	6% per annum.
14 November 2000 to 5 January 2006:	4% per annum.

Amount owed after compound interest applied on reducing balance

13/6/2002 (when repayment begins)	€8,713.23
12/6/2003	€6,414.98
12/6/2004	€3,976.04
12/6/2005	€1,484.54

Gratuity repaid on 05/01/2006

**Total due: (€50 a week for 187 weeks + €1.16): €9,351.16**

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[\[1\]](#) Under current rules repayments may be made on an instalment basis, and the amount of each instalment must not be less than one month's gross pay. The Commission on Public Service Pensions recommended that regular periodic payments over a fixed period of up to ten years be accepted. It is the intention to adopt that recommendation. Salary Sections are being consulted as to practical feasibility. The above example is based on the assumption that this recommendation can be implemented.