To: VOCATIONAL EDUCATION COMMITTEES
INSTITUTES OF TECHNOLOGY
TIPPERARY INSTITUTE

Pension Reform
Revised method of reckoning variable allowances for pension purposes

1. INTRODUCTION

1.1 In June 2008 the Department of Finance issued Circular Letter 10/2008 announcing a change in the method of reckoning variable allowances for pension purposes in the public service. The change announced in the Circular is effective from 1 April 2004. A copy of the Circular Letter is enclosed.

2. WHAT DOES THE REVISED METHOD CHANGE?

2.1 A person’s pension is based on a combination of his or her service and final pay. Where a person holds a pensionable allowance, this is included in the calculation of final pay. Allowances normally comprise the total of the annual rate of each allowance held by a person. However, if an allowance has not been held during each of the 3 years immediately before retirement, it will be averaged based on the number of days on which the allowance is held.

2.2 The effect of the Department of Finance Circular is to move away from the focus on the final 3 years of service for pension purposes in the case of variable allowances only. A variable allowance is one which–

(a) Varies in line with pay increases, whether general or special/grade specific, and

(b) Is always calculated by dividing the actual amount of the pensionable allowance paid to a person in the last 3 years of service by 3 to determine the allowance component of final salary.

2.2 As a result of the reform, the reckoning of variable allowances under the 3 year averaging rule will change to an average of the variable pensionable allowances received in the best 3 consecutive years in the 10 years preceding retirement, as uprated to the date of retirement. Other allowances are not affected.

3. WHO IS AFFECTED BY THIS CHANGE?

3.1 Allowances can be calculated in different ways for pension purposes. In the education sector most pensionable allowances are not variable allowances. They are considered to be in the nature of pay and comprise the total of the annual rate of each allowance
held by a person. If such an allowance has been held in each of the last 3 or more years immediately before retirement, it is not subject to averaging. If it has not been held during each of the last 3 years, averaging will apply. The average of a relevant allowance is determined by multiplying the annual rate of the allowance appropriate on the last day of pensionable service by \( \frac{1}{1095} \) and multiplying that result by the number of days during the last 3 years of pensionable service in respect of which the allowance was payable. Because these allowances are not always subject to averaging and are based on the rate payable on the last day of pensionable service rather than the actual amount received by a person, they do not come within the definition of “variable allowances”. Therefore, they are not affected by this Circular Letter.

3.2 The supervision and substitution payment to teachers is also unaffected. While it is always subject to averaging and is based on the actual payment received rather than the rate of the allowance at retirement, it is considered to be a payment rather than an allowance and so it too is outside the scope of the Department of Finance Circular.

3.3 In the VEC and institute of technology sector there are pensionable allowances which come within the definition of “variable allowances” and so are affected by the change. These include the compulsory overtime and clothing allowances payable to caretakers.

3.4 In the case of these allowances, they should be averaged in accordance with the terms of Department of Finance Circular 10/2008. This change takes effect from 1 April 2004 and any person whose pension was paid on or after that date should have his or her pension position reviewed.

4. ANY QUESTIONS?

4.1 Caretakers who are in receipt of a compulsory overtime or clothing allowance and have queries on this Circular Letter should contact their employing VEC / institute of technology.

4.2 A copy of this Circular Letter and a link to the Department of Finance Circular 10/2008 are available on the Department’s website www.education.gov.ie.

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Link to Department of Finance Circular 10/2008