

P18/161/04

4 April 2005

To: All Heads of Department/Office

Circular 10/2005: Public Service Pension Reform: Introduction of cost neutral early retirement

A Dhuine Uasail,

1. I am directed by the Minister for Finance to announce the introduction of cost neutral early retirement for the public service. Subject to eligibility, this facility will be available to serving staff and will also be made available, for a specified period, to persons who resigned on or after 1 April 2004, with an entitlement to preserved superannuation benefits.

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 voluntary early retirement.

3. Following consideration of the issue of improved retirement choice for public servants, the Commission recommended the introduction of a facility which would allow public servants to retire early with immediate payment of superannuation benefits, subject to actuarial reduction to take account of the early payment of the lump sum and the longer period over which pension would be paid.

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 and indicated that the feasibility of implementing optional early retirement with actuarially reduced benefits, as recommended by the Commission, would be examined. Discussions were held with the Staff Side on this and other issues. The Minister announced the introduction of the measure on 14 September 2004 following Government approval.

Eligibility

5. To be eligible to apply for cost neutral early retirement a person must:

(i) be serving in a public service body as defined in the Public Service Superannuation (Miscellaneous Provisions) Act 2004,

(ii) be a member of the superannuation scheme of that body,

(iii) have an entitlement to a preserved superannuation benefit at age 60 or 65, *and*

(iv) at the time of resignation, be aged at least 50 if a preserved pension age of 60 applies or be aged at least 55 if a preserved pension age of 65 applies.

In the civil service, both established and unestablished personnel may apply for cost neutral early retirement.

6. The option of cost neutral early superannuation benefits will also be made available to individuals who resigned on or after 1 April 2004, and who met the eligibility criteria above at the time of their resignation. Departments and public service bodies should take immediate steps to notify such former staff, in writing, of the new option available to them, and in any event should ensure that such notification takes place within three months of the date of this circular. Individuals notified in this way should be given three months within which to exercise the option.

7. In cases other than those covered in *paragraph 6* above, the application to draw down cost neutral superannuation benefits must be made **not later than the date of resignation**; no applications will be accepted from persons who have already resigned. In this connection Departments/Offices and public service bodies should make eligible staff aware of the options available, in advance of the date of resignation.

Conditions

8. Public servants who meet the eligibility criteria specified in *paragraphs 5-7* above, may, if they resign before reaching the relevant preserved pension age, choose between the following options:

- (i) waiting until preserved pension age (60 or 65 years) and receiving the preserved pension and lump sum in the normal way, *or*
- (ii) applying for immediate payment of preserved pension and lump sum, both of which will be actuarially reduced.

9. Persons granted the option in *paragraph 8(ii)* above (i.e. those availing of cost neutral early retirement), will have their pension and lump sum actuarially reduced by application to their preserved benefit of the relevant percentages from the table at *paragraph 10* below, with appropriate adjustment, as necessary, for exact age (i.e. years and days) at retirement.

10. In adjusting for exact age at retirement, pension and lump sum will be calculated in accordance with the following formula:

$$[A + ((B/365) \times (C-A))] \times \text{preserved benefit based on service}$$

where

- A is the actuarial reduction factor (pension or lump sum, as appropriate) in the table below, appropriate to the person's age at his or her last birthday,
- B is the number of days since his or her last birthday, *and*
- C is the actuarial reduction factor (pension or lump sum, as appropriate) in the table below, appropriate to the person's age at his or her next birthday.

Table:

Factors to be applied to preserved benefits to derive actuarially reduced benefits

Persons with a preserved age of 60			Persons with a preserved age of 65		
Age last birthday	Pension	Lump sum	Age last birthday	Pension	Lump sum
50	62.4%	82.2%	55	58.2%	82.4%
51	65.1%	83.9%	56	61.1%	84.0%
52	67.9%	85.5%	57	64.1%	85.6%
53	71.0%	87.2%	58	67.4%	87.3%
54	74.3%	88.9%	59	71.0%	89.0%
55	77.8%	90.7%	60	74.8%	90.7%
56	81.6%	92.4%	61	79.0%	92.5%
57	85.7%	94.3%	62	83.6%	94.3%
58	90.1%	96.1%	63	88.5%	96.1%
59	94.8%	98.0%	64	94.0%	98.0%

11. Staff opting for cost neutral early retirement should note that the actuarially reduced rate applies throughout the lifetime of the payment of a pension subject to adjustments in line with public service pensions, as appropriate. It should also be noted that a person who avails of cost neutral early retirement cannot subsequently switch to payment of a preserved pension at normal preservation age (60 or 65 years).

12. Examples of some actuarially reduced early retirement cases are set out, for information, at *Appendix 1* of this Circular.

Restrictions

13. Departments/Offices and public service bodies must consider all applications in light of business needs. In the civil service should a Department or Office consider that the number or nature of applications received are such as to pose difficulties for the effective or efficient operation of the Department/Office concerned, the Department of Finance should be consulted. It may, in such cases, become necessary for the Department of Finance, in consultation with the relevant Department/Office and relevant staff side representatives, as appropriate, to prioritise applications or place some restrictions on the numbers/levels approved in a particular period. In the case of other public service bodies, the parent Department should be consulted.

Purchase of Notional Service

14. It should be noted that where a person who has purchased or is in the process of purchasing service under a scheme for the purchase of notional service in the public service opts for cost neutral early retirement, this will affect the amount of purchased service. In this context, in working out the person's entitlement, two reductions will apply. Firstly, the relevant purchase scheme reduction arrangements, as appropriate (including application of purchase scheme actuarial reduction factors appropriate to payment of pension at minimum pension age) will apply. Secondly, the resultant

service will then be added to actual service and the relevant cost neutral early retirement factor applied to the preserved benefits derived from the aggregate service.

Professional Added Years

15. Where a person who has been awarded Professional Added Years opts for cost neutral early retirement two reductions will apply. Firstly, the appropriate reduction arrangements (under the relevant Added Years Scheme) which apply in the case of termination of service below minimum pension age will apply. Secondly, the resultant service (if any) will then be added to actual service and the relevant cost neutral early retirement factor will be applied to the preserved benefits derived from the aggregate service.

Spouses' and Children's Pension Schemes

16. Benefits payable under Spouses' and Children's Pension Schemes will not be affected by a decision to accept cost neutral early retirement in lieu of preserved benefits, i.e. any benefits payable under Spouses' and Children's Pension Schemes to survivors of early retirees will be the same as those payable to survivors of staff who opt for preservation of benefits.

Supplementary pensions

17. Supplementary pensions, where appropriate, will be paid to persons availing of cost neutral early retirement on reaching the relevant preserved pension age (60 or 65 years, as appropriate).

Implications for Social Welfare Benefits

18. As the arrangements for securing Social Welfare credits may vary from time to time, all employees (regardless of PRSI class) are advised to check their own individual situations with the Department of Social and Family Affairs prior to availing of cost neutral early retirement and to check, periodically, as to the up-to-date position. Failure to do so could adversely affect an employee's subsequent entitlement to social welfare benefits, such as retirement pension, old age pension or survivor's pension.

Return to public service employment

19. Where a person who has availed of cost neutral early retirement returns to public service employment, that person will be subject to the relevant rules which apply both in the superannuation scheme from which they are being paid a pension and the superannuation scheme pertaining to their new employment (e.g. in relation to abatement/cessation of pension and maximum accrual rates).

20. Notwithstanding the provisions of *paragraph 19* above, service in respect of which an actuarially reduced pension has been paid cannot be aggregated with subsequent service in the same scheme or transferred between schemes.

21. It should be noted that, as in the case of resignation generally, a person availing of cost neutral early retirement has no right of return to work in the public service other than through normal recruitment/selection procedures.

Applications

22. In the civil service applications for cost neutral early retirement should be made, in writing, through an officer's Personnel Unit. Other public service bodies should advise staff how to apply. Employers should provide persons who avail of cost neutral early retirement with written confirmation of the terms of the arrangement prior to the date of retirement (a sample letter for this purpose is attached at *Appendix 2*). Apart from the exceptions provided for in *paragraph 6* above, applications for payment of actuarially reduced superannuation benefits will not be considered from former staff members who have already resigned. Civil servants are reminded that the recently launched Pensions Modeller can be of assistance in estimating the benefits available under cost neutral early retirement (see www.cspensions.gov.ie). The Modeller may also be of some benefit to employees of other public service bodies with pension schemes similar to the civil service model.

Monitoring and Review

23. Departments, Offices and public service bodies are requested to monitor carefully the operation of the cost neutral early retirement facility and to keep a record of the number of applications by grade, age, part-time/worksharing/full-time, geographical location and sex. This Department should be notified in the event of any problems or difficulties arising. The Department of Finance will monitor the uptake of the scheme across the public service and will undertake a review of the scheme and its operation in three years' time.

Circulation

24. Please bring this Circular to the notice of all officers serving in your Department/Office (including officers on maternity leave, career break, term-time leave or other forms of leave) and to the attention of all public service bodies¹ under the aegis of your Department.

Queries

25. Queries from individual employees 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:

Henry O'Mara (01-6045493), or Eamonn Robbins (01-6045485).

[E-mail addresses: henry.o'mara@finance.gov.ie and eamonn.robbins@finance.gov.ie]

In the case of queries from public service bodies, the parent Department should be consulted in the first instance.

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John O'Connell

Assistant Secretary

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1. For this purpose, the definition of “public service body” in the Public Service Superannuation (Miscellaneous Provisions) Act 2004 should be used.

Examples of Cost Neutral Early Retirement

[**Note:** Staff opting for cost neutral early retirement should note that the actuarially reduced rate will apply throughout the lifetime of payment of the pension.]

A: Staff in non-coordinated superannuation schemes

EXAMPLE 1: Retirement at age 58

A person in a non-coordinated superannuation scheme, with a preservation age of 60, retires on his/her birthday.

Final Annual Salary: €50,000 Age: 58 Reckonable Service: 40 years

Superannuation Benefits

If opting to preserve benefits If availing of cost neutral early retirement

Due at age 60 (i.e. in 2 years' time) Due now

Lump sum: €75,000 €72,075 (applying reduction factor of 96.1%)

Annual pension: €25,000 €22,525 (applying reduction factor of 90.1%)

EXAMPLE 2: Retirement at age 55 years and 219 days (55.6 years)

A person in a non-coordinated superannuation scheme, with a preservation age of 60 retires between birthdays.

Final Annual Salary: €40,000 Age: 55 years and 219 days Reckonable Service: 30 years

Apply formula $[A + ((B/365) \times (C-A))] \times$ preserved benefit based on service:

Preserved pension is €15,000, so, where

A = 77.8 (pension reduction factor at age 55)

B = 219 (number of days since last birthday)

C = 81.6 (pension reduction factor at age 56)

Actuarially reduced annual pension is €12,012.

Preserved lump sum is €45,000, so where

A = 90.7 (lump sum reduction factor at age 55)

B = 219 (number of day since last birthday)

C = 92.4 (lump sum reduction factor at age 56)

Actuarially reduced lump sum is €41,274.

EXAMPLE 3: Purchased service

A person in a non-coordinated superannuation scheme, with a preservation age of 60 who is purchasing 5 years retires on his/her birthday.

Final Annual Salary: €50,000 Age: 58 Reckonable Service: 28 years plus 2.72/3.56 purchased years (*)

Superannuation Benefits

If opting to preserve benefits If availing of cost neutral early retirement

Due at age 60 (i.e. in 2 years' time) Due now

Lump sum: €59,175 €56,867 (applying reduction factor of 96.1%)

Annual pension: €19,200 €17,299 (applying reduction factor of 90.1%)

(*) 5 added years being purchased to age 65 are reduced (under the terms of the Purchase Scheme) to 2.72 years (pension) and 3.56 years (lump sum) to take account of (i) cessation of contributions prior to maximum retirement age and (ii) drawdown of benefit prior to maximum retirement age.

EXAMPLE 4: Professional Added Years

A person in a civil service non-coordinated superannuation scheme, with a preservation age of 60 and with an entitlement to 5 Professional Added Years retires on his/her birthday.

Final Annual Salary: €70,000 Age: 50 Reckonable Service: 20 years plus 3 1/3rd added years (*)

Superannuation Benefits

If opting to preserve benefits If availing of cost neutral early retirement

Due at age 60 (i.e. in 10 years' time) Due now

Lump sum: €61,250 €50,348 (applying reduction factor of 82.2%)

Annual pension: €20,417 €12,740 (applying reduction factor of 62.4%)

(*) 5 added years available on retirement at or after age 60 reduced (under the Added Years Scheme) to 3 1/3rd years.

B: Staff in coordinated superannuation schemes

[These examples use the single rate of Old Age Contributory Pension applying from January 2005, €179.30 per week.]

EXAMPLE 5: Retirement at age 50

A person in a coordinated superannuation scheme (*), with a preservation age of 60 retires on his/her birthday.

Final Annual Salary: €40,000 Age: 50 Reckonable Service: 30 years

Superannuation Benefits

If opting to preserve benefits If availing of cost neutral early retirement

Due at age 60 (i.e. in 10 years' time) Due now

Lump sum: €45,000 €36,990 (applying reduction factor of 82.2%)

Annual pension: € 7,983 € 4,981 (applying reduction factor of 62.4%)

(*) In the case of staff in coordinated superannuation schemes, supplementary pensions may (subject to eligibility) be payable from age 60/65 as appropriate.

EXAMPLE 6: Retirement at age 62

A person in a coordinated superannuation scheme, with a preservation age of 65 retires on his/her birthday.

Final Annual Salary: €25,000 Age: 62 Reckonable Service: 37 years

Superannuation Benefits

If opting to preserve benefits If availing of cost neutral early retirement

Due at age 65 (i.e. in 3 years' time) Due now

Lump sum: €34,688 €32,710 (applying reduction factor of 94.3%)

Annual pension: € 4,625 € 3,867 (applying reduction factor of 83.6%)

EXAMPLE 7: Purchased service

A person in a coordinated superannuation scheme, with a preservation age of 60 who is purchasing 5 years retires on his/her birthday.

Final Annual Salary: €55,000 **Age:** 55 **Reckonable Service:** 25 years plus 2.43/3.18 purchased years (*)

Superannuation Benefits

If opting to preserve benefits If availing of cost neutral early retirement

Due at age 60 (i.e. in 5 years' time) Due now

Lump sum: €58,118 €52,713 (applying reduction factor of 90.7%)

Annual pension: €12,442 € 9,680 (applying reduction factor of 77.8%)

(*) 5 added years being purchased to age 65 are reduced (under the terms of the Purchase Scheme) to 2.43 years (pension) and 3.18 years (lump sum) to take account of (i) cessation of contributions prior to maximum retirement age and (ii) early drawdown of benefit.

EXAMPLE 8: Professional Added Years

A person in a civil service coordinated superannuation scheme, with a preservation age of 65 and with an entitlement to 5 Professional Added Years retires on his/her birthday.

Final Annual Salary: €70,000 **Age:** 60 **Reckonable Service:** 25 years plus 4.17 added years (*)

Superannuation Benefits

If opting to preserve benefits If availing of cost neutral early retirement

Due at age 65 (i.e. in 5 years' time) Due now

Lump sum: €76,563 €69,442 (applying reduction factor of 90.7%)

Annual pension: €18,699 €13,987 (applying reduction factor of 74.8%)

(*) 5 added years available on retirement at or after age 60 reduced (under the Added Years Scheme) to 4.17 years.

Circular 10/2005: Appendix 2

Sample letter to be given to a person availing of cost neutral early retirement

Dear Mr/Ms ...,

You will retire from the Department of on , aged ... years and ... days and with pensionable service of ... years and ... days.

Your retirement will take place earlier than the standard preserved pension age, which in your case is [60 or 65, insert as appropriate] years. This reflects the fact that you have applied to avail of, and have been accepted for inclusion in, the public service cost neutral early retirement scheme, whose terms are set out in *Department of Finance Circular 10/2005*. This means that, on retirement, you will receive immediate payment of lump sum and pension, both of which will be actuarially reduced.

You understand and accept that your inclusion in the cost neutral early retirement scheme means that all of the relevant conditions of the scheme, as set out in *Department of Finance Circular 10/2005*, apply to your retirement. In particular you accept that:

- The actuarially reduced rate of pension payable to you will apply throughout the lifetime of the pension (subject to normal adjustments in line with public service pensions generally).
- Once you have retired on actuarially reduced superannuation benefits, you cannot subsequently switch to payment of a preserved pension at normal preservation age.
- You have no right of return to work in the public service, other than through normal recruitment/selection procedures.

I would be grateful if you would confirm your acceptance of these terms by signing and returning this form.

Yours sincerely,

Personnel Officer

I accept the retirement terms as set out above.

Employee:

Date: