

Pension Post

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For financial advisers only

Public service pensions

Tony Gilhawley of Technical Guidance Ltd gives an overview of current public service retirement benefits which might help you in advising public service employees on AVCs and taking retirement benefits.

Overview of benefits

Public service retirement benefit entitlements and retirement ages vary by a number of factors, including in particular when the individual joined the public service:

	Entrant before 6 April 1995	Entrant between 6 April 1995 and 31 March 2004	Entrant between 1 April 2004 and 31 December 2012	Entrant on or after 1 January 2013
Minimum retirement age (earliest age at which benefits can be taken without actuarial reduction)	Standard: 60 Gardaí and prison officers: 50 Permanent defence forces: 50 Teachers: 55	Standard: 60 Gardaí and prison officers: 50 Permanent defence forces: 50 Teachers: 55	Standard: 65 Gardaí and prison officers: 55 Permanent defence forces: 50	Standard: State Pension (Contributory) age <ul style="list-style-type: none"> • 66: if born before 1 January 1955 • 67: if born between 1 January 1955 and 31 December 1960 • 68: if born on or after 1 January 1961 Gardaí and prison officers: 55 Permanent defence forces: 50
Compulsory retirement age	65	65	None specified	70

	Entrant before 6 April 1995	Entrant between 6 April 1995 and 31 March 2004	Entrant between 1 April 2004 and 31 December 2012	Entrant on or after 1 January 2013
Early retirement with actuarial reduction from age	50	50	55	55
Retirement benefits	<p>Pension: 1/80th x pensionable remuneration for each year of reckonable service Max 40 years reckonable service</p> <p>+</p> <p>Gratuity: 3/80th x pensionable remuneration for each year of reckonable service : max 120/80ths</p>	<p>Pension: Pensionable remuneration up to 3.33 x State Pension: 1/200th for each year of reckonable service Pensionable remuneration in excess of 3.33 x State Pension: 1/80th for each year of reckonable service Max 40 years reckonable service</p> <p>+</p> <p>Gratuity: 3/80th x pensionable remuneration for each year of reckonable service: max 120/80ths</p>	<p>Pension annual accrual: Gross pensionable remuneration up to 3.74 x State Pension (currently €47,317): 0.58% (1/172th) Gross pensionable remuneration State Pension in excess of 3.74 x State Pension: 1/80th</p> <p>+</p> <p>Gratuity annual accrual: 3/80th x gross pensionable remuneration The pension and gratuity accrued each year based on gross pensionable remuneration in that year, are revalued (upwards only) in line with CPI up to retirement age. The pension and gratuity payable at retirement age are the sum of each year's revalued accrued benefit. Gardaí, prison officers and permanent defence forces – Annual accrual</p> <p>Pension: Gross pensionable remuneration up to 3.74 x State Pension: 0.58% Gross pensionable remuneration in excess of 3.74 x State Pension: 1/70th</p> <p>Gratuity: 3/70th x gross pensionable remuneration</p>	

	Entrant before 6 April 1995	Entrant between 6 April 1995 and 31 March 2004	Entrant between 1 April 2004 and 31 December 2012	Entrant on or after 1 January 2013
PRSI Class	B typically; therefore no entitlement to the State Pension (Contributory)	A typically; therefore entitled to the State Pension (Contributory)		A typically; therefore entitled to the State Pension (Contributory).
Death in service	<p>Lump sum: Between 1 and 1.5 x gross pensionable remuneration</p> <p>Spouse/Civil Partner's pension: 50% of pension expectation at date of death</p>	<p>Lump sum: Between 1 and 1.5 x gross pensionable remuneration</p> <p>Spouse/Civil Partner's pension: 50% of pension expectation at date of death</p>		<p>Lump sum: 2 x gross pensionable remuneration</p> <p>Spouse/Civil Partner's pension: 50% of pension expectation at date of death</p>
Spouse/civil partner's death in retirement	Typically 50% of retiree's pension			

Note that Gardaí and prison officers get double pensionable service for each year of pensionable service over 20 year; for example, 30 years actual = 40 pensionable reckonable, so that those who joined service before 6 April 1995 can retire from 50 onwards with a full pension (i.e. no actuarial reduction) after 30 years' service.

You can see that:

- All entrants who joined on or after 1 April 2004 have 'integrated' pensions as they pay Class A PRSI, i.e. an allowance is made for their State Pension entitlement, but their gratuity is still based on their actual pensionable salary.
- Entrants who joined on or after 1 January 2013 have career average retirement benefits. Entrants who joined before 1 January 2013 all have final salary retirement benefits, albeit integrated for those who joined on or after 6 April 1995.

Entrants on or after 1 January 2013

These entrants join what is called the ‘Single Public Service Pension Scheme’. There is a good website giving information on this pension scheme, see www.singlepensionscheme.gov.ie

Allowances

Many public service employees receive various ‘allowances’ in addition to their basic salary. Some of these allowances are ‘pensionable’ and some are not. It can vary from grade to grade; you need to check in each case. Where allowances aren’t pensionable, they can be ‘pensioned’ through an AVC.

Contributions

Most public service employees recruited after 6 April 1995 pay a total of circa 5% pa to their retirement benefits, and an additional 1.5% pa for the Spouse and Children’s scheme benefits. The retirement contribution is in two parts:

- Part A related to gross pensionable remuneration; and
- Part B related to net pensionable remuneration, i.e. gross pensionable remuneration less 2 x State Pension (Contributory)

Civil servants recruited before 6 April 1995 do not pay any contribution for their retirement benefits.

Public service employees pay an additional (to their normal superannuation contributions above) contribution called a Pension Related Deduction (PRD). This PRD is sometimes referred by public service employees as a ‘pension levy’, but it should not be confused with the pension levy which applied to private pension funds.

The current rate of PRD is as follows:

Band of income	PRD rate
€0 - €28,750	Exempt
€28,750 - €60,000	10.0%
Above €60,000	10.5%

Note that while the PRD qualifies for income tax relief (but not PRSI or USC) at marginal rate under s790C TCA 1997, PRD contributions do not eat into the individual’s limit for tax relief on normal pension contributions. It is separate to the normal limits on pension contributions.

It is planned to abolish the PRD at the end of 2018 and replace with an increased superannuation contribution called an Additional Superannuation Contribution, which rate will vary as follows by when the individual joined the public service:

Public servants who are members of pre-2013 pension schemes with standard accrual terms

1 January 2019	
Band	Rate
€0 - €32,000	Exempt
€32,000 - €60,000	10.0%
€60,000 +	10.5%

1 January 2020	
Band	Rate
€0 - €34,500	Exempt
€34,500 - €60,000	10.0%
€60,000 +	10.5%

All public servants who are members of the Single Public Service Pension Scheme

1 January 2019	
Band	Rate
€0 - €32,000	Exempt
€32,000 - €60,000	6.66%
€60,000 +	7%

1 January 2020	
Band	Rate
€0 - €34,500	Exempt
€34,500 - €60,000	3.33%
€60,000 +	3.5%

The Public Service Pension Reduction (PSPR)

The PSPR is a cut in certain public service pensions in payment. The current rate of PSPR varies by the level of pension and when the individual retired from the public service:

- Pensions above €34,132 where the individual retired **before** March 2012:

Annualised amount of public service pension	Reduction
Up to €30,000	Exempt
Any amount over €30,000 but not over €60,000	12%
Any amount over €60,000 but not over €100,000	17%
Any amount over €100,000	28%

- Pensions above €32,500 where the individual retired **after** March 2012 onwards:

Annualised amount of public service pension	Reduction
Up to €60,000	Exempt
Any amount over €60,000 but not over €100,000	5%
Any amount over €100,000	8%

Currently those who retire before 1 April 2019 with a public service pension entitlement of more than €32,500 pa will have their public service pension reduced as directly above; however their pension and gratuity will be calculated on their 30 June 2013 salaries and ignoring any increment freezes.

Professional added years (PAYs)

Some technical grades, such as HSE Consultants, may have an entitlement to additional credited services for retirement benefits, if they remain in service to their retirement age. For example, many HSE Consultants will be entitled to sufficient PAYs to bring their service up to 40 years (the max) on retirement from 60 onwards.

Note that the benefits arising from PAYs usually vest only at retirement and hence would have been excluded from any Personal Fund Threshold (PFT) application made.

However at retirement a PFT can be increased or a new 2014 PFT sought where the individual did not have one, on a 'look back' basis by then adding in the additional benefits provided by the PAYs as having been accrued at 1 January 2014. However the increased PFT can not exceed the relevant PFT limit of €5.4m or €2.3m, as the case may be.

Paying chargeable excess tax

Where an individual has significant private and public service benefits they may have prospective benefits in excess of the relevant Threshold limit (Standard or Personal), and hence be facing a potential chargeable excess tax liability at retirement.

Such individuals have two options in relation to dealing with the prospective chargeable excess tax liability:

- Use the s787TA Encashment Option over the private benefits before they retire from the public service; this can reduce the projected chargeable excess to nil. Currently the encashment is subject to a fixed income tax and USC charge of 42%
- or
- Mature the private benefits first, and then the public service benefits, and pays the resulting chargeable excess tax by way of annual reductions in gross pension for the first 20 years of retirement. No interest is added and the outstanding instalments are written off on death within this 20 year period.

Scope for AVCs

Most public service employees have some scope for AVCs:

- The entrants between 6 April 1995 and 31 March 2004 have their pension benefits integrated with the State Pension
- The entrants on or after 1 January 2013 have career average integrated pensions.
- Some have various allowances and payments which are not pensionable
- Some may have missing years of public service; in this case only, the individual also has the option of buying back some or all of the missing years through the Purchase of Notional Service (PNS) scheme which in effect a DB AVC scheme option

The most tax effective option for retiring public service employees is to pay AVCs to top up their lump sum gratuity to the Revenue maximum allowable, i.e. for someone with more than 20 years' service completed at normal retirement age, 150% x gross remuneration.

Being able to fund only for additional tax free gratuity is one advantage of AVCs over the alternative Purchase of Notional Service scheme. Under the PNS scheme you must buy additional service which gives rise to additional pension and gratuity. For example, for entrants before 6 April 1995, buying one year's missing service through PNS buys an additional tax free gratuity of 3/80ths of pensionable remuneration plus an additional taxable pension of 1/80th of pensionable remuneration. You can't use the PNS scheme to buy only additional gratuity.

Advice

Higher paid public service employees, particularly those with private pension benefits, need good advice in considering their retirement options, including whether to contribute to an AVC or PNS scheme, and whether to take early retirement when offered or being considered.

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