Submission of the Association of Secondary Teachers, Ireland to the Public Service Pay Commission regarding the initial report of the Commission

March 2017

Introduction

The Association of Secondary Teachers, Ireland has a current membership in excess of 18,000, representing the majority of second-level teachers in the Republic of Ireland.

ASTI welcomes the opportunity to make a submission to the Public Service Pay Commission.

The ASTI notes the terms of reference of the Public service Pay Commission (PSCP).

ASTI notes that the Commission has been asked to provide inputs on how the unwinding of FEMPI legislation should proceed.

ASTI members have endured a large number of cuts and attacks on their conditions of service since 2009. Some of these have been imposed under the auspices of FEMPI legislation and some have not.

The ASTI, along with the wider public service unions had negotiated pay increases under the terms of the 'Towards 2016' agreement. Due to the collapse of Government finances, precipitated by the banking crash, these were foregone. The socialisation of private debt had a profound effect on Ireland's ability to borrow on the international bond market. We lost our Triple AAA rating with Standards and Poor's, Moody's and Fitch Ratings' which cast doubt on Ireland's ability to pay off such large debt. The cost of borrowing increased daily, bringing about the destruction of an over-borrowed property market. This led to a severe dip in Ireland's GDP and for only the second time in eleven years the country ran a budget deficit. These facts challenge the narrative that it was budget deficits and public sector wages that caused the recession. Public sector remuneration played no part in causing the recession.

Apart from deductions and reductions imposed in remuneration that were suffered in common with all public servants, ASTI members have been particularly impacted by the provisions of FEMPI legislation. Under this legislation, cuts imposed in common with other public servants included the pension related deduction (pension levy) and a 6% pay cut in 2009. In 2010, pensions of retired teachers were reduced. In 2013, the periods for incremental progression was lengthened and public servants earning in excess of €65,000 had temporary pay cuts imposed. All teachers also lost an extra €1769 annually for the past four years regardless of the €65,000 threshold. ASTI members continue to suffer the loss of these monies despite fulfilling all aspects of the Haddington Road Agreement.

In tandem with these measures, the starting pay for new entrants to teaching was reduced by 10% in 2010. Teachers were henceforth required to start at the 1st point of the incremental scale. Arising from the Haddington Road Agreement, there was some redefinition of the disparity that had been imposed but it remains the case that new entrants have been seriously disadvantaged in comparison to prior entrants. The relevant salary scales have been appended to this submission.

In 2012, the situation was further exacerbated by the abolition of allowances for new entrants. This cut amounted to an attack on basic pay as heretofore all teachers qualified for allowances. This situation remains to be fully addressed.

In 2010, the Croke Park Agreement provided for additional working hours for teachers. Over the course of a school year, the additional time provision amounted to 33 hrs. In 2013, the Haddington Road Agreement increased the requirements imposed on teachers under the Supervision and Substitution scheme. For instance, the time assigned to supervision and substitution by teachers was increased from one and a half hours in any given week to three hours. The requirement that a teacher be available for three timetable classes per week was increased to five class period per week. The requirement to provide 37 hours per annum was increased to 43. Payments for this work were discontinued with effect from the beginning of the 2013/14 school year.

Above is a non-exhaustive summary of the major cuts and impositions that have been suffered by ASTI members since 2009. In addition, there have also been other developments that have impacted negatively on ASTI members. Sick leave entitlements have been reduced. New-entrants post 2013 are now subject to a career average scheme for pension entitlements.

ASTI believes that public servants, including teachers have shouldered a major part of the burden in correcting the public finances and deserve a fair share in any benefits accruing from economic recovery.

FEMPI legislation

ASTI has been calling for the abolition of FEMPI legislation for quite some time. At the ICTU biennial conference in 2015 the following motion, proposed by ASTI, was adopted.

"That this Conference demands:

i. That the Government repeals all aspects of the FEMPI legislation, and

ii. That any future attempt by the government to impose unilateral changes to the pay and working conditions of public sector workers be vigorously opposed and rejected by the ICTU."

ASTI members have been particularly impacted by the provisions of FEMPI. Because ASTI was not party to a collective agreement (Haddington Road Agreement) at the time, the pay of members was cut with effect from 1st July 2013.

Under the legislation, teachers on salaries of €65,000 or greater had a 5.5% pay cut applied to all of their salary.

Incremental salary increases for ASTI members were frozen for what would have been a period of 3 years from 1st July 2013 if ASTI had not subsequently adhered to the terms of the Haddington Road Agreement.

Sadly, the worst excesses of FEMPI legislation have again been visited upon ASTI members since July 2016. This is because the ASTI has been adjudged to have repudiated the Lansdowne Road Agreement. The draconian measures being applied include suspension of incremental progression, non-inclusion of an agreed supervision and substitution moiety in the teacher pay scale with effect from 1st September 2016, withdrawal of alleviation of the FEMPI ACT 2013 pay reductions, withdrawal of improved CID arrangements introduced

after the Ward report, withdrawal of protection against compulsory redundancy and withdrawal of enhanced redundancy payments where a teacher is made redundant.

In addition to the tough measures that FEMPI has imposed on all public servants, ASTI has seen its more draconian effects. It has been used as a battering ram to force public servants to accept measures that would not be countenanced in any normal industrial relations climate. It has been a barrier to free collective bargaining to a worrying extent and has no place in the future of a functioning and thriving democracy.

The emergency has passed. FEMPI should be removed from the statute books as a matter of great urgency.

Teachers' pay: Income recovery and general terms of employment

Fair pay and conditions are crucial to the continued retention and recruitment of teachers within the education system.

Any new pay agreement must provide a clear pathway towards the full restoration of teachers pay to pre-crisis levels. While acknowledging that all sections of society were massively impacted by the 'emergency' that took place, as previously outlined, teachers and other public servants have earned the right to share in the benefits of any recovery. Government has had additional funds available for 2017 and sustainable growth has been forecast for the coming years. The economy has improved faster than envisaged in recent years as, for example, projections on which recent public service agreements were signed have been overreached. A compelling case can now be made for full restoration as better than expected growth and 'fiscal space' has emerged.

It should also be noted that the pay scales for teachers range up to 27 years of service to reach the top point.

ASTI further notes that the terms of reference of the Public Service Pay Commission include general terms of employment as well as salary in their description of remuneration.

ASTI seeks to ensure that the additional unpaid hours which have been conceded as previously noted will be addressed with a view to removal.

Teachers, in common with other public servants saw major reductions in income and disimprovements in working conditions. They have had to work additional unremunerated hours. It is now time to reverse these impositions.

New entrant pay:

ASTI believes that any acceptable new pay agreement will have to have fairness as its cornerstone. Teachers have been to the forefront of those who have suffered most with regard to the measures imposed in respect of new entrants to the public service. ASTI calls on the Public Service Pay Commission to recommend that Equal Pay for Equal Work must be

achieved in the next public service pay agreement and that such measures as are necessary to implement it be front-loaded at the beginning of the agreement.

ASTI has already engaged in a campaign of industrial action on this matter which enjoyed a considerable measure of public support. The gross inequality that has emerged in recent years must be addressed as a matter of extreme urgency.

The need to restore the common basic pay scale for teachers and achieve equal pay for equal work is as much a matter pertaining to fairness and equity as it is pertaining to the question of overall remuneration.

The two tier system must be halted. The differential pay scales must be abolished as a matter of extreme urgency.

Pensions:

As previously outlined, public service pensioners have been subjected to pension reductions. ASTI is committed to the principle of pension parity for retired teachers (i.e., that movements in pensions track movements in pay for serving teachers).

ASTI wishes to see that the principle of pension parity be fully restored and asks the Public Service Pay Commission to so recommend.

ASTI also wishes to draw the Commissions' attention to the Benchmarking Body's decision to attribute a value of 12% as a discount to public service pay rates in recognition of the value of public service pension arrangements. (Report of the Public Service Benchmarking Body December 2007) ASTI has long held the view that this was an overstatement of the true value and as such had the effect of depressing public service pay rates into the future.

With the advent of new arrangements the value of public service pensions are now substantially less. A career average scheme has been introduced as referred previously and retirement ages have been revised upwards.

ASTI would like to point out that research carried out in 2010 on behalf of the teaching unions by TRIDENT Consulting assessed the impact of the introduction of the 'Career average' pension in combination with a later retirement age.

It found that under the new arrangements, "the value of member contributions will exceed the value of the benefits that they will receive."

It also found that the pre-existing "pension terms for teachers, taking into account the 1995 and 2004 changes among others, are sustainable." (Report appended)

ASTI asks that the implications of this finding be reflected in its report in line with its terms of reference.

Conclusion

ASTI believes that the most recent national pay agreement, the Lansdowne Road Agreement, is seriously flawed. It does not provide for the restoration of the pay differential for new entrants to the public service and it underestimated the strength of the growth in the economy. For the next agreement to be acceptable, it must address the major grievances of public sector workers – both general and sectoral. This is essential if industrial unrest is to be avoided.

The key elements of the next agreement must include

- Equal pay for Equal Work
- Full pay restoration
- An end to unremunerated additional working hours
- Accelerated abolition of the Pension Related Deduction.
- Pension parity restoration.

Appendix 1

Common Basic Scale

Points on Scale	Appointees Pre 01/01/2011
1.	€31,213
2.	€31,972
3.	€33,041
4.	€34,113
5.	€35,775
6.	€36,853
7.	€37,929
8.	€40,640
9.	€41,994
10.	€43,612
11.	€45,222
12.	€46,844
13.	€48,200
14.	€49,996
15.	€49,996
16.	€49,996
17.	€52,472
18.	€52,472
19.	€52,472
20.	€52,472
21.	€55,744
22.	€55,744
23.	€55,744

Points on Scale	Appointees Pre 01/01/2011
24.	€55,744
25.	€59,359

Appointees Pre 01/01/2011	
Incl. allowance paid after 10 years on maximum of scale	€61,683

Common Basic Scale

Points on Scale	Appointees 01/01/2011 - 01/02/2012
1.	€28,092
2.	€29,549
3.	€31,213
4.	€31,972
5.	€33,041
6.	€34,113
7.	€35,775
8.	€36,853
9.	€37,929
10.	€40,640
11.	€41,994
12.	€43,612
13.	€45,222
14.	€46,844
15.	€48,200
16.	€49,996
17.	€49,996

Points on Scale	Appointees 01/01/2011 - 01/02/2012
18.	€49,996
19.	€52,472
20.	€52,472
21.	€52,472
22.	€52,472
23.	€55,744
24.	€55,744
25.	€55,744
26.	€55,744
27.	€59,359
Incl. Allowance for Teachers with 35 years service	€61,683

Common Basic Scale

Points on Scale	Appointees post 01/02/2012*
1.	€31,009
2.	€33,168
3.	€33,950
4.	€36,576
5.	€37,795
6.	€39,251
7.	€40,700

Points on Scale	Appointees post 01/02/2012*
8.	€42,160
9.	€43,380
10.	€44,996
11.	€44,996
12.	€44,996
13.	€47,225
14.	€47,225
15.	€47,225
16.	€47,225
17.	€50,170
18.	€50,170
19.	€50,170
20.	€50,170
21.	€53,423
22.	€53,423
23.	€53,423
24.	€58,765
25.	€59,940
Incl. 35 year allowance	€62,264

*Appointees post 01/02/2012 do not receive qualifications allowances such as degree and PDGE/PME allowances.

Appendix 2

CONSULTING

REPORT FOR THE

ASSOCIATION OF SECONDARY TEACHERS IN IRELAND /

IRISH NATIONAL TEACHERS ORGANISATION /

& TEACHERS UNION OF IRELAND

FUTURE PENSION PROVISION

4 November 2010

Background: Changes to date

The Teachers' Superannuation Schemes, along with all other public sector schemes, have been adjusted several times over the years in order to reduce the cost to the Exchequer. Amongst these changes have been:

1. 1995 integration with the State pension
2. 2004 fixing retirement age of 65 for new entrants
3. 2009 introduction of the pension levy

The impact of these changes has been to progressively reduce the value of the benefits paid to members, while increasing the portion of these benefits funded by member contributions.

Members' pensions are paid from the date of their retirement for life. The capital value of a person's retirement benefits is equal to (a) the sum needed at retirement that is expected to be sufficient to provide the pension payments for life together with (b) the retirement lump sum. Public sector pensions are, of course, funded on a pay-as-you-go basis but the capital value of benefits at retirement is essential to understand the relative value of the changes to date and the changes proposed. The capital value of contributions is compared to the capital value of benefits to demonstrate value to members.

The graph below shows this capital value for sample members who joined service at age 21 in 1980, 1985, 1990, 1995, 2000, 2005, and 2010. In compiling the graph below and other tables in this Report, our focus has been on the common pay scale for teachers; the scales of lecturing and other education grades were not specifically examined.

For instance, the teacher joining service in 1980, retiring at age 61 after 40 years could expect a lump sum on retirement of 1.5 times salary along with a pension of 50% of final salary to be paid for life[1]. This total benefit has a capital value of 12.5 times or 1250% of salary[2].

Life expectancy has increased in the past and we assume that this trend will continue in the future. This means that if there are no changes to the benefits provided, the value of the benefits is expected to gradually increase for newer, younger members. This effect is shown in the increases in the first three columns in the graph below.

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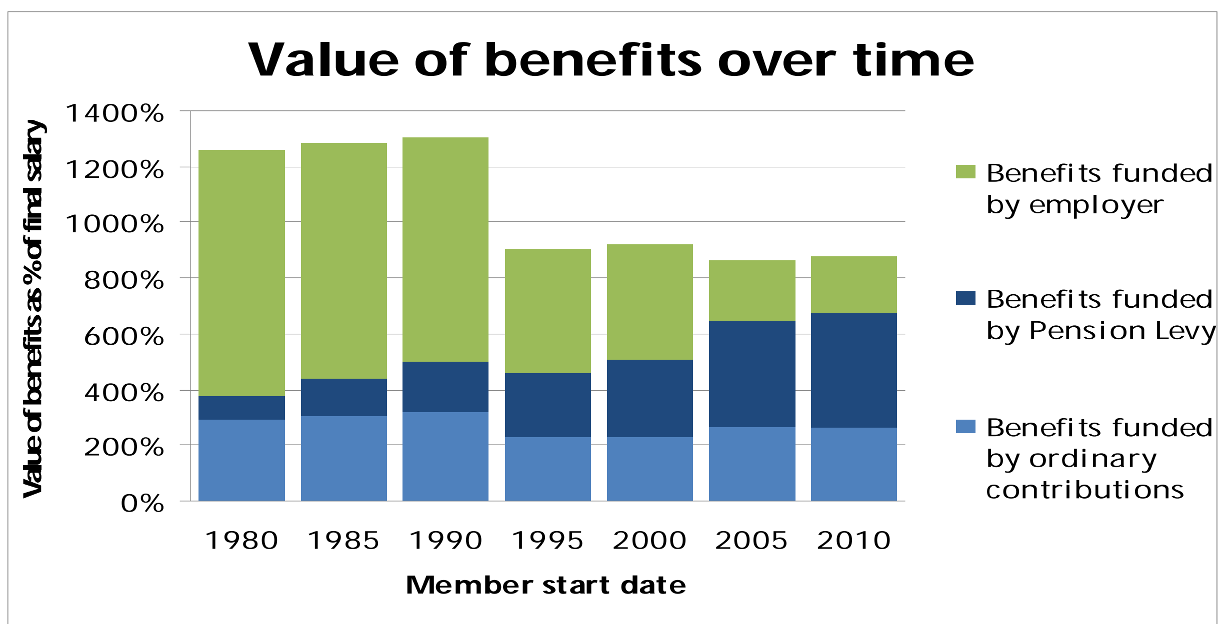
[1] Society of Actuaries recommended mortality tables suggest that the pension would be paid for 25 years on average from age 65, including an allowance for the possibility of a spouse's pension being paid

[2] Capital value allows for increases to pensions in payment of 3% p.a. (assumed to equal pay parity awards) and discounting of future payments at 5.0% p.a. to reflect timing of future payments

In 1995, integration with the State pension caused a significant drop in the total value of benefits. Fixing the retirement age in 2004 caused another drop.

The pension levy was implemented in March 2009. The dark blue sections on the graph below show our assumption that teachers who joined more recently will pay the levy over a greater share of their careers – a 21 year old member who joined in 1980 was 50 in 2009 and only liable for the levy over the final part of their career while the graph illustrates the position in the event that a 21 year old joining in 2010 was obliged to pay the levy over their entire career.



**Based on member commencing service at age 21, the pension levy continuing indefinitely from 2009 and members retiring on the first opportunity when they have earned their full pension entitlement. There is currently no levy on the first €15,000 of salary, 5% on the next €5,000, 10% on amounts over €20,000 but not over €60,000 and 10.5% on any earnings above €60,000. We have assumed that these thresholds will increase in future in line with general pay awards.*

Cost of existing pension arrangement

Since the implementation of the pension levy, members' contributions are sufficient to meet the majority of the cost of their benefits. If we assume a new member joining under the current pension structure at age 21 paid the pension levy over their entire career, we project the

contribution required from the employer to meet the balance of costs is as low as 3.4% of salary[3].

The value of benefits to a teacher who is promoted is higher. The value (and hence the required contribution rate) depends on the level of promotion but for instance for a teacher who is granted a special duties post at the age of 40 the cost increases to 4.0%. Those who are not promoted and those whose only promotion is a special duties post represent the majority of the teaching population.

The 3.4% cost is significantly less than the average employer contribution within private sector defined contribution schemes[4]. For a member commencing service at age 25, we project that an employer contribution of 5.7% of salary is required – this is still less than the average private sector employer contribution.

Proposed changes

The Government have proposed changing the benefits payable under the scheme. The proposed changes can be summarised as follows:

(1) Career average: Pensions and lump sum will be based on "career average" earnings rather than final salary
(2) Later retirement age: The public service retirement age will increase to 66 and in future will be linked to the State pension age. The Government has already announced that the State pension age will be increased to 68 by 2028.
(3) Increases to pensions in payment: A change may be made to link increases to pensions in payment to CPI. It is unclear as to whether this change will be implemented.

We have assessed the implications of these changes below. Due to the lack of available detail on the Government proposal, we have made a number of assumptions regarding how the scheme would work. We have based our interpretation of "career average" on indications provided by the Department of Finance to the ICTU Public Services Committee.

These indications are that the scheme would operate as follows:

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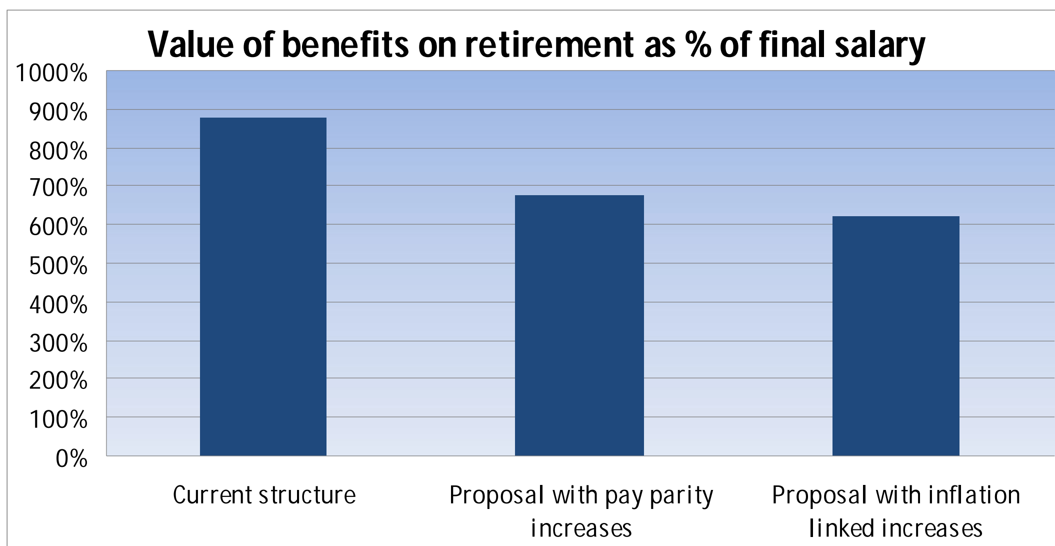
[3] This is based on the cost of funding a pension for a teacher who joins as a graduate and who does not subsequently secure a promoted post allowance.
[4] Source: UCD Michael Smurfit Graduate Business School 2008 DC survey reports average private sector defined contribution scheme employer contribution rate of 5.8% of salary

1. Money amounts will be accrued each year as follows:
   - Pension: On earnings up to 3 $^{1}/_{3}$ * State Pension: 1/200th of pay
     plus
     On earnings over 3 $^{1}/_{3}$ * State Pension: 1/80th of pay
   - Lump Sum: 3/80ths of pay
2. Accrued annual amounts are revalued in line with CPI between the year earned and the year of retirement
3. Pension on retirement is the sum of accrued amounts each year

Value of benefits under the Government proposal

The graph below shows the value of benefits on retirement, for a new member joining service today at age 21, under

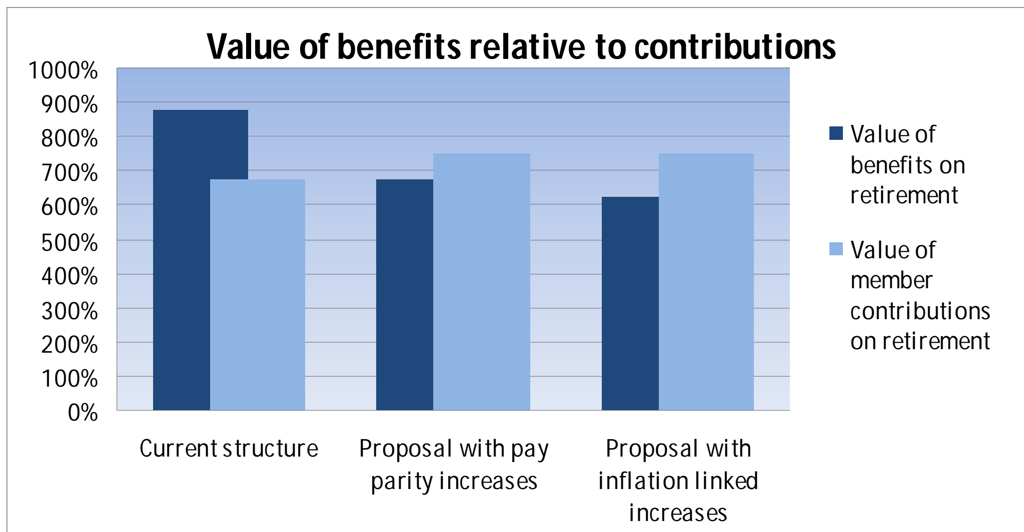
a. Current pensions conditions for new entrants
b. The proposed changes outlined in (1) and (2) above with pay-parity increases granted to pensions in payment
c. The proposed changes outlined in (1), (2) and (3) above, that is, with increases to pensions in payment linked to CPI



This proposal would mark a dramatic disimprovement of retirement benefits provided to new teachers and public servants generally. Removal of pay-parity increases would reduce the value of the benefit further.

All charts within the body of this report refer to a person joining at age 21. Appendix C sets out the equivalent values for a member joining service at age 25.

Value of benefits relative to contributions paid



**Current structure includes service to age 65. Proposal includes service to age 68*

The contributions are higher under the proposal as we assume that contributions will be paid for three extra years as it is proposed that the retirement age of future employees will be linked to the State pension.

Under the Government's new proposal, the value of member contributions will exceed the value of the benefits that they will receive. This situation may be open to legal challenge.

If these changes were implemented, members would pay more to the scheme in contributions than they would receive from it in benefits. Given that membership is compulsory for all teachers, members would effectively be compelled to join a scheme from which they would expect to receive no net benefit.

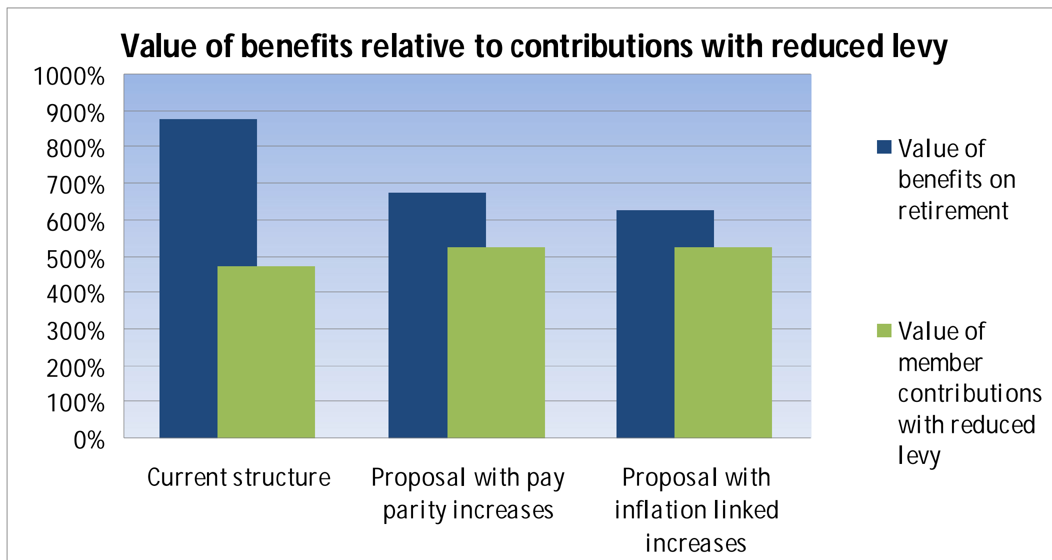
Furthermore, for a private sector scheme to gain Revenue approval, "meaningful" employer contributions are required. The proposed new public sector scheme does not appear to meet this basic criterion. While the public sector schemes might be exempted from this Revenue requirement, the result would be that the public sector schemes would be less generous than all private sector schemes and less valuable (from an actuarial perspective) than no pension provision whatsoever. In other words, our assumptions indicate that employees would be

better off opting out of the proposed scheme (if permitted to do so) and investing their own contributions equivalent to the standard contributions and pension levy into a PRSA[5]

Value of benefits relative to notional contributions if levy cut by half

It can be seen from the graph on page 2 that the pension levy is the largest component of the contributions. The graph below shows the value of the benefits at retirement relative to contributions if the levy was reduced to 50% of its current level from 2011.

That is, a levy of 2.5% on earnings between €15,000 and €20,000, 5% on earnings between €20,000 and €60,000 and 5.25% on any further earnings, with these limits increasing in line with pay awards.



Under this scenario with the reduced levy, the projected required employer contribution would be 6.8% under the existing structure, 2.3% under the Government proposal with pension increasing with pay awards, or just 1.5% with CPI-linked increases.

At this reduced level, the levy would make up approximately 45% of the member contributions. If the levy was abolished from 2011 onwards, the total value of the member contributions would fall substantially, requiring a further increase in the employer contribution.

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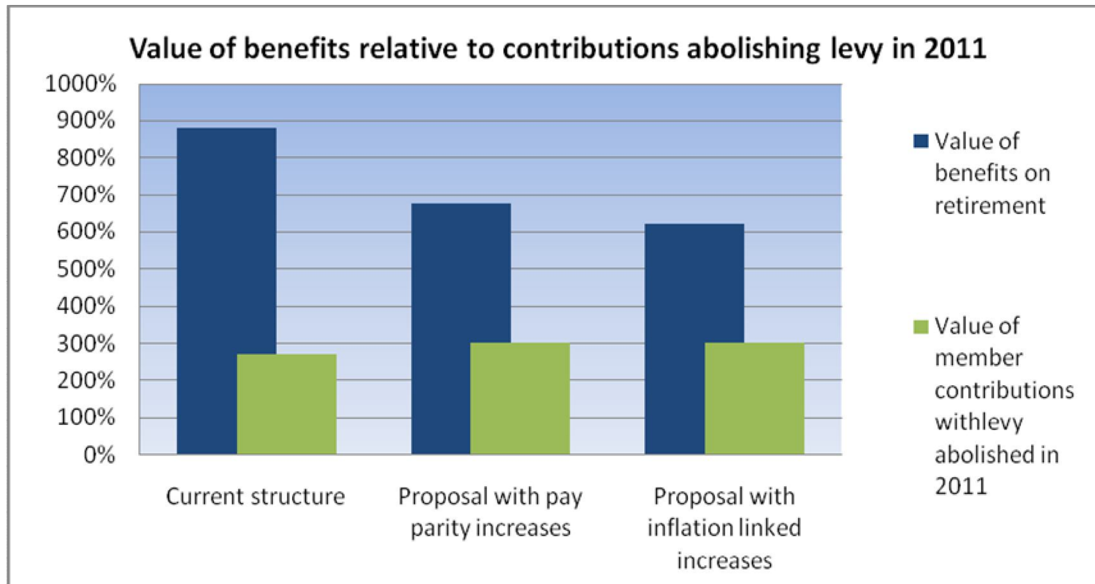
[5] Personal retirement savings account: a pension vehicle requiring no contribution from the employer.

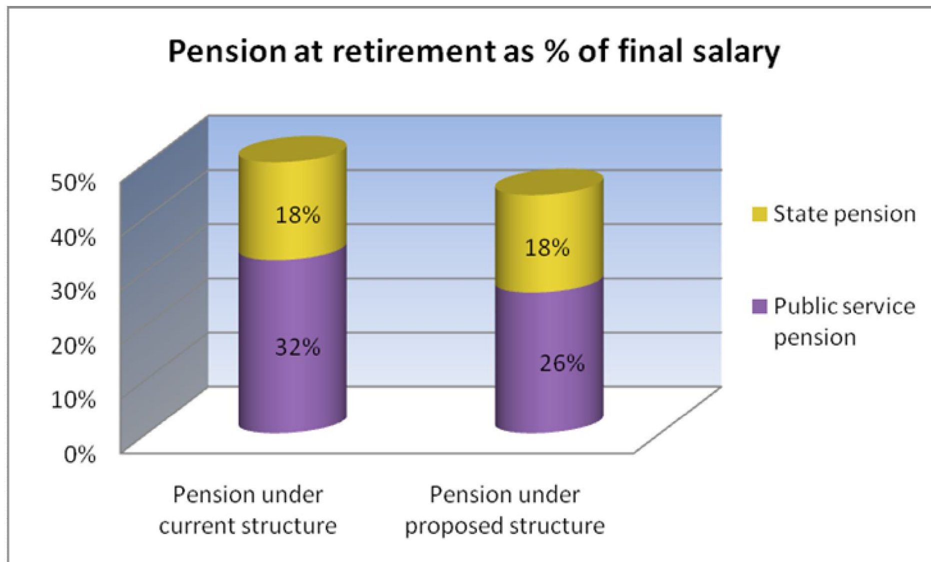
If the current pension structure remained, and the levy was abolished from 2011, an employer contribution of 10.2% of salary would be required. Under the proposal with pay-parity increase, the abolition of the levy would mean a required employer contribution of 5.7%, or 4.9% with increases to pensions in payment linked to CPI.



What this means for a typical worker

Under the current scheme, a teacher's pension (and the pension of a public servant with standard terms) on retirement after a full career is calculated as 40/80 * (Final Salary – 2 * State Pension). A teacher who begins service at age 21 under the current scheme could expect to receive a pension on retirement of 32% of his/her final salary (40/80 * Final Salary – State Pension), or a total pension of 50% including the State pension.

Under the Government proposal based on career average, the expected pension would reduce to 26% of final salary, 44% including the State pension after working three years longer.



For this member, the lump sum on retirement would reduce from 150% of final salary under the current structure to 129% under the proposal after working three years longer.

This impact of the proposal is even more pronounced for a member with a shorter career. See Appendix C for results for member joining service at age 25.

Sustainability of present structure

From an employer's point of view, many of the risks associated with Final Salary schemes relate to the provision of large pensions on retirement following high salary growth at the end of a career.

However this is an area where teachers differ significantly from other groups of employees – a teacher's retiring salary can be forecast with much higher accuracy. In general, the career progression of teachers does not involve rapid salary progression. Salary scales are relatively compact – there are very few big earners. This also reflects the position for the great majority of public service workers.

In addition, the number of teachers in the future will remain relatively stable and can be projected based on population projections.

The combination of these factors means that the existing pension terms for teachers, taking into account the 1995 and 2004 changes among others, are sustainable.

There are we believe lessons which can be taken from the sustainability of teachers' pensions. A system which removes the risk associated with large pay increases could be used as a

foundation on which to build a public sector wide system which is sustainable. The foundation should be to protect the Exchequer against high pension costs through very high salary growth in later career.

This objective can be achieved through either of the alternatives shown below, while protecting the pensions of those on more modest earnings.

Possible alternatives

Alternative (a): Maximum public sector pension of €48,000 (€60,000 with State Pension)

In order to cap the cost of providing large pensions to high earners, the current scheme could be altered so that the maximum public sector pension is €48,000. Taking into account the State pension, the maximum pension to a public servant would be €60,000. Based on a maximum 50% pension, this means that salaries up to €120,000 would continue to qualify as normal for a Public Service pension. Individuals earning in excess of this amount could make additional voluntary contributions if they wanted to provide a higher benefit.

The €48,000 cap would be increased annually in line with average salary awards.

Teachers and public servants generally would be mostly unaffected by this change.

Alternative (b): Provide a Defined Benefit pension on the first €90k of salary, with a Career-Average defined benefit on any further amounts earned

Defined benefits to be provided on salary up to a limit of €90,000. The maximum benefit from this tier of pension would be €33,000 which combined with the State pension would provide a total pension of €45,000. This cap would increase annually in line with average salary awards.

Benefits on any earnings above this will be calculated on a career-average basis. If in any year a member earned in excess of the cap, this excess would be recorded and Career-Average benefits would apply – see example on page 11.

This would only impact a small number of public servants and a small minority of teachers who are entitled to significant allowances in excess of the basic scale. The cap might be adjusted upwards to include Principal Teachers of large schools and others somewhat above the suggested threshold.

Each of these alternatives:

- Protect those on modest incomes
- Reduce the cost and risk to the Exchequer
- Reduce the administrative complexity of the proposed new pension arrangements

Further issues for consideration

There are approximately 1/3 million employees in the public service. The implementation of a career average scheme that would eventually include this number of members would be administratively very complex. Salary records for every public servants career would have to be maintained. There must be serious questions surrounding whether the resources exist to administer such a scheme. Either of the two options outlined above would significantly reduce the administrative burden.

A central administration for Government pensions has been suggested but this may be ineffective if payroll remains decentralised.

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Alternative (b) example

Age	Point on scale	Earnings	Cap	State pension	Career Average earnings element	Career average earned @ 1/80	Revalued career average pension
21	3	37,959	90,000	11,976	0	0	0
22	4	40,202	92,700	12,335	0	0	0
23	5	43,171	95,481	12,705	0	0	0
24	6	45,644	98,345	13,086	0	0	0
25	7	48,225	101,296	13,479			
26	8	52,814	104,335	13,883			
27	9	56,015	107,465	14,299			
28	10	59,686	110,689	14,728			
29	11	63,516	114,009	15,170			
30	12	67,538	117,430	15,625			
31	13	71,386	120,952	16,094			
32	14	76,014	124,581	16,577			
33	15	78,294	128,318	17,074			
34	16	80,643	132,168	17,587			
35	17	86,808	136,133	18,114			
36	18	89,412	140,217	18,658			
37	19	92,094	144,424	19,217			
38	20	94,857	148,756	19,794			
39	21	103,273	153,219	20,388			
40	22	106,371	157,816	20,999			
41	23	109,562	162,550	21,629			
42	24	112,849	167,427	22,278			
43	25	123,161	172,449	22,946			
44	25	126,856	177,623	23,635			
45	25	182,350	182,951	24,344	0	0	0
46	25	187,820	188,440	25,074	0	0	0
47	25	193,455	194,093	25,826	0	0	0
48	25	199,259	199,916	26,601	0	0	0
49	25	205,236	205,913	27,399	0	0	0
50	25	211,393	212,091	28,221	0	0	0
51	25	217,735	218,454	29,068	0	0	0
52	25	224,267	225,007	29,940	0	0	0
53	25	236,980	231,757	30,838	5,222	65	83
54	25	244,089	238,710	31,763	5,379	67	84
55	25	251,412	245,871	32,716	5,540	69	84
56	25	258,954	253,248	33,698	5,707	71	85
57	25	266,723	260,845	34,709	5,878	73	86
58	25	274,724	268,670	35,750	6,054	76	87
59	25	282,966	276,731	36,822	6,236	78	88
60	25	291,455	285,032	37,927	6,423	80	89
61	25	300,199	293,583	39,065	6,615	83	90
62	25	309,205	302,391	40,237	6,814	85	90
63	25	318,481	311,463	41,444	7,018	88	91
64	25	328,035	320,807	42,687	7,229	90	92
65	25	337,876	330,431	43,968	7,446	93	93
							1,142

Example showing a teacher starting today on point 3 of the scale with promotion to Principal of a 27- teacher school at age 45.

Inflation is assumed to be 2% p.a.

The earnings cap starts today at €90,000 and increases in line with salary awards which is shown as inflation + 1% p.a.

This cap makes a difference to the pension earned (-2%) due to exceeding the cap during the years preceding retirement.

<u>Comparison</u>

Current	DB = [337,876 – 43,968x2] x 40/80	124,970	
Proposed	(1) DB = [330,431 – 43,968x2] x 40/80	121,248	
	(2) CA = Sum of revalued career average	<u>1,142</u>	
		122,389	i.e. 98% of current

APPENDIX A: ASSUMPTIONS

This report values streams of payments that are expected to be made over a substantial period of time. The results are sensitive to the economic and demographic assumptions made about the future.

The key assumptions used by us are shown below, as is a comparison with the assumptions used in the Comptroller and Auditor General's August 2009 report:

	Our assumptions	C & AG report assumptions
Inflation	2% p.a.	1.65% p.a.
Salary increases	Inflation + 1%	Inflation + 1.75%
State pension increases	Inflation + 1%	Inflation + 1.75%
Pre-retirement discount rate	Inflation + 3.0%	Inflation + 3.30%
Post-retirement discount rate	Inflation + 3.0%	Inflation + 3.30%

As the other assumptions are defined in terms of inflation plus a margin, the results are not overly sensitive to the inflation assumption itself.

Earnings growth

The most significant assumption in this study relates to the relationship between inflation and general salary awards. It is generally accepted that salaries will increase ahead of inflation as standards of living improve.

Actuarial guidance suggests a margin over inflation of 1.5% per annum. However, we would question whether this is appropriate over a 40+ year period. Salary awards of inflation + 1.5% would result in the purchasing power on retirement of a new entrant[6] being 1.9 times that of a teacher retiring now. That is, in today's terms the retiring salary after a full career will increase from €66,600[7] to €128,200.

The assumption of inflation + 1.75% used in the C & AG's report would result in the final salary for a new entrant in real terms of 2.1 times the current rate. We do not believe that salary growth of this level is likely over the long term.

[6] Joining service at age 21, retiring at age 65

[7] Retiring salary at point 25 on the basic scale with allowance for 10 years at maximum point and allowance for honours primary degree

Salary awards in excess of inflation since 1978 have been approximately 1%[8] per annum. Over the career of a 2010 new entrant, this level of increases would result in final salary in real terms of 1.5 times the current level, that is, growth from €66,600 to €103,200.

We therefore believe that an assumption of inflation + 1% per annum is a reasonable estimate of future salary awards. We have assumed that the State pension will increase at the same rate.

A higher rate of real salary growth would increase the cost to the employer of the current structure. It would also cause the impact of the Government's proposal to be much more severe. Appendix B sets out the results assuming salary awards (and increases in the State pension) of inflation +2%.

Discount rate

The real discount rate used in the C & AG's report was derived from bond yields at 31 December 2008.

	31 December 2008	17 May 2010
German Govt bond (2037 4% coupon)	3.53%	3.62%
Irish govt bond (October 2018)	4.44%	4.44%
German Govt bond (July 2018)	2.95%	2.59%
Margin between Irish & German	1.49%	1.84%
French govt bond (FRTR October 2032)	3.94%	3.84%
French govt index linked (FRTRi July 2032)	2.25%	1.37%
Breakeven inflation	1.65%	2.43%
Nominal risk discount rate	5.02%	5.47%
Real discount rate	**3.31%**	**2.96%**

We have derived our rounded discount rate from updated yields on the same bonds.

Mortality

We have assumed post retirement mortality as follows:

Males 62% PNML00 } with an increase in the cost of pensions of 0.39% per annum
Females 70% PNFL00 } for future retirements

Pension Levy

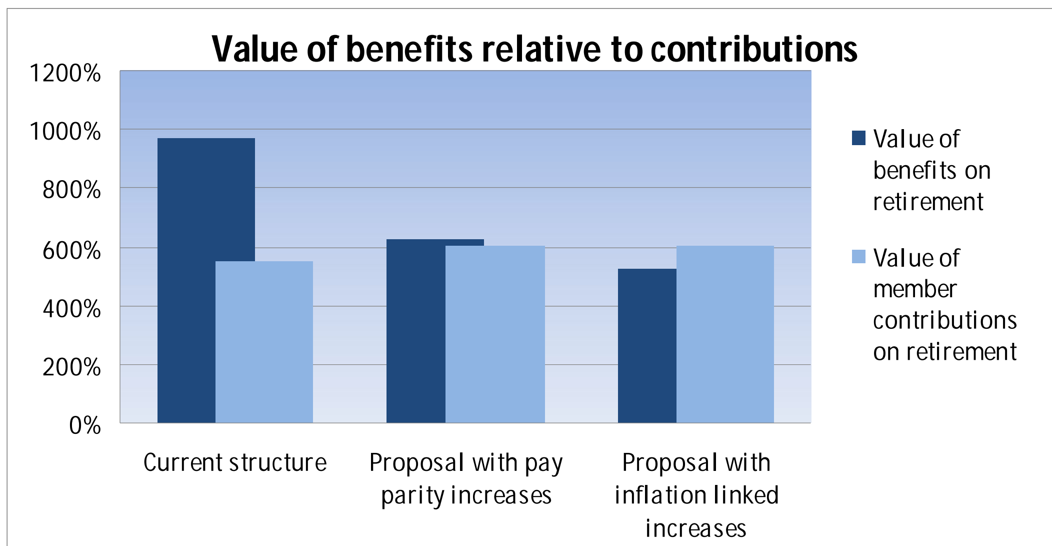
The pension levy is currently applied to earnings between €15,000 and €20,000 at 5%, 10% on the next €40,000 and 10.5% on any earnings above €60,000. We have assumed that these caps will increase in line with salary awards to maintain the tiered effect of the levy.

[8] Growth in excess of inflation for the first point on basic scale was 0.7% p.a., and 1.3% for the maximum point

APPENDIX B: **Salary awards of inflation + 2%**

As mentioned in Appendix A, the results are sensitive to the assumption regarding real salary growth. The graph below shows the value of benefits relative to member contributions on the following assumptions:

Inflation	2%
Salary growth	Inflation + 2%
State pension growth	Inflation + 2%
Discount rate	Inflation + 3%

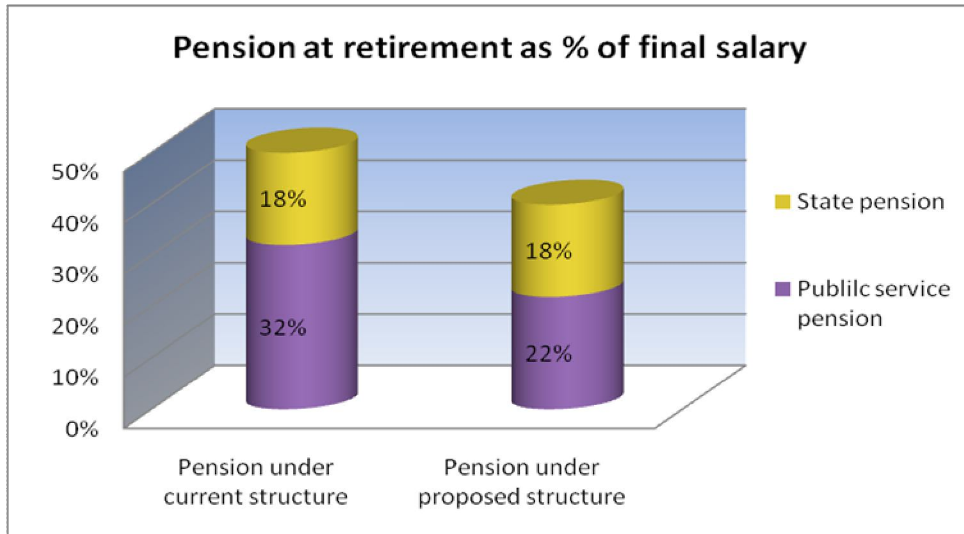


This increase in the level of salary growth causes the value of benefits under the current structure to increase from 879% to 971% (relative to the results assuming salary increases of inflation + 1% as shown in the body of the report). At the same time the value of the member contributions falls from 674% to 550%.

These two factors increase the cost of the current structure, causing the required employer contribution to increase to from 3.4% to 8.7%.

This change of assumption increases the impact of the Government's proposal as the value of the benefits drops more severely. The value of the pension on retirement under the proposal, shown on the graph below, falls to 22% of final salary.

Appendix B- Salary awards of inflation + 2%

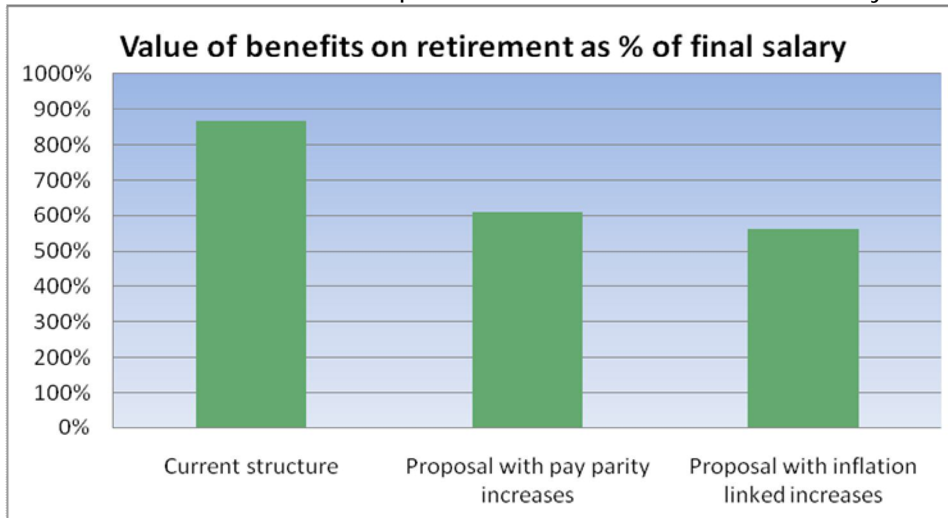


Appendix C (effect on those joining at age 25)

All graphs and examples in the body of this report relate to a member joining service at age 21. This appendix sets out the variation in the results given that the member joins service at age 25.

Value of benefits on retirement

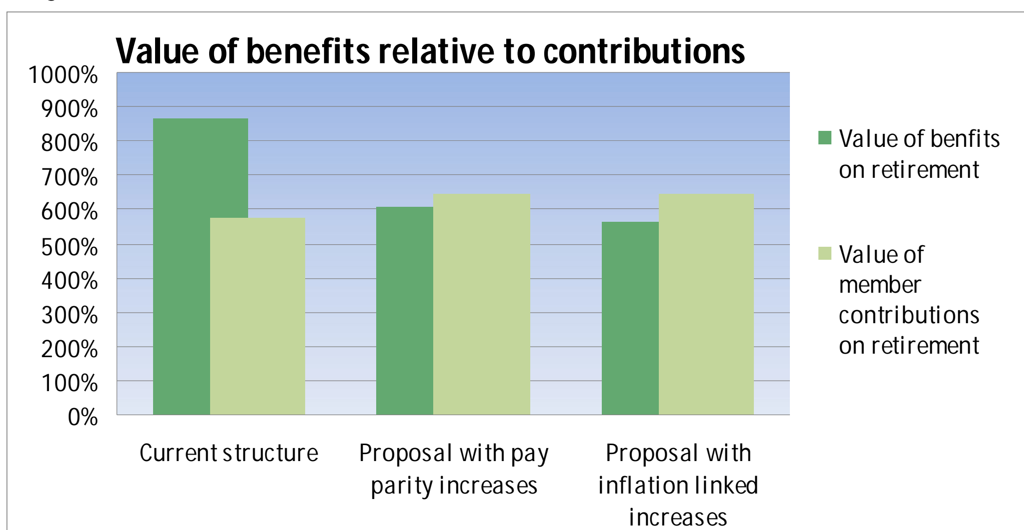
On retirement at age 65, the member joining at 25 will have completed 40 years service and will be entitled to a full service pension- of the same value as the 21 year old joiner.



However, under the career average proposal, the shorter period of service for a member starting their career a few years later will have a significant impact on the value of benefits available.

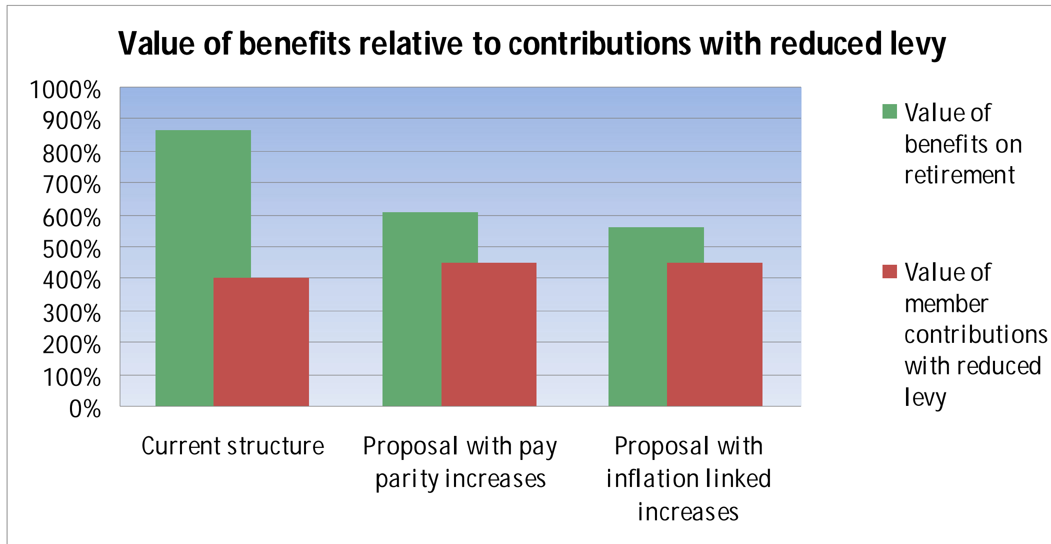
Value of benefits relative to contributions paid

A shorter career will reduce the value of accumulated contributions on retirement. The graph below shows the value at retirement of benefits and contributions for a member joining service at age 25.



Under the Government's proposal, a shorter career will reduce the value of both contributions and benefits payable. The value of contributions will still exceed the value of benefits payable.

If the levy was reduced to 50% of its current level from 2011, the value of member contributions on retirement would fall.



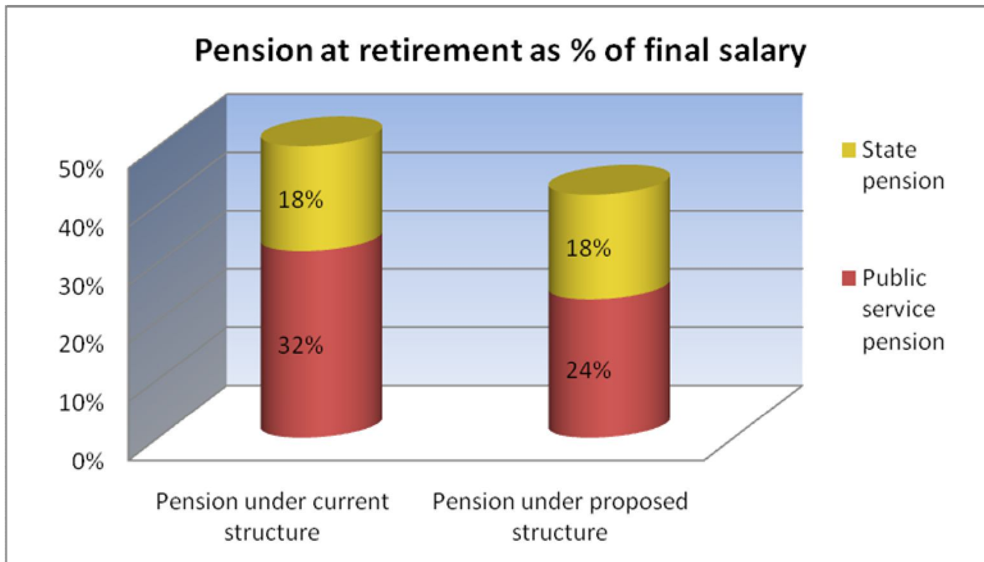
What this means for a typical worker

Under the current scheme, a teacher's pension on retirement after a full career is calculated as 40/80 * (Final Salary – 2 * State Pension). A teacher who begins service at age 25 under the current scheme could expect to receive a pension on retirement of 32% of his/her final salary (40/80 * Final Salary – State Pension), 50% including the State pension.

Under the Government proposal based on career average, the expected pension would reduce to 24% of final salary, 42% including the State pension after working three years longer.

For 25 year old new entrant, given salary awards of CPI + 1%, the expected pension on retirement under the current structure in today's terms is €31,000 at age 65. Under the Government's proposal, this would reduce to €23,000 from age 68.

Appendix C (effect on those joining at age 25)



**Based on member commencing service at age 25*

For this member, the lump sum on retirement would reduce from 150% of final salary under the current structure to 119% under the proposal after working three years longer.

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Appendix C (effect on those joining at age 25)

Alternative (b) example – joining at age 25

Age	Point on scale	Earnings	Cap	State pension	Career Average earnings element	Career average earned @ 1/80	Revalued career average pension
25	3	37,959	90,000	11,976	0	0	0
26	4	40,202	92,700	12,335			
27	5	43,171	95,481	12,705			
28	6	45,644	98,345	13,086			
29	7	48,225	101,296	13,479			
30	8	52,814	104,335	13,883			
31	9	56,015	107,465	14,299			
32	10	59,686	110,689	14,728			
33	11	63,516	114,009	15,170			
34	12	67,538	117,430	15,625			
35	13	71,386	120,952	16,094			
36	14	76,014	124,581	16,577			
37	15	78,294	128,318	17,074			
38	16	80,643	132,168	17,587			
39	17	86,808	136,133	18,114			
40	18	89,412	140,217	18,658			
41	19	92,094	144,424	19,217			
42	20	94,857	148,756	19,794			
43	21	103,273	153,219	20,388			
44	22	106,371	157,816	20,999			
45	23	155,486	162,550	21,629			
46	24	160,151	167,427	22,278	0	0	0
47	25	171,882	172,449	22,946	0	0	0
48	25	177,039	177,623	23,635	0	0	0
49	25	182,350	182,951	24,344	0	0	0
50	25	187,820	188,440	25,074	0	0	0
51	25	193,455	194,093	25,826	0	0	0
52	25	199,259	199,916	26,601	0	0	0
53	25	205,236	205,913	27,399	0	0	0
54	25	211,393	212,091	28,221	0	0	0
55	25	217,735	218,454	29,068	0	0	0
56	25	224,267	225,007	29,940	0	0	0
57	25	236,980	231,757	30,838	5,222	65	76
58	25	244,089	238,710	31,763	5,379	67	77
59	25	251,412	245,871	32,716	5,540	69	78
60	25	258,954	253,248	33,698	5,707	71	79
61	25	266,723	260,845	34,709	5,878	73	80
62	25	274,724	268,670	35,750	6,054	76	80
63	25	282,966	276,731	36,822	6,236	78	81
64	25	291,455	285,032	37,927	6,423	80	82
65	25	300,199	293,583	39,065	6,615	83	83
							716

Example showing a teacher starting today on point 3 of the scale with promotion to Principal of a 27-teacher school at age 45.

Inflation is assumed to be 2% p.a.

The earnings cap starts today at €90,000 and increases in line with salary awards which is shown as inflation + 1% p.a.

This cap makes a significant difference to the pension earned (-2%) due to exceeding the cap during the years preceding retirement.

Comparison

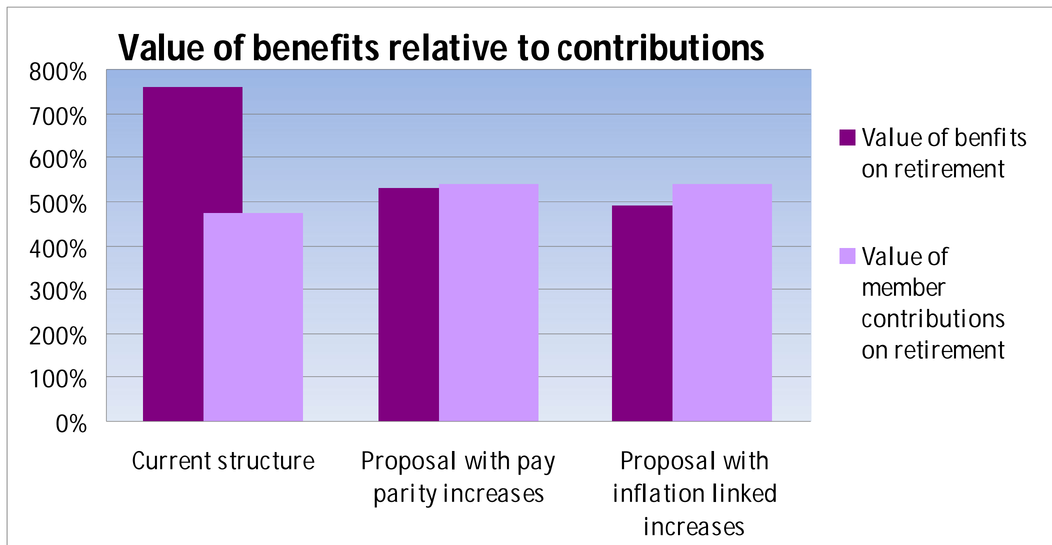
Current	DB = [300,199 – 39,065x2] x 40/80	111,035	
Proposed	(1) DB = [293,583 – 39,065x2] x 40/80	107,727	
	(2) CA = Sum of revalued career average	716	
		108,443	i.e. 98% of current

Appendix D (effect on those joining at age 25 with career break)

This section looks at the implications on the required contribution rate for a member who joins service at age 25 and subsequently takes a 5 year career break[9].

Value of benefits on retirement

On retirement at 65 under the current structure, pension benefits will be based on 35 years completed service. Similarly, benefits under the career-average proposal will not accrue during the career break.



The value of both benefits and member contributions will fall for each of the structures relative to the unbroken service example in Appendix C.

For this member, the required employer contribution rate under the current structure is 6.7% of salary. Under the Government's proposals, the value of member contributions would still exceed the value of benefits.

As with the other scenarios described earlier in the report, a reduction in the levy, will lead to a corresponding increase in the required employer contribution.

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	6.7%	10.0%	13.3%
Proposal with pay-parity increases	No employer contribution required	3.2%	6.5%
Proposal with index-linked increases	No employer contribution required	2.3%	5.7%

[9] Example based on 5-year career break taken after completion of 8 years' service

Appendix E- Summary of required employer contribution

Start age: 21 - No promotion - Unbroken service

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	3.4%	6.8%	10.2%
Proposal with pay-parity increases	No employer contribution required	2.3%	5.7%
Proposal with index-linked increases	No employer contribution required	1.5%	4.9%

Start age: 21 - Special Duties post promotion at age 40 - Unbroken service

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	4.0%	7.5%	10.9%
Proposal with pay-parity increases	No employer contribution required	2.5%	5.9%
Proposal with index-linked increases	No employer contribution required	1.6%	5.1%

Start age: 25 - No promotion - Unbroken service

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	5.7%	9.1%	12.4%
Proposal with pay-parity increases	No employer contribution required	2.7%	6.1%
Proposal with index-linked increases	No employer contribution required	1.9%	5.3%

Start age: 25 - No promotion - 5 year career-break

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	6.7%	10.0%	13.3%
Proposal with pay-parity increases	No employer contribution required	3.2%	6.5%
Proposal with index-linked increases	No employer contribution required	2.3%	5.7%