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Dear Mr Denny

I enclose an actuarial report on Public Service Pension cost, prepared for the ICTU Public Services Committee by Joseph G. Byrne and Sons.

We have had sight of a similar report submitted to the commission by the Dept. of Public Expenditure and Reform. Both reports are an attempt to review and to up-date the report considered by the second Benchmarking Body in 2007 on this subject.

We would suggest that the main conclusion to be drawn from all these reports is that "pricing" Public Services pensions is an inexact science and that the outcome of any such exercise is dependent on the assumptions used. For example, as pointed out in the attached report, the effect of the methodology used in the 2007 report to calculate the cost of Public Service pensions is to suggest that the calculated cost reduces as employees get older. However, funded schemes are, as a matter of fact, required to assume the exact opposite and to fund accordingly.

While this individual point, or indeed any other individual point in any of these reports, does not , of itself, invalidate the conclusions, it shows the difficulties in the exercise and the danger of assuming that there is one, clear, answer to the question of cost, given all the moving parts, complexity and scale involved. As the relevant section of the enclosed report concludes, it is prudent when attempting to evaluate the potential costs of Pubic Service pensions, to show a range on both sides of the central assumptions.

In essence, this is what is being presented to the Pay Commission on this occasion. In crude terms, the employer's actuary has suggested a potential cost of Public Service pensions of up to 29% of pay-roll. Given the assumptions used, our actuary would not quibble with this. However, using different, equally credible, assumptions, the enclosed report suggests estimates of cost of 21% to 23% for the pre 2004 cohort, 17% to 19% for the post 2004 cohort and 6% to 7% for the post 2013 cohort. Indeed, a fourth report commissioned by our teacher union affiliates, which has been referred to in submissions made to the commission , estimates the cost for the pre 2004 cohort at an even lower rate of 19%. The only safe conclusion to be drawn , therefore, is that , depending on assumptions , the cost of providing pensions for the pre 2004 cohort is probably, (and no firmer than 'probably') somewhere between 19% and 29%.

The figures quoted take no heed of the Pension Related Reduction, (PRD), imposed on Public Servants since 2009, the effect of which is that Public Servants pay at least 16.5% out of every euro earned above €28,750 p.a towards their pension cost.

We note also that the employer's actuary makes reference to the fact that removing the linkage of pension to pay movements and replacing same with linkage to the Consumer Price Index would reduce the potential cost significantly. We want to put on record clearly that there will be no agreement from Public Service unions to such a development, nor is there any acceptance that this is, in any way, necessary.

If measuring the potential costs of Public Service pensions is difficult and largely speculative then measuring any sort of comparable figure in the private sector is, on the evidence of the reports from the actuaries, impossible, given the dearth of information. Large Irish based companies that operate at an international level do not disclose their pension contributions for their Irish employees separately in their accounts. Furthermore, the enclosed actuary's report makes the point that the outcome of surveys should be treated cautiously, as they may underestimate the level of contribution rates, as respondents may just disclose headline or base contribution rates and they may be reluctant to disclose commercially sensitive information. The report also makes the point that there are serious issues regarding the adequacy of Defined Contribution rates in the private sector and that the effect is to put upward pressure on the rates.

The other big issue that requires consideration when making any comparison with the Public Service is to question the correct comparisons. Proper like-for-like comparisons with the Public Service, which has 300,000 employees, cannot be with small businesses that engage in no collective bargaining with their employees, with all the consequences that flow from that for the employees. Rather, the correct comparisons have to be with a range of large, "good", employers in the private sector that engage in collective bargaining. Going back to the Priestley Commission in the UK in the mid-20th century, this has always been accepted as a correct basis for legitimate comparison. Even allowing for the fact that information on some of the biggest and "best" employers on their contribution rates for their employees' pensions are not available, analysis of a cross-section of large employers in the private sector and the commercial semi-state sector, reveals that it is credible to suggest that there is an average contribution rate in the teens, in percentage terms.

The only safe conclusion to be drawn in respect of private sector pension costs from the various reports is that, depending on the nature of comparators and allowing for the fact that many figures may well underestimate any real average among " good " employers that operate collective bargaining and in view of the lack of data on large companies that operate internationally, the average contribution rate is probably , (and no stronger than that), somewhere between 11% and 13/14%. The latter figure could be quite credibly argued to be 14%, if account is taken of the unionised employments in the financial sector that were, traditionally, a significant point of comparison with the Public Service.

It is also worth emphasising, as the enclosed report does, that the tabloid image of Public Service pensions as the "Rolls Royce" of pension arrangements fails to take account of a range of flexibilities available to members of private sector funded schemes that are not available to Public Servants. Indeed, in the unlikely event that the Public Service employer was to accept that the pension of their employees cost 29% of salary, as their actuary suggests, and, as a consequence, the employer was to make a DC contribution of that amount into a pension scheme for employees, (an impractical course that we are not advocating), many, and maybe most, Public Servants would see significant advantages in availing of same. The truth, of course, is that this figure is probably way over-stated due to the assumptions used and that there is no possibility of such generosity to its employees being forthcoming from the employer.

We would suggest that, overall, the conclusions that the commission might reach with some credibility are that the recent CSO report showed that Public Servants were, on average, in receipt of less income than their average private sector counterparts and that there is some evidence to suggest that the employer in the Public Service is exposed to slightly more cost in providing pensions. However both, albeit somewhat tentative, conclusions need to be qualified further by recognition that the CSO survey, as with all such surveys, is not a comparison of like work or work of equal value and is, therefore, no more than a broad and generalised observation. Likewise, it is impossible to say with any precision what comparative advantage, (if any), is enjoyed in respect of pension arrangements for Public Servants.

Finally, lest there be any doubt, the ICTU Public Services Committee does not accept any argument for dis-improving the structure of superannuation entitlements for those who serve the citizens of the State. There is no evidence based argument that would support any such dis-improvement. Furthermore, it is evident that there are inadequacies in occupational pension provisions in parts of the private sector that will not be rectified by dis-improvements in the pension arrangements for the State's employees. The obligation for the State is to formulate arrangements that avoid plunging our citizens into poverty in old age. That requires the State to tackle the inadequacies in parts of the private sector. It is not an argument for adding Public Servants to the list of people for whom inadequate superannuation provision has been made.

Yours sincerely,

Tom Geraghty

Secretary

ICTU Public Services Committee

To: Mr David Denny

Secretary,

Public Services Pay Commission