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Circular Letter 26/97

AN ROINN OIDEACHAIS

DEPARTMENT OF EDUCATION

**To the Management Authorities of Secondary, Community and
Comprehensive Schools**

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ARRANGMENTS FOR THE PURCHASE FOR SUPERANNUATION PURPOSES OF CERTAIN TEACHING SERVICES

1. Introduction

1.1 The Revised Proposals for Agreement on Pay and Conditions of Teachers under Clause 2(iii) of Annex 1 of the Programme for Competitive and Work 1996 contain a provision in relation to the arrangements for the purchase for superannuation purposes of certain teaching service in Secondary, Community and Comprehensive schools.

1.2 The provision applies to teachers who were in membership of the Secondary Teachers Superannuation Scheme on 1 March 1996 or have joined the Scheme since then. It also applies to teachers who were eligible to join the Scheme on 1 March 1996 or have become eligible to join the Scheme since then.

It does not apply in the case of a teacher who retired on or prior to 1 March 1996.

1.3 Teachers who are not members of the Scheme must join the Scheme in order to avail of this provision. Admission to the Scheme will be subject to the applicant fulfilling the normal requirements for admission including the medical requirements.

1.4 Existing arrangements for the transfer for superannuation purposes of previous reckonable service in a Vocational or Primary school will continue to apply.

2. Types of service which may be purchased and conditions under which purchase may be made.

2.1 The purchase of any service under the terms of this Circular is subject to the normal requirement and entitlement to superannuation benefit is calculated by reference to a maximum of forty years pensionable service.

2.2 **Whole-time Service**

Service may be purchased where it consists of actual permanent and temporary incremental teaching service under a whole-time contract given by teachers when they were eligible to join the Secondary Teachers' Superannuation Scheme but did not do so or which is not reckonable because the person withdrew from the scheme and took a refund of contributions.

Where the amount of such service is 5 years or less, the teacher must purchase all of the service in question. Where the service in question exceeds 5 years the teacher may, subject to a minimum purchase of 5 years, purchase such amount of it as s/he chooses.

2.3 **Part-time service**

2.3.1 A teacher who is purchasing actual service may, on purchasing all pensionable whole-time service, also purchase certain part-time teaching service given prior to pensionable whole-time service. It is stressed that part-time service may not be purchased unless **all** pensionable whole-time service is also being purchased.

2.3.2 The part-time service must be in an otherwise pensionable capacity and will be reckoned in respect of

- (a) each school year where the teacher had at least half of comparable whole-time service in that year, or
- (b) each week during the school year where, not having had a minimum of half of comparable whole-time teaching service in the school year, the teacher had at least half of comparable whole-time teaching service in that week.

2.3.3 Where the part-time service was given prior to 1 August 1996, it will reckon as to one half of comparable whole-time service.

Where the part-time service is given on or after 1 August 1996, it will reckon in the proportion which the hours worked bear to comparable whole-time service.

3. **Applications**

3.1 Any teacher who wishes to purchase service must make a formal application to do so to the Department by **whichever is the later** of the following dates:

- (a) within 12 months of the date of issue of this Circular
- or
- (b) within 12 months of admission to the Secondary Teachers' Superannuation Scheme.

3.2 An application must be made by a teacher on Form PenP.1 to make pensionable certain teaching service. This must be accompanied by a Statement of Service (Form PenP.2) in which ALL teaching service of the teacher is detailed. It is also essential that details be provided on the Statement of Service form of ALL non-teaching employment in the Public Service as this may be of relevance in determining overall pensionable service.

- 3.3 The application must also be accompanied by Form PenP.3, Certification of Teaching Service. This form must be completed by each separate employing school in respect of teaching service which the teacher in question wishes to have made reckonable for superannuation purposes.
- 3.4 Teaching service given in an incremental capacity, and for which the Department made direct payment to the teacher, will be verified by reference to the Department's records. This service includes service given in the permanent whole-time, temporary whole-time and eligible part-time capacity.
- 3.5 It should be noted, in particular, that the reckoning of past part-time service is subject to the verification of such service being possible.

4. **Cost of Purchase**

4.1 Once the Department has established the overall amount of service to be purchased, it will request the teacher to make payment of the appropriate contribution either

- (a) immediately by way of a lump sum,
- or
- (b) at retirement – i.e. the contribution will be payable by deduction from the retirement lump sum.

4.2 The normal rate of contribution to the Superannuation Scheme is 6.5% of salary and allowances, (5% where the teacher is not a member of the Spouse's Scheme). The contribution under the provisions of this circular will be less because teachers will already have paid Social Insurance contributions at the full rate in respect of periods of service which are now purchasable. It will therefore be necessary to co-ordinate the pension (but not the lump sum), arising in respect of the service purchased, with Social Welfare Old Age Contributory Pension. The contribution will also be co-ordinated. Examples are set out in Appendix 2.

4.3 Co-ordination is a common feature of public sector pension schemes and most private sector schemes where employees are on full rate PRSI. The purpose of co-ordination is to ensure that the aggregate of the occupational and Social Welfare pensions approximates to the occupational pension payable to a person who is not on full rate PRSI. The lump sum payable under the occupational scheme is not affected by co-ordination because there is no equivalent under the Social Welfare code.

4.4. The purchase price for the individual teacher will be 1.5% of **pensionable remuneration** and 5% of **nett pensionable remuneration** (3.5% for teachers who are not members of the Spouse's Scheme) in respect of each year of service involved.

Pensionable remuneration means salary and allowances at the date of formal application, where the teacher chooses to pay immediately, and means salary and allowances at retirement, where the teacher chooses to pay at retirement.

Nett pensionable remuneration is pensionable remuneration less twice the single rate of Old Age Contributory Pension, (see the example in Appendix 2).

4.5 Where past part-time service is being purchased, the contribution due will be calculated by reference to comparable part-time salary and allowances at the date of application or at the date of retirement, depending on the payment option chosen by the teacher.

4.6 A teacher may regard the date of application as the date on the Acknowledgement Form (PenP1.B) which issues from the Department confirming receipt of application.

5. **Supplementary Pension**

As stated in 4.2, the pension payable will be co-ordinated with Social Welfare Old Age Contributory Pension. Since Social Welfare Pension, i.e. Retirement Pension, is not payable until age 65, the co-ordinated pension payable by the Department of Education may be increased, in the period between date of retirement from teaching and age 65, by a supplementary pension. The supplementary pension will be payable in respect of periods during which the pensioner

- (i) is not employed in any capacity which involves the payment of a social insurance contribution, and
- (ii) fails to qualify for social insurance benefit (e.g. Unemployment Benefit, Disability Benefit) or qualifies for such benefit at less than the maximum personal rate, (in both cases due to causes outside his/her personal control).

The supplementary pension will be equal to the difference between the full occupational pension, (i.e. the pension which would have been payable if the pension had not be co-ordinated), and the aggregate of

- (i) the actual occupational pension payable, and
- (ii) the single rate of any actual social insurance benefit which may be payable.

6. **Option to purchase**

6.1 From the date of issue of the request to make payment of contributions, the teacher will have **two months** in which to confirm his/her

- (a) intention to proceed with the option to purchase, and
- (b) chosen method of payment.

6.2 Failure to respond to the offer to purchase within the specified period will be interpreted as an intention on the part of the teacher not to proceed with the purchase.

6.3 **As this is a once-off option, it will not be possible to re-apply at a later date.**

7. **Income Tax Relief**

The current position in relation to income tax relief on pension scheme contributions is set out in Appendix 1. Questions relating to this should be taken up by the teacher concerned with his/her Inspector of Taxes.

8. **Impact on teachers who are purchasing Notional Service**

8.1 Where a teacher is purchasing service under the Purchase of Notional Service Schemes, s/he may cease paying the contributions and have the total paid offset against the contribution due under this arrangement.

8.2 Where the teacher opts to pay immediately, the actual amount paid under the Notional Purchase Scheme will be offset against the amount due.

8.3 Where the teacher opts to pay at retirement, the deduction from the retirement lump sum will be reduced by the total paid under the Notional Purchase Scheme together with compound interest at the rate of 6% a year in respect of the period between ceasing to pay the contributions and his/her date of retirement.

9. **Circulation**

Teachers intending to retire under

- (a) Circular Letter 25/97 (Implementation of Early Retirement Provisions)
- or
- (b) Circular Letter 27/97 (Reduction to age 55 in Early Retirement)

should be made aware of the contents of this Circular in order to ensure that they may maximise their pension benefits.

Additional copies of this circular are enclosed for the information of parents' and teachers' representatives.

The provisions of the circular are also being notified to Vocational Education Committees and Primary Schools for the information of teachers who may have previous service in Secondary, Community and Comprehensive Schools. They are also being notified to teachers who have retired since 1 March 1996.

Don Thornhill
Rúnaí

21 August 1997

Appendix 1

TAX RELIEF ON PENSION SCHEME CONTRIBUTIONS

1. This note is indicative only and does not purport to be a formal interpretation of tax law.

Subject to this, the position is that tax relief is allowable on employee contributions up to a limit of 15% of salary in the year in question. In computing that 15%, account must be taken of any other superannuation contributions (e.g. periodic contributions under both the Main superannuation scheme (5%) and the Spouses' and Children's Scheme (1.5%)), payment of arrears of Main Scheme contributions, deductions from the lump sum or death gratuity for purposes of the Spouses' and Children's Scheme, Purchase Scheme contributions, AVCs. etc).

2. Where a lump sum contribution is made at retirement, the relief is given by spreading the payment evenly over the five years preceding the year of payment; any remaining excess can be carried back into the year preceding the fifth year and so on as far back as the tenth year.

For example, assume that

- (a) the amount of the deduction from the lump sum is £10,000;
- (b) there is also a deduction from the lump sum of £4,000 in respect of the Spouses' and Children's Pension Scheme;
- (c) the person has been paying contributions of 6.5% of salary;
- (d) the salary payable in each year was £26,000;
- (e) in each year the teacher paid income tax at 48% on £2000 of income and at 27% on £9000 of income.

The 6.5% contribution at (c) above has already been relieved which leaves a balance of 8.5% (i.e. 15% less 6.5%) per annum potentially available for relief. Because the total of (a) and (b) (i.e. £14,000) is less than £22,100 (salary * 8.5% * 10 years), the full contribution is relievably within the 10 year time limit.

The maximum amount relievably in each year is £2,210 (£26,000*8.5%). Therefore, for each of the last 6 years, the teacher qualifies for tax relief on £2,000 at 48% and on £210 at 27%. The balance of £740 is at 48% in the 7th last year.

Where a lump sum contribution is made during service, the relief is given, up to the 15% limit, in the year of payment, any excess being carried forward into the following year where it would again be allowable up to the 15% limit; any remaining excess would be carried forward into the following year and so on until the year of retirement or, if earlier, death. If the full relief had not then accrued, and the total allowable period was less than 10 years, some or all of the excess could be relieved by treated it as if it were a lump sum contribution payable at retirement.

3. It will be noted from the above that it is not possible to say with certainty that the full relief will accrue in any particular case. There would not normally be a problem in a case where the contribution is made at a young or relatively young age (unless, of course, the teacher dies shortly after making the option). However, where the option is made at, or close to, retirement, the 15%/10 year limit could be exceeded, particularly when the normal periodical and lump sum contributions are taken into account.

Appendix 2

SECONDARY TEACHERS SUPERANNUATION SCHEME PURCHASE OF INCREMENTAL SERVICE

DEFINITIONS

Pensionable Remuneration	=	Pensionable pay + pensionable allowances at date of retirement
Nett Pensionable Remuneration	=	Pensionable Remuneration less twice single rate Contributory OAP

CONTRIBUTIONS per year to be purchased

Main Scheme:

5.0% which breaks down as follows

3.5% of Nett Pensionable Remuneration towards pension
+ 1.5% of Pensionable Remuneration towards lump sum

Spouses' and Children's Scheme:

1.5% of Nett Pensionable Remuneration

BENEFITS

Pension of 1/80th of Nett Pensionable Remuneration for each year of purchased service.

Lump Sum of 3/80ths of Pensionable Remuneration for each year of purchased service.

EXAMPLES based on a person retiring at current pay rates

Salary on Retirement	=		=	£25,495.00
Allowances on Retirement	=	£1247+£780+£249	=	<u>£ 2,276.00</u>
Pensionable Remuneration			=	£27,771.00
Single rate of OAP	=	£72.80x52.18 weeks	=	£ 3,798.70
Nett Pensionable Remuneration	=	£27,771-(£3,798.70x2)	=	£20,173.59

Calculation of contribution per year to be purchased

3.5% of Nett Pensionable Remuneration	=	£ 706.08
1.5% of Pensionable Remuneration	=	£ 416.57
Total Main Scheme Contribution	=	£ 1,122.64
1.5% of Nett Pensionable Remuneration Spouses Contribution	=	£ 302.60

TOTAL CONTRIBUTION = £ 1,425.24

Teacher purchasing 10 years past incremental service would pay £14,252.45

Additional Benefit of 10 years to

Pension per annum	=	10x1/80x£20,173.59	=	£ 2,521.70
Lump sum	=	10x3/80x£27,771.00	=	£10,414.13

Teacher purchasing 5 years past incremental service would pay £ 7,126.22

Addition of 5 years to

Pension	=	5x1/80x£20,173.59	=	£ 1,260.85
Lump sum	=	5x3/80x£27,771.00	=	£ 5,207.06