An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

Spending Review on Civil and Public Service Professional Added Years Schemes

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Civil and Public Service Professional Added Years Schemes

Contents

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Executive Summary

Professional Added Years (PAYs) are additional years of notional pensionable service added to the actual service of civil and public servants in professional, technical, and specialist grades.

Introduced in Ireland in the 19th Century by local authorities, PAYs were used as a policy tool for recruiting and retaining doctors, architects, lawyers and engineers. There are now twenty-eight (28) main civil and public service PAY schemes in operation.

PAYs awards were calculated traditionally as an additional one-third of service. Most PAYs awards are now calculated on the basis of pre-recruitment qualifications and the professional experience required for appointment which preclude appointees from accruing a full pension based on 40 years of reckonable service.

The aims of this review are :

- To examine the evolution of the policy of awarding PAY;
- To consider the continued relevance of PAY, together with its effectiveness; and to
- To assess the financial cost of PAY schemes; and

Key Findings

Policy Evolution

During the last 30 years, the broad trend has been to reform PAYs awards. A number of landmark changes have reduced the generosity of awards and improved policy coherence:

- *New Scheme* (1997): introduced a less favourable formula for calculating civil service PAY awards;
- *New Entrant Scheme* (2005): introduced a public service-wide scheme for new entrants and reduced maximum awards;
- *Single Scheme* (2013): made no provision for PAY.

Continued Relevance and Effectiveness

The continued relevance of PAYs to today's civil and public service is open to question. Reasons for this include:

- Salary and allowances, not PAYs, are now the main incentive for recruitment and retention;
- PAYs awards are generally not transferable and hinder mobility across the public service, e.g. in certain Local Government, Health, and Education schemes the individual receives no award if they leave before the age of 60;
- The increased maximum retirement age (70) creates additional opportunity for civil and public servants to acquire 40 years of pensionable service;

- PAYs dates from a time when life expectancy was significantly shorter and PAY costs will now be incurred for longer periods than originally envisaged (PAY could remain a facet of the public service pensions bill for the next 60 to 70 years - longevity beyond 65 years of age has more than doubled since the 1980s);
- PAYs appear to be a uniquely Irish pension benefit, with seemingly no clear directly comparable scheme currently being provided in any other EU state; and
- Assessing eligibility for awards can difficult in some cases where the relevant competition records have not been comprehensively maintained.

Costs

- While the annual cash cost may be relatively low in the context of total public service pension expenditure, a small award of added years can have significant capital cost implications over the life of a pension;
- There is a lack of transparency regarding the ongoing financial cost of PAY, with only local authorities collecting this data; and
- Processing PAYs applications can be complex, involving calculations of both Gross Awards (at any time) and Net Awards (at the time of retirement) on each case. It may also necessitate legal/ actuarial input.

Conclusions and Recommendations

- PAYs awards are generous and difficult to justify in the current broader pensions policy and sustainability context. Accordingly, there should be no circumstances under which additional grades or roles would be added into older schemes, such as the Revised Scheme.

- In addition, it is recommended that:

    - Enhanced recording and retention of PAYs data across the public service, particularly regarding average awards, annual financial cost, and capital costs should be introduced to promote better accountability and governance;
    - A periodic assessment of the long term costs of PAYs should be carried out;

1. Introduction

Purpose of review

The purpose of this review is to examine the policy of awarding additional years of pensionable service to civil and public servants working in certain professional, technical, and specialist roles. The review will assess the continued relevance of awarding these additional years of service. The administrative efficiency and effectiveness of awarding added years of pensionable service are also considered.

Terminology

By way of reference, the awards at issue are referred to, interchangeably, as awards of '*added years*', '*notional added years*', or '*professional added years*'. For the purpose of this review, the latter term 'Professional Added Years' (PAYs) will be used. It should be noted that PAYs is distinct from other types of added years schemes, such as the 'Purchase of Notional Service Scheme' and the 'Ill-Health Added Years Scheme'.

Previous Reviews

The last substantive review of PAYs was conducted in 2005, which led to the introduction of a new and more restrictive scheme with universal application across the civil and public service.[1] A commitment to conducting a further review of PAYs in 2005 was signalled by the Government at that time.[2] Previous to that, a review of PAYs had been incorporated as an element of the work of the *Commission on Public Service Pensions* (the Commission) conducted twenty years ago. In its Final Report of November 2000,[3] the Commission recommended, *inter alia*, that PAYs should be abolished for new entrants into the public service.

The long term cost implications of PAY

At the outset, it is important to note that from 1 January 2013, with the introduction of the *Single Public Service Pension Scheme* (the Single Scheme),[4] all new recruits into the civil and public service are members of the Single Scheme and, as such, are not eligible for PAYs. New PAYs awards continue, however, to be made to eligible Pre-2013 pension scheme members in both the civil and public service. This means that the costs associated with PAYs could be a feature of public service pension expenditure for the next 60 to 70 years - potentially into the 2080s.[5]

PAYs are a costly pension benefit. Officers in receipt of PAYs can expect to receive a pro rata increase in their annual pension payments for the term of their natural life, coupled with an increased once-off retirement gratuity payment. It is these existing PAYs schemes which are

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[1] The "New Entrant Scheme" (Circular 8/2005).
[2] The 'New Entrant Scheme' under Circular 8/2005.
[3] Commission on Public Service Pensions (2000); *Final Report*, November 2000.
[4] By virtue of the *Public Service Pensions (Single Scheme and Other Provisions) Act 2012*.
[5] This time period during which PAY may remain a feature of public service pension expenditure could potentially stretch into the 2080s or 2090s. This would reflect the circumstance of a New Entrant appointed to a qualifying PAY post in 2012 (i.e. before the introduction of the Single Scheme), forty years of service and twenty to thirty years of retirement. Added years will also benefit a spouse/child should a Spouse's and Children's Pension be payable.

the focus of this review. It should be noted that there is no readily available dataset on the long term cost of PAYs across the system – this necessitated gathering data from individual sectors to illustrate the cost impact of PAYs.

Structure of the report

After setting out the scope of the review (Section 2), this report will outline the background to PAYs, including the significant infrastructure of added years schemes currently in operation (Sections 3 and 4). The report will then discuss the changing context in which PAYs operates, including the employment and demographic factors which impact on the continued relevance of this costly pension benefit (Section 5). The report will then present the available data on the financial costs associated with PAYs (Section 6). The review finishes with a presentation of relevant findings.

2. Scope of the review

2.1 PAYs schemes – PER Responsibility

The starting point for this review was to examine all PAYs schemes for which the Minister for PER (the Minister) has responsibility. The Minister has sole responsibility for two (2) main civil service PAY schemes, shares joint responsibility with the Minister for Education and Skills in respect of five older university PAY schemes, and is responsible at a high level for the policy oversight of all public service pension schemes, including schemes operating under the Department of Health and the Department of Housing, Local Government & Heritage (i.e. in the local government sector). A list of the relevant civil and public service PAYs schemes is set out in Appendix 1. On this basis, all civil and public service PAYs schemes are regarded as falling within the remit of this review.

2.2 Aims of paper

The review aims to:

- Examine the evolution of the policy of awarding PAYs;
- Consider the continued relevance of PAYs, together with its effectiveness; and to
- Assess the cost of PAYs schemes;

3. Background

3.1 Overview of PAYs

PAY are additional years of notional pensionable service added to the actual service of certain civil and public servants in professional, technical, and specialist grades. PAYs were introduced in Ireland in the nineteenth century by local authorities as a recruitment and retention incentive for doctors, architects, engineers, and lawyers. A note on the historical development of PAYs is included as Appendix 2 to this report.

Similarly, a note on the main considerations when assessing PAYs applications is included as Appendix 3. This note sets out the difference between 'Gross Awards' and 'Net Awards', how the abatement process works, and the difference between schemes providing for 'one-third of service' and 'Q + E' (qualification and experience) based schemes. In summary, the main differences between PAYs schemes based on 'one-third of service' and 'Q + E' include:

- PAYs schemes providing for 'one-third of service' are more generous than 'Q + E' based schemes. It should be noted, however, that recipients of awards based on 'one-third of service' must remain in the post until the age of 60 to receive the award;[6]

- Under 'one-third of service' arrangements, officers with 30 years of actual service would accrue the maximum pensionable service of 40 years;[7] and

- Under 'Q + E' schemes, officers are awarded PAYs as a form of compensation for the time they invested in accumulating the pre-recruitment qualifications (Q) and professional experience (E) required for their appointment, subject to certain conditions.[8]

A list of the professional, technical, and specialist grades in the civil service, local authorities, and the education sector which attract PAYs is set out in Appendix 4. A comparison between PAYs awards based on 'one-third of service' and those based on 'Q + E' calculations is set out in Appendix 5.

3.2 International perspective

PAYs are not currently a key feature of the civil service of our nearest neighbour, the United Kingdom (UK).[9] Similarly, equivalent schemes do not appear to presently exist in other EU and OCED member states.[10]

[6] It is noted that in certain university PAYs schemes recipients must remain until age 65 to receive the award, otherwise Cost Neutral Early Retirement is applied.
[7] This is akin to a fast accrual pension but without the element of personal risk encountered by officers in fast accrual schemes, such as members of An Garda Síochána or Prison Officers.
[8] Calculating the value of such PAYs awards is based on formulae and guidance set out in the relevant scheme rules. See further the circulars identified in Appendix 1.
[9] Indeed, the term 'added years', in the UK civil service context, refers to the system for purchasing additional years of pensionable service, akin to the 'Purchase of Notional Service Scheme', see e.g. NHS Pensions – Added Years Factsheet.
[10] Searches for key terms in European Union and OECD databases in respect of PAY did not disclose the operation of any equivalent schemes in the respective Member States, see e.g. OECD Pensions Outlook 2016, Civil Service Pensions: Towards a Unified System with the Private Sector, OECD 2016, Ch.6.

4. The PAYs schemes under review

4.1 Focus on 28 PAYs schemes

There are 28 main PAYs schemes operating across the civil and public service, including among State Sponsored Bodies.[11] This includes the 'New Entrant Scheme' from 2005, which has universal application across the public service. While a full list of the relevant schemes by sector is set out in Appendix 1, Fig. 1 provides an overview of the schemes in operation.

The New Entrant Scheme is not included in Fig. 1 in respect of any individual sector. This is to avoid double counting as it applies across the public service.

4.2 PAYs schemes responsibilities

As can be seen in Fig. 1 below, the Minister for PER has sole responsibility for the administration of two (2) civil service schemes, plays a joint role in confirming awards for five (5) schemes in the education sector, and provides policy advice and assistance in respect of all public service PAY schemes on request.

Fig. 1: Overview of civil and public service PAY schemes

Sector specific schemes	No. of Schemes	Minister Responsible	PER role	Method of calculation
Civil Service	2	PER	Administration, calculation, confirmation	18 + Q + E - 18 19 + Q + E - 25
Education	11	Minister for Education	Jointly confirms awards in respect of 5 university schemes Policy advice and assistance in respect of other schemes	Mix of '1/3 of service' and 'Q + E' calculations
Local Authorities	6	Minister for Housing, Local Government and Heritage	Policy advice and assistance	Mix of '1/3 of service' and 'Q + E' calculations
Health	6	Minister for Health	Policy advice and assistance	Mix of '1/3 of service' and 'Q + E' calculations
State Sponsored Bodies	2	Minister of the parent Department	Policy advice and assistance	18 + Q + E - 25 19 + Q + E - 25
Public Service-wide	1*	Various - PER responsible for policy, each Minister responsible for sanctioning awards in their own sector	Policy advice and assistance	19 + Q + E - 25

* New Entrant Scheme (Circular 8/2005)

[11] The term 'State Sponsored Bodies' is taken from language in the Circulars setting out the PAYs schemes for State bodies operating under the aegis of government departments.

4.3 Public Service PAYs schemes

The Minister of the relevant parent department is responsible for the operation of PAYs schemes across the wider public service. There are 23 public service PAYs schemes. The Department of Education has eleven (11) schemes, the Department of Housing, Planning, Local Government and Heritage operates six (6) schemes, and the Department of Health has six (6) schemes. They are a mix of the more generous 'one-third of service' schemes and those based on pre-recruitment (Q + E) requirements.

4.4 State Sponsored Bodies and PAYs schemes

In addition to the universal New Entrant Scheme, two (2) PAYs schemes apply to State Sponsored Bodies.[12] Those schemes adopt similar provisions to the civil service schemes. State Sponsored Bodies are responsible for the administration of these schemes and are deemed to be the "appropriate authority" for deciding PAY awards in individual cases. The relevant schemes were sanctioned by Department of Finance / Department of Public Expenditure and Reform.[13]

4.5 Five university PAYs schemes

The Minister for PER also has a role in confirming PAYs awards in respect of five university schemes following the transfer of assets in 2009 from pension funds operated by five universities in the State (UCC, UCD, TCD, NUIM, NUIG) to the National Pension Reserve Fund. In so doing, the operation of discretion in relation to the member benefits, such as PAYs, transferred jointly to the Minister for Education and Skills and the Minister for PER.[14]

5. PAYs in a changing context

The original rationale for PAYs centred on its usefulness as a recruitment and retention incentive for a small cohort of professional, technical, and specialist staff. It is arguable, however, that changing dynamics, both internal and external to the civil and public service, have reduced the need for reliance on PAYs to this cohort of civil and public servants.

5.1 Internal factors affecting PAYs

The internal factors affecting the operation of PAYs in the civil and public service are discussed below. This analysis looks at the continued relevance of PAY as a recruitment and retention tool and the impact of the changing nature of the modern public service on PAYs assumptions, including the objective of enabling public service mobility and the effect of changes to maximum retirement ages.

[12] The term 'State Sponsored Bodies', in this context, comes from the language adopted by the Circulars which set out the PAY schemes for State bodies operating under the aegis of government departments. State Sponsored Bodies include independent statutory bodies/ agencies performing various government functions and services and both commercial and non-commercial state agencies e.g.

[13] Including all Circulars and related Letters to Personnel Officers.

[14] Section 11 of the *Financial Measures (Miscellaneous Provisions) Act* 2009.

5.1.1 Recruitment and retention tool

Historically, the public service used PAYs were an inducement to attract candidates to posts for which they would earn less than in an equivalent position in the private sector. However, PAYs were identified twenty years ago by the Commission as "*a crude instrument*"[15] for addressing recruitment difficulties in the public service. According to the Commission, PAYs were "*not designed to be responsive to the recruitment needs of the relevant areas of the public service at the time of recruitment".*[16] This could be because they are awarded based on set rules and are applicable to officers that meet certain eligibility criteria, rather than operating in response to specific workforce shortages.

Despite new PAYs awards continuing to be awarded for staff with existing entitlements, PAYs are no longer relied on as a key recruitment and retention tool. Instead, salary and allowances are now the main incentives for public service recruitment, providing a more flexible and responsive option than was otherwise available through PAYs schemes. In addition, the introduction of the Single Scheme since 2013, a Scheme which makes no provision for PAYs, has not resulted in any very significant recruitment challenges.

5.1.2 Changing nature of the civil and public service

Changes in the nature and demographic make-up of the public service are reflected in the increasing age of persons entering into the service, a trend towards shorter service, and increased workforce mobility.[17] PAYs was introduced at a time when it was normal for officers to enter the civil and public service after secondary school and work there until retirement. On this basis, PAYs awards were designed to compensate those who couldn't accrue the full 40 years of service because of competition requirements.

However, in reality, there are many other reasons why officers may not achieve 40 years of service: e.g. choosing to work in the private sector initially;[18] making a choice to join the public service later in life due to favourable employment conditions; and leaving the public service voluntarily before retirement age.

In addition, PAYs is a static instrument and takes no account of the changing nature of the civil and public service over time, including, for example, employment trends. Public service recruitment is dynamic in nature, responding to peaks and troughs in the business cycle and the national economic outlook more generally.

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[15] Commission on Public Service Pensions (2000); *Final Report*, at para. 22.3.9 and at para.22.3.11 at p.502.
[16] Ibid.
[17] Commission on Public Service Pensions (2000); *Final Report*, at para. 22.3.9. The changes to public service employment trends cited by the Commission include: increasing age of persons entering into the public service; shorter service; increased workforce mobility; growth of atypical employment; increased employee interest in retiring early; greater numbers joining the public service from third level education, rather than direct from secondary school; and an increase in prior pension entitlements from earlier employment.
[18] It is acknowledged that obtaining experience outside of the public sector can have benefits particularly in the university sector where in order to lecture in a speciality, the person should have relevant field experience,

5.1.3 Public service mobility

Enabling greater mobility and flexibility across the workforce is an objective of both the *Civil Service Renewal Plan*[19] and the *Our Public service 2020*[20] plan. By contrast, PAYs schemes were specifically designed to encourage staff retention. PAYs are generally not transferable within the public service.[21] In this context, PAYs scan be regarded as a hindrance to mobility in the public service.

This is because officers may potentially be reluctant to transfer to another sector in circumstances where they will forego this benefit. This means that there can potentially be a tension between PAYs and the objective of enabling staff mobility in the public service. The position differs depending on whether an officer is a 'pre' or 'post' 2005 civil or public servant:

i) Pre-2005 appointees

Relevant factors in respect of Pre-2005 appointees include:

- Most pre-2005 PAYs schemes do not allow for the transfer of a PAYs award;

- Certain PAYs schemes, such as some of those found in local government and in the health and education sectors, only allow for payment of a PAYs award where the individual remains in the specific post or within the pension scheme until the age of 60 or in some cases the age of 65. If the individual moves organisation or sector the award does not apply any more;

- In other public service PAYs schemes, where the individual resigns before the age of 60 or moves sector, the PAYs award is reduced in accordance with how early the person resigned before the age of 60.

ii) Post-2005 appointees onwards

Relevant factors in respect of Post-2005 appointees include:

- The New Entrant Scheme (Circular 8/2005) applies to all public servants appointed from 1 April 2005 up until the introduction of the Single Scheme in 2013;

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[19] The Civil Service Renewal Plan, A Vision and Three Year Action Plan for the Civil Service, October 2014: Staff mobility is regarded as being essential to making best use of the skills across the Civil Service and approaches to strengthen this are set out in Action 15, see at p.21.

[20] Our Public Service 2020, First Progress Report, August 2019: Action 14 – Continuous and responsive professional development: It is not limited to purely 'professional' training as required in specific areas, such as medicine and teaching. Instead, it includes providing for learning and development opportunities, allowing for mobility and temporary secondments, see at p.45.

[21] They are not transferable under either the Public Sector Transfer Network (see Circular 12/1997; *Revised Schemes for the award of Professional, Technical and Specialist added Years to certain Civil Servants*, at Para. 27 of the *New Scheme*) or under the Local Government Transfer Network (see Circular 8/2005; *New Scheme for the award of professional, technical and specialist added years to certain new entrant staff of the Civil and Public Service, at Para. 18).*

- If a Post-2005 appointee moves from one organisation or sector where they were eligible for a PAYs award to another organisation or sector, it is often at the discretion of the new employing organisation whether to make the award available to the person.

iii) Mobility between local authorities and the Civil Service

Queries are received each year from civil service local HR units regarding PAYs entitlements where the successful appointee from a competition is coming from a local authority. Certain posts within local authorities attract generous PAYs awards based on 'one-third of service' - these are not available in the civil service.

5.1.4 Changes to public service retirement ages

A central rationale for awarding PAYs is to compensate professionals for time invested in accumulating pre-recruitment qualifications and experience which precluded them from accruing a full pension, based on 40 years of service, by maximum retirement age. Two policy changes have removed the link between PAYs and '40 years of service by maximum retirement age'. The relevant policy changes are discussed below.

i) Public Servants who have no compulsory retirement age

The removal of a compulsory retirement age for 'New Entrants'[22] to the public service from April 2004 to the end of 2012 (i.e. the commencement of the Single Scheme) created additional opportunity for this cohort of officers to obtain full pension entitlements even where initial appointees were over the age of 25. As new entrants can work beyond the age of 65, members of this cohort have additional scope for accumulating 40 years of pensionable service.

When Circular 8/2005, the 'New Entrant Scheme', was introduced it was decided that awards would continue to be granted based on the age of 65 (rather than continuing the practice of linking with the maximum retirement age). This was despite the fact that new entrants, unlike previous cohorts, did not have a max retirement age of 65. So while new entrants could accrue 40 years of service during their employment, there was a subtle shift in focus to 40 years of service by the age of 65, as opposed to by the maximum retirement age.

ii) Increased compulsory retirement age

More recently, the *Public Service Superannuation (Age of Retirement) Act 2018*, which came into effect on 26 December 2018, provides for an increase in the compulsory retirement age of most public servants recruited prior to 1 April 2004: from age 65 to age 70. This also creates additional opportunity for civil and public servants to acquire 40 years of pensionable service.

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[22] 'New Entrant' as defined in Section 2 of the *Public Service Superannuation (miscellaneous Provisions) Act, 2004*: a person who is not serving in a public service body, or a body to which Schedule 1 relates, on 31 March 2004 but becomes a public servant on or after 1 April 2004.

5.1.5 Single Scheme members are ineligible for PAYs

The introduction of the *Public Service Pensions (Single Scheme and Other Provisions) Act 2012* mandated that all new recruits into the civil and public service, from 1 January 2013, are members of the Single Scheme and, as such, are not eligible for PAYs. While PAYs were abolished for Single Scheme members, new awards for members of Pre-1995 pension schemes were not abolished. This has implications where both Single Scheme members and Pre-2013 scheme members are appointed from the same recruitment competition.

5.2 External factors affecting PAYs

Public service pensions have significant cost implications for the exchequer. Annual expenditure on public service pensions is projected to increase substantially over the coming years, from €3.4bn in 2017 to approximately €5.3bn by 2025 before peaking to €7.6bn by 2045, under the assumption of an increasing workforce.[23]

The external factors affecting PAYs in the civil and public service are linked to similar concerns which affect public service pensions more generally; changing demographics and the implications of an aging population for the public finances. These considerations are discussed below.

5.2.1 An ageing population and the impact on public finances

Ireland's demographic structure is changing. According to the National Risk Assessment 2019, Ireland faces significant risks from its ageing population.[24] The share of population aged 65 and over is projected to increase from 'one in eight' to 'one in six' by 2030, and the number of people aged 85 and over is projected to almost double. Census 2016 shows that the number of people aged 65 and over has seen the largest increase of any age cohort since the last census in 2011, increasing by 19.1%, or 102,174 people.[25] This is due to advances in modern medicine raising life expectancy and lowering mortality rates.

The decrease in mortality leads to increased numbers of older people continuing to live longer and healthier lives. As increasing numbers of people retire and live longer, this will increase demands on both State and public service pensions, as greater numbers of people will access their public service pensions over a longer period of time.

5.2.2 Decrease in the Old Age Dependency Ratio

In parallel with our ageing population phenomenon there is a future downward projection of the 'Old Age Dependency Ratio'[26] over the next two decades (from 5:1 currently to nearly 2:1), as the numbers of retirees vis-à-vis the number of workers increases.

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[23] DPER Spending Review 2018, *Public Service Occupational Pensions in Ireland - Cash Flow Analysis*, paras 1.4 to 1.5 at p.4.

[24] National Risk Assessment 2019, indicating at para. 4.3.

[25] There has been a steady increase in the number of older people living in Ireland since the 1980s, which demonstrates a constant rise in the older age cohort, shifting Ireland's population structure upwards. See the National Risk Assessment 2019, at p.67, quoting Census 2016 findings which explain this phenomenon by advances in modern medicine.

[26] The old-age dependency ratio is the ratio of the number of older persons at an age when they are generally deemed to be economically inactive (i.e. aged 65 and over), compared to the number of people of working age (i.e. 15-64 years old). See further EuroState Statistics Explained.

In the coming decades, with decreasing numbers of people within the working age population to replace retired workers, this is likely to increase pressure on both the public service and social welfare pensions systems as the contribution base narrows. In this changing context, PAYs could be regarded as more redolent of to a time when there was an expectation that public service pensions would be paid out over much shorter retirement periods and there would be a sufficient base of contributions to meet their cost.[27] Average life expectancy in Ireland is projected to rise to 86.95 years in 2051; it has already risen from 69.8 years in 1960, 72.62 years in 1980, and the most recent data estimates 81.9 years in 2017.[28]

6. The financial costs associated with PAYs

6.1 PAYs costs

In addressing this question it was apparent, at an early stage, that data on PAYs schemes, particularly financial cost data, was not readily available as there is no aggregated data set. To this end, information regarding the cost of final PAYs awards (i.e. Net Awards) granted in 2018 and 2019, both in terms of the number of years awarded and the related financial implications, was sought from the various pension paying authorities which operate PAYs schemes.

6.2 The available data

Of the bodies contacted, only the Department of Education and the Department of Housing, Local Government & Heritage were able to provide aggregate data on the number of awards made during the periods in question. The Department of Housing, Local Government & Heritage was the only body able to produce cost data, and this was in respect of the local authorities under its remit.

Fig. 2 confirms the nature of the PAYs information available from the relevant pension paying authorities.

Fig. 2: Net PAY Award data available for 2018 and 2019

Department/ Org	Value in Years	Financial Cost
Health	X	X
Education and Skills	✓	X
Housing, Planning & Local Government	✓	✓

6.3 Illustrating the cost of PAY awards

The following section seeks to provide an appreciation of the cost of PAYs awards, both in terms of the number of years being awarded and the financial implications of those awards. As an initial discussion in this area, the cost of PAYs awards is presented with reference to

[27] See World Bank and CSO – Population and Labour Force Projections: Average life expectancy in Ireland, 1980 (72.62 years), 2017 (81.96 years), and 2051 (86.95 years)
[28] See World Bank, Life Expectancy at Birth in Ireland, and CSO, Population and Labour Force Projections 2017 – 2051.

specific public service salary points. For illustrative purposes, awards of one (1), five (5) and ten years (10) are shown.

6.3.1 The cost of PAYs awards with reference to specific salary points

As mentioned previously, PAYs are awarded to certain civil and public servants in professional, technical, and specialist grades. By way of illustration regarding the monetary value of PAYs awards, Fig. 3 presents three salary points (€80k, €100k and €120k) and provides the relative cost of awards of 1, 5, and 10 added years of pensionable service at those points. These examples relate to members of pre-1995 civil service pensions schemes with Non-Personal Pension Contribution salary rates, and presume that the PAYs award would bring the recipient up to the full 40 year maximum pensionable service term.

6.3.2 Pre-1995 PAYS scheme members and costs by salary point

As illustrated in Fig 3, for a Pre-1995 scheme member with a salary of **€**80,000 per year:

- One year of additional pensionable service increases the person's retirement pension by €1,000[29] per year and increases their once off lump sum retirement gratuity by €3,000;[30]

- If the person received a maximum ten year PAY award, the increase in retirement pension would be €10,000, with a €30,000 increase in lump sum;

- The capital cost of a PAY award of 5 years at this salary point is €150,000[31] (undiscounted)

For a Pre-1995 scheme membe**r** with a salary of €120,000 per year:

- one year of additional pensionable service increases the person's retirement pension by €1,500 per year and increases their lump sum payment by €4,500;[32]

- If the person received a maximum ten year PAY award, the increase in retirement pension would be €15,000, with a €45,000 increase in lump sum;

[29] Applying the formula for calculating Annual Pension (Gross Pensionable Remuneration/80 x Service) for 39 and 40 year periods and subtracting one from the other. This is based on the condition that the officer has 39 years of service. Therefore, one additional year of pensionable service acquired through a PAYs award would bring the person to the full 40 year maximum pensionable service.

[30] Applying the formula for calculating Retirement Gratuity (Gross Pensionable Remuneration/80 x 3 x Service) for 39 year and 40 year periods and subtracting one from the other.

[31] This is an extrapolated cost taken over a 27 year retirement period from age 63 to 85 (i.e. Annual Pension x 27 years + Gratuity). This calculation assumes that the cohort involved are 'Pre-1995' pension scheme members with an estimated average retirement age of 63 years. For retirements at age 63, the capitalisation factor which the Office of the Revenue Commissioners use for capitalising pension benefits, for the purposes of the Standard Fund Threshold, is 27.

[32] Applying the formula for calculating Annual Pension (Gross Pensionable Remuneration/80 x Service) for 39 and 40 year periods and subtracting one from the other. This is based on the condition that the officer has 39 years of service. Therefore, one additional year of pensionable service acquired through a PAY award would bring the person to the full 40 year maximum pensionable service.

As can be seen, PAYs awards can be significant financial additions to the pensions of professional grades within the civil and public service.

Figure 3: The cost of PAY awards at certain salary points

Salary	Cost	1 Added Yr	5 Added Yrs	10 Added Yrs
€80,000	Annual Pension	*€1,000*	*€5,000*	*€10,000*
	Retirement Gratuity	*€3,000*	*€15,000*	*€30,000*
	PAY over lifetime	*€30,000*	*€150,000*	*€300,000*
€100,000	Annual Pension	*€1,250*	*€6,250*	*€12,500*
	Retirement Gratuity	*€3,750*	*€18,750*	*€37,500*
	PAY over lifetime	*€37,500*	*€187,500*	*€375,000*
€120,000	Annual Pension	*€1,500*	*€7,500*	*€15,000*
	Retirement Gratuity	*€4,500*	*€22,500*	*€45,000*
	PAY over lifetime	*€45,000*	*€225,000*	*€450,000*

Figure 4 outlines an illustrative actuarial cost of providing added years depending on retirement age and the number of added years. The costings below are based on a public servant using the following assumptions:

- a pensionable remuneration of €50,000 who accrues the following retirement benefits in a year:
    - 1/80th of pensionable remuneration [net pensionable remuneration for integrated members] as pension
    - 3/80^{ths} of salary as gratuity.

The cost of providing added years varies depending on a number of factors including the age / scheme / retirement age / salary level etc. of the individual who receives the added years. In particular, the earlier the retirement age – the higher the cost as shown below as the benefits are drawn for longer.

Figure 4 – Actuarial cost of added years (pre 1995 members): retirement age 60 to 65

	Number of Added Years									
Age*	1	2	3	4	5	6	7	8	9	10
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
65	20	39	59	78	98	117	137	156	176	196
64	20	40	61	81	101	121	142	162	182	202
63	21	42	63	84	105	126	147	167	188	209
62	22	43	65	87	108	130	151	173	195	216
61	22	45	67	89	112	134	157	179	201	224
60	23	46	69	92	115	139	162	185	208	231

*retirement age

Assessing the total capital cost for the entire public service would require determining the number of existing retirees with remaining PAYs entitlements as well as serving members who may be entitled to net awards on retirement. There is no capital /actuarial cost available for the entire public service for professional added years as these data points are not available.

6.3.3 The cost of PAYs: case study from the university sector

A case study from the university sector is presented. While capital costs are not available for the purposes of this review, this example from the university sector may be illustrative of the general long term cost of PAYs. The case study concerns an illustrative retiring senior academic.

The final Net PAYs award in this case was 4 years, which brought brings up full service to 40 years with a final salary of €137,011. The cost of the four added years was an additional €6,850 to the person's annual retirement pension and €20,550 by way of lump sum. While capital costings for this award are not available, by extrapolating these sums over a twenty-six year period,[33] this four year PAYs award could cost €198,650; which is the sum of the annual pension over twenty-six years plus the once off gratuity payment.[34]

Figure 5: PAYs Case Study – Senior Academic retiring in 2019

[33] The officer retired at age 65. For retirements at age 65, the capitalisation factor which the Office of the Revenue Commissioners uses for capitalising pension benefits, for the purposes of the Standard Fund Threshold, is 26.

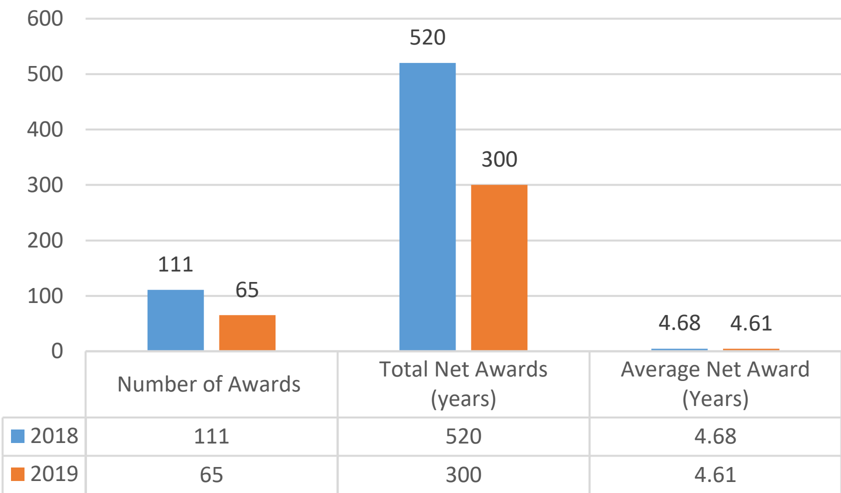
[34] Ibid. This is an extrapolated cost taken over a 26 year retirement period from age 65 (i.e. Annual Pension x 26 years + Gratuity).

UCD Professor	Cost of…	4 Added Years
Final Salary = €137,011 Service = 36 Yrs Retirement Age = 65	Annual Pension	*€6,850*
	Retirement Gratuity	*€20,550*
	PAY over retirement period (estimated)[35]	*€198,650*

6.4 Universities

Cost data is not readily available in respect of the university sector.[36] However, the Department of Education provided data on the number of years of additional pensionable service awarded in that sector. Fig. 6 below presents the available data for the university sector for 2018 and 2019. During the course of that two-year period, 176 awards were granted in the seven main universities; 111 in 2018 and 65 in 2019.

Fig. 6: PAYs awards in University Sector – in years



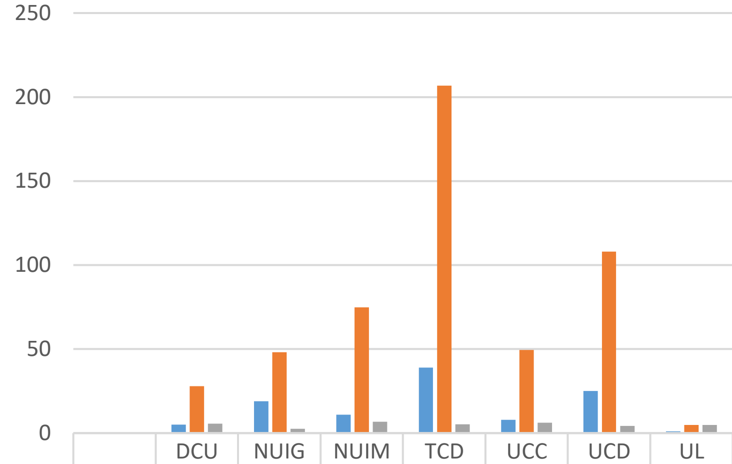
As can be seen below in Fig. 7, university sector PAYs awards for 2018 ranged from 2.5 to 6.8 years.

[35] Annual Pension x 26 years + Gratuity.

[36] It is noted that, in 2019, following discussions with the C&AG, the Department of Education gave a commitment that universities would include the cost of PAY in the pension liabilities provided in their accounts. This was linked to the C&AG's Special Report 103. This exercise was commenced in 2019 and is ongoing.

PAY awards are generous and difficult to justify in the current broader pensions policy and sustainability context. The continued relevance case for PAY is weak.

Fig. 7: PAYs awards in individual Universities in 2018 – in total aggregate years

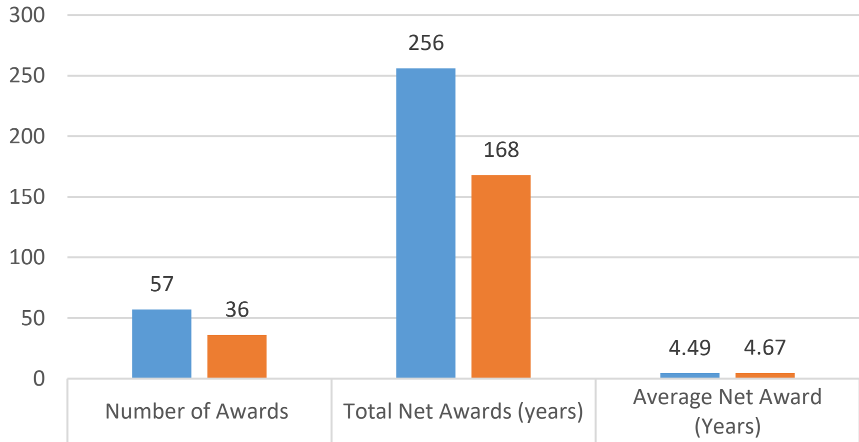


	DCU	NUIG	NUIM	TCD	UCC	UCD	UL
No of awards	5	19	11	39	8	25	1
Total Net Awards (years)	27.9025	48.1015	74.8685	206.842	49.4363	108.0734	4.96
Average Net Award (Years)	5.5805	2.5317	6.8062	5.3036	6.1795	4.3229	4.96

6.5 Local Authorities

As previously indicated, the Department of Housing, Local Government & Heritage was the only body able to provide cost data. This was in respect of the local authorities under its remit. Fig. 8 presents the number of PAYs awards to personnel in local authorities for 2018 and 2019. During the course of those years 97 awards were granted; 57 in 2018 and 38 in 2019. This means that the average Net Awards award for 2018 and 2019 were 4.5 and 4.7 respectively.

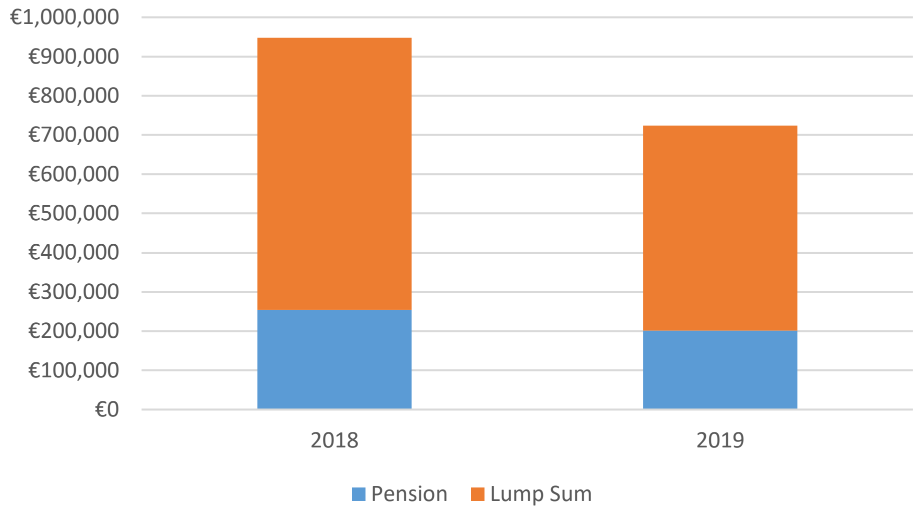
Fig. 8: PAY awards in Local Authorities – in years



	Number of Awards	Total Net Awards (years)	Average Net Award (Years)
2018	57	256	4.49
2019	36	168	4.67

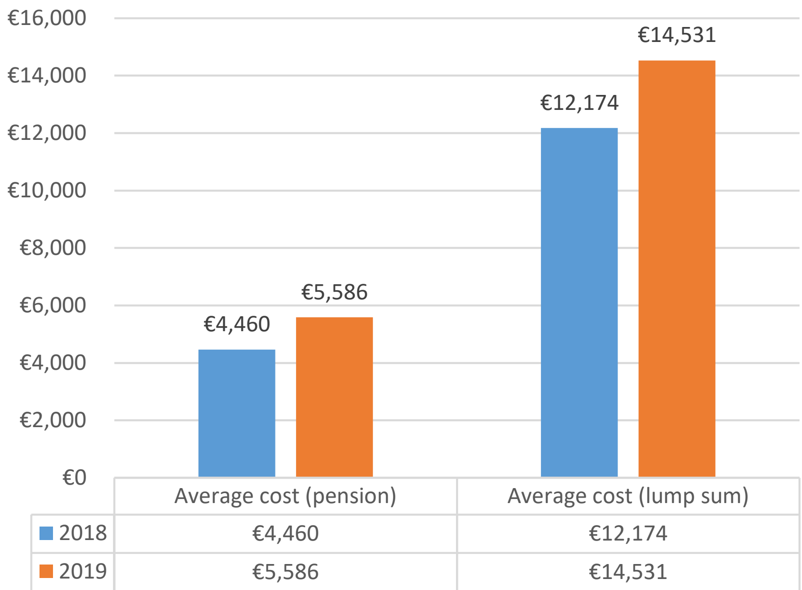
In terms of financial cost, the 57 awards from 2018 cost a total of approximately €0.9m; €0.3min additional annual retirement payments and €0.7m in additions to once-off gratuity/ lump sum payments. This is presented below in Fig. 9.

Fig. 9: PAYs awards in Local Authorities - total costs



The average cost of the 2018 PAYs awards to personnel in local authorities was €4,460 in additional retirement pension payments and €12,174 in additions to lump sums. This is illustrated in Fig. 10. While capital costings are not available at present for the 57 PAYs awards granted by local authorities in 2018, extrapolated over a twenty-seven year retirement period,[37] the pension aspect of these awards equate to €120,424 per recipient (undiscounted)

Fig. 10: PAY awards in Local Authorities – average costs



[37] This assumes that the cohort involved are Pre-1995 pension scheme members with an estimated average retirement age of 63 years. For retirements at age 63, the capitalisation factor which the Office of the Revenue Commissioners use for capitalising pension benefits, for the purposes of the Standard Fund Threshold, is 27.

7. Conclusion

7.1 Continued Relevance

PAY awards are generous and difficult to justify in the current broader pensions policy and sustainability context. PAYs relates to a period when public service annual pensions were paid over shorter retirement periods. The reasons for this include:

- PAY are awarded mainly to a small cohort of professional, technical, and specialist officers generally on the higher end of public service salary scales;
- Salary and allowances, and not PAYs, are now the main incentive for recruitment and retention;
- Certain PAYs awards are non-transferable and hinder mobility within the public service, e.g. in certain Local Government, Health, and Education schemes the individual receives no award if they leave before the age of 60;
- The increased maximum retirement age (70) creates additional opportunity for civil and public servants to acquire 40 years of pensionable service; negating a central justification for awarding PAY; and
- PAYs dates from a time when life expectancy was significantly shorter and PAY costs will now be incurred for longer periods than originally envisaged (PAYs could remain a facet of the public service pensions bill for a significant period);

7.2 Access to Data /Transparency

PAYs data was sought from NSSO and a number of government departments. Apart from the Department of Housing, Planning & Local Government, there was a significant lack of readily available data. PAY data is not being captured in existing systems and manual extractions were required to access much of the data presented in this review.

Assessing eligibility for PAYs awards is not always straightforward. In some cases the relevant competition records or the number of years' experience are not comprehensively maintained.

Processing PAYs applications is also complex, involving calculations of both Gross Awards (at any time) and Net Awards (at the time of retirement) on each case.

7.3 Costs

There is a lack of transparency regarding the ongoing financial cost of PAY, with only local authorities collecting this data. It is difficult to accurately evaluate the total cost implication for the State from PAY without aggregate cost data.

While the annual cash cost of PAY may be low, a small number of added years can have significant capital cost implications over the life of a pension.

8. Recommendations

Recommendation 1

There should be no circumstances under which additional grades or roles would be added into older schemes, such as the Revised Scheme.

Recommendation 2

Oversight measures should be introduced to promote better accountability and governance in this area, such as:

- Enhanced recording and retention systems for PAY data across the public service, particularly regarding average awards, annual financial cost, and capital costs;

- A periodic assessment of the long terms costs of PAY.

Appendix 1: Civil and Public Service PAYs Schemes

1. Civil Service PAYs Schemes

	PAY Scheme	Relevant Circular	Applicable dates
1.	Revised Old Scheme	Circular 12/1997: *Revised schemes for the award of professional, technical and specialist added years to certain civil servants*	Serving in a professional, technical or specialist post between 1 January 1993 and 31 March 1997[38]
2.	New Scheme	Circular 12/1997: *Revised schemes for the award of professional, technical and specialist added years to certain civil servants*	Appointed to an established professional, technical or specialist post on or after 1 April 1997
3.	New Entrant Scheme (NB: Public Service wide application)	Circular 8/2005: *New Scheme for the award of professional, technical and specialist added years to certain new entrant staff of the civil and public service*	Recruited as a 'New Entrant'[39] to an established professional, technical or specialist post by competition advertised on or after 1 April 2005

[38] Persons appointed pre-1993 were previously covered by the 'Old Scheme' (Circular 11/85), however, this older scheme was subsumed into the Revised Old Scheme (Circular 12/97 at Appendix 2) and is no longer in use.

[39] 'New Entrant' as defined in Section 2 of the Public Service Superannuation (Miscellaneous Provisions) Act 2004.

2. Public Service PAYs schemes

Department	PAY Schemes	Minister for PER input
Education and Skills	11 (e.g.) University of Dublin Trinity College (Closed) Pension Scheme 2009 (S.I. No. 493 of 2009) National University of Ireland, Maynooth (Closed) Pension Scheme 2009 (S.I. No. 494 of 2009) University College Dublin, National University of Ireland, Dublin (Closed) Pension Scheme 2010 (S.I. No. 96 of 2010) University College Cork - National University of Ireland, Cork (Closed) Pension Scheme 2010 (S.I. No. 97 of 2010) National University of Ireland, Galway Ollscoil na hÉireann, Gaillimh (Closed) Pension Scheme 2010 (S.I. No. 98 of 2010)	Joint-approval of awards in respect of the five universities[40]
Housing, Planning & Local Government	6	NA[41]
Health	2	NA

[40] The five universities are NUIG, NUIM, TCD, UCC, and UCD.

[41] Where there is an overall policy question that requires central input (e.g. increase in retirement age) or where a WRC/court case may have implications on schemes in general (e.g. fixed term works and PAY), the matter is raised with DPER.

3. State Sponsored Body schemes

	PAY Scheme	Relevant Circular	Applicable dates
1.	Original Scheme	*Scheme for the Grant of "Professional Added Years" for Superannuation Purposes to Staff of State-Sponsored Bodies"* of 1988	
2.	Revised Scheme	*Revised Scheme for the Award of Professional, Technical and Specialist Added Years to certain Staff in State-Sponsored Bodies* of 19 November 2004	
3.	New Entrant Scheme	Circular 8/2005: *New Scheme for the award of professional, technical and specialist added years to certain new entrant staff of the civil and public service*	Recruited as a 'New Entrant'[42] to an established professional, technical or specialist post by competition advertised on or after 1 April 2005

[42] 'New Entrant' as defined in Section 2 of the Public Service Superannuation (Miscellaneous Provisions) Act 2004.

Appendix 2: Historical development of PAYs

1. Nineteenth century origin

PAYs were introduced in Ireland in the nineteenth century by local authorities as a recruitment and retention incentive for professional, technical, and specialist staff, such as doctors, architects, engineers, and lawyers.[43] The practice at that time was to designate all professional grades as eligible for a PAYs award of one-third of the officer's pensionable service.[44] This remains the general practice in those sectors.

2. The introduction of PAYs more widely for Civil Servants

In terms of civil service PAYs schemes, the *Superannuation and Pensions Act, 1963*, made available, in limited form, grants of PAYs for those appointed to certain professional grades. Awards of added years were made under the Act of 1963 at the discretion of the Minister for Finance.[45] It was intended that this arrangement would be repealed and replaced with a more comprehensive scheme, available for more than just specific competitions for certain designated grades.[46]

3. Civil Service PAYs schemes

The resulting scheme (the Original Ad hoc Scheme) was set out in Circular 11/85.[47] This arose from an *ad-hoc* arbitration finding of the Civil Service Arbitrator following discussions between Management and the Unions. This scheme was updated in 1997 (the Revised Scheme)[48] and again in 2005 (the New Entrant Scheme),[49] with the net effect of reducing the levels of awards available for more recent appointees.

4. The New Entrant Scheme of 2005

The New Entrant Scheme of 2005 (Circular 8/2005) is particularly significant. It was the first public service-wide scheme and introduced consistency of approach for all 'New Entrants'[50] appointed after 1 April 2005. While PAYs are not transferrable under either the public Sector Transfer Network or the Local Government Transfer Network, the New Entrant Scheme gave employing organisations the discretion to make an award equal to that which

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[43] Commission on Public Service Pensions (2000); *Final Report*, at para. 22.3.3. Local authorities and the then health boards traditionally operated their own PAY schemes, under the aegis of the relevant Minister.
[44] Ibid, subject to a maximum of ten years, provided that the award did not bring total pensionable service over the 40 year maximum threshold.
[45] Section 6 of the *Superannuation and Pensions Act, 1963.*
[46] Section 11 of the *Superannuation and Pensions Act, 1976*, was to repeal the provision. However, a commencement order was never progressed.
[47] *Ad Hoc Added Years Scheme* (Circular 11/1985).
[48] *Revised Scheme* and the *New Scheme* (Circular 12/97).
[49] *New Entrant Scheme* (Circular 8/2005).
[50] 'New Entrant' as defined in Section 2 of the *Public Service Superannuation (miscellaneous Provisions) Act, 2004*: a person who is not serving in a public service body, or a body to which Schedule 1 relates, on 31 March 2004 but becomes a public servant on or after 1 April 2004.

would have been made had an officer remained in a PAY attracting post in a previous organisation.[51]

It severed the link between PAYs awards and an inability to accrue 40 year of service by the 'maximum retirement' age of 65. This is because New Entrants to the public service between 1 April 2004 and 31 December 2012 do not have a maximum retirement age. The New Entrant Scheme also reduced maximum PAYs awards from 10 to 5 years.

5. PAYs schemes across the Public Service

A range of other PAYs schemes also operate across the public service, under the responsibility of the relevant Minister of the line department. As indicated above, PAYs are not available to members of the Single Scheme, irrespective of the sector in which they work.

[51] Paragraph 18 of the *New Entrant Scheme* (Circular 8/2005).

Appendix 3: The main considerations when assessing PAYs applications

1. 'Gross Awards' and 'Net Awards'

Confirming PAYs awards is a two-step process. A 'Gross Award' of PAYs can be requested by an officer through her/ his local human resources unit at any time during their public service career. However, the final 'Net Award' of PAYs can only be confirmed at the time of retirement. Gross Awards can be substantially reduced once abatement is taken into account and at times no award remains when the Net Award is finally calculated.

Processing PAYs applications can be a complex exercise requiring significant human resource inputs, calculations, and careful consideration of relevant factors, such as legal and actuarial requirements.

2. Abatement of awards

Through the abatement process, Gross Awards are reduced according to scheme rules in order to avoid any double benefit accruing in respect of:

- Previous service with the body;
- Transferred/ transferable service;
- Retained benefits;
- Special Leave (career breaks, unpaid leave, work-sharing);
- Retirement/ resignation before age 60.

In terms of civil service PAYS awards, when Gross Awards are confirmed, officers are informed not to make decisions affecting their pension based on that Gross Award.

3. 'One-third of service' vs 'Q + E' calculations

The original practice was to award PAY based on one-third of the officer's pensionable service, subject to certain conditions. Such arrangements allowed for up to 10 added years. This meant that officers with 30 years of actual service would accrue the maximum pensionable service of 40 years. This continues to be the methodology of schemes in local authorities, the Health Service Executive, and the education sector.

Civil service PAYs schemes, and more recent schemes across the public service, adopt a different approach. Under these schemes, PAYs are awarded to officers in relevant posts as a form of compensation for the time they invested in accumulating the pre-recruitment qualifications (Q) and professional experience (E) required for their appointment. If this time period precluded the appointees from accruing a full pension by the then maximum retirement age of 65, based on 40 years of service, added notional years of pensionable service may be granted under the various PAYs schemes in operation.[52]

[52] Calculating the value of such PAY awards is based on formulae and guidance set out in the relevant scheme rules. See further the Circulars discussed in section X.

PAYs schemes providing ‘one-third of service’ are considered to be more generous that ‘Q + E’ based schemes. A list of the professional, technical, and specialist grades in the civil service, local authorities, and the education sector which are eligible for PAY is set out in Appendix 4. A comparison between PAYs awards based on ‘one-third of service’ and those based on ‘Q + E’ calculations is set out in Appendix 5.

Appendix 4: Eligible Professional, Technical, and Specialist grades in the civil and public service

Civil service	Department of Housing, Planning and Local Government	Department of Education and Skills	Department of Health
• Accountant • Assistant Park Superintendent • Assistant Solicitor • Assistant State Solicitor • Deputy State Pathologist • Development Specialist • Driver Tester • Engineer Grade II • Engineering Inspector (Roads) • Forth Legal Assistant • Local Government Auditor • Senior Engineering Draughtsperson • Ship Surveyor • State Solicitor • Veterinary Research Officer	• Architect • Assistance Chief Fire Officer • Building Inspectors • Chief Executive Officer • Chief Fire Officer • Clerk of Works • County Engineer • Engineer • Financial Accountant • Senior Executive Engineer • Senior Fire Officer	• Academic Secretary • Academic staff • Administrative staff • Associate Professor • Associate Secretary • Cleaners • Demonstrators • Junior Lecturer • Laboratory Staff • Lecturer • Librarian • Library staff • Maintenance and Grounds staff • Porters • President • Professor • Secretary-Bursar • Senior Catering Staff • Supervisory staff • Technical staff	• Analytical Chemists • Area Medical Officers • Biochemists • Community Ophthalmic Physicians • Dental Surgeons • Engineers • Medical Consultants • Medical Officers, County Homes & District Hospitals • Pharmacists • Physicists • Psychologists • Public Analysts • Senior Area Medical Officers • Specialists in Public Health Medicine • Technical Services Officers

Appendix 5: Comparison of PAYs awards - calculation methods

Fact	One-third of service	Q + E
Engineer Entered Service: 1990 Retired: 2020 Period of Service: 30 years Age at retirement: 65	PAYs award is 10 years	**Choice of PAYs Schemes:** **Revised Scheme** Formula is 18 + Q + E – 18 Q = 4 years E = 4 years 18 + 4 + 4 – 18 = 8 PAY award is **<u>8 years</u>** **New Scheme** Formula is 19 + Q + E – 25 Q = 4 years E = 4 years 19 + 4 + 4 – 25 = 2 PAY award is **<u>2 year</u>** As the Revised Scheme has the more generous award, the PAYs award is **8 years.** NB: Awards are subject to abatement on a number of grounds, including: • Previous service with the body; • Transferred/ transferable service; • Retained benefits; • Career breaks/ unpaid leave/ work-sharing; • Retirement/ resignation before age 60.