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agus Athchóirithe
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Expenditure and Reform

Increasing Cost of Public Health Sector Pensions: Impact on the Exchequer

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Summary

By examining the pension bill of the HSE, this paper seeks to address an analytical gap in the literature published by this Department to date. More specifically, the various factors influencing the HSE pension bill will be set out and the implications these factors have on the overall health budget discussed. Moreover, in this paper the following observations will be made:

- **Over the period of 2013 to 2016, an average of just over 3,000 people per annum retired from the HSE each year.**
- **This increase has been offset by a pensioner attrition rate varying from 380 to 1,675 over the last three years.**
- **Between 2013 and 2016 expenditure level on pension costs incurred by the HSE increased year-on-year at an average of €45 million.**
- **Based on HSE estimates the outturn in 2017 will be €181 million, or 26%, higher than the outturn in 2013.**

The Exchequer element of HSE pension costs varies dependant on the income received by the HSE in superannuation and pension levy income. Discussed below, due to technical alterations the income the HSE receives from these sources has been decreasing and will continue to do so going forward. Based on this, if one assumes that the average fall in both lines of income in the period 2013 to 2017 continues out to 2020, it is estimated that the Exchequer contribution will reach €647 million by 2020 compared to just €93 million in 2013.

Table: Estimated pension costs 2017 – 2020 (€ Millions)

	2017	**2018**	**2019**	**2020**
Superannuation	221	212	203	195
Pension Levy	232	211	192	175
Exchequer	426	500	574	647
Total	**879**	**923**	**969**	**1,018**

1. Introduction

Previous work prepared by this Department has looked at the various factors influencing the HSE pay bill and set out the implications these factors would have on the overall health budget (for example see – Callaghan, 2014; Mullins[A], 2015; Mullins[B], 2015; Mullins[c], 2017). However, the ongoing annual cost to the HSE for pension payments made to retired health sector workers was not included in any of this analysis. Pension costs are a significant financial burden on the HSE budget every year. Indeed, in 2016 the organisation spent €818 million on this line of expenditure (HSE Report for Joint Employment Control Monitoring Group, December 2016). To date, no analytical publications have been produced looking at this issue. This paper seeks to address this gap in the literature.

Expanding on this, there are a number of factors that would impact on the cost of pensions for the HSE in a given year. In this paper these factors will be explored in detail and the implications for budget sustainability going forward set out. More specifically, the following issues will be explored:

- An historical look back at HSE retirement numbers over the last five years.
- The annual cost to the HSE of providing pension cover for retired health sector workers.
- The impact of pay agreements on HSE pension costs.
- An overview as to how health worker pension contributions are used to part-fund HSE pension costs.

Arising from this analysis, the paper concludes with a discussion on the potential pension liability of the HSE going forward and the implications this will have on the Exchequer.

2. Number of Retirements per Annum

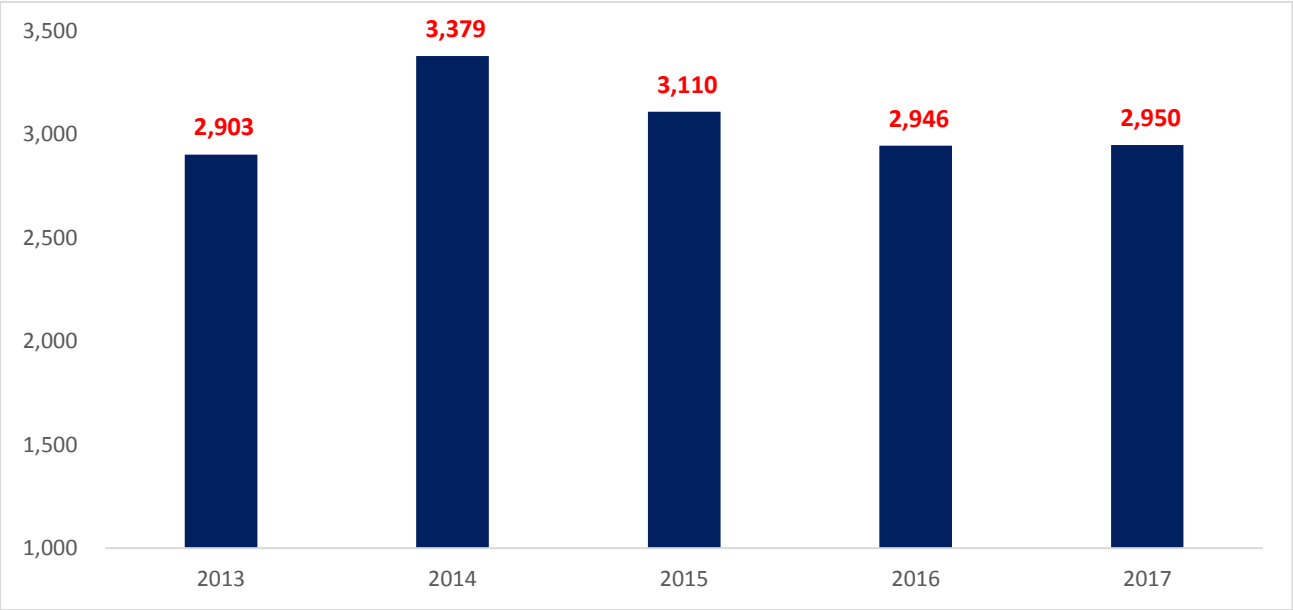
In calculating the expected liability to the State for health sector pension payments in a given year, one must first consider the number of expected claimants. In a given year the number of expected claimants will vary dependent on two factors; the number of retirements in a year and the attrition rate of existing pensioners.

In consideration of the first of these factors, Graph 1 below sets out the annual number of retirements from the health sector from 2013 to 2017. It should be noted that the figure included in 2017 is the estimated number of retirements for this year as calculated by the HSE during budget negotiations last October. From the graph a number of interesting observations can be noted, namely:

- In 2013 the number of retirees from the HSE was 2,903 per annum.
- In 2014, this number increased to 3,379 retirees, 477 above the outturn in 2013. This was the highest level of retirees recorded in the last five years.
- Further to this, the HSE are estimating that the number of health sector retirements in 2017 will be 2,950, which would represent a slight increase on the estimated number of retirements in 2016.
- All told, if the HSE have correctly estimated the outturn for 2017, this would represent a decrease of only 6% on the average annual outturn for 2013 to 2015.

It is clear from the table that the expected number of retirements over the period was around three thousand. Without any further information, it is a fair assumption that this scenario will continue going forward. Against this, it may also be possible that an aging demographic profile of health workers employed by the organisation could see this number rise. However, the HSE does not make this information readily available to this Department. The publishing of this data would greatly enhance the process of estimating pension costs in a given year and it is strongly advised that the HSE makes this data available to officials in this Department.

Graph 1: The number of Retirements from the HSE - 2013 to 2017



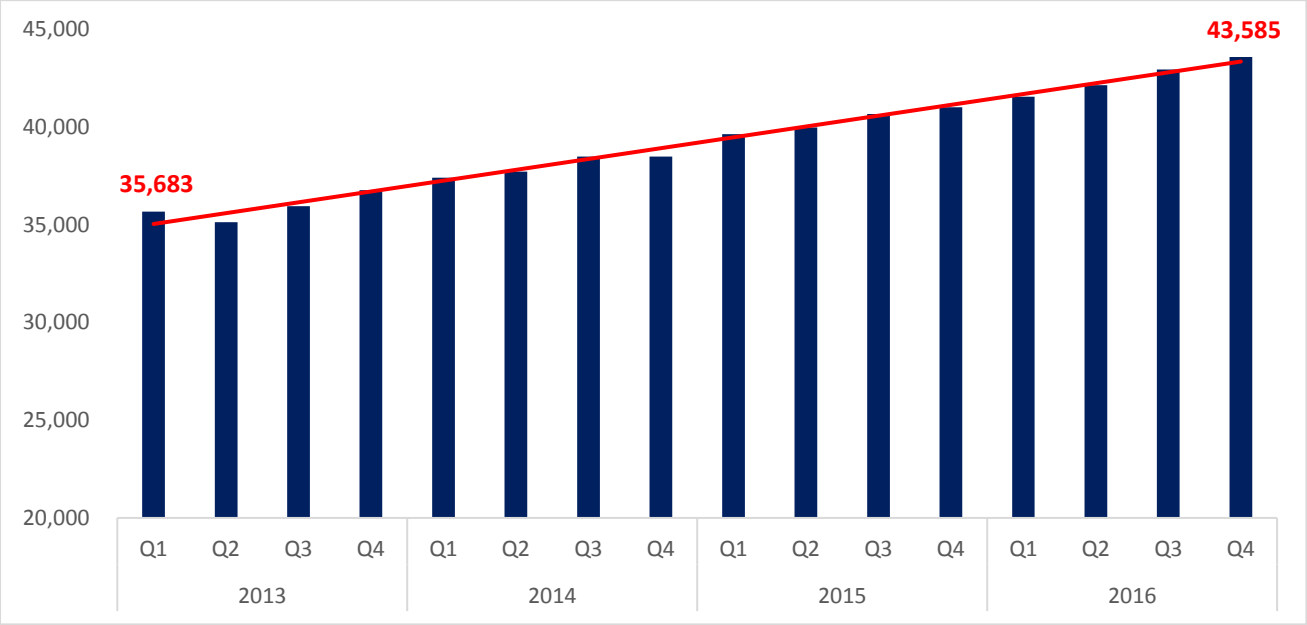
Source: HSE Data *HSE Estimate included for 2016 & 2017*

In addition to the annual retirement numbers, the attrition rate of existing pensioners is also of interest for one trying to ascertain the cost of pensions for the HSE in a given year. Indeed, a high attrition rate in a year could bring down the pension liability to the State significantly and offset the increase. Set out in Graph 2

below is the quarterly number of HSE pensioners from the start of 2013 to the end 2016. As in the case of the annual number of retirements, interesting observations can be noted from this graph, specifically:

- Compared to the start of 2013, the overall number of HSE pensioners at the end of 2016 was 7,902, or 22%, higher.
- As indicated by the trend line in the graph, the overall numbers of HSE pensioners has increased broadly uniformly over the period at an average quarterly rate of 527 additional claimants.
- Furthermore, the graph below enables one to calculate the attrition rate for the years 2014, 2015 and 2016 at 1,675, 578 and 380 respectively.

Graph 2: Quarterly number of HSE Pensioners - 2013 to 2016



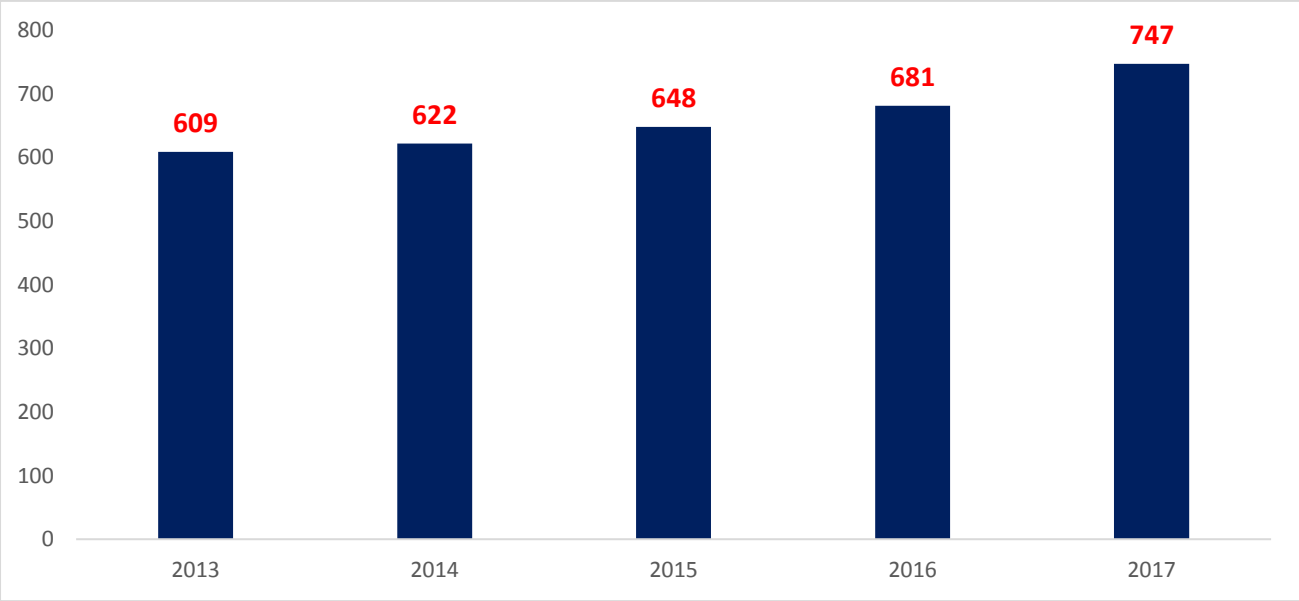
Source: HSE Data

In relation to costs, the degree to which an increased number of retirements would impact on HSE expenditure levels on pensions in a given year would depend on the schedule of retirements over the year. For example, the full annualised cost of a person retiring in November of this year would only partially effect costs this year, with the full year impact only felt in following year. This point is also true with regards to the attrition rate of existing pensioners in any given year. This point will be returned to in section 7 of this paper, which outlines the basis for the estimated pension cost in 2017 and potential factors that will influence the cost of pensions going forward.

3. The Historical Cost of Pensions on the HSE Budget

As noted, to calculate the expected liability of the state for health sector pension payments in a given year, one must first consider the number of expected claimants. Set out above, it has been shown that this figure will vary from one year to the next based on two factors; the number of retirements in a year and the degree to which this number is offset by the attrition rate of existing pensioners. Graph 2 clearly illustrates the rise in the number of pensioners over the last four years. Expanding on this, it is important to understand the impact this increase has had on expenditure levels over the period.

Graph 3: The Annual General Expenditure on Pensions by the HSE (€ Millions)



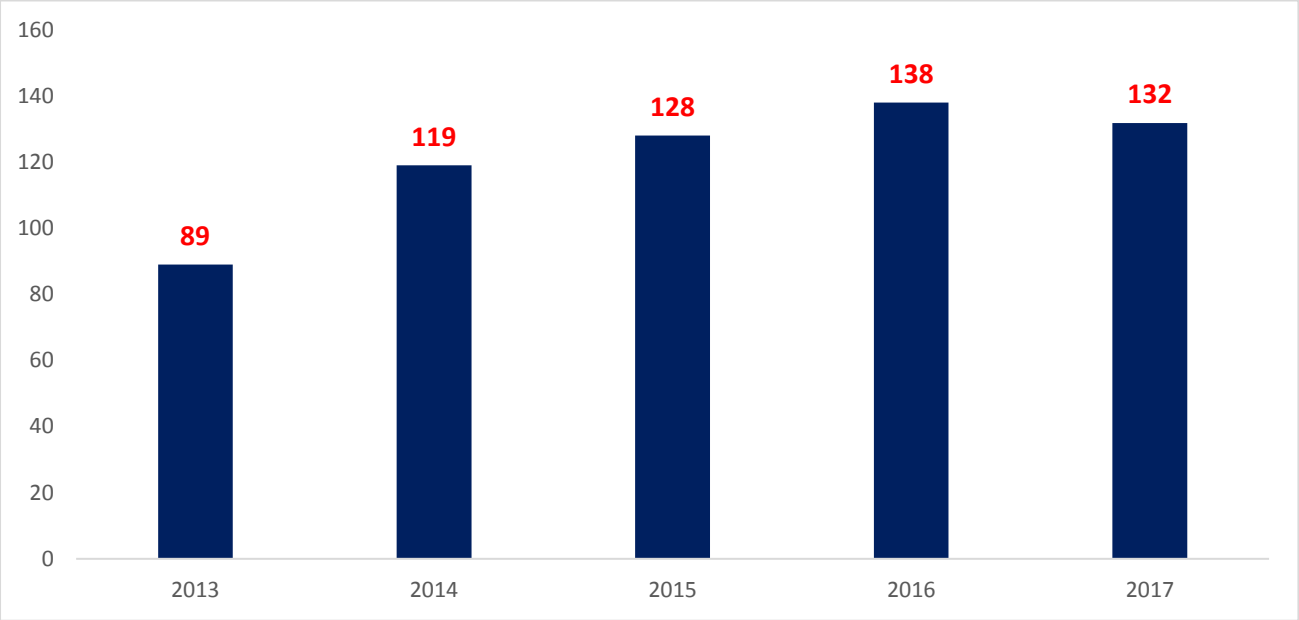
Source: HSE Employment Reports & 2017 Estimate based on HSE Submission to Cabinet Committee on Health

Addressing this issue, Graph 3 above sets out the annual general expenditure figure spent by the HSE from 2013 to 2017 and graph 4 below out the expenditure on lump sum payments over the same period. It should be noted that the figure included for 2017 is the allocation outlined by the HSE at the April Cabinet Committee on Health. From the graph a number of interesting observations can be noted, namely:

- Between 2013 and 2016 the general expenditure level on pension costs incurred by the HSE increased year-on-year at an average of €24 million.
- Between 2013 and 2016 expenditure on Lump Sum costs incurred by the HSE increased year-on-year at an average of €16.3 million.
- In 2017, the allocation for general expenditure is estimated to be €747 million, an increase of €66 million or 9.7% on the outturn in 2016.

- Conversely, in relation to lump sum payments, the allocation in 2017 is €6 million, or 4.3%, lower than the outturn in 2016.
- All told, if the HSE allocations are correct, the outturn in 2017 (both ongoing and lump costs combined) would be €181 million, or 26%, higher than the outturn in 2013.

Graph 4: The Annual Cost of Lump Sum Payments by the HSE (€ Millions)



Source: HSE Employment Reports & 2017 Estimate based on HSE Submission to Cabinet Committee on Health

Based on these graphs, coupled with the information on the number pension claimants per year set out in section one, it is clear that the trajectory of pension costs is clearly rising. As is, pension payments are a significant component of the HSEs annual budget. For example, in 2016 pension payments accounted for 5.6% of overall HSE expenditure (HSE Employment Reports & Campbell & Mullins; 2016), as set out in table 1 below. In 2017, this proportion is estimated to increase to 5.8% as the absolute cost of pensions is estimated to go up by €60 million to €879 million. To be clear, this increase in expenditure levels should be of concern to the HSE as pension cost account for a line of expenditure that have no impact on service provision for patients. Of course, this line of additional expenditure only partially accounts for the spending pressures on the overall health budget. The HSE also has to account for increased costs relating to pay and/or demographic pressures. Therefore, while the pension bill appears manageable in the short term, it is clear to this author that the HSE needs to start considering how it will manage this cost going forward to ensure that it does not impact on outcomes for patients. As noted, section 7 will address the potential future liability in more detail. However, it is first important to understand how the HSE currently pays for pension costs and this issue will be explored in the next two sections of this paper.

Table 1: % Share of Pension Expenditure on Overall HSE Spend (€ Millions)

	2013	2014	2015	2016	2017*
Overall Pension Outturn	698	741	776	819	879
HSE Allocation	13,181	13,355	14,034	14,695	15,102
% Share	5.3%	5.5%	5.5%	5.6%	5.8%

Source: HSE Employment Reports & Campbell & Mullins (2016) **2017 Estimate based on Budget Negotiations*

4. Superannuation Pension Contributions

Expanding on this, the HSE accounts for the pension liability via three different revenue sources; income received via superannuation payments of HSE staff, income received from HSE staff relating to the pension levy and the remaining costs being met by contributions from the exchequer. In practical terms, this means that pension costs are met in the first instance by the first two receipts claimed by the HSE with the balance being paid from an allocation from Central Government.

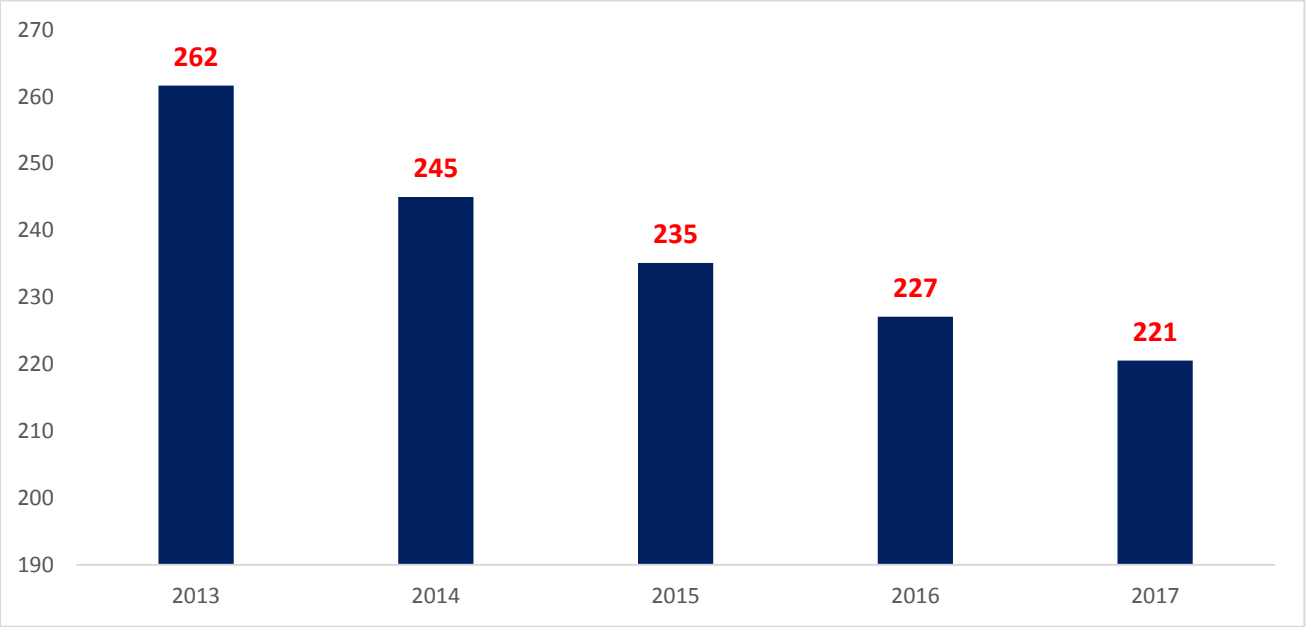
Looking at the first of these issues, the way in which superannuation payments are collected by the HSE has important implications on the balance that is to be paid by the exchequer. Historically, superannuation payments were always retained internally by the HSE as set out in the Health Service Executive National Financial Regulations (2016; 15). However, alterations to this practice were made in 2013 arising from the implementation of the Public Service Pensions (Single Scheme and Other Provisions) Act (2012). As set out in the Act, for all entrants into the system from the first of January 2013 onwards superannuation payments ceased to be retained by the HSE and were instead paid directly to the exchequer.

As noted, this alteration has implications for the balance to be paid by the exchequer. This scenario arise due to the fact that as people retire from the system, the superannuation contributions lost are not replaced by new entrant's payments. Therefore, while previous analysis by this author has highlighted the increase in HSE staff levels since 2013 (Mullins[B], 2015), this increase has no impact on the superannuation revenues directly accrued to the HSE. Indeed, while the Vote are currently of the view that over €27 million single scheme superannuation contributions will be ceded back to the central fund this year, this income will not be ring-fenced to cover the cost of HSE pensions and has no definitive bearing on the allocation provided to health each year during the budgetary process.

One could argue that recent increases in pay rates arising from the Lansdowne Road agreement (2015) and the reinstatement of pay cuts for staff earning over €65,000 set out in the FEMPI 2013 Act would offset some

of the fall in income level for the HSE. However this effect has been minimal. Indeed, Graph 5 below sets out the income received by the HSE from superannuation payments on an annualised basis. From the graph one can note that the superannuation income directly received by the HSE fell from €262 million in 2013 to an estimated €221 million in 2017, this equates to an average yearly fall of €10 million per annum.

Graph 5: Annual Superannuation Income Received by the HSE (€ Millions)



Source: HSE Data

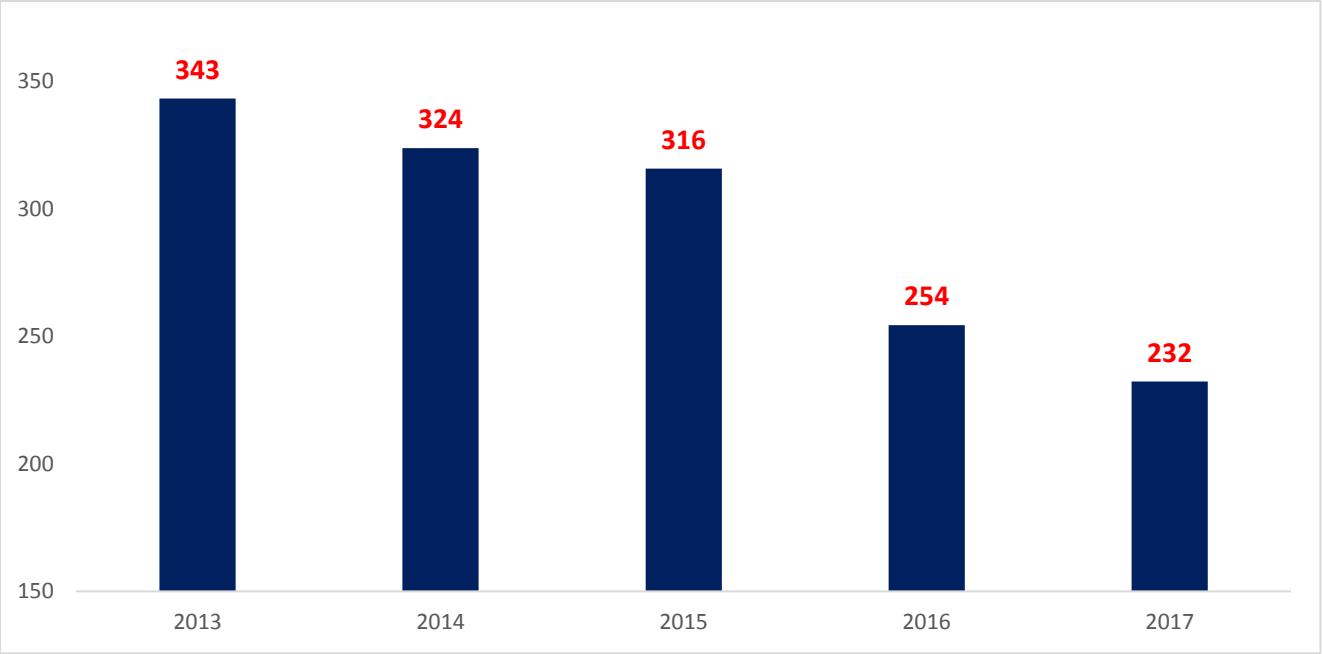
5. Impact of Pay Agreements

Introduced as part of FEMPI (2009) Act 1, the pension levy is a deduction from the remuneration (pay) of pensionable public servants at varying rates dependent on one's income. As noted, in addition to using superannuation income, the HSE also use income received through the pension levy to fund pension payments. In this regard, the HSE differs from other centrally funded organisations. The usual practice pertaining to the pension levy is that income generated through this measure is ceded back to the central fund. However, an agreement was struck with this Department that allowed the HSE to retain this income.

Set out in the FEMPI (2015) agreement amendments have been made to the rates applied. Indeed, this piece of legislation set out that the rate at which ones income was subject in the pension levy was increased from €17,500 to €26,083 in January 2016 and to €28,750 from January 2017. These changes had implications for the HSE as it reduced the amount of income the organisation received from this line of expenditure. Of course, the increase in staff levels in the HSE offset this cost to some degree but the trajectory of overall of income

has fallen. Indeed, one can note from graph 6 below that the expected income in this line of expenditure in 2017 is €111 million, or 32%, lower than the amount received in 2013.

Graph 6: Annual Pension Levy Income Received by the HSE (€ Millions)

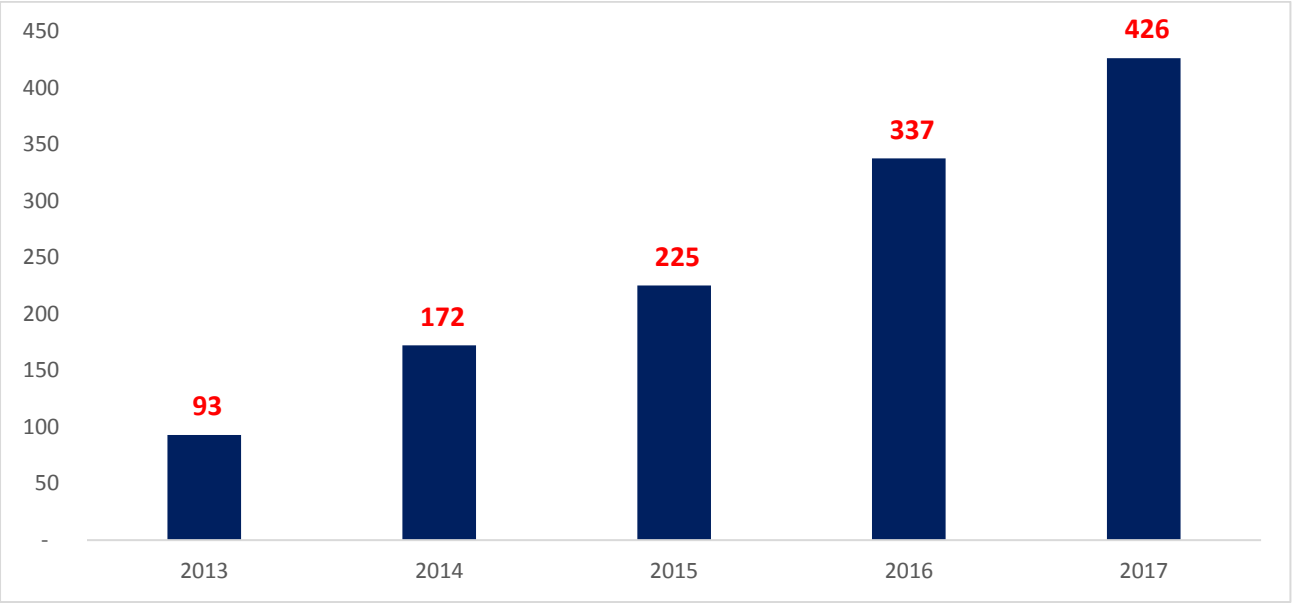


Source: HSE Data

It is clear from the graph, that in spite of recent changes to the threshold at which one is liable to the pension levy, this charge is still an important source of income for the HSE. Indeed, as agreed during budget 2017 negotiations the HSE have estimated this income to be €232 million in 2017. Going forward, if the terms of the FEMPI Act 1 (2009) were revoked, and hence the pension levy abolished, this cost would have to be met directly by the Exchequer. Therefore, it is the view of this author that if the levy were to be removed the fall in income would be a strain on the health budget and could impact the delivery of services.

Indeed as set out in graph 7 below, the contribution made directly by the Exchequer have increased from €93 million in 2013 to an allocation of €426 million in 2017. Furthermore, the share of Exchequer resources being spent on pension's costs as a percentage of the overall pension bill has increased from 13% to 48%.

Graph 7: Annual Contribution from the Exchequer (€ Millions)



Source: HSE Data

6. Calculating the Pension Bill: the 2017 Estimate and Future Costs

Finally, it is important that the potential future liability of pension costs are considered and this issue is addressed in this section of the paper. More precisely, the amount allocated by the HSE to cover the cost of pensions in 2017 is discussed and the different moving components used to estimate this allocation are outlined. Furthermore, based on the average annual percentage change in pension costs since 2013, an estimate of potential liability on the HSE budget out to 2020 is outlined. Lastly, as set out in section four and five above, alterations as to how pension contributions are collected by the State and/or HSE will impact on the ultimate liability to the Exchequer. The cost implications of this issue out to 2020 will also be addressed.

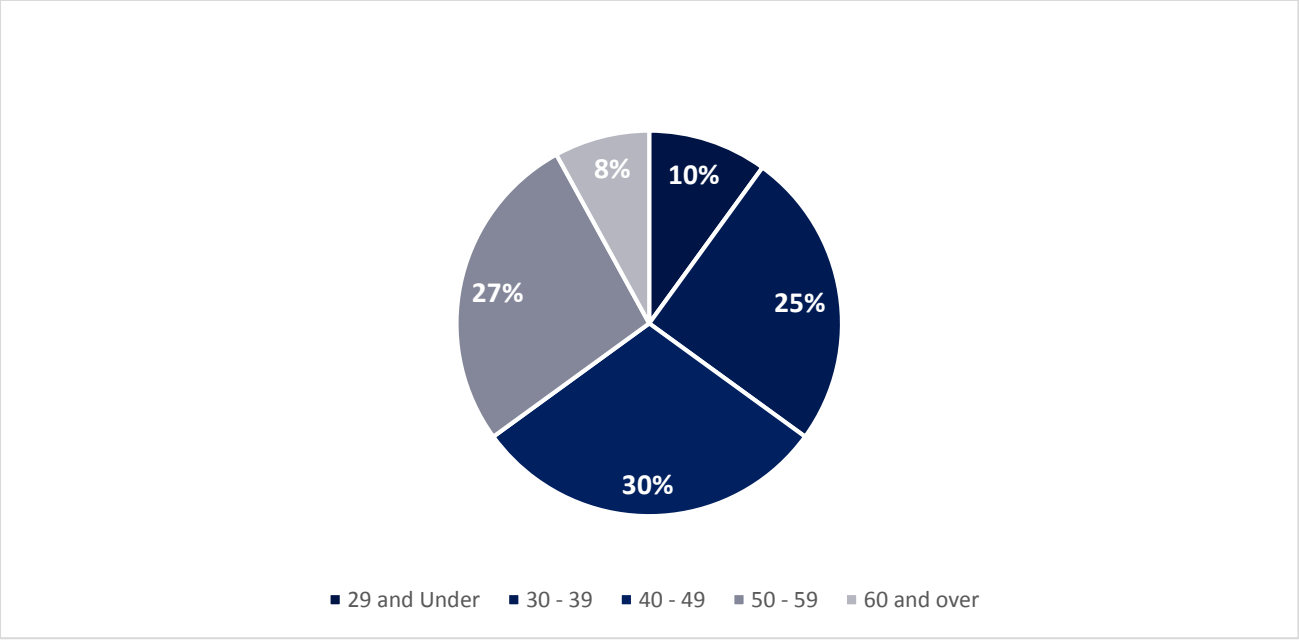
Looking at the first of these issues, the required allocation for 2017 was calculated based on a number of estimated factors that influence the overall cost of pension to the HSE every year. With regard to this, the HSE have assumed that there will be 2,950 retirees throughout 2017. Further to this, as discussed the cost of these retirees will be partially offset by the attrition rate during the year. Accounting for these factors, the HSE have assumed that the average pension for the retirees in 2017 will be €13,600 for somebody retiring from the statutory sector and €11,300 for a retiree on the voluntary side. In addition, statutory lump sums are estimated to average €42,500 and voluntary lump sums €47,500. Using these factors and assuming that people retired evenly across all twelve months of 2017, the HSE have estimated a full year cost of €879 million. As set out in sections 4 and 5 above, the amount to be paid by the Exchequer will vary dependant on the income received in 2017 by the HSE in superannuation and pension levy income.

Table 2: Estimated breakdown of funding provided to cover HSE pension bill in 2017

Source	€ Millions
Superannuation Income	221
Pension Levy Income	232
Exchequer Contribution	426
Total	**879**

Looking forward, to enable the HSE to manage expenditure in a sustainable manner, it is important to gain an understanding of the potential pension liability the organisation will need to fund over the coming years. Ideally, this is an exercise that would be carried out in tandem with all of the relevant stakeholders during budget process to enable multi-annual estimates. As noted, beyond the rate of pay, the two main drivers of pension costs in a given year are the number of retirements and the attrition rate of existing pensioners. As discussed, these are metrics that the HSE can estimate with some degree of certainty. For example, the table below highlights that 8% of health employees are over the age of 60, with a further 27% between 50 and 59. Examining this cohort of staff in greater detail would allow the HSE to predict the retirement rate in the medium term. In light of this, it is the view of this author this process should begin as soon as possible to ensure that all stakeholders are agreeable of the potential pension liability.

Graph 8: Breakdown of HSE staff by age cohort (WTEs)



Source: DPER submission to the Pay Commission (February 2017)

While such an exercise is beyond the scope of this paper, it is important to gain an understanding of the potential cost going forward. With regard to this, the example outlined below offers an indicative estimate of these potential costs. Over the period 2013 to 2017, the pension liability increased by an average of 5.9% per annum. Assuming this trend continues out to 2020, one can estimate the full year liability in that year to be €1,018 million, as set out in table 3 below.

Table 3: Estimated pension costs 2017 – 2020 (€ Millions)

	2017	2018	2019	2020
Superannuation Income	221	212	203	195
Pension Levy Income	232	211	192	175
Exchequer Contribution	426	500	574	647
Total	**879**	**923**	**969**	**1,018**

As set out in sections 4 and 5 above, the amount to be paid by the Exchequer will vary dependant on the income received in 2017 by the HSE in superannuation and pension levy income. As discussed, due to technical reasons the income the HSE receives from these sources has been decreasing and will continue to do so over the coming years. Estimating the degree to which these lines of income will fall from one year to the next is hard to calculate. Looking forward to 2020, this will depend on the outcome of the pending pay negotiations and the number of retirements over the period. The financial implications of these issues are hard to quantify. Therefore, it has been assumed that the average fall in both lines of income in the period 2013 to 2017 will continue out to 2020 and this has been reflected in the table above. From the table one can clearly note that the contribution of the Exchequer is estimated to increase significantly out to 2020 to €647 million. Furthermore, the share of the Exchequer contributions in 2020 is estimated to be 64% compared to 13% in 2013.

Set out in the Programme for Partnership Government (2016), the Government has committed to increasing the Exchequers overall contribution to health funding by 3% per annum. This commitment is inclusive of both current and capital expenditure combined. The allocation for capital spending is set out in the Capital Plan (2015) and will increase from €454 million in 2017 to €570 million in 2020. Assuming the Government sticks to the committed increase in overall expenditure, the outlay provided by the state will increase to nearly €16 billion, as set out in the table below. Further to this, it has also been shown that the exchequer spending on pensions is estimated to increase to €647 million in 2017 from €426 million. Based on these estimates the percentage of current expenditure accounted for by pensions is estimated to increase to 4.2% in 2020 from 3% in 2017.

Table 4: Estimated Exchequer contributions to the healthcare system 2017 – 2020 (€ Millions)

	2017	2018	2019	2020
Current	14,152	14,571	14,946	15,390
Capital	454	473	550	570
Total	**14,606**	**15,044**	**15,496**	**15,960**
Exchequer spend on Pensions	426	500	574	647
% of Current Spend	3.0%	3.4%	3.8%	4.2%

7. Concluding Discussion

As set out in the introduction, this paper sought to address an analytical gap in the literature published by this Department to date. More specifically, the various factors influencing the HSE pension bill have been set out and the implications these factors have on the overall health budget discussed.

As noted in section 2 of the paper, the number of State funded health sector pensioners has increased every quarter since the start of 2013. The eligible number of claimants in a given year is determined by two factors, the number of retirements in a year and the attrition rate of existing pensioners. This analysis has clearly set out that over that the last five years the number of retirements per year has far exceeded the attrition rate and it is predicted that this trend will continue in the short to medium term. Clearly an increasing number of claimants has implications on the annual rate of expenditure. Indeed, as set out in section 3 of the paper, if the HSE allocations for ongoing and lump sum pension costs are correct, the overall outturn in 2017 would be €181 million, or 26%, higher than the outturn in 2013. Looking at the impact of this increase on the HSE budget, it has been set out in this paper that annual pension costs as a percentage share of overall HSE expenditure is estimated to increase marginally from 5.3% in 2013 to a predicted 5.8% in 2017.

This increase as a percentage share of overall HSE expenditure is not overly concerning. However, to fully understand the impact on the health budget of pension costs, one must give consideration as to how HSE funds the pension liability. As set out in sections 4 and 5 of this paper, this line of expenditure is funded via three separate sources; income received via superannuation payments of HSE staff, income received from HSE staff relating to the Pension levy and the remaining costs being met by contributions from the exchequer. As discussed above, the income the HSE receives from the first two sources of income are falling each year due to technical adjustments to the collection of superannuation payments of all health workers employed after

2013 and falling levels of income being received by the HSE from the Pension Levy due to alterations to FEMPI legislation. The implication of these amendments is that the element of the costs covered by the Exchequer has increased significantly and will continue to do so going forward.

Finally, the paper concluded by considering the potential future liability of pension costs. More precisely, the amount allocated by the HSE to cover the cost of pensions in 2017 was discussed and the different moving components used to estimate this allocation were outlined. Further to this, based on the average annual percentage change in pension costs since 2013, an estimate of potential liability on the HSE budget over the next three years was outlined and it was estimated that pension costs could reach €1,018 million by 2020. Consideration was also given to how alterations in the way pension contributions are collected by the State and/or HSE impacts on the ultimate liability to the Exchequer, as set out in sections four and five of the paper. Based on the assumption that the average fall in both superannuation and pension levy income received directly by the HSE in the period 2013 to 2017 continues out to 2020, it was estimated that the cost to the Exchequer of health sector pensions would increase to €647 million in three years' time.

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