



*To: Institutes of Technology,
Tipperary Institute,
Vocational Education Committees*

CIRCULAR LETTER PEN 15/05

Public Service Pension Reform: Revised rate of compound interest for use in the calculation of refunds to the Exchequer

1. The Minister for Finance has announced a reduction in the rate of compound interest to be applied in the calculation of refunds of marriage gratuity, payment of outstanding employee contributions, and recovery of financial loss to the Exchequer. The reduced rate will apply to refunds which are in respect of periods on or after 14 November 2000.

Background

2. The Commission on Public Service Pensions, as part of its terms of reference, had regard to claims for improvements in existing pension scheme benefits, including claims for review of the rate of compound interest to be charged for refunds.
3. Following consideration of the issue, the Commission recommended the reduction of the rate to 4% per annum and that the rate should be reviewed as a matter of course.
4. In *Budget 2004*, the Minister for Finance announced that the Government had decided to implement the bulk of the recommendations of the Commission on Public Service Pensions. Discussions were held with the Staff Side on the rate of compound interest and other issues. The Minister announced the introduction of the measure on 14 September 2004 following Government approval.

Scope

5. This Circular applies to all refunds where
 - (a) a rate of compound interest currently applies in calculating the amount of refund due (including refund of marriage gratuity, payment of outstanding employee contributions and recovery of financial loss to the Exchequer) *and*
 - (b) the refund is in respect of a period or periods on or after 14 November 2000.

Effective Date

6. The effective date for this Circular is 14 November 2000.

Calculation

7. The rate of compound interest to be applied to all relevant refunds which are in respect of periods on or after 14 November 2000 is to be reduced to 4% per annum. The rate of compound interest to be applied to refunds in respect of periods before 14 November 2000 will remain unchanged.
8. In the case of VECs and Institutes, the compound interest rates which now apply are:
 - (a) Up to 13 November 2000 -
 - (i) Where the period of service (in respect of which the repayment or payment is made) was before the 1st day of January 1984 -
7% per annum.
 - (ii) Where the period of service (in respect of which the repayment or payment is made) was on or after the 1st day of January 1984 -
6% per annum.
 - (b) From 14 November 2000 onwards - **4% per annum.**

Note that where a person gave service both before and after 1 January 1984, two rates of compound interest would be applicable up to and including 13 November 2000, ie 7% on service prior to 1 January 1984 + 6% on service from 1 January 1984 to date of resignation.

Some examples are shown in the Appendix to this Circular.

8. Where calculations are revised as a result of the reduced rate, income tax at a rate of 20% should be deducted from any repayments due as a result of the revision.

Circulation

9. This Circular letter should be brought to the notice of all employees.

Enquiries

10. Enquiries regarding this Circular Letter from individual employees should be referred to the employee's own Personnel Section. Enquiries from VECs and Institutes should be addressed to the Department at the address given below.

PENSIONS SECTION (VEC/IOT)
DEPARTMENT OF EDUCATION & SCIENCE
CORNAMADDY, ATHLONE
CO. WESTMEATH

Enquiries by phone should be made to 09064-8367 or 09064-83658 or to 01-8734700: extensions 3657/3658.

John Feeney
Principal Officer
Pensions Unit
20 May 2005

Examples of application of change in Compound Interest Rate

Scenario:

A person resigned from the employment of a Vocational Education Committee on marriage on 1 June 1969 and received a marriage gratuity of £1,087.43 (€1,380.75). The person becomes re-employed by a VEC on 13 June 2002. Assume a date of birth of 4 January 1945. If the person wants to reckon their previous VEC service for superannuation purposes, she will be required to repay the marriage gratuity. The repayment may be made (a) in one lump sum on return to pensionable employment with the VEC, (b) in one lump sum on retirement or (c) on an instalment basis.

Example 1 - One lump sum on return to pensionable employment with the VEC

Interest rates applicable:

1 June 1969 to 13 November 2000:	7% per annum (all service pre 01.01.1984).
14 November 2000 to 13 June 2002:	4% per annum.
Total amount due:	€12,339.64

Example 2 - One lump sum on retirement from the VEC (aged 65)

Interest rates applicable:

1 June 1969 to 13 November 2000:	7% per annum (all service pre 01.01.1984).
14 November 2000 to 4 January 2010:	4% per annum.
Total amount due:	€16,599.78

Example 3 - Periodic payments of €75* a week, commencing on return to VEC.

Interest rates applicable:

1 June 1969 to 13 November 2000:	7% per annum (all service pre 01.01.1984).
14 November 2000 to 20 October 2005:	4% per annum.

Amount owed after compound interest applied on reducing balance

13/6/2002 (when repayment begins)	€12,339.64
12/6/2003	€8,862.48
12/6/2004	€5,172.45
12/6/2005	€1,402.91
Gratuity repaid on 20/10/2005	
Total due: (€75 a week for 175 weeks + €62.56):	€13,187.56

* It is open to employees of VECs and Institutes of Technology to make repayments on an instalment basis (please refer to circular letter S.6/97 of 16 April 1997 from the Department of Environment). However, in the public service generally, some restrictions on repayments by instalment are applied. The Commission on Public Service Pensions recommended that regular periodic payments over a fixed period of up to ten years be accepted. The Department of Finance has indicated that it is the intention to adopt that recommendation and insofar as the Civil Service is concerned it is consulting Salary Sections as to practical feasibility.