



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

CIRCULAR PEN 24/05

**Cost-neutral early retirement:-
Supplementary Note to Circular PEN 05/05**

As you are aware, a new facility for public servants to retire early with immediate payment of actuarially reduced superannuation benefits was recently introduced, in the case of Institutes and VECs, by means of Circular PEN 05/05 (*Public Service Pension Reform: Introduction of cost neutral early retirement*). This note provides information and clarification on various points arising from the Circular, (referred to hereafter as the Main Circular), which have since been raised.

1. **Deductions from lump sum:** Deduction of non-periodic contributions towards the Spouses' and Children's Pension Scheme should be made from the "preserved" lump sum, i.e. the preserved gross lump sum should first be calculated and the unpaid S&CPS contributions should then be deducted from this amount. *The appropriate cost neutral early retirement factor should be applied to the resultant net lump sum.*

The same procedure should be followed in relation to any contributions which the person has opted to pay by reference to pay at retirement or which are not payable except by reference to pay at retirement.

Where it was open to the member to pay the amount of the deduction prior to retirement, and the member has not exercised an option to pay by reference to pay at retirement, the relevant deduction should be made from the actuarially-reduced lump sum. This procedure will apply, for example, where the deduction is in relation to the repayment of a marriage gratuity or a short-service (disablement) gratuity or a repayment of contributions which have been refunded or a payment of outstanding contributions in respect of transferred service

2. **Applicable date for persons who have already resigned:** Public servants who have resigned since 1 April 2004 can apply for cost neutral early retirement (see paragraph 6 of the Main Circular). The calculation of actuarially reduced benefits in such cases should be made by reference to, and effective immediately following, the date of resignation.

3. **Retirement in the twelve months preceding preserved pension age:** This means retirement between ages 59 and 60 years for persons with a preserved pension age of 60 years, and retirement between ages 64 and 65 years for persons with a preserved pension age of 65 years. In such cases, the actuarial reduction factors to be applied should be determined by means of the formula in paragraph 10 of the Main Circular, with "C" (*actuarial reduction factor at next birthday*), set at 100%.

4. **Supplementary pensions/Implications for Social Welfare benefit:** There is no change in the arrangements for payment of supplementary pensions i.e. such pensions are payable to eligible staff on reaching the relevant preserved pension age (60 or 65 years, as appropriate). If the person's pension is subject to co-ordination with social welfare benefits, you should clarify for them the conditions under which a Supplementary Pension may be payable when they reach preserved pension age. Staff should liaise with the Department of Social and Family Affairs to ensure that, where appropriate, social insurance "credits" are recorded. Failure to do so (in the case of full PRSI staff) could have implications for the payment of supplementary pensions.

In this connection, the sample letter to be given to a person availing of cost neutral early retirement – Appendix 2 of the Main Circular refers – has been amended. A copy of the amended sample letter is attached as Appendix 2 of this Circular.

5. **Service decimal:** With the exception of Supplementary Pension, in calculating or updating pension benefits (e.g. to reflect pay increases) the service decimal or pay multiplier to be used is arrived at by *dividing the pension payable (i.e. following application of the relevant cost neutral early retirement factor) by the total reckonable remuneration.*

6. **Calculation of the rate of Supplementary Pension payable:** Supplementary Pension will be related to the preserved pension, not to the actuarially-reduced pension. The maximum rate of Supplementary Pension payable will be the difference between the preserved pension which would be payable without co-ordination and the preserved pension which would be payable with co-ordination. The rate arrived at on the date of retirement will be expressed as a decimal of total reckonable remuneration and increased in line with pay increases occurring between date of retirement and the date, not before the relevant preserved pension age, at which payment of Supplementary Pension actually commences.

7. **Dismissal:** Persons dismissed from service may apply for cost neutral early retirement provided they meet the eligibility criteria set out in paragraphs 5-7 of the Main Circular and should be informed of this fact. However, applications from such persons must be approved by this Department.

8. **Career break:** The case of employees who were on career break on 1 April 2004 and have not since returned to work is dealt with in paragraph 24 of the Main Circular. As stated, these employees may apply for cost-neutral early retirement with effect from the first date following 1 April 2004 on which, in accordance with the terms of the Career Break Scheme, it would have been open to them to return to work. Where such an application is made, it will be on the basis that the employee has resigned on the last day of the career break.

Apart from this special case, it will be open to an employee on career break to avail of cost-neutral early retirement by resigning from his or her post before the expiration of the career break.

Employees on career break who avail of cost neutral early retirement should have their pension *and* lump sum determined by reference to the *uprated pensionable remuneration applying at the time of their resignation.*

9. **Professional Added Years:** Since the Main Circular was issued, an Amended Scheme for the award of added years to staff recruited to professional, technical or specialist posts has been introduced – Circular PEN 23/05 refers. The Amended Scheme may be availed of by staff in service on or after 1 April 1997 (other than new entrants appointed from a competition advertised on or after 1 April 2005).

Unlike the 1985 Scheme, the Amended Scheme makes no provision for the reduction of the gross award because of retirement between age 60 and 65. It also permits the award of added years, reduced on a pro rata basis, where retirement takes place before age 60.

Examples of the operation of cost-neutral early retirement in cases where Professional Added Years have been awarded under the Amended Scheme are given in Appendix 1 attached. These examples are given as a supplement to the Examples given in Appendix 1 of the Main Circular.

10. **General:** A copy of Circular PEN 05/05 should be given to each person who is availing of the cost neutral early retirement facility.

11. **Enquiries:** Personal enquiries from individual employees should be referred to the employee's own Personnel Section. Enquiries by Institutes or VECs 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 09064-83657 or 090964-83658 or to 01-8734700: extensions 3657 or 3658.

John Feeney
Principal Officer
Pensions Unit
18 August 2005

Examples of Cost Neutral Early Retirement
relating to the
Amended (effective from 1997) Professional Added Years Scheme

The following Examples supplement the Examples given in the Main Circular, PEN 05/05, and are numbered accordingly.

A: Staff to whom a non-coordinated pension is payable

EXAMPLE 4a: Professional Added Years – Amended Scheme

A person who is eligible for an award under the Amended Professional Added Years Scheme and who is entitled to a potential award of 5 years under that Scheme, retires on his/her birthday.

Final Annual Salary: €70,000 Age: 55 Reckonable Service: 25 years plus 4.1667 added years (*)

Superannuation Benefits

*If opting to preserve benefits
Due at age 60 (i.e. in 5 years' time)*

*If availing of cost neutral early retirement
Due now*

Lump sum:	€76,563	€69,443 (applying reduction factor of 90.7%)
Annual pension:	€25,521	€19,855 (applying reduction factor of 77.8%)

(*) 5 added years available on retirement at or after age 60 reduced (under the Amended Professional Added Years Scheme) to 4.1667 years because retirement has taken place on the person's 55th birthday, ($5 \times 25/30 = 4.1667$).

B: Staff to whom a co-ordinated pension is payable

EXAMPLE 10a: Professional Added Years – Amended Scheme

A person, other than a new entrant, who is eligible for an award under the Amended Professional Added Years Scheme and who is entitled to a potential award of 5 years under that Scheme, retires on his/her birthday.

Final Annual Salary: €70,000 Age: 55 Reckonable Service: 25 years plus 4.1667 added years (*)

Superannuation Benefits

*If opting to preserve benefits
Due at age 60 (i.e. in 5 years' time)*

*If availing of cost neutral early retirement
Due now*

Lump sum:	€76,563	€69,443 (applying reduction factor of 90.7%)
Annual pension:	€18,699	€14,548 (applying reduction factor of 77.8%)

(*) 5 added years available on retirement at or after age 60 reduced (under the Amended Professional Added Years Scheme) to 4.1667 years because retirement has taken place on the person's 55th birthday, ($5 \times 25/30 = 4.1667$).

EXAMPLE 10b: Professional Added Years – Amended Scheme

A new entrant who is eligible for an award under the Amended Professional Added Years Scheme, (being a new entrant appointed from a competition advertised before 1 April 2005), and who is entitled to a potential award of 5 years under that Scheme, retires on his/her birthday. (As a new entrant, the person in question has a preserved pension age of 65.)

Final Annual Salary: €70,000 Age: 62 Reckonable Service: 25 years plus 5 added years (*)

Superannuation Benefits

If opting to preserve benefits

Due at age 65 (i.e. in 3 years' time)

If availing of cost neutral early retirement

Due now

Lump sum: €78,750

€74,261 (applying reduction factor of 94.3%)

Annual pension: €19,233

€16,079 (applying reduction factor of 83.6%)

(*) The potential award of 5 added years is confirmed, in accordance with the Amended Professional Added Years Scheme, because retirement has taken place at or after age 60.

Sample letter to be given to a person availing of cost neutral early retirement

Dear Mr/Ms ...,

You will retire from (*VEC/Institute, insert name*) on, aged ... years and ... days and with pensionable service of ... years and ... days.

Your retirement will take place earlier than the standard preserved pension age, which in your case is [*60 or 65, insert as appropriate*] years. This reflects the fact that you have applied to avail of, and have been accepted for inclusion in, the public service cost neutral early retirement scheme, whose terms are set out in Circular PEN 05/05 of the Department of Education and Science, a copy of which has been given to you. This means that, on retirement, you will receive immediate payment of lump sum and pension, both of which will be actuarially reduced.

If, on reaching preserved pension age, you consider that you may be entitled to a supplementary pension, then you should contact(*VEC/Institute, insert name*) at that time.

You understand and accept that your inclusion in the cost neutral early retirement scheme means that all of the relevant conditions of the scheme, as set out in Circular PEN 05/05 of the Department of Education and Science, apply to your retirement. In particular you accept that:

- The actuarially reduced rate of pension payable to you will apply throughout the lifetime of the pension (subject to normal adjustments in line with public service pensions generally).
- Once you have retired on actuarially reduced superannuation benefits, you cannot subsequently switch to payment of a preserved pension at normal preservation age.
- You have no right of return to work in the public service, other than through normal recruitment/selection procedures.
- The implications for your social welfare benefits are your responsibility (paragraph 18 of Circular PEN 05/05 refers).

I would be grateful if you would confirm your acceptance of these terms by signing and returning this form.

Yours sincerely,

Personnel Officer

I accept the retirement terms as set out above.

Name of Employee (Block Capitals):

Signed:

Date: