

## **Green Paper on Pensions Submission on Behalf of the Association of Retired Commissioned Officers (ARCO)**

### **General**

ARCO welcomes the action taken by the Government in conjunction with the Social Partners, to review the pensions system within the State. In view of the anticipated change in the age profile of the population which will reduce the ratio between those of working age and those over pension age it is prudent to ensure that adequate resources are in place to ensure a satisfactory standard of living for older people. The problem of a changing dependency ratio has been exacerbated by increased competitive pressures on industry which have made private sector employers less willing to fund pension schemes and has placed greater focus on what is seen as the favourable superannuation schemes enjoyed by public sector employees at the expense of the taxpayer. The trend in the private sector towards placing greater responsibility on the employee to make provision for his or her pension has led to demands that public sector employees be similarly required to make contributions from their salaries at a level that reflects the actuarial value of their pension entitlement. ARCO recognises the demographic and economic realities which will inform the discussion on pension policy. We are also aware of that because of the 'parity' principle in public service employment which links pensions to current salaries, future pension arrangements in the public sector will be largely the product of negotiation between staff associations, trade unions and the Government. The level of remuneration paid to members of ARCO is entirely tied to the remuneration of currently serving Defence Forces Officers and will remain so for as long as the 'parity' principle is applied. This submission therefore confines itself to discussion of the suggestions made in the Green Paper which might break or modify the linkage between serving and retired officers.

### **Differentiated Nature of Current Defence Forces Pension Schemes**

There are some salient differences between the Defence Forces pension schemes and those applicable elsewhere in the public service. This reflects the particular needs of a military organisation and specialised nature of military service. The pension entitlements relating to

commissioned officers are not directly pay-related in that pensions are not strictly based on pay at date of retirement, but are flat rates based on rank, service in rank, and overall service.

Pensions have been generally revised in line with movements in the pay of serving personnel.

All benefits are calculated by reference to the number of completed years of qualifying service and are payable immediately on retirement, regardless of age.

The qualifying period for maximum pension of 50% of maximum regimental pay varies according to rank and service, but can be attained long before an officer reaches maximum retirement age. This is in marked contrast to the general run of public service schemes which accrue at a rate of one eightieth per year and benefits are preserved until the employee reaches retirement age. The possibility of qualifying for maximum pension at an early age places a high actuarial value on a Defence Forces pension. However the bulk of officers serve up to their compulsory retirement ages which is earlier than those which apply elsewhere in the public service and reduces the relative career earnings of the Defence Forces officer. Recently applied changes in Defence Forces pension structures show a tendency to bring them in line with main stream public sector schemes. This 'one size fits all' approach might not address the particular conditions of employment which apply to military service.

### **Green Paper Proposals**

The Green Paper gives the assurance that good quality pension arrangements will continue to be a defining quality of public service employment. It goes on to identify the need to continue to the reform of pension structures in the light of demographic trends and budgetary realities. Against that background it suggests certain options to address future challenges. Some of these measures would be difficult to apply to the Defence Forces and damaging to the interests of ARCO members.

### **Raising the Public Service Pension Age**

The possibility of increasing retirement ages for Defence Forces Officers would seem to be limited by the nature of the employment which demands relatively high levels of physical and medical fitness at all ranks. To date there has not been a coherent approach in that the retirement ages for special service officers have been reduced while those for some categories

of line officer have been increased. The standardisation of retirement ages in the context of the narrow pyramid in the senior rank structure in the Defence would have implications for promotion patterns and possibly result in a greater number of officers retiring at lower ranks.

### **Increasing the Rate of Pension Contributions**

Defence Forces Pensions are non-contributory, and the value of the superannuation package has not, up to recently, been taken into account when setting pay levels. However both the Review Body on Higher Remuneration in the Public Sector and the Benchmarking Body, at the request of the Department of Finance, have reduced recommended salary levels by 15% and 12% respectively to take account the difference in value between public sector and private sector pensions . This method of funding pensions means that because of the link between the pay of serving and retired officers, retired officers continue in effect to pay pension contributions. A more equitable system would be a negotiated explicit percentage deduction from pay which would cease on retirement.

### **Modifying the Pay Parity Basis for Post Retirement Increases in Pensions**

The parity principle has already been breached in the case of the Defence Forces. Military Service Allowance even though acknowledged as an integral part of pay is not applied to the pensions in the case of officers who retired before August 1990. This also applies to officers of the rank of Commandant and Lieutenant Colonel who retired before the introduction of Long Service Increments. ARCO regards the continued application of the parity principle as the most important measure for safeguarding the living standards of its members. There is a grave danger that changes in the composition of salaries such as the introduction of performance pay or other bonuses payments could weaken the link between the pay of serving and retired officers of equivalent rank. Other suggestions such as the application of the average public sector salary increase to all public sector pensions would also erode parity.

### **Moving to Calculating Pensions on the Basis of Career Average Earnings**

Commissioned Officers of the Defence Forces tend to reach senior rank for a relatively short period at the latter end of their career. In general line officers serve for between 35 and 40 years and attain the rank at which they retire in the final five to seven years of their career. The probability is that the calculation of pensions on the basis of average career earnings would lead to a considerable reduction in the pensions paid to most retired officers.

### **Conclusion**

Economic and demographic trends have given rise to a widespread debate on the increasing burden of pensions in the private and public sectors. It is unfortunate that much of the discussion has focused on what is perceived as the unwarranted generosity of public sector pensions and the need to bring them in line with more rigorous private sector criteria. The Green Paper sets out financial and social sustainability as the key objective of pension design. As a group pensioners and older people do not wield huge influence and pensions are not an issue with younger people. The line of least resistance for policy makers would be to emphasise financial sustainability at the expense of reducing the living standards of older people. There is a risk of a race to the bottom in which the conditions of those who have adequate pensions would be reduced rather than seeking to improve the situation of those for whom there is inadequate provision. It is essential that policy is framed with the objective of achieving good social outcomes as well as financial sustainability.

The Review Body on Higher Remuneration in the Public Sector and the Benchmarking Body have discounted salaries to comprehend the difference in value between public sector pensions and their private sector equivalents. If this is to become a permanent feature of pay determination, it would be fairer and more transparent to deduct pension contributions from gross salaries.

ARCO regards the continued application of 'parity' in relation to the determining pensions of its members as fundamentally important and would view a departure from it as a threat to the living standards of our members.

