5 August 2016

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

Councillor Ruairí McGinley
Chairperson
Finance Strategic Policy Committee
Finance Department
Civic Offices, Wood Quay
Dublin 8

Re: Pension Liabilities –Dublin City Council ("DCC")

Dear Councillor,

I refer to your letter of 19 July regarding the above.

The future superannuation payments earned by public service staff in DCC represent a significant post-retirement benefit for those employees (current and former staff as well as pensioners who are currently in receipt of a pension). As such, there are significant accrued liabilities in respect of these future pension payments that will require to be funded and will continue to form a material funding demand now and into the future.

Indeed in 2014, on a public service wide basis which included an estimate of the superannuation liabilities of DCC, this Department published revised figures on the accrued liability for public service occupational pensions as at 31 December 2012, which showed that the estimated liability, at €98 billion, had fallen sharply, by some 16% since the previous valuation. At the end of 2009, the Comptroller and Auditor General's Office (C&AG) estimated it as €116 billion.

The above reduction in the accrued liability was due to two factors: the successive pay cuts sustained by public servants since 2009 and the reduction in headcount in the public service. So, as well as having immediate fiscal benefits, these reductions have substantial medium/long term benefits in terms of costs to the Exchequer and public service employer bodies. The results of the accrued liability exercise are sensitive to changes both in policy as well as the assumptions made about future experience. For example, if a future Government were to decide to exercise its prerogative to link future pension increases to price increases rather than pay increases, the liability estimate would have fallen to €82 billion as at 31 December 2012.

Other significant changes introduced include the commencement of the new Single Public Service Pension Scheme, which radically changed the way in which pensions will be paid to public servants appointed from 1 January 2013. That will lead to, a large reduction in future public service occupational pension benefits accruing to newly employed public servants.

Under EU Regulation (EU) 549/2013, the Central Statistics Office (the "CSO") will be required to report on the gross accrued public service pension liabilities of Irish public servants as part of the National Accounts. Reporting is mandatory, commencing with an end 2015 position. Having previously carried

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out the 2012 actuarial valuation of the public service accrued pension liability, the Department of Public Expenditure and Reform has agreed to update this work on behalf of the CSO. The necessary data gathering exercise by this Department is currently underway and I understand that DCC have positively engaged with this process.

The pension liabilities that DCC have accrued are in respect of current and former staff employed by DCC. The existing Pay As You Go system for discharging those liabilities currently applies to DCC and more generally across the public service. I note that DCC is not currently empowered to establish a fund or finance vehicle designed to contribute/meet future pension costs.

However, it is open to question as to whether an approach of providing funded pension provision could be implemented without increasing the overall current funding requirement that occurs under the Pay As You Go system based on the current revenues of DCC. However, that is a matter primarily for DCC to consider and present an appropriate business case to the Department of Housing, Planning, Community and Local Government for consideration in the first instance.

I trust the above information clarifies the issue raised.

Yours sincerely,

Robert Watt

Robert Watt,
Secretary General