

Retirement options for public servants



An Bord Pinsean -
The Pensions Board

Authority for Pensions

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Introduction

This booklet is designed to provide a summary of the options available to civil and public servants* (for ease of reference we will refer to these employees as public servants from here on in) who are considering a 'top up' or enhancement to their pension and/or retirement savings. This booklet is not a recommendation for or against starting the Purchase of Notional Service (PNS) an Additional Voluntary Contribution (AVC) or a Personal Savings Account (PRSA) AVC. It has been written to ensure that public servants are aware of all of their options in relation to enhancing their pension benefits before making a decision which could have a long lasting impact.

Broadly speaking there are three main options open to public servants who want to 'top up' their retirement savings. They can:

- purchase additional service credits under their occupational pension scheme, sometimes known as PNS (also referred to as 'buying back years')
- join a nominated AVC arrangement which provides defined contribution benefits by investment through a financial institution
- take out a PRSA AVC.

The PNS scheme is operated by public service employers (Government Departments, Local Authorities, State Agencies etc) for public service employees including teachers, nurses, Gardaí and civil and public servants. The AVC facility is provided by a financial institution. In order to make a decision on which scheme best suits your needs, you must speak to the providers of both PNS and AVCs to get a full picture of your retirement options.

The booklet will describe the main features of both PNS and AVCs and will give a brief comparison of these options.

It is important to stress that before choosing a particular option you should look at the merits of each scheme. Where possible you should seek independent financial advice before making a decision. There are pros and cons in relation to both options and it is very important that you understand the implications of the choices you face. Because the choice relates to retirement savings, the impact of a decision taken now will not be realised in many cases until well into the future. It is also recommended that you review your pension regularly to ensure your retirement plan is on track.

** A new scheme for all entrants to the public service from 2010 onwards will be introduced. This new scheme will raise the minimum retirement age to 66 and set a maximum retirement age of 70. It is not clear at this point in time if a PNS scheme will be available to these public servants. This booklet is designed for those public servants recruited before 2010.*

Purchase of Notional Service

Retirement benefits for most public servants are provided through a Defined Benefit (DB) pension scheme. Maximum pensionable service in this scheme is normally 40 years. Scheme members can usually retire at 60 or 65, though certain groups of public servants such as teachers, firefighters and Gardaí can retire earlier. The normal retirement age for new entrants to the public service since 2004 is 65, but it should be noted that there is no compulsory retirement age for this group.

Public servants who will have the maximum service allowable at retirement age cannot avail of PNS. So if at normal retirement age you will have 40 years service, you will not be able to avail of PNS.

Public servants who will have less than maximum pensionable service at retirement age can buy notional service to make up for the shortfall in their pension entitlements. So if at your normal retirement age you expect to have 37 years service completed, you can use the PNS to buy the three missing years. The service bought is treated as actual service in calculating pension and lump sum entitlements at retirement. So having bought the missing years your pension will be calculated by reference to 40 years service.

There are two methods of purchasing this service. Payment may be by:

- lump sum payment, or
- periodic deductions from pay.

Periodic contributions begin on the individual's next birthday at any age up to 2 years before the age of 60 or 65 (whichever is your normal retirement age). Purchase rates vary depending on the age at commencement of purchase and contributions are normally allowable against income tax, subject to the Revenue limits on pension contributions. Your employer should be able to make these deductions at source, but you should confirm this with your HR department.

If you opt to buy notional service by periodic deduction you should be aware that if you leave service before age 60 or 65 or stop making the periodic contributions the amount of added years you will have purchased at retirement will be less than the amount you contracted to buy initially. This is a really important point to bear in mind, particularly if you opt for early retirement.

For further information, you should talk to your employer's HR section. More information is available from www.cspensions.gov.ie. This website also has an online pensions modeller which includes information on the purchase of notional service.

Advantages of PNS include:

- you know exactly how your pension benefit will be calculated
- you know what it will cost
- PNS is a defined benefit
- contributions attract tax relief.

Disadvantages include:

- not open to those who will have full service at their normal retirement date
- not open to those who will have total service of less than nine years at their normal retirement date
- if you retire earlier than anticipated, you will not get the full benefit you expected
- no flexibility in where the purchased service is applied, i.e., can't make up shortfall in lump sum only
- cannot turn the investment into an approved retirement fund (ARF).

Additional Voluntary Contributions (AVCs)

AVCs are a defined contribution pension arrangement provided by a financial institution, usually an insurance company. The individual bears the risk in a defined contribution arrangement, as the fund available at retirement age is determined by the combination of your contributions and any investment returns on these contributions.

Any estimate on the size of the fund at retirement age should be treated as just that – an estimate. Investment returns are subject to a number of factors and can rise or fall. So it is important to regularly review the performance of your fund.

The contributions that you make to an AVC are subject to charges, and are invested in unit-linked funds. There is a lot of flexibility in the way that a fund provided by an AVC can be used. The fund at retirement can be:

- taken as a tax free gratuity (subject to Revenue limits)
- taken as a taxable lump sum
- invested in an Approved Retirement Fund (ARF),
- used to buy additional pension (taxable annuity) and or
- used to purchase notional service under the PNS scheme

The policy of the Department of Finance is that there should only be one AVC scheme per union. This is to help minimise administrative costs to the State in relation to the handling of payroll deductions for staff.

The individual can choose the rate at which to contribute to an AVC, subject to a minimum rate set by the AVC provider and the maximum rate determined by Revenue limits. Contributions to AVCs attract tax relief, subject to Revenue limits.

For some who cannot avail of PNS as they will have full service at retirement they may be able to opt for an AVC to increase their retirement benefits (subject to Revenue limits).

Advantages include:

- flexibility – you can stop/start contributions
- you have control over where fund is used (subject to Revenue limits) i.e., can fund to maximise the tax free lump sum only
- contributions attract tax relief
- you have the option to invest in an ARF
- you can use fund to avail of PNS
- you can help to fund early retirement.

Disadvantages include:

- AVCs are a defined contribution arrangement so the individual bears the risk
- AVC contributions are subject to fees and charges
- you won't know what the fund will be until retirement.

For further information in relation to the AVC option, you should contact your trade union.

PRSA as an AVC

Civil and public service employees in an occupational pension scheme or a statutory scheme may make AVCs to a PRSA. It is important to note that there is no obligation on the employer to set up a PRSA to act as an AVC given the existence of both the PNS and AVC facilities. However, an individual public servant can open a PRSA to provide additional retirement benefits.

Advantages include:

- you can increase or decrease or stop your contributions at any time without any charge or penalty
- contributions attract tax relief
- you receive regular information to allow you monitor the performance of your fund
- flexibility with your pension fund at retirement.

Disadvantages include:

- you have to claim back your tax relief and PRSI relief yourself at the end of every tax year
- the PRSA AVC is a defined contribution arrangement so you bear the risk of the investment performance
- PRSA AVC contributions are subject to fees and charges
- you won't know what the fund will be until retirement.

For further information in relation to the PRSA AVC option, you should contact a PRSA provider. Details of PRSA providers are available on The Pensions Board's website – www.pensionsboard.ie.

Which option is best for me?

The question of which option is the best for you, whether to avail of PNS or to take out an AVC depends on a number of factors.

While it is possible to carry out a value for money comparison on these options, it should be kept in mind that when this is done it must involve assumptions about salary growth, investment return and the possible cost of annuity purchase. Because of these factors, the value for money comparisons are only of partial use.

Also, given that AVC and the PRSA AVC arrangements are DC, if the investment performance is different to what was expected, what appeared to be the best choice at the beginning of the arrangement may have been, in hindsight, the less attractive option, or vice versa.

It is important to carefully consider all options before making a decision to commit to either one. Given the potential seriousness of taking up either option, it is advisable to seek independent financial advice.

Useful contact addresses

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