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THE IRISH CIVIL SERVICE SUPERANNUATION SCHEME

GERARD HUGHES

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LIST OF ABBREVIATIONS

AIE	Average Industrial Earnings
CS	Civil Service
DEPD	Dail Eireann Parliamentary Debates
DPS	Department of the Public Service
PAYG	Pay-as-you-go
PEC	Public Expenditure Committee
PRSI	Pay Related Social Insurance
TGI	Transportable Goods Industries

GENERAL SUMMARY

The cost of the civil service superannuation scheme has been a source of concern virtually from its inception. Strenuous efforts were made during the first half of the 19th century to reduce the cost to the Exchequer by compelling civil servants to make a cash contribution out of their pay which would cover half of the cost of the scheme. These efforts were unsuccessful and the expedient was adopted of paying civil servants less than they would have been entitled to if there had been no superannuation scheme. This arrangement was maintained by the Irish government when it took over the scheme on Independence from Britain. The lack of transparency in this arrangement coupled with high inflation in the 1970s and high unemployment in the 1980s has led to explicit criticisms of the scheme in recent years. The main targets have been its current and expected future costs, the contention that civil servants do make an implicit contribution to the cost of the scheme, the accuracy of the civil service's estimate of its cost as a percentage of pay, and the financing of the scheme on a pay-as-you-go rather than a funded basis.

The main objectives of this paper therefore are to give background information on the history of the scheme to set the scene for consideration of policy questions, to present estimates of its annual cost since Independence, to compare contributions by civil service and private sector employees towards the cost of their retirment benefits, and to consider the arguments which have been made for changing the existing aggangements for the provision of pensions for civil servants.

A summary of the history of the scheme is given in Chapter 1. It shows that concern over the cost of the scheme has existed since early in the 19th century and that many of the proposals which have recently been made made to reform the scheme have been tried in the past without success. Proposals to reform the scheme should not therefore neglect the lessons which have been learned from its successful operation over the last two centuries.

Annual data are presented in Chapter 2 showing the cost of pensions for established and unestablished officers in the central civil service and the Department of Posts and Telegraphs, for civil servants' widows and children and for pensions and allowances paid under Article 10 of the Treaty. It is shown that the current cost of pensions relative to the wage bill for all of these groups is considerably less than it was at any time up to the early 1950s although there is a tendency for the cost of pensions for the central civil service to increase due to improvements in the benefits available. Projections of pension costs in the future combined with government spokesmen's comments on the contents of an unpublished study by the former Department of the Public Service on the likely development of public service pension costs over the next thirty years indicate that pension costs for the civil service should not show a significant increase before the year 2015. Thereafter there may be a noticeable increase in pension costs for the civil service but government spokesmen have said that it should be of manageable proportions. Chapter 3 takes up the question of how do the contributions which civil service employees make towards the cost of their retirement benefits compare with the contributions which employees outside the civil service make? It is argued that this question cannot be answered without considering the role of the State's contributory old age pension schemes in providing index linked flat-rate pension benefits for employees in the private sector which are not available to civil servants. It is shown that when the combined costs of occupational and social insurance pensions for private sector employees are taken into account the average contribution for civil service employees was somewhat greater in 1984 than it was for private sector employees who were covered by an occupational pension scheme and by the State contributory old age pension schemes. It is also shown that the pension benefits available to civil servants and their dependants are somewhat better than those available to private sector employees and their dependants.

The larger pension benefits which civil servants receive relative to other employees may fairly reflect their preference for a total compensation package which offers a higher proportion of lifetime income in the form of a pension in return for forgoing a higher proportion of current income. The argument that civil servants should make PRSI contributions towards the cost of the State's old age pension schemes therefore ignores the benefit side of these schemes as well as differences in the wage and pension composition of the total compensation packages for the civil service and comparable private sector organisations which may reflect different preferences between the civil service and private sector for future consumption over present consumption. Hence, the case for asking civil servants to make PRSI contributions towards the cost of the State old age pension schemes is considerably weaker than it appears at first sight.

If it can be shown that civil servants enjoy far better compensation than comparable private sector employees and that the pension component is one of the reasons for this it would be reasonable to ask them to contribute more than they do at present. However, it would be more sensible to use the existing arrangements to increase the implicit deduction from their pay rather than to undertake the far more difficult task of integrating their scheme with the State contributory old age pension schemes. Experience in both Ireland and Britain, which is reviewed in Chapter 4, shows that integration of civil service pension schemes with State pension schemes has resulted in increased pension benefits for some civil servants and probably also in increased public expenditure on the State contributory old age pension schemes.

An unpublished study of the expected future cost of the civil service superannuation scheme carried out by the former Department of the Public Service in response to concerns expressed by Dail Eireann's Public Expenditure Committee confirms the accuracy of the 18 per cent of pay which the civil service uses as the average cost of superannuation. This is the figure which outside organisations are charged to recoup superannuation costs for civil servants on secondment from the civil service. However, it may not be the correct figure to use for this purpose. Chapter 4 shows that the cost of retirement benefits for full-career civil servants can differ from the cost for the average civil servant. For example, employees who leave with less than 5 years service do not qualify for any retirement benefits while those who serve their full career in the civil service will receive retirement benefits which are worth considerably more to them than they are to the average employee. The information presented in Chapter 2 together with data on the rate of return on long-term government bonds and life expectancy at retirement is used to estimate how much it would have cost to fund the retirement benefits received by full-career civil servants retiring at the end of the 1960s and the beginning of the 1970s. The advantage of this approach is that the value of the superannuation scheme to full-career civil servants is based on the actual pay and pensions received by these civil servants since entry to the civil service.

Our calculations show that the value of retirement benefits to these full-career civil servants would have ranged from a quarter to a third of their average lifetime pay if the superannuation scheme had been funded. Since most civil servants on loan to outside organisations are likely to be full-career civil servants our estimates of the cost of their retirement benefits suggest that the 18 per cent which the State charges to recoup the cost of their retirement benefits may be too low. Since our estimates are illustrative, due to lack of published information on the characteristics of civil servants on loan, consideration should be given by experts in the field to what the appropriate contribution rate should be using information available to them about the career paths of such civil servants. It is also recommended that future comparisons of the remuneration of higher civil servants and senior managers outside the civil service should reconsider the approach taken by the Review Body on Higher Remuneration in the Public Sector whereby the civil service superannuation scheme is taken as the norm for such comparisons. There may be a considerable difference between the value of superannuation benefits for the average civil servant and for senior civil servants.

Arguments for funding the civil service superannuation scheme rather than operating it on a pay-as-you-go basis are considered in Chapter 4. It is concluded that most of the arguments which are made in favour of funding are based on principles which are appropriate for private sector organisations but which are not appropriate for public sector organisations. The civil service and other public sector organisations are not subject to the same risk of bankruptcy as private firms and alternative means of exercising financial control over their pension schemes are available to them which are not available to private firms.

The main disadvantage of financing the civil service superannuation scheme on a pay-as-you-go basis is that it may give misleading information on the cost of the scheme in the future. It is argued in Chapter 4 that accurate information on current and future costs of the superannuation scheme for the civil service could be provided if the scheme were notionally funded. This is a procedure by which correct signals concerning present and future costs can be given without incurring the administrative and other costs of operation of actual funds for public sector pension schemes. If this approach to controlling and making explicit the cost of civil service pensions were to be adopted it might necessitate the appointment of a Government Actuary who would be responsible for providing regular reports on the notional funding costs of the scheme. The Government Actuary would, of course, also be responsible for providing actuarial advice to government departments which require such advice in costing many of their expenditure programmes.

Chapter 1

THE IRISH CIVIL SERVICE SUPERANNUATION SCHEME

1.1: Introduction

The Irish civil service superannuation scheme provides for the payment to established civil servants of a pension and tax-free lump sum at or after the age of 60 in return for implicit pension contributions towards the cost of the scheme. These implicit contributions are made by reducing the pay of established civil servants below the level it would be if the scheme did not exist. The pension is paid, in most cases, on the basis of $^1/_{80}$th of pay on the last day of reckonable service for each year of service up to a maximum of one-half of salary. It is increased each year in line with increases in current rates of pay in the civil service with effect from the date applicable to the increase in pay. The lump sum is calculated as $^3/_{80}$ths of pay for each year's service up to a maximum of 1½ times pay. The pension is vested after 5 years' service and accrued pension rights may be exercised on reaching age 60. Death gratuities and short service gratuities are also provided under the scheme. A separate spouses' and children's pension scheme provides benefits for dependants of civil servants in return for an explicit contribution towards its cost.

These benefits are generous. They provide a standard which other employees use to compare their own schemes with, or to aim for if their employer provides only basic employment benefits. Employees in other parts of the public service have been able to use the civil service scheme as an example of the kind of retirement benefits which they feel the State should provide for all those who give it a lifetime of service. Although occupational pension schemes in other parts of the public service were established much later than the civil service scheme they now provide retirement benefits which are similar to the benefits provided by the civil service scheme.

The percentage of civil servants who are covered for retirement benefits by the civil service superannuation scheme is very nearly 100 per cent since membership of the scheme is compulsory. The occupational pension coverage rate for other public service employees is also nearly 100 per cent. A national survey of occupational pension schemes carried out for the Department of Social Welfare in 1985 by the Survey Unit of the ESRI (Keogh and Whelan, 1985) showed, as the National Pensions Board (1987) noted in its first report, that "some 520,000 persons, or roughly 47 per cent of the employed labour force, are members of occupational pension schemes". These figures include employees in the non-commercial public sector. When they are excluded the occupational pension coverage rate in the private sector (including commercial public sector employees) appears to be about 33 per cent.

The civil service pension scheme has been the envy of less favoured workers in the private sector because of its high coverage rate and the generosity of the benefits which it provides. Generally these features of the scheme were regarded as goals which employees in the private sector adopted for their own occupational schemes and there was relatively little explicit criticism of the civil service pension scheme in the past. In recent years, however, the emergence of high inflation, following the first oil-crisis in 1973, and of high unemployment, following the second oil-crisis in 1979, have made the benefits of the scheme appear more attractive than ever because they are protected against both inflation and unemployment. Private sector employees who retired during the 1970s, for example, had the real value of their pensions substantially reduced by inflation whereas civil service pensions actually improved their inflation protection by securing indexation in line with current pay rather than prices. Private sector employees who lost their jobs in the 1980s due to high unemployment incurred substantial losses in their pension entitlements whereas civil servants were immune from involuntary unemployment due to security of tenure. These developments have led to explicit criticisms of the civil service pension scheme in recent years and a number of issues have emerged which will be addressed in this paper. It is important to look at these issues now because if they are valid action would need to be taken soon to cope with some of them.

The main criticism which has been made of the civil service scheme concerns its current and expected future cost. The criticism has a number of different strands to it. Some critics are concerned about the rapid increase which has occurred in recent years in the nominal cost of the scheme (Tansey, 1982, p. 10). Others are concerned about the cost of providing what they regard as excessively generous retirement benefits for public sector workers. Fitzgibbon (1980, p.13), for example, argues that it is a "national scandal that one section of the community should be so much favoured over another."

Another strand in the criticism relates to the belief that the cost of the scheme is understated in the government's accounts because it is financed on a pay-as-you-go basis rather than being funded as occupational schemes in the private sector are. Hence, it is argued that information is available only on the current cost of the scheme whereas if the scheme were funded factors which could lead to a substantial increase in pension liabilities in the future would have to be taken into account, e.g., growth in the size of the civil service and pension indexation arrangements (see Kennedy, 1983, p. 68). Estimates of the long-term contribution rate necessary to meet current and future pension commitments in the public sector range from 18 per cent (O'Connor, 1982, p.22) to 40 per cent of public sector payroll costs (Tansey, 1984, p.23). The civil service itself puts the cost of superannuation, including the spouses' and children's scheme, at 18 per cent of pay and it charges outside organisations the civil servant's pay plus 18 per cent to recoup the cost of civil servants on loan to such organisations. The Dail Committee on Public Expenditure (Ireland, Dail Eireann, 1985B) was worried by the discrepancy between the figure which the civil service charges for superannuation for civil servants on loan to outside organisations and the much higher estimates of cost given by independent commentators and it recommended that an effort should be made to review the accuracy of the figure used by the civil service. The cost of public sector pensions in 1983 was £162 million or about 7¼ per cent of the £2,223 million pay and pensions bill. Hence, if the estimates of the long-term cost of the scheme are correct significant increases in taxes or civil servants' notional contribution rates might be necessary to ensure that the retirement benefits promised by the scheme will be forthcoming in the future.

A further strand in the argument over the cost of the civil service scheme concerns the method by which the scheme is financed. Civil service pensions in Ireland have always been paid for on a pay-as-you-go (PAYG) basis and the British scheme, which provided the foundations for the Irish scheme, has been financed out of current taxation since 1857. Occupational pension schemes in the private sector, on the other hand, are usually financed out of contributions to a pension fund at a rate which will ensure that pension liabilities can be met when they fall due. It is argued that financing civil service pensions out of current taxation understates their true cost. Consequently, Tansey (1984, p.23) argues that there is a "public service pensions time bomb" ticking away ready to explode and play havoc with the public finances early in the next century.

The final strand in criticisms of the cost of the scheme concerns how much civil service employees contribute towards the cost of the scheme. Some critics describe the civil service scheme as non-contributory while acknowledging that "there have been implicit reductions in public service pay introduced as a form of contribution" (Tansey, 1982, p.10). Others reject the argument by the public sector unions that their members pay for their pensions through explicit and implicit contributions. Peelo (1983, p.10), for example, says that "commonsense dictates this to be patent nonsense in current circumstances, particularly as any actuary could quickly demonstrate that the funding cost of an index-linked pension could not be afforded by the private sector".

The main objectives of this paper are to give a brief history of the civil service superannuation scheme to set the scene for consideration of policy questions, to present estimates of its cost in each year since Independence, to compare the contributions made by civil service and private sector employees towards the cost of their respective retirement benefits, and to consider some of the policy issues which arise out of the criticisms which have been made of the scheme in recent years. A brief history of the scheme is given in Appendix 1. It is summarised in this chapter and the time series evidence relating to the annual cost of the scheme since Independence is presented in the next chapter. Lack of published information precludes an actuarial evaluation of the future cost of the scheme, even if this were within the competence of the author, but analysis of the time series data on pension costs can be used to make projections of future costs and this will also be done in the next chapter.

Chapter 3 will compare the contributions in 1984 of civil service employees to the cost of their occupational pension scheme with the contributions of private sector employees to their occupational schemes and to the State's old age social insurance pension schemes. It will also compare the average pension received in 1984 by retired civil servants with the average pension received by private sector employees from occupational and State contributory old age pension schemes.

Some policy issues relating to the civil service pension scheme will be taken up in Chapter 4. These issues concern the value of superannuation benefits for full-career civil servants, the method which should be used to finance the scheme, and the argument that civil servants should be asked to contribute to the cost of the State's contributory old age pension schemes just like other employees. Some conclusions will be presented in the last chapter.

To set the scene for what follows the next section will give an outline of the history of the Irish civil service pension scheme from its origins in the British administration in the 17th and 18th centuries to the developments which have taken place since Independence. This section is based on a review of legislation, books, reports, and Dail debates which is given in Appendix 1 under the title "A Brief History of the Irish Civil Service Superannuation Scheme". Readers who wish to know more about the historical development of the scheme should consult this Appendix. It should be noted that the descriptions in this chapter and the appendix of the various civil service pension schemes are only a general guide to the terms of the schemes. Readers who are interested in the details of the schemes are advised to consult other sources, e.g., the explanatory booklets issued by the Department of the Public Service.

1.2: Origins and Development of the Irish Civil Service Superannuation Scheme

Introduction

The Anglo-Irish Treaty of 1921 made provision for the transfer to the Irish Government of the civil servants who had been responsible for the administration of Irish affairs under the Crown. The pension law and regulations governing the British civil service continued to be applicable to the Irish civil service. It is necessary, therefore, to look at the development of the British civil service superannuation scheme before 1921 in order to understand how the Irish scheme came to have the structure it has.

The British Civil Service Superannuation Scheme and its Development up to 1921

The origins of the British civil service pension scheme lie far back in history. The first public pension was granted in 1684 to a landwaiter in the Port of London. From that date until 1712, as Titmuss notes in his foreword to Raphael's (1964) book, there were three main stages of development. In the first stage employees of the Post Office and the Customs were allowed to transfer their jobs to personally nominated successors in return for an annuity or a lump sum payment. In the second stage the public authorities appointed the successor and his salary was charged with the cost of the pension being paid to his predeccesor. In the third stage the superannuation fund was invented. New entrants were required to make regular contributions to a publicly organized fund for the income support of the aged and the infirm. These developments were given formal recognition in a Treasury warrant in 1712.

During the remainder of the 18th century pensions policy developed with the growth of public administration and the emergence of new issues and problems. The variety of methods of paying civil servants and providing for their pensions led to the emergence of abuses of the system of public offices. In 1785 a Commission of Inquiry recommended that an establishment for the public service should be formed to eliminate abuses. This commission recognised that this recommendation would eventually lead to a proper system of superannuation for public servants. It did so in 1810 when the first Act of Parliament dealing with superannuation for public servants in the United Kingdom was passed. This Act abolished contributions and laid the foundations for a comprehensive superannuation scheme for civil servants. It was based on three major principles which still govern the civil service schemes, and indeed most occupational pension schemes, in Ireland and Britain today. These were:

1. Only those who were unable to work because of old age or physical or mental incapacity should receive a pension;

2. The pension should be positively related to the number of years of service worked;

3. The pension should not be greater than final pay.

The State developed its case for making employment in the civil service pensionable in the reports of a number of Royal Commissions following passage of the 1810 Act. The main justifications offered were that a proper pension scheme

(a) provided a means whereby those who had become incapable of continuing to provide service to the State through old age or infirmity could be removed from office without causing hardship, and (b) helped to reduce mobility out of the civil service to other jobs which offered similar conditions of employment.

The question of the cost of civil service pensions became an important issue just over a decade after the 1810 Act was passed when the Treasury recommended in 1821 that civil servants should contribute towards the cost of their pensions. An Act of 1822 provided for contribution rates related to salary level which were designed to ensure that employees would pay half of the cost of the scheme. Civil servants were strongly opposed to the payment of direct contributions and in 1824 contributions were abolished by an Act of Parliament.

A long drawn out campaign over the contribution principle was waged between the government and its employees during the next three decades. Contributions were reintroduced under a Treasury minute in 1829 which also stipulated that no pension should be greater than two-thirds of salary. In 1834 an attempt was made to settle the principles on which the civil service pension scheme should be based in the first Act devoted exclusively to the provision of pensions in the public service. This Act formalized the distinction concerning contributions by pre-and post-1829 entrants and it introduced distinctions in the maximum benefit which each category could receive. Civil servants felt these distinctions were anomalous and campaigned for their abolition. A Royal Commission of Inquiry into Operation of the Superannuation Acts was appointed to look into these and other matters in 1856.

It argued in its report that a major objection to the use of the contribution system for the civil service was that no pension fund had been established and that all that the introduction of contributions had accomplished was a surreptitious reduction in civil servant's pay. The Commission's arguments against the contribution principle did not convince the government but a Private Member's Bill was introduced the following year to abolish the payment of contributions by civil servants. This Bill received widespread support and in 1857 the payment of direct contributions by civil servants towards their pensions was abolished once again.

The case for a contributory civil service pension scheme was examined by a number of Royal Commissions in the years following the 1857 Act and a number of them put forward arguments for reintroducing contributions. These arguments never received the political support necessary to re-establish the principle of direct contributions. Hence civil servants in Ireland or Britain have never had to make a direct contribution to the cost of their own pensions since the 1857 Act was passed. However, for many years they have made an indirect contribution towards the cost of the superannuation scheme because their pay has been less than it would have been if this scheme did not exist. They also now make direct contributions towards the cost of their spouses' and children's pension scheme.

Many of the developments in relation to civil service pensions since the passage of the 1810 Act and many of the recommendations of Royal Commissions on superannuation for public servants were consolidated in the 1859 Superannuation Act. This Act laid the foundations for the scheme which Ireland inherited on gaining Independence in 1921. The pension scale was fixed in terms of sixtieths for each year of service to give a maximum pension of two-thirds of final pay after forty years' service and the minimum retirement age was fixed at 60. No major change was made in the superannuation scheme until 1909 when death benefits were introduced at no extra cost to the Treasury by fixing the pension scale in terms of eightieths for each year of service, reducing the maximum pension to half of final salary and introducing lump sum benefits on retirement and on death-in-service.

Development of the Irish Civil Service Superannuation Scheme since 1921

Following Independence the legal status of the Superannuation Acts which had been passed by the British Parliament since 1810 was formally recognised by the Irish Government in Article 73 of the Constitution of the Irish Free State which came into effect on 6 December, 1922. Article 78 of the Constitution provided that civil servants who had transferred their services from the British Government would be entitled to the benefit of Article 10 of the Treaty which stipulated that the Irish Government would pay fair compensation to public servants discharged or retired as a consequence of the change of government. Civil servants who subsequently came into this category were referred to as "transferred officers". Much of the pension legislation relating to the civil service which was passed between the First and Second World Wars was concerned with the interpretation and implementation of the superannuation scheme as it applied to transferred officers.

Special Provisions for Certain Categories

Because of the circumstances in which the Irish State came into being some civil servants had not been appointed in the manner prescribed by the 1859 Superannuation Act, e.g., civil servants who had worked for the Provisional Government before Independence, or who had lost their jobs because of their national sympathies. A number of Superannuation Acts were passed before the Second World War to put their superannuation entitlements on the same footing as those who had been appointed in accordance with regulations or who had unbroken service. Thus, the 1923 Superannuation and Pensions Act made provision for payment of pensions to persons who had not been appointed in accordance with the provisions of the 1859 Act. Superannuation Acts were passed in 1929, 1936, and 1942 which ensured that civil servants whose service had been broken, due to their association with the events of 1916-23, would be in no worse position as regards the application of the Superannuation Code than they would have been if their service had not been broken.

The Brennan Commission

Deflation during the Depression led to great dissatisfication within the civil service over the reduction in pensions which occurred due to the operation of the scheme's cost of living adjustment. A commission of inquiry (the Brennan Commission) was established in 1932 to look into this and other matters. In its final report in 1934 it recommended that arbitration should take place on specific issues but that superannuation should not be one of them because the legislature reserved consideration of such matters to itself. It did recommend abolition of the cost of living element in the remuneration package for the civil service, partly because of the uncertainty it created in estimating future pension liabilities. This recommendation was not acted upon until 1946 when the consequences of wartime inflation for civil service pay and pensions made consolidation of the pay and cost of living elements of the remuneration package unavoidable. The Brennan Commission also recommended that there should be no change in the normal retirement age of 65 and that the superannuation scheme should be funded rather than financed on a pay-as-you-go basis. An actuarial investigation into the cost of a funded scheme was carried out in 1937 with the help of the British Government's actuary but the report was never made available to the public.

Indexation of Pensions

Following the Second World War the most important issue which successive governments had to deal with in connection with civil service pensions was whether they should be protected against the effects of inflation. In the late 1940s and during the 1950s different governments argued that they had no obligation to provide for formal indexation of civil service pensions and that the most that could be expected was that the position of those who had retired would be reviewed informally from time to time as circumstances dictated. This policy led to the passage of Pensions (Increases) Acts in 1956, 1959, 1960, and 1964. These Acts only partially compensated retired public servants for changes in the cost of living by confining the increases to those who had retired some years before the Acts were passed and by graduating the percentage increases in favour of those on the lowest pensions. Informal adjustments in pension entitlements to compensate for increases in the cost of living were thought to be unfair by civil servants and opposition parties in the Dail and the Minister for Finance, Dr. Ryan, eventually agreed in 1964 to set up a committee to inquire into the principles which should underlie post-retirement adjustments in public service pensions.

This committee noted in its report (Ireland, 1965) that its investigations into the arrangements for indexation of public service pensions in 14 OECD countries showed that most of them had formal arrangements for indexing in line with increases in the cost of living or curent pay. Only Ireland and countries in the British Commonwealth used informal methods of adjusting pensions to compensate for changes in the cost of living. The committee also showed that about one-third of the countries surveyed had non-contributory schemes while the remainder required their civil servants to contribute from 4 to 6½ per cent of salary. The committee rejected the argument that public service pensions should be indexed in line with current rates of pay as it believed that this would be too costly and would give preferential treatment to employees in the public sector.

It recommended that formal methods should be adopted for indexing public service pensions in line with increases in the cost of living. It argued that linking civil service pensions to the cost of living would represent such a valuable improvement in the terms of the superannuation schemes for public servants that the payment of a contribution for the improvement would be justified. However, it considered that it would be difficult to get public service employees to make such a contribution since many of the public service schemes were non-contributory. It suggested instead that they should bear part of the cost by having their pension based on pay averaged over the last three years of service rather than on retiring pay. Formal methods of indexation, as recommended by the committee, were eventually adopted but the *quid pro quo* of basing the pension on average pay in the last three years of service was not. In 1970 a policy was adopted of relating the level of pensions to the level of pay in the civil service some years previously. The gap between the date on which the increase in pension was given and the latest date of retirement to which it referred was gradually narrowed. Full parity of pensions increases with general pay increases was implemented in 1984 and in 1986 this arrangement was extended to special pay increases as well. The additional benefit conferred by indexation was eventually taken into account by the Review Body on Higher Remuneration in the Public Sector in 1979 (Ireland, 1979) and by the Conciliation and Arbitration Board in 1983 by building in a factor of 3 to 3½ per cent when comparing civil service pay to private sector pay to allow for the value of post-retirement adjustments.

To relieve the Dail of the recurring necessity of introducing a Bill to give effect to pension increases the 1964 Superannuation Act provided that future increases in public service pensions could be authorised by statutory regulations made by the Minister for Finance and laid before the Houses of the Oireachtas. This power has been used annually since 1966. In 1970 the government moved away from awarding percentage increases in existing pension benefits and towards indexation in line with current rates of pay in the civil service when it provided that public service pensions would be increased from August 1969 by an amount which would bring them up to the level they would have been at if based on rates of pay in the civil service in 1964. This policy was continued throughout the 1970s. In 1975 the standard practice was adopted of increasing public service pensions on 1 July each year by reference to changes in rates of pay in the public service during the previous twelve months.

In 1984 the Minister for Finance announced that, as an exceptional measure, the first phase of the 1983 Public Service Pay Agreement would apply to pensions from the same date as the pay increase and also that in the future pension increases would take effect from the same date as general pay increases for the civil service. These arrangements were extended to special pay increases in the 1986 Budget. Hence, full parity of civil service pensions with current rates of pay in the civil service has now been achieved. The arrangements for indexation of civil service pensions in Ireland are, in general, more advantageous to civil servants than the arrangements for indexation in the British civil service scheme. In Ireland pensions are indexed in line with increases in civil service pay whereas in Britain they are indexed in line with increases in the cost of living. As pay generally increases faster than prices the indexation arrangements in the Irish scheme mean that the real value of the pension actually increases during retirement whereas in Britain it remains constant.

After indexation the most important developments in relation to the civil service superannuation scheme in the post-war period occurred in connection with the issues of sex discrimination in the benefits structure, portability of pensions within the public sector, and dependants' benefits.

Sex Discrimination in Superannuation Benefits

Discrimination against female civil servants existed in the terms of the superannuation scheme just as it did in connection with the terms of other employment benefits in the civil service. The main discrimintation which existed in the Superannuation Code was that female civil servants were not allowed to commute part of their pension in return for a lump sum on retirement and their next-of-kin were not entitled to receive any benefits if they died in service. Female civil servants campaigned against this discrimination for many years. This campaign was brought to a successful conclusion with the passage of the 1954 Superannuation Act which was designed to give female civil servants similar benefits to those available to their male colleagues.

Portability

The lack of portability of civil service pensions was remarked upon by the Minister for Finance, Mr. S. T. O'Ceallaigh in 1942 during the Dail debates on the Superannuation Act and he noted that it impeded mobility between the civil service and other organisations. This barrier to mobility was rectified twenty years later in 1962 in so far as it affected the public sector when provision was made in that year's Superannuation Act to facilitate transfers between branches of the public service by enabling transferees to carry pension credits earned in one part of the public service to another part. For the purposes of this Act the public sector was taken to include the civil service, local authorities, State-sponsored bodies, and the universities. It also provided that the Minister for Finance could designate other organisations by statutory order as coming within the scope of the transfer arrangements.

Dependants' Benefits

Formal pension coverage for dependants of civil servants is of relatively recent origin. Full coverage for death-in-service benefits was not achieved until 1954, as we have noted, and it was not until 1968 that arrangements were made for a widows' and orphan's scheme. Civil servants were obliged to contribute 1½ per cent of salary towards this scheme. No provision was made for the dependants of civil servants who died prior to the introduction of the widows' and orphan's scheme. However, an *ex gratia* scheme for the pre-1968 widows was introduced in 1969 following requests inside and outside the Dail for such a scheme. The pension benefits payable under this scheme were set at half the appropriate benefit under the contributory scheme. The contributory scheme has been amended on a number of occasions with the most recent revision occurring in 1984 when it was renamed the Spouses' and Children's Pension Scheme for the Civil Service. It allows payment of a spouse's pension equal to one-half of the pension which the contributor would have got if it were based on pensionable pay at the date of death and on actual and potential service up to normal retiring age plus a children's pension at the rate of one-third of the spouse's pension for each child subject to a maximum of three children.

Pension benefits payable under the *ex gratia* scheme have gradually been increased over the years and in 1986 they achieved parity with the benefits payable under the contributory scheme. The civil service employee contribution rates for the Spouses' and Children's scheme are designed to meet half the cost of the scheme.

1.3: Trends in Pay, Pensions and Prices since 1923

Many of the points to which attention has been drawn above are reflected in the data on civil service pay and pensions and average industrial earnings and consumer prices which are given in Table 1.1 and graphed in Figures 1.1 and 1.2. Civil servants average pay declined during the 1920s and early 1930s due to the decline in the cost of living as recorded in the Consumer Price Index.

Contrary to the argument which the civil service staff associations put forward during this period nominal pay levels were not maintained in the private sector as they began to decline after 1929 and by 1931 average industrial earnings in Transportable Goods Industries had decreased from what they were in 1926 by almost as much as average pay in the civil service over the same period.

Earnings in the Transportable Goods sector continued to decline until 1938 whereas average pay in the civil service increased between 1931 and 1938 and surpassed the level at which it had stood in 1926. The average pension paid to retired civil servants increased by around 20 per cent during the late 1920s but declined by about the same amount during the early 1930s. Average pay and pension in the civil service were fairly static during the early years of the War due to wartime controls but the acceleration in consumer prices forced the authorities to grant increases in both towards the end of the War. During the 1950s pay and pensions increased in line with inflation, while during the 1960s both increased more than consumer prices and the increase in average pay was nearly 40 per cent more than the increase in prices. The change in the arrangements for indexing civil service pensions, which took place at the beginning of the 1970s, whereby the level of pensions was more closely related to the level of current pay in the civil service, resulted in pensions increasing at a faster rate than pay which in turn increased more than consumer prices during the 1970s. The benefits of post-war economic growth were therefore extended to civil servants who had retired from the labour force as well as to those who remained in the labour force.

The rate of increase in the index of average industrial earnings, shown in Table 1.1, was greater than the rate of increase in average pay in the civil service over the period 1926-83 so the privileged position of civil servants relative to industrial workers has been eroded. This can be seen in Figure 1.2 which shows that in 1926 the earnings of the average industrial worker amounted to only 65 per cent of the earnings of the average civil servant, that during the Great Depression earnings of industrial workers declined relative to those of civil servants, that relativities must have been re-established during the Second World War, that the position of industrial workers continued to improve and a plateau was reached where their earnings were about four-fifths of the earnings of civil servants during the period 1950-70, and that since the late 1970s the gap between the average income levels of the two groups of workers has been substantially closed so that the average industrial worker now receives an income equal to around nine-tenths of the income of the average civil servant.

Figure 1.2 also shows the relationship between the average pay and pension of civil servants over the last sixty years. At the beginning of the period the average pension payment was equal to about four-fifths of average pay whereas by the end of the period it had fallen to around three-fifths. The reasons for

Table 1.1: *Average pension (Established Officers), average pay of civil servants, as a percentage of average pay, the CPI (base 1953=100) and average industrial earnings, 1923-83*

Year ended Mar/Dec	*Average pension* £	*Average pay* £	*Av. pen/ av. pay* %	*CPI 1953=100*	*Av. industrial earnings Index 1953=100*	*Av. industrial earnings Annual* £	*CS pension index 1953=100*	*CS pay index 1953=100*	*AIE/Av. pay*
1923 Mar.		187.49		48.00				54.93	
1924		177.91		48.00				52.12	
1925		184.71		49.00				54.11	
1926		187.21		48.00	43.20	121.75		54.84	65.03
1927	133.60	177.47	75.28	45.00			54.75	51.99	
1928	149.06	177.92	83.78	45.00			61.08	52.12	
1929	153.11	174.51	87.74	46.00	43.30	122.01	62.74	51.12	69.92
1930	161.42	164.73	97.99	44.00			66.15	48.26	
1931	152.75	175.04	87.26	42.00			62.59	51.28	
1932	146.21	176.70	82.74	41.00	40.90	115.40	59.91	51.77	65.31
1933	138.56	173.50	79.86	39.00			56.78	50.83	
1934	138.90	171.23	81.12	39.00			56.92	50.16	
1935	138.76	182.69	75.96	40.00			56.86	53.52	
1936	139.73	183.31	76.23	42.00			57.26	53.70	
1937	140.05	183.63	76.26	44.00			57.39	53.80	
1938	140.17	194.43	72.09	45.00	40.30	113.88	57.44	56.96	58.57
1939	143.24	194.64	73.59	46.00			58.70	57.02	
1940	143.80	201.08	71.52	53.00			58.93	58.91	
1941	147.17	199.95	73.60	50.00			60.31	58.58	
1942	148.34	205.44	72.21	65.00			60.79	60.18	
1943	153.13	216.73	70.65	73.00			62.75	63.49	
1944	157.47	222.56	70.76	77.00			64.53	65.20	
1945	163.98	247.15	66.35	76.00			67.20	72.40	
1946	184.52	252.39	73.11	75.00			75.61	73.94	
1947	185.97	288.12	64.55	80.00			76.21	84.41	
1948	196.11	292.82	66.97	79.00	75.10	210.08	80.36	85.78	71.74
1949	211.62	320.86	65.96	80.00	78.20	217.88	86.72	94.00	67.91
1950	221.50	318.50	69.55	81.00	81.00	224.12	90.77	93.31	70.37
1951	234.13	313.20	74.75	87.00	88.20	249.08	95.94	91.75	79.53
1952	239.76	354.50	67.63	95.00	93.90	267.80	98.25	103.85	75.54
1953	244.03	341.35	71.49	100.00	100.00	281.84	100.00	100.00	82.57
1954	254.91	308.51	82.63	100.10	102.70	293.80	104.46	90.38	95.23
1955	267.37	378.58	70.62	102.70	108.40	304.72	109.56	110.91	80.49
1956	281.69	418.40	67.33	107.10	114.00	326.56	115.43	122.57	78.05
1957	295.27	434.32	67.98	111.50	117.00	337.48	121.00	127.24	77.70
1958	310.32	434.54	71.41	116.40	123.60	356.20	127.16	127.30	81.97
1959	318.49	468.78	67.94	116.50	128.60	371.80	130.51	137.33	79.31

Table 1.1: *continued*

Year ended Mar/Dec	*Average pension* £	*Average pay* £	*Av. pen/ av. pay* %	*CPI 1953=100*	*Av. industrial earnings*		*CS pension index 1953=100*	*CS pay index 1953=100*	*AIE/Av. pay*
					Index 1953=100	*Annual* £			
1960	330.85	518.11	63.86	117.00	138.30	394.68	135.58	151.78	76.18
1961	349.87	571.24	61.25	120.20	147.30	414.44	143.37	167.35	72.55
1962	366.40	597.85	61.29	125.30	162.00	464.00	150.14	175.14	78.28
1963	388.90	666.37	58.36	128.40	169.10	485.16	159.37	195.22	72.81
1964	404.26	656.95	61.54	137.00	186.70	546.00	165.66	192.46	83.11
1965	428.92	748.11	57.33	143.90	193.80	563.16	175.76	219.16	75.28
1966	468.90	836.99	56.02	148.20	215.00	631.28	192.15	245.20	75.42
1967	484.75	866.82	55.92	152.80	224.10	658.32	198.64	253.94	75.95
1968	513.35	934.29	54.95	161.10	248.30	726.96	210.36	273.70	77.81
1969	542.97	1056.08	51.41	172.00	276.10	819.00	222.50	309.38	77.55
1970	578.83	1153.32	50.19	186.10	321.50	953.16	237.20	337.87	82.64
1971	667.46	1384.71	48.20	202.70	3665.90	1096.16	273.52	405.66	79.16
1972	744.89	1632.09	45.64	220.20	418.90	1252.16	305.25	478.13	76.72
1973	848.82	1788.43	47.46	245.30	504.70	1529.32	347.83	523.93	85.51
1974	1025.27	2069.11	49.55	287.00	593.00	1809.08	420.14	606.15	87.43
1975 Dec.	1496.61	2528.19	59.20	346.90	768.00	2384.72	613.29	740.64	94.33
1976	1845.89	3149.76	58.60	409.30	896.80	2801.76	756.42	922.74	88.95
1977	2056.69	3535.05	58.18	465.10	1058.30	3321.76	842.80	1035.61	93.97
1978	2287.82	3894.02	58.75	500.60	1209.70	3773.64	937.51	1140.77	96.91
1979	2849.95	4603.98	61.90	566.90	1432.20	4444.96	1167.87	1348.76	96.55
1980	3541.01	5650.98	62.66	670.20	1605.00	5008.12	1451.05	1655.48	88.62
1981	4026.17	7383.74	54.53	807.00	1944.00	6078.28	1649.86	2163.10	82.32
1982	4733.68	7594.72	62.33	945.10	2137.80	6738.68	1939.79	2224.91	88.73
1983	5096.04	8228.45	61.93	1044.20	2401.70	7558.72	2088.28	2410.56	91.86

Sources: Average pension and average pay derived from data in Table 2.5; CPI: Statistical Abstract,1933 1935, 1949, 1956, 1958 to 1979 and Irish Statistical Bulletin, 1982(3) and 1983(4); Average Industrial Earnings: Statistical Abstract, 1954, 1956, 1966, 1976, 1981 and Irish Statistical Bulletin, 1953(1) to 1985(3 and 4).

Note: The average industrial earnings figures for 1926, 1929 and 1931 are derived from the Census of Industrial Production for those years whereas the figures for 1938 andsubsequent years were estimated by the CSO.

Figure 1.1: *Average pay and pension of civil servants and the CPI to base 1953* = 100, 1923-83.

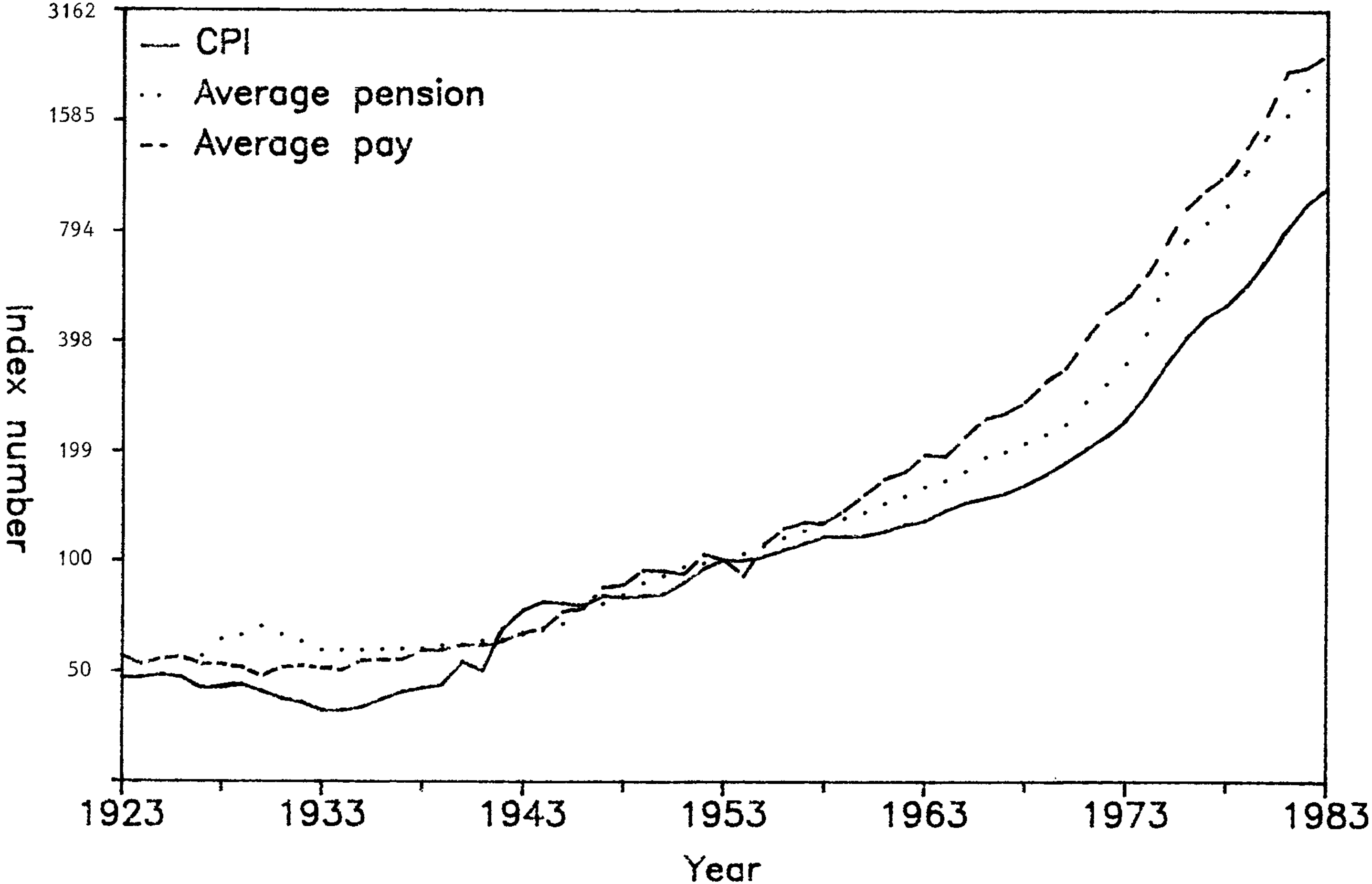
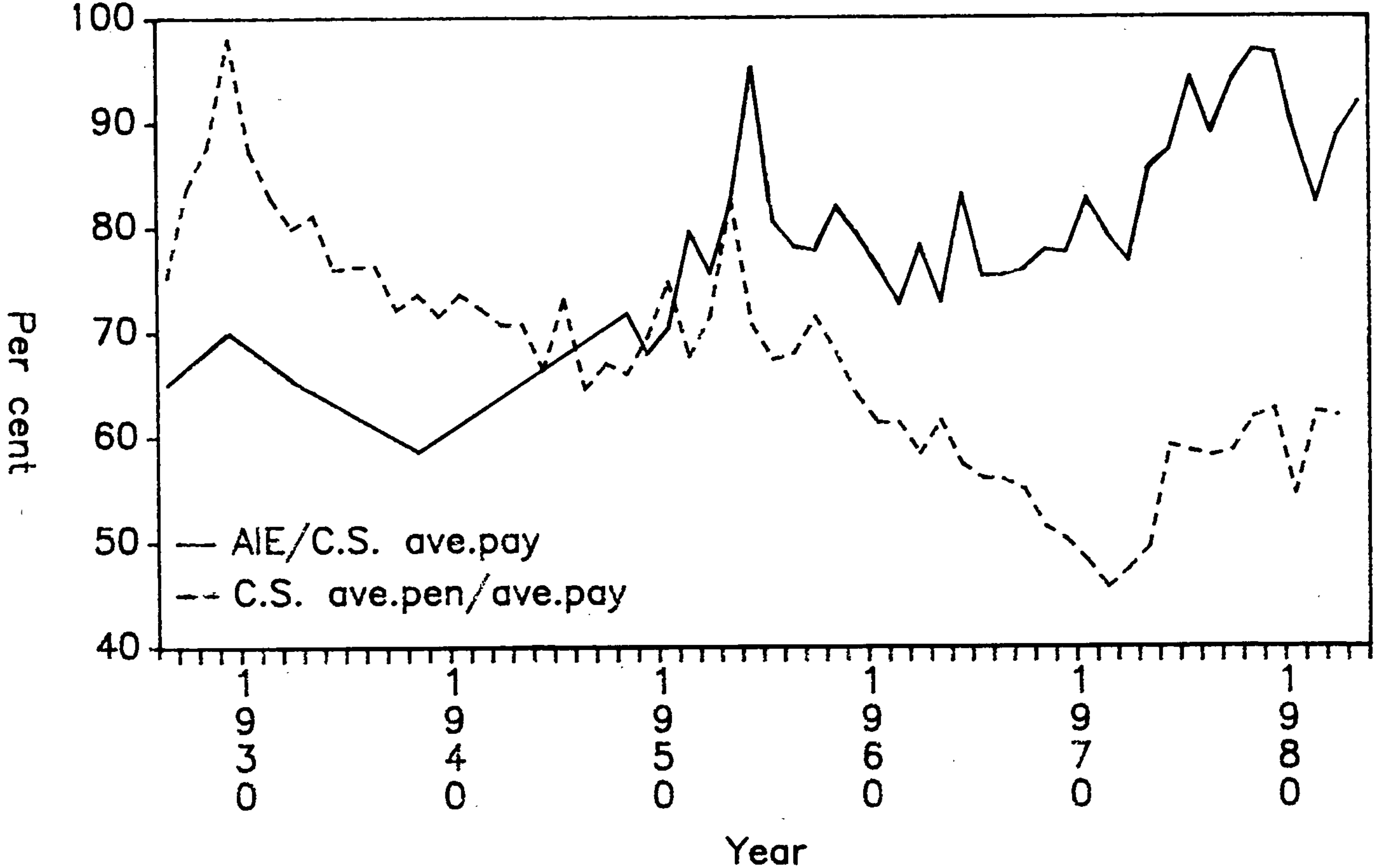


Figure 1.2: *EO's average pension and AIE in TGI as percentages of civil servant's average pay, 1926-83.*



this change in the relationship between pay and pension have not been investigated but the spread of pension coverage down the income scale in the civil service and the decrease in the proportion of industrial civil servants must have contributed to the change.

1.4: Conclusions

The development of the civil service pension scheme since Independence can be divided into two periods separated by the Second World War. During the first period most attention was given to amending the scheme which had been inherited from the British Administration to take account of the position of public servants whose employment had been interrupted due to the political position they had taken up in connection with the events of 1916-23 and with implementing Article 10 of the Treaty in the light of the litigation which had arisen over its interpretation. Efforts by the civil service staff associations to improve the terms of the superannuation arrangements were met by an attitude of financial stringency on the part of the government which was typified by its willingness to allow civil service pensions to decline with decreases in the cost of living index but not to allow pensions already awarded to increase when the cost of living index increased. The tight grip which successive governments were able to maintain on expenditure on superannuation for the civil service during the inter-war period was possible because pensions, like salaries and other conditions of service, were entirely determined by the Minister for Finance until 1950 when the first scheme of conciliation and arbitration for the civil service was completed (see Dooney, 1976, p.82).

The second period was characterised by considerable and continuous pressure from the civil service unions for significant improvements in their superannuation arrangements and their resistance to arguments by successive governments that such improvements could best be made by individual civil servants through private channels. This period saw the concession of partial indexation of pensions under the pressure of wartime inflation, the elimination of discrimination in the Superannuation Code against female civil servants, the provision of death-in-service benefits for dependants, the introduction of a pension scheme for dependants and the indexation of pensions to current pay levels under the pressure of accelerating inflation during the 1970s.

The summary of the history of the civil service superannuation scheme given in this chapter and the more detailed account given in Appendix 1 have focused on the final stages of the process by which the terms of the scheme were improved, viz., the introduction of pension Bills in Dail Eireann and the parliamentary debates on the proposed legislation. Earlier stages of the process have been referred to only in passing, mainly because no study has been done of public sector pensions in Ireland similar to the study of public sector pensions in Britain by Rhodes (1965). Exchanges during the Dail debates on civil service pensions suggest, however, that the process of development was complex. Among the influences which may have had an important bearing on the present structure of superannuation arrangements for the Irish civil service were changes in economic conditions since Independence, differences in attitudes to staff associations or trade unions in the public sector before and after the Second World War, the introduction of a conciliation and arbitration scheme for the civil service and the efforts which civil servants themselves may have made to improve the scheme through their representative associations.

The history of the Irish civil service superannuation scheme remains to be written. However, the brief account given of it in this chapter and in Appendix 1 suggests that it is inadvisable for critics of the cost of the scheme to neglect the lessons which have been learned from the successful operation of the present arrangements for more than a century and the likely response of civil servants themselves to proposals that the scheme should be funded rather than financed on a pay-as-you-go basis.

Chapter 2

THE COST OF CIVIL SERVICE PENSIONS, 1923-85

2.1: Introduction

In addition to the general factors of high inflation and high unemployment which have focused public attention on the cost of the civil service superannuation scheme more specific factors have also intensified public interest in its cost. Thus, the expansion which took place in the size of the civil service during the 1970s led to concern that the cost of the scheme could escalate early in the next century. This concern was expressed during the hearing of evidence by the Dail's Public Expenditure Committee in the course of its review of the work of the Department of the Public Service in 1984. The Secretary of the Department of the Public Service noted in his evidence to the Committee that "something like two-thirds of all our civil servants are probably below the age of 35" (Ireland, Dail Eireann, 1985A, Q. 31). The possibility of an increase in superannuation costs in the future was a cause of some concern to members of the Committee and the Secretary was asked how much a self-employed person would have to provide annually to secure the same superannuation benefits as the average civil servant. The Secretary replied that:

> the figure we would work on, for instance, if we gave an organisation a civil servant on loan and we wanted them to recoup us for him, would be his pay plus 16⅔ per cent. We have for various reasons since made adjustments in that and have jumped that up to 18 per cent. That is what we see as the cost of superannuation. (Ireland, Dail Eireann, 1985A, Q.29).

In its report on the operations of the Department of the Public Service (Ireland, Dail Eireann, 1985B, pp. 34-35) the Committee said that it was:

> very concerned as to the accuracy of the figures for estimating the cost of superannuation and about the future cost to the State of unfunded State pensions, particularly in the context of the relatively young age structure of the civil service.

The Committee recommended that:

> an exercise be under taken to review the accuracy of the 18% estimate and to determine the effect which the accruing pension liability will have on public expenditure.

The concern expressed by the Committee in its report about the cost of superannuation was reiterated by the Leader of the Progressive Democrats, Mr.

D. O'Malley when he argued, according to a report in *The Irish Times* on 25 February 1986, that "thousands of Irish civil servants face the strong possibility of receiving no pensions at the end of their careers because of the present dire economic circumstances in the country". This argument was rejected as "scare-mongering" by the Minister for Labour, Mr R. Quinn, according to a report in *The Irish Independent* on 26 February 1986 and he said that "a recent study recognised that a major pension liability would arise in about 30 years, but his department had since confirmed that even at that distant date, the problem would be 'of manageable proportions'". The study to which the Minister for Labour referred had been carried out by the Department of the Public Service in response to the recommendation of the Public Expenditure Committee. The study has not been published but some of the results were commented on in a press release on 22 December 1986 by Mr J. O'Keefe, Minister of State for the Departments of Finance and the Public Service. In his comments, which are reproduced in Appendix 2, the Minister noted that the study had been carried out by his Department "with the assistance of ourside expertise" and he said that "the study confirms that the figure of 18% of pensionable salary given to the PEC as the cost of civil service pensions is reasonable; it could be as low as 14% depending on inflation and interest rates" and "it also shows that pension costs for the civil service are expected to remain relatively constant in real terms over the next 30 years". Mr O'Keefe described the claims that public service pension costs are likely to escalate due to a combination of faulty costings and the growth in public service members in the 1970s as "irresponsible scaremongering".

No details have been released of the assumptions which were made in the study about such things as wage and pension growth rates, interest rates and withdrawal rates over the next thirty years in order to derive the figure of 18 per cent of pensionable salary as the cost of civil service pensions but it is reasonable to assume that this figure is based on the amount which would have to be set aside over the working lifetime of the average entrant in order to fund the pension benefits to which civil servants are entitled on retirement. This approach to the cost of the civil service scheme enables comparisons to be made with the cost of funded occupational pension schemes in the private sector. However, the civil service scheme is financed on a pay-as-you-go (PAYG) rather than a funded basis. One of the criticisms which have been made of the cost of the scheme is that it has been rising rapidly under this method of financing so it is important to find out how much the scheme has actually cost over the years and to investigate how much it might cost in the future if pay-as-you-go financing continues.

2.2: Data Sources

Information on estimated and actual expenditure on civil service pensions is published in the annual volumes of the *Estimates for Public Services and the Appropriation Accounts* in the votes for the Department of Posts and Telegraphs and for Superannuation and Retired Allowances. The Department of Posts and Telegraphs accounted for about half of the number employed in the civil service until 1984 when its functions were hived off to two new State companies, An Post and Telecom Eireann. The Superannuation and Retired Allowances Vote gives details of superannuation expenditure for the remainder of the civil service which will be referred to hereafter as the central civil service.

Each Vote supplies information on superannuation expenditure on established and unestablished officers, on widows and children, and on pensions and allowances paid under Article 10 of the Anglo-Irish Treaty of 6 December of 1921[1]. This chapter will present time series data relating to the cost of superannuation and wages and salaries, and to the number of pensioners and employees in the civil service superannuation schemes mentioned above.

Ideally actual expenditure data should be used in examining trends in civil service pension costs. Unfortunately, the actual expenditure data published in the *Appropriation Accounts* includes the marriage gratuities which were payable to female officers until equal pay was granted in 1974 and no information is given in these accounts on the number of pensioners in receipt of allowances or on the number of employees in the Department of Posts and Telegraphs or the central civil service. The *Estimates for Public Services* publishes sufficiently detailed information to allow marriage gratuities to be deducted from superannuation expenditure and it also publishes the number of pensioners benefiting from each scheme and the number of employees in each part of the civil service. It is shown in Appendix 3 that there is a very close correlation between the aggregate expenditure data given in each source. The information given in the Estimates for Public Services can therefore be relied on to give an accurate indication of the level and trend of expenditure on civil service pensions for each part of the service and for each officer class.

2.3: Costs of Posts and Telegraphs Pensions

Data on the cost of pensions and lump sums and gratuities for established officers in the Department of Posts and Telegraphs is given in Table 2.1 together with information on salaries and wages, number of pensioners and number of

1. Established officers are recruited through the Civil Service Commission. They are entitled to the full benefits provided by the civil service superannuation scheme. Unestablished officers are recruited by government departments as required. They are not entitled to benefit under the civil service superannuation scheme. A separate superannuation scheme for them was established in 1970.

Table 2.1: *Number of pensioners, pensions, lump sums and gratuities and total superannuation for established officers in the Department of Posts and Telegraphs and salaries, wages and allowances and number of employees in the Department, 1923-8*

Year ended	*Pensions and other allowances (£'000)*	*Lump sums and gratuities (£'000)*	*Total super-annuation (£'000)*	*Salaries, wages and allowances (£'000)*	*Pensions/ salaries %*	*Lump sum/ salaries %*	*Total superann./ salaries %*	*Number of pensioners*	*Number employed*	*Number of pensioners/ No. employed %*
1923 Mar.	–	–	–	1,838.2	–	–	–	–	10,455	–
1924	–	41.6	–	1,731.8	–	–	–	–	10,782	–
1925	–	18.8	–	1,623.7	–	–	–	–	10,152	–
1926	–	12.9	–	1,594.4	–	–	–	–	9,665	–
1927	14.0	12.9	26.9	1,522.5	0.9	0.8	1.8	177	9,484	1.9
1928	16.8	12.1	28.9	1,520.3	1.1	0.8	1.9	182	9,505	1.9
1929	18.2	11.7	29.9	1,464.3	1.2	0.8	2.0	201	12,348	1.6
1930	21.7	15.8	37.5	1,397.1	1.6	1.1	2.7	245	11,413	2.1
1931	25.9	16.0	41.9	1,373.9	1.9	1.2	3.0	290	12,029	2.4
1932	29.6	17.5	47.1	1,364.6	2.2	1.3	3.5	338	11,949	2.8
1933	33.6	18.6	52.2	1,316.1	2.6	1.4	4.0	384	11,781	3.3
1934	37.9	18.8	56.7	1,234.5	3.1	1.5	4.6	431	11,611	3.7
1935	39.7	19.0	58.7	1,226.3	3.2	1.5	4.8	467	11,546	4.0
1936	43.2	18.4	61.6	1,219.5	3.5	1.5	5.1	511	11,522	4.4
1937	47.7	18.8	66.5	1,270.8	3.8	1.5	5.2	548	11,916	4.6
1938	54.1	20.2	74.3	1,378.4	3.9	1.5	5.4	594	12,324	4.8
1939	60.4	30.7	91.1	1,458.3	4.1	2.1	6.2	636	12,518	5.1
1940	67.7	23.2	90.9	1,493.8	4.5	1.6	6.1	698	12,785	5.5
1941	73.5	23.2	96.7	1,545.8	4.8	1.5	6.3	748	12,845	5.8
1942	75.7	32.3	108.0	1,566.5	4.8	2.1	6.9	770	12,816	6.0
1943	82.6	30.2	112.8	1,664.4	5.0	1.8	6.8	815	12,814	6.4
1944	88.8	29.6	118.4	1,837.4	4.8	1.6	6.4	858	12,916	6.6
1945	93.2	42.1	135.3	2,012.4	4.6	2.1	6.7	888	13,090	6.8
1946	115.3	71.6	186.9	2,283.5	5.0	3.1	8.2	932	13,234	7.0
1947	118.1	64.0	182.1	2,599.8	4.5	2.5	7.0	997	13,603	7.3
1948	131.2	128.7	260.0	2,856.1	4.6	4.5	9.1	1,076	14,830	7.3
1949	136.5	78.3	214.8	3,010.2	4.5	2.6	7.1	1,083	15,138	7.2
1950	159.1	77.2	236.3	3,327.3	4.8	2.3	7.1	1,136	15,595	7.3
1951	190.3	74.8	265.1	3,400.1	5.6	2.2	7.8	1,194	15,934	7.5
1952	204.1	71.2	275.3	3,474.2	5.9	2.0	7.9	1,234	16,187	7.6
1953	206.0	73.4	279.4	4,043.8	5.1	1.8	6.9	1,223	16,188	7.6
1954	215.5	62.2	277.7	4,066.1	5.3	1.5	6.8	1,233	16,672	7.4
1955	222.6	56.2	278.8	4,478.6	5.0	1.3	6.2	1,239	16,889	7.3
1956	242.6	78.2	320.8	4,994.8	4.9	1.6	6.4	1,254	16,863	7.4
1957	253.3	104.5	357.8	5,220.0	4.9	2.0	6.9	1,270	16,678	7.6
1958	272.0	89.5	361.5	5,216.0	5.2	1.7	6.9	1,235	16,427	7.5
1959	287.0	82.3	369.3	5,188.0	5.5	1.6	7.1	1,261	16,064	7.8

Table 2.1: *continued*

Year ended	Pensions and other allowances (£'000)	Lump sums and gratuities (£'000)	Total super-annuation (£'000)	Salaries, wages and allowances (£'000)	Pensions/ salaries %	Lump sum/ salaries %	Total superann./ salaries %	Number of pensioners	Number employed	Number of pensioners/ No. employed %
1960	298.0	85.6	383.6	5,573.3	5.3	1.5	6.9	1,265	16,179	7.8
1961	317.2	103.0	420.2	7,518.8	4.2	1.4	5.6	1,251	16,321	7.7
1962	330.0	116.6	446.6	7,715.6	4.3	1.5	5.8	1,265	16,579	7.6
1963	367.1	137.4	504.5	8,960.3	4.1	1.5	5.6	1,267	17,066	7.4
1964	407.0	141.1	548.1	9,255.0	4.4	1.5	5.9	1,246	17,446	7.1
1965	421.4	131.9	553.3	9,663.0	4.4	1.4	5.7	1,251	18,098	6.9
1966	453.0	143.6	596.6	12,650.0	3.6	1.1	4.7	1,227	18,669	6.6
1967	470.0	111.0	581.0	13,100.0	3.6	0.8	4.4	1,217	18,923	6.4
1968	492.0	132.4	624.4	14,767.0	3.3	0.9	4.2	1,193	18,880	6.3
1969	547.2	155.6	702.8	17,189.0	3.2	0.9	4.1	1,212	19,108	6.3
1970	609.0	241.0	850.0	19,903.0	3.1	1.2	4.3	1,235	19,760	6.3
1971	711.0	264.0	957.0	25,445.0	2.8	1.0	3.8	1,262	20,500	6.2
1972	888.0	305.0	1,193.0	30,893.0	2.9	1.0	3.9	1,300	20,888	6.2
1973	983.0	363.5	1,346.5	34,315.0	2.9	1.1	3.9	1,305	21,780	6.0
1974	1,257.0	424.0	1,681.0	42,019.0	3.0	1.0	4.0	1,360	22,621	6.0
1975 Dec.	1,826.0	763.0	2,589.0	65,390.0	2.8	1.2	4.0	1,400	27,233	5.1
1976	2,155.0	909.0	3,064.0	80,164.0	2.7	1.1	3.8	1,404	27,233	5.2
1977	2,680.0	1,176.0	3,856.0	91,295.0	2.9	1.3	4.2	1,468	27,239	5.4
1978	2,776.0	1,270.0	4,046.0	104,586.0	2.7	1.2	3.9	1,511	28,673	5.3
1979	3,496.0	1,321.0	4,817.0	126,962.0	2.8	1.0	3.8	1,561	29,004	5.4
1980	4,875.0	2,437.0	7,312.0	183,285.0	2.7	1.3	4.0	1,615	30,060	5.4
1981	6,036.0	2,656.0	8,692.0	225,514.0	2.7	1.2	3.9	1,994	30,225	6.6
1982	7,151.0	2,899.0	10,050.0	240,176.0	3.0	1.2	4.2	2,040	30,519	6.7
1983	8,749.0	3,223.0	11,972.0	255,300.0	3.4	1.3	4.7	2,142	31,018	6.9

Sources: Estimates for Public Services, 1923/24 to 1984.

employees since the foundation of the State. In 1927, the first year for which complete information is available, there were approximately 9,500 employed in the Department and there were less than 200 persons receiving pensions from the Department. The salary and wage bill amounted to just over £1.5 million while pensions and other allowances cost less than £14,000 and lump sums and gratuities cost just under £13,000. In 1983, the last year for which information is available, the number of employees had more than tripled to over 31,000 while the number of pensioners had risen tenfold to over 2,000. The nominal wage and salary cost of these employees rose by 168 times to £255.3 million while superannuation costs increased by nearly 450 times to £12 million. The very much greater increases in costs than in numbers occurred because of inflation but a significant part also occurred because of increases in real wages and pension benefits. The annual average compound growth rate in superannuation costs over the period 1927-83 was 11.5 per cent and this was nearly 2 per cent per annum more than the annual average growth rate in wage and salary costs of 9.6 per cent. The annual average growth rate in the number of pensioners was 4.6 per cent and this was more than double the growth rate for the number of employees which amounted to 2.1 per cent per annum. The differences in the annual growth rates for the whole period are due in some degree to the very low number of pensioners at the start of the period which resulted in high percentage increases in the early years of the period. Since 1950 the number of pensioners and the number of employees have grown at about the same rate.

Table 2.1 contains series showing pension and lump sum costs as a percentage of the wage and salary bill and the number of pensioners as a percentage of the number of employees and these are graphed in Figure 2.1. This figure shows that changes in pension costs as a percentage of the wage bill are more closely correlated with changes in the number of pensioners relative to the number of employees than changes in the cost of lump sum payments. It also shows that pension costs accounted for a steadily increasing percentage of wage costs up to the end of the Second World War, that they fluctuated around their peak level of 5 per cent of wage costs in the following 15 years up to 1960, that they declined more or less continuously from 1960 to 1980 and that they have begun to increase again in recent years.

Pension costs for unestablished officers in the Department of Posts and Telegraphs are presented in Table 2.2. Up to 1950 total superannuation for unestablished officers never exceeded a tenth of one per cent of the wage bill and it was only in the 1970s when pension arrangements for these officers were put on a similar footing to those of established officers that costs began to exceed a half of one per cent.

Prior to the transfer of the Department of Posts and Telegraphs functions to two new State companies, An Post and Bord Telecom Eireann on 1 January, 1984 the capital liabilities of the Department in respect of pensions for former staff was actuarially determined to be £78 million while that for existing staff was estimated to be about £311 million up to 1982 according to a statement made by the Minister for Posts and Telegraphs, Mr Wilson, in the Dail on 19 May, 1982 (DEPD, Vol. 334, No. 8, col. 1570). The Minister noted that it would be normal practice for the Exchequer to accept liability for these amounts under the civil service superannuation code but that the Government had decided that the Exchequer would not accept this liability because traditionally the Department of Posts and Telegraphs had met all or most of the cost of running its services, including the cost of superannuation, from current revenue. An Post and Bord Telecom were, therefore, required to provide superannuation cover in respect of liabilities related to service as from Vesting Day of staff transferred to them. The actuarial cost of these provisions were estimated to

Figure 2.1: *Department of Posts and Telegraphs pensioners as a percentage of employees, pensions and lump sums as a percentage of salaries, 1927-83 (established officers)*

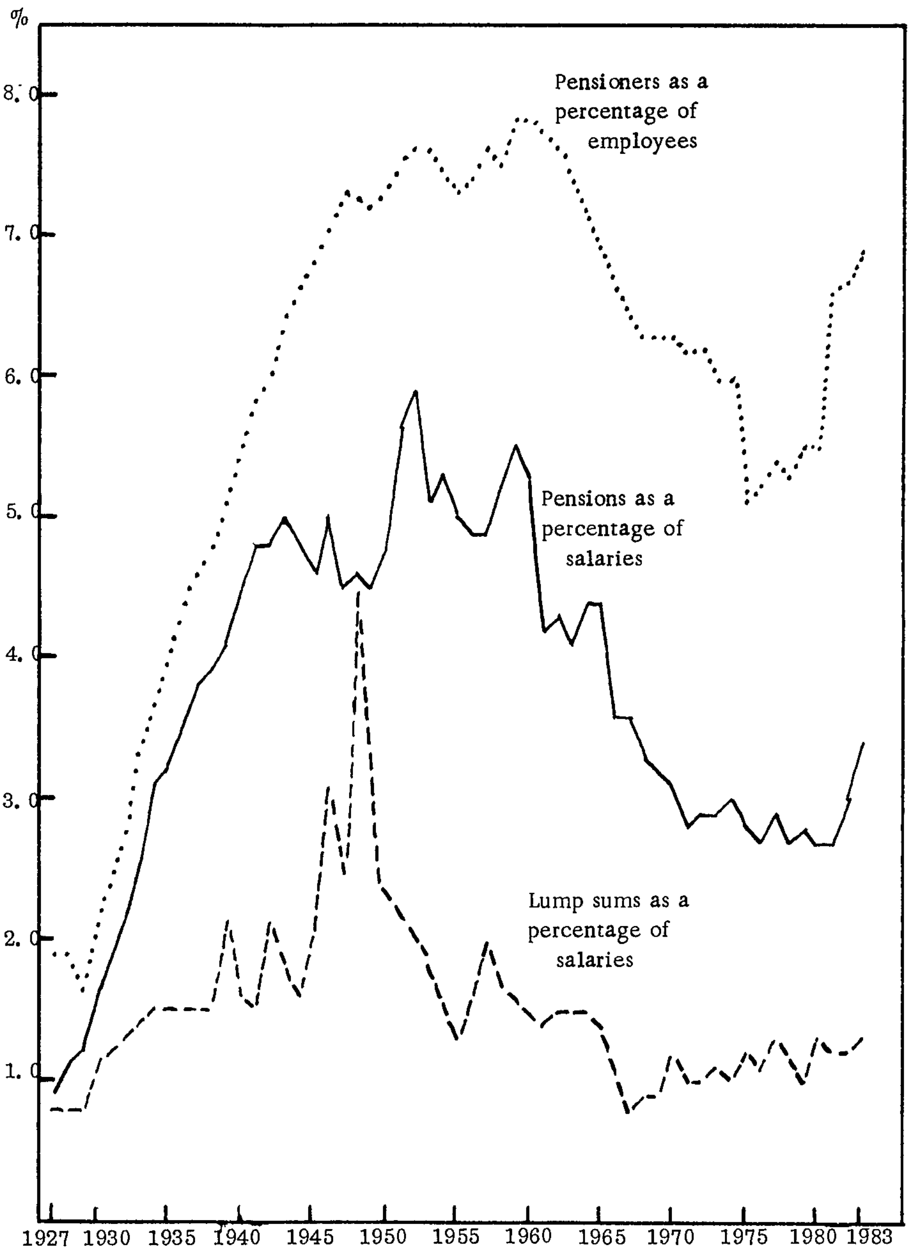


Table 2.2: *Posts and Telegraphs superannuation: unestablished officers*

Year ended	*Pensions, lump sum and gratuities in respect of unestablished officers' widows, children and other persons* (£)	*Gratuities to unestablished officers not qualified for pensions or other grants under the Superannuation Acts* (£)	*Total Superannuation* (£)	*Salaries, wages and allowances* (£'000)	*Pensions/ salaries* %	*Lump sums/ salaries* %	*Total superannuation/ salaries* %
1923 Mar.	–	–	–	1,838.2	–	–	–
1924	590	240	830	1,731.8	0.03	0.01	0.05
1925	650	200	850	1,623.7	0.04	0.01	0.05
1926	600	200	800	1,594.4	0.04	0.01	0.05
1927	400	200	600	1,522.5	0.03	0.01	0.04
1928	400	200	600	1,520.3	0.03	0.01	0.04
1929	550	200	750	1,464.3	0.04	0.01	0.05
1930	350	200	550	1,379.1	0.03	0.01	0.04
1931	400	200	600	1,373.9	0.03	0.01	0.04
1932	400	200	600	1,364.1	0.03	0.01	0.04
1933	400	200	600	1,316.6	0.03	0.02	0.05
1934	400	200	600	1,234.5	0.03	0.02	0.05
1935	400	300	700	1,226.3	0.03	0.02	0.06
1936	400	300	700	1,219.5	0.03	0.02	0.06
1937	350	250	600	1,270.8	0.03	0.02	0.05
1938	350	250	600	1,378.4	0.03	0.02	0.04
1939	350	250	600	1,458.3	0.02	0.02	0.04
1940	350	400	750	1,493.8	0.02	0.03	0.05
1941	350	500	850	1,545.8	0.02	0.03	0.05
1942	350	600	950	1,566.5	0.02	0.04	0.06
1943	350	600	950	1,664.4	0.02	0.04	0.06
1944	350	750	1,100	1,837.4	0.02	0.04	0.06
1945	435	600	1,035	2,012.4	0.02	0.03	0.05
1946	500	600	1,100	2,283.5	0.02	0.03	0.05
1947	905	900	1,805	2,599.8	0.03	0.03	0.07
1948	1,040	900	1,940	2,856.1	0.04	0.03	0.07
1949	1,070	1,700	2,770	3,010.2	0.04	0.06	0.09
1950	1,100	3,400	4,500	3,327.3	0.03	0.10	0.14
1951	1,100	2,500	3,600	3,400.1	0.03	0.07	0.11
1952	1,100	2,500	3,600	3,474.2	0.03	0.07	0.10
1953	1,100	3,000	4,100	4,043.8	0.03	0.07	0.10
1954	1,100	3,000	4,100	4,066.1	0.03	0.07	0.10
1955	1,100	3,000	4,100	4,478.6	0.02	0.07	0.09
1956	2,700	3,500	6,200	4,994.8	0.05	0.07	0.12
1957	2,750	3,000	5,750	5,220.0	0.05	0.06	0.11
1958	2,500	3,500	6,000	5,216.0	0.05	0.07	0.12
1959	5,500	4,000	9,500	5,188.0	0.11	0.08	0.18

Table 2.2: *continued*

Year ended	*Pensions, lump sum and gratuities in respect of unestablished officers' widows, children and other persons* (£)	*Gratuities to unestablished officers not qualified for pensions or other grants under the Superannuation Acts* (£)	*Total Superannuation* (£)	*Salaries, wages and allowances* (£'000)	*Pensions/ salaries* %	*Lump sums/ salaries* %	*Total superannuation/ salaries* %
1960	5,000	3,700	8,700	5,573.3	0.09	0.07	0.16
1961	5,400	5,000	10,400	7,518.8	0.07	0.07	0.14
1962	7,500	7,500	15,000	7,715.6	0.10	0.10	0.20
1963	7,500	15,000	22,500	8,960.3	0.08	0.17	0.25
1964	7,500	15,000	22,500	9,255.0	0.08	0.16	0.24
Y							
1965	11,000	21,000	32,000	9,663.0	0.11	0.22	0.33
1966	16,700	30,000	46,700	12,650.0	0.13	0.24	0.37
1967	13,000	27,000	40,000	13,100.0	0.10	0.21	0.31
1968	14,000	36,500	50,500	14,767.0	0.09	0.25	0.34
1969	17,000	44,200	61,200	17,189.0	0.10	0.26	0.36
1970	21,000	47,000	68,000	19,903.0	0.10	0.24	0.34
1971	50,000	99,500	149,000	25,445.0	0.20	0.39	0.59
1972	48,000	110,000	158,000	30,893.0	0.16	0.36	0.51
1973	52,000	160,000	212,000	34,315.0	0.15	0.47	0.62
1974	95,000	184,000	279,000	42,019.0	0.23	0.44	0.66
1975 Dec.	153,000	257,000	410,000	65,390.0	0.23	0.39	0.63
1976	188,000	297,000	485,000	80,164.0	0.23	0.37	0.61
1977	253,000	350,000	603,000	91,295.0	0.28	0.38	0.66
1978	450,000	410,000	890,000	104,586.0	0.43	0.39	0.85
1979	467,000	415,000	882,000	126,962.0	0.37	0.33	0.69
1980	668,000	507,000	1,175,000	183,285.0	0.36	0.28	0.64
1981	778,000	574,000	1,352,000	225,514.0	0.34	0.25	0.69
1982	1,027,000	630,000	1,657,000	240,176.0	0.43	0.26	0.69
1983	1,417,000	755,000	2,172,000	255,300.0	0.56	0.30	0.85

Sources: Estimates for Public Services, 1923/24 to 1984 and Department of the Public Service, Pay Policy Section.

be 16.8 per cent of the wage bill for An Post and 16.0 per cent for Bord Telecom. It was also decided that in any year in which the income of the superannuation funds of An Post and Bord Telecom is insufficient to pay the pensions for that year the Exchequer Contingent Liability Fund would reimburse the two companies. The actuaries expect that this situation is unlikely to arise in the next 30 years unless there is a significant reduction in the numbers employed by either company.

An Post decided to build up to the full contribution of about 17 per cent of payroll by 1988 and it provided 11.5 per cent of pensionable pay in 1984 and

12.5 per cent in 1985 according to its *Annual Report and Accounts for 1985* while Bord Telecom's contribution to the pension fund was 14.1 per cent in the 15 months ending March 1985 and 13.6 per cent in the 12 months ending March 1986 according to its *Report and Accounts for the year ended 3 April 1986.* The contribution to Telecom Eireann's pension fund in 1986 was, therefore, £26.1 million while superannuation payments amounted to £1.3 million.

2.4: Cost of Central Civil Service Pensions

Data on the cost of pensions in the central civil service is presented in Table 2.3 for the period 1923-85, together with information on the cost of salaries and wages and the number of pensioners and employees. In 1923 there were just over 10,500 persons employed in the central civil service and there were less than 70 persons in receipt of a pension from the new State under the terms of the Superannuation Acts. A considerable number of persons did, however, receive pensions under Article 10 of the Treaty, as we shall see later. Total superannuation for the central civil service in 1923 cost £25,000 which amounted to 0.2 per cent of the total wage and salary bill of £2.1 million. By 1985 the number of employees had more than tripled to around 35,000 while the number of pensioners had increased by over 60 times to nearly 4,500. Salary and wage costs and superannuation had increased by much larger amounts, of course, due to the effects of inflation and increases in the standard of living. The salary and wage bill in 1985 was almost £420 million while the cost of superannuation was £36.4 million for established officers.

The annual average compound growth rate in the cost of superannuation over the period 1927-85 was 12.6 per cent and this was 3.4 per cent per annum more than the growth in the wage bill. Part of the difference between these growth rates is attributable to the much faster rate of increase in the number of pensioners than in the number of employees in the early years of the period. Hence, when the growth rates are calculated for the post-war period 1950-85 the difference in annual growth of superannuation costs over wage and salary costs is considerably reduced to 0.9 per cent. The effect of the 1947 Superannuation Act on lump sum payments shows up in this chart, as it did in the previous one, as a sharp peak in the year ending March 1948.

The series in Table 2.3 showing the number of pensioners as a percentage of the number of employees, and pension and lump sum costs as a percentage of the wage and salary bill for the central civil service are graphed in Figure 2.2. The secular increase in both these series may explain why some critics of the civil service scheme expect a significant increase in the cost of the scheme in the future. Since the foundation of the State the number of pensioners has increased from less than 1 per cent of those employed in the civil service to over

Table 2.3: *Number of pensioners, pensions, lump sums and gratuities and total superannuationtion for established officers in the central civil service and salaries, wages and allowances and number of employees in the central civil serice, 1923-85*

Year ended	Pensions and other allowances (£'000)	Lump sums and gratuities (£'000)	Total super-annuation (£'000)	Salaries, wages and allowances (£'000)	Pensions/ salaries %	Lump sum/ salaries %	Total superann./ salaries %	Number of pensioners	Number employed	Number of pensioners/ No. employed %
1923 Mar.	5.0	20.0	25.0	2,105.7	0.2	0.9	1.2	–	10,580	–
1924	4.5	12.0	16.5	2,230.1(e)	0.2	0.5	0.7	–	11,487	–
1925	7.5	16.0	23.5	2,354.6(e)	0.3	0.8	1.0	–	11,386	–
1926	14.4	20.0	34.4	2,479.0	0.6	0.8	1.4	–	12,093	–
1927	19.0	18.8	37.8	2,539.2	0.7	0.7	1.5	70	13,401	0.5
1928	23.0	22.3	45.3	2,519.9	0.9	0.9	1.8	85	13,203	0.6
1929	36.0	27.1	63.1	2,610.3	1.4	1.0	2.4	153	11,001	1.4
1930	49.0	40.1	89.1	2,522.7	1.9	1.6	3.5	193	12,383	1.6
1931	52.0	36.9	88.9	2,445.0	2.1	1.5	3.6	220	9,788	2.2
1932	53.0	34.5	87.5	2,455.4	2.2	1.4	3.6	229	9,667	2.4
1933	53.0	29.0	82.0	2,464.5	2.2	1.2	3.3	241	10,012	2.4
1934	57.8	31.5	89.3	2,556.9	2.3	1.2	3.5	258	10,530	2.5
1935	65.9	33.5	99.4	2,799.6	2.4	1.2	3.6	294	10,491	2.8
1936	71.8	34.5	106.3	3,101.6	2.3	1.1	3.4	312	12,051	2.6
1937	76.1	34.5	110.6	3,234.6	2.4	1.1	3.4	336	12,633	2.7
1938	80.6	59.0	139.0	3,504.4	2.3	1.7	4.0	367	12,789	2.9
1939	90.0	40.0	130.0	3,606.8	2.5	1.1	3.6	414	13,505	3.1
1940	97.1	56.8	153.9	3,890.0	2.5	1.5	4.0	448	13,990	3.2
1941	108.4	81.0	189.4	3,935.0	2.8	2.1	4.8	488	14,566	3.4
1942	117.0	62.8	179.8	4,062.5	2.9	1.5	4.4	529	14,584	3.6
1943	133.0	69.5	202.5	4,442.1	3.0	1.6	4.6	593	15,362	3.9
1944	149.3	88.9	238.2	4,634.9	3.2	1.9	5.1	654	16,165	4.0
1945	169.0	93.5	262.5	5,289.8	3.2	1.8	5.0	711	16,456	4.3
1946	203.0	105.4	308.4	5,372 1	3.8	2.0	5.7	793	17,099	4.6
1947	220.0	112.4	332.4	6,184.7	3.6	1.8	5.4	821	16,886	4.9
1948	257.0	277.4	534.4	6,273.7	4.1	4.4	8.5	904	16,349	5.5
1949	295.0	176.0	471.0	7,312.2	4.0	2.4	6.4	956	17,033	5.6
1950	324.0	167.0	491.0	7,337.6	4.4	2.3	6.7	1,045	17,890	5.8
1951	351.0	128.0	479.0	7,775.1	4.5	1.6	6.2	1,118	19,747	5.7
1952	385.0	166.0	551.0	9,786.5	3.9	1.7	5.6	1,223	21,220	5.8
1953	397.0	167.5	564.0	9,733.6	4.1	1.7	5.8	1,248	24,173	5.2
1954	433.5	181.5	615.0	10,977.7	3.9	1.7	5.6	1,313	24,151	5.4
1955	475.5	240.5	715.0	10,864.6	4.4	2.2	6.6	1,372	23,639	5.8
1956	525.0	255.0	780.0	12,260.6	4.3	2.1	6.4	1,471	24,378	6.0
1957	577.0	244.6	821.6	12,588.5	4.6	1.9	6.5	1,542	24,325	6.3
1958	609.0	230.0	839.0	12,631.9	4.8	1.8	6.6	1,604	24,646	6.5
1959	650.0	267.9	917.9	13,596.5	4.8	2.0	6.8	1,681	24,007 (e)	7.0

Table 2.3: *continued*

Year ended	*Pensions and other allowances (£'000)*	*Lump sums and gratuities (£'000)*	*Total super-annuation (£'000)*	*Salaries, wages and allowances (£'000)*	*Pensions/ salaries %*	*Lump sum/ salaries %*	*Total superann./ salaries %*	*Number of pensioners*	*Number employed*	*Number of pensioners/ No. employed %*
1960	699.5	269.9	969.4	14,917.0	4.7	1.8	6.5	1,750	23,369	7.5
1961	749.2	375.0	1,124.2	15,390.6	4.9	2.4	7.3	1,797	23,784	7.6
1962	841.0	360.0	1,201.0	16,266.1	5.2	2.2	7.4	1,931	23,534	8.2
1963	912.0	427.0	1,339.0	18,237.1	5.0	2.3	7.3	2,022	23,748	8.5
1964	959.4	411.0	1,370.4	18,536.0	5.2	2.2	7.4	2,134	24,857	8.6
1965	1,078.1	430.0	1,508.1	22,503.5	4.8	1.9	6.7	2,245	24,899	9.0
1966	1,213.0	563.0	1,776.0	24,478.0	5.0	2.3	7.3	2,326	25,690	9.1
1967	1,310.0	550.0	1,860.0	25,603.7	5.1	2.1	7.3	2,455	25,727	9.5
1968	1,453.1	551.0	2,004.1	26,534.9	5.5	2.1	7.6	2,596	25,328	10.2
1969	1,565.5	561.0	2,126.5	29,913.2	5.2	1.9	7.1	2,679	25,493	10.5
1970	1,679.6	592.0	2,271.7	32,419.8	5.2	1.8	7.0	2,719	25,607	10.6
1971	1,912.8	622.9	2,535.7	38,360.9	5.0	1.6	6.6	2,669	25,579	10.4
1972	2,088.6	720.0	2,808.6	46,714.5	4.5	1.5	6.0	2,696	26,663	10.1
1973	2,425.0	954.7	3,379.7	53,595.3	4.5	1.8	6.3	2,710	27,375	9.9
1974	2,962.0	1,150.0	4,112.0	63,168.5	4.7	1.8	6.5	2,755	28,216	9.8
1975 Dec.	4,566.0	2,005.0	6,571.0	79,351.2	5.8	2.5	8.3	2,781	30,018	9.6
1976	6,050.0	2,663.0	8,713.0	103,183.3	5.9	2.6	8.4	3,041	30,977	9.8
1977	6,970.0	3,164.9	10,134.9	117,916.4(e)	5.9	2.7	8.6	3,224	31,943	10.1
1978	8,400.0	3,524.0	11,924.0	132,649.4(e)	6.3	2.7	9.0	3,374	32,250	10.5
1979	10,939.0	5,001.0	15,940.0	156,677.7(e)	7.0	3.2	10.2	3,504	32,605	10.7
1980	13,000.0	5,784.0	18,784.0	180.706.0	7.2	3.2	10.4	3,433	34,352	10.0
1981	16,583.0	7,087.0	23,670.0	264,500.0	6.3	2.7	8.9	3,624	36,137	10.0
1982	20,115.0	6,830.0	26,945.0	290,800.0	6.9	2.3	9.3	3,720	39,398	9.4
1983	22,398.0	7,617.0	30,015.0	320,700.0	7.0	2.4	9.4	3,970	38,983	10.2
1984	26,224.0	8,599.0	34,823.0	392,000.0	6.7	2.2	8.9	4,237	36,600	11.6
1985	27,631.0	8,800.0	36,431.0	416,000.0	6.6	2.1	8.8	4,360	35,100	12.4

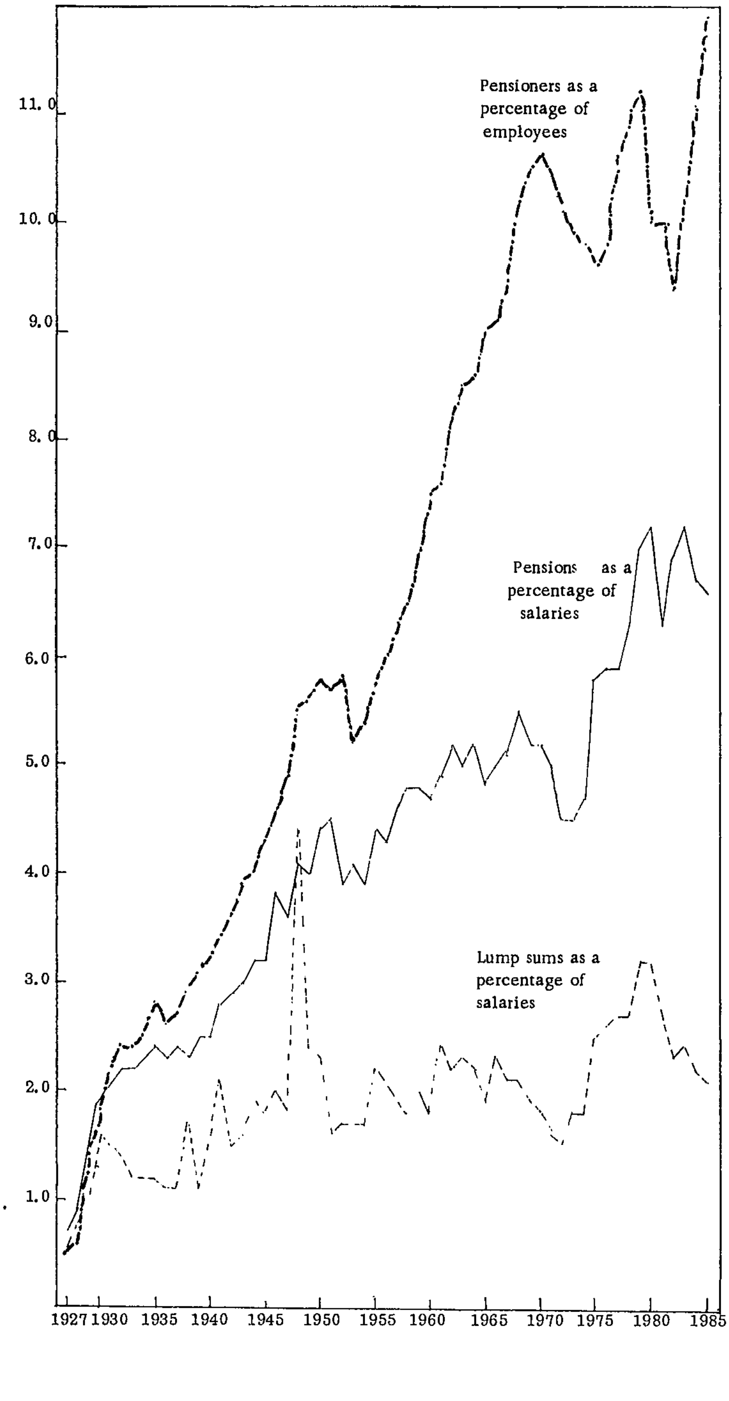
Sources: Estimates for Public Service 1923/24 to 1951/52, Ross (1983, Tables C.3 and and C.23) and Ross (1986, Table 1 and Table A2.9) and Department of the Public Service, Pay Policy Section and Staff Information Section.

e Estimated by linear interpolation.

Notes:
1. The figures for the number of employees from 1923 to 1950 are derived by subtracting the number of employees in Posts and Telegraphs given in the Estimates for Public Services for these years from the figures for total employees in the civil service given in Ross (1986, Table 1).
2. The figures for the number of employees from 1951 onwards are taken from Ross (1986, Table 108).
3. The salary and wage figures from 1923 to 1958 are derived by subtracting the salary and wage figures for Posts and Telegraphs from the total remuneration figures in Ross (1986, Table 1).
4. The salary and wage figures from 1959 onwards are derived by adding the cost data in Ross (1983) in Table C.3 for non-industrial civil servants, in Table C.23 for employees, other than industrial workers not included in the civil service Staff Information System, and the cost data in Ross (1986, Table A2.9) for industrial civil servants.

12 per cent now. This increase has been accompanied by an increase in the cost of superannuation from around 1 per cent of the wage bill in the 1920s to about 9 per cent today. If the number of pensioners as a percentage of the number

Figure 2.2: *Central civil service pensioners as a percentage of employees, pensions and lump sums as a percentage of salaries, 1927-83 (established officers)*



employed in the civil service continues to increase in the future, as it has in the past, it might be assumed that pension costs will increase proportionally. This assumption, however, leaves out of account the decrease which has occurred in the ratio of the average pension to average earnings in the civil service. This ratio declined from 1.433 in 1927 to 0.535 in 1985. If it continues to decline towards half of the average salary in the future it could offset part of the expected increase in pension costs.

The data on pension costs can be organized around a simple identity:

$$P/S \quad = \quad b/e \times R/C \qquad 2.1$$

where P is pension costs, S is wage and salary costs, b is average pension, e is average earnings in the civil service, R is the number of pensioners, and C is the number of civil servants employed. It follows from this identity that:

$$\mathrm{dln}(P/S) \quad = \quad \mathrm{dln}(b/e) + \mathrm{dln}(R/C) \qquad 2.2$$

Since $\mathrm{dln}(Y)/N = (\ln(Y)_t - \ln(Y)_{t-n})/N$ is approximately the average annual continuous rate of change in the variable Y over the N years between T and T − N, the annual rate of change in pension costs as a percentage of the wage and salary bill can be looked at in terms of changes in average pension relative to average earnings and changes in the number of pensioners relative to the number employed.

Between 1927 and 1985 pension costs relative to the wage and salary bill increased by about 3.4 per cent per annum due to an increase of around 3.7 per cent per annum in the ratio of pensioners to civil servants and a decrease of about 0.3 per cent per annum in the ratio of the average pension to average earnings. Given information on the expected number of pensioners relative to the expected number of civil servants and an assumption about the ratio of average pension to average earnings Equation 2.2 can be used to estimate pension costs as a percentage of payroll costs in the future. If we assume that the proportion of pensioners goes up by a fifth from 12.4 per cent of those employed in 1985 to 15 per cent in 2015 while the ratio of average pension to average earnings declines from 0.535 in 1985 to 0.50 in 2015 (i.e., the average pension declines to half the average wage) pension costs would rise from 6.6 per cent of the wage bill in 1985 to around 7.5 per cent in 2015. If the cost of lump sum payments remains at around 2.5 per cent of the wage bill (their average level during the period 1980-85) total superannuation costs would increase from 8.8 per cent in 1985 to about 10.0 per cent in 2015. If we make the more extreme assumption that the proportion of pensioners doubles in the next 30 years while the average pension declines to around half of the average salary pension costs could be expected to rise to about 12.4 per cent of the wage bill while the total cost of superannuation would rise to around 15.0 per cent of payroll when the cost of lump sum payments are included.

Pension costs for the central civil service are expected to remain relatively constant in real terms during the next 30 years according to the unpublished study which the Minister of State for the Departments of Finance and the Public Service, Mr. J. O'Keefe, commented on in the press release referred to previously. Hence, pension costs over the next 30 years are more likely to show a modest increase to around 10 per cent of the wage and salary bill for the civil service rather than the dramatic increase which some commentators appear to expect.

Unestablished Officers' Pensions

Data on the cost of pensions for unestablished officers in the central civil service since the year ending March 1923 and on the number of pensioners since the beginning of the 1970s, when this information was first published for these officers, is presented in Table 2.4. The table shows that for very nearly a half a century, from 1923 to 1973, the cost of pensions, lump sums and gratuities for unestablished officers in the central civil service never rose above one half of one per cent of the central civil service wage and salary bill and that since 1973 it has never risen above one and three quarters per cent. Ross's (1983, Table 3.8) data on the number of civil servants in the established and unestablished categories in various years from 1932 to 1975 show that unestablished officers have always accounted for a significant proportion of total employment in the civil service although this proportion has declined steadily over the years from approximately two-fifths in 1932 to about one-fifth in 1975. Most of the unestablished posts in the civil service were found in the Post Office, (See Ross, 1983, Table 3.9).

The data on the composition of the civil service by method of recruitment together with that on the cost of superannuation suggests that established officers have received preferential treatment in their pension arrangements when compared with unestablished officers. For most of the period we are concerned with, unestablished officers had no entitlement to a pension under the Superannuation Acts and the most they could expect on retirement from the civil service was an *ex gratia* payment at the discretion of the Minister for Finance. Formal arrangements for a non-contributory pension scheme for unestablished officers were introduced in 1970 when provision was made for them to receive a pension calculated at the rate of $^1/_{80}$th of pay, less twice the contributory old age pension payable to a single man at the date of retirement, for each year of service up to a maximum of half of final pay. A lump sum of $^3/_{80}$ths of pay per year of pensionable service is also payable up to a maximum of one and a half year's pay. The lump sum is not subject to deduction in respect of the contributory old age pensions, (see Dooney, pp. 87-88). The terms of the scheme

Table 2.4: *Number of pensioners, pensions, allowances and gratuitiess for unestablished officers in the central civil service and salaries, wages and allowances and number of employees in the central civil service, 1923-85*

Year ended	*Pensions, allowances and gratuities and payments in respect of trans. serv. (£'000)*	*Salaries wages and allowances (£'000)*	*Pensions/ salaries*	*Number of Employed*	*Number employed*	*Number of pensioners/ no. employed*
1923 Mar.	2.3	2,105.7	0.11	–	10,580	–
1924	2.3	2,230.1(e)	0.10	–	11,487	–
1925	2.3	2,354.6(e)	0.10	–	11,386	–
1926	2.3	2,479.0	0.09	–	12,093	–
1927	1.6	2,539.2	0.06	–	13,401	–
1928	2.0	2,519.9	0.08	–	13,203	–
1929	3.5	2,610.3	0.13	–	11,001	
1930	3.5	2,522.7	0.14	–	12,383	–
1931	3.5	2,455.0	0.14	–	9,788	–
1932	3.0	2,455.4	0.12	–	9,667	–
1933	2.5	2,464.5	0.10	–	10,012	–
1934	2.3	2,556.9	0.09	–	10,530	–
1935	2.8	2,799.6	0.10	–	10,491	–
1936	2.4	3,101.6	0.08	–	12,051	–
1937	2.4	3,234.6	0.07	–	12,633	–
1938	2.7	3,504.4	0.08	–	12,789	–
1939	2.7	3,606.8	0.07	–	13,505	
1940	3.0	3,890.0	0.08	–	13,990	–
1941	3.5	3,935.0	0.09	–	14,566	–
1942	2.9	4,062.5	0.07	–	14,584	–
1943	2.9	4,442.1	0.07	–	15,362	–
1944	3.0	4,634.9	0.06	–	16,165	–
1945	4.5	5,289.8	0.09	–	16,456	–
1946	4.4	5,372.1	0.08	–	17,099	–
1947	6.0	6,184.7	0.10	–	16,886	–
1948	13.5	6,273.7	0.22	–	16,349	–
1949	15.0	7,312.2	0.21	–	17,033	
1950	10.5	7,337.6	0.14	–	17,890	–
1951	10.5	7,775.1	0.14	–	19,747	–
1952	11.0	9,786.5	0.11	–	21,220	–
1953	11.0	9,733.6	0.11	–	24,173	–
1954	12.0	10,977.7	0.11	–	24,151	–
1955	14.5	10,864.6	0.13	–	23,639	–
1956	13.5	12,260.6	0.11	–	24,378	–
1957	15.0	12,588.5	0.12	–	24,325	–
1958	13.5	12,631.9	0.11	–	24,646	–
1959	15.0	13,596.5	0.11	–	24,007(e)	–

Table 2.4: *continued*

Year ended	*Pensions, allowances and gratuities and payments in respect of trans. serv. (£'000)*	*Salaries wages and allowances (£'000)*	*Pensions/ salaries*	*Number of Employed*	*Number employed*	*Number of pensioners/ no. employed*
1960	15.0	14,917.0	0.10	–	23,369	–
1961	25.0	15,390.6	0.16	–	23,784	–
1962	40.0	16,266.1	0.25	–	23,534	–
1963	37.0	18,237.1	0.20	–	23,748	–
1964	35.0	18,536.0	0.19	–	24,857	–
1965	39.0	22,503.5	0.17	–	24,899	–
1966	39.0	24,478.0	0.16	–	25,690	–
1967	61.0	25,603.7	0.24	–	25,727	–
1968	84.0	26,534.9	0.32	–	25,328	–
1969	119.0	29,913.2	0.40	–	25,493	
1970	120.0	32,419.8	0.37	–	25,607	–
1971	209.3	38,360.9	0.55	–	25,579	–
1972	340.0	46,714.5	0.73	–	26,663	–
1973	602.0	53,595.3	1.12	432	27,375	1.6
1974	489.0	63,168.5	0.77	622	28,216	2.2
1975 Dec.	689.0	79,351.2	0.87	922	30,018	3.1
1976	1,050.0	103,183.3	1.02	1,303	30,977	4.2
1977	2,005.0	117,916.4	1.70	1,535	31,943	4.8
1978	2,250.0	132,649.9	1.70	2,107	32,250	6.5
1979	2,000.0	156,677.7(e)	1.28	2,364	32,605	7.3
1980	2,882.0	180,706.0	1.59	2,498	34,352	7.3
1981	4,392.0	264,500.0	1.66	3,099	36,137	8.6
1982	4,178.0	290,800.0	1.44	3,456	39,398	8.8
1983	5,068.0	320,700.0	1.58	3,820	38,983	9.8
1984	6,244.0	392,000.0	1.59	4,400	36,600	12.0
1985	6,070.0	416,000.0	1.46	4,696	35,100	13.4

Sources: Estimates for Public Services 1923/24 to 1985 and Department of the Public Service Pay Policy Section and Staff Information System.

e Estimated by linear interpolation.

were subsequently improved with the introduction in 1978 of a contributory widows' and orphan's scheme and an *ex gratia* scheme for pre-1978 widows' and orphan's.

2.5: Combined Cost of P & T and Central Civil Service Pensions

The data relating to pension costs for established officers in the central civil service and the Department of Posts and Telegraphs can be brought together to provide information about pension costs in the two main divisions of the civil service. This is done in Table 2.5. In the first year of the State's existence the total number of civil servants employed was 21,035, while the number of pensioners entitled to a pension or lump sum under the Superannuation Acts was less than 250. In the last year for which information is available for both the Department of Posts and Telegraphs and the central civil service, 1983, the number of civil servants had more than tripled to 70,001 while the number of pensioners with established officer status had increased almost 25 times to 6,112. The salary and wage bill in 1923 was less than £4 million while total superannuation cost less than £60,000 or around 1½ per cent of the wage bill. By 1983 the salary and wage bill for the whole civil service had grown to nearly £600 million and total superannuation cost nearly £42 million or 7.3 per cent of the cost of wages and salaries.

Annual average compound growth rates for the pension, salary and employment series for the civil service are given in Table 2.6 for each decade in the period 1920-80. In the early years of Independence the annual compound growth rate in the number of pensioners was over 20 per cent compared to less than 2 per cent growth in the number of employees. This difference was primarily due to transferred civil servants taking up the early retirement option available under the Treaty to those who considered that their terms of employment had been altered to their detriment by the Irish Government. Legislation was introduced in 1929 which forced civil servants seeking early retirement under Article 10 of the Treaty to submit their case for adjudication and this partly accounted for the annual growth rate in the number of pensioners halving to 10.1 per cent in the decade 1930-40. During the period 1923-50 the annual growth rate in the number of pensioners and in the cost of superannuation was considerably in excess of the annual growth rate in the number of employees and the cost of wages and salaries. Consequently, as can be seen from Figure 2.3 pension costs as a percentage of the wage and salary bill increased from less than 1 per cent in 1927 to 4.5 per cent in 1950. In the following two decades there was a much closer correspondence between the growth rates for pensioners and employees and pension costs stabilised at around 5 per cent of the wage and salary bill or around 7 per cent when the cost of lump sum payments is taken into account. Due to expansion in the number of persons recruited into the civil service the annual growth rate for pensioners was less than the growth rate for employees in the decade 1970-80 and pension costs as a percentage of salaries fell during the first half of the decade. However, they resumed their upward course in the mid-1970s when they increased from about 4 per cent to around 5 per cent by 1980 or from 5.5 per cent to over 7 per cent when lump sum costs are included.

Table 2.5: *Number of pensioners, lump sums and gratuities and total superannuation for established officers in the civil service and salaries, wages and allowances and number of employees, 1923-83*

Year ended	*Pensions and other allowances (£'000)*	*Lump sums and gratuities (£'000)*	*Total super-annuation (£'000)*	*Salaries, wages and allowances (£'000)*	*Pensions/ salaries %*	*Lump sum/ salaries %*	*Total superann./ salaries %*	*Number of pensioners*	*Number employed*	*Number of pensioners/ No. employed %*
1923	-	-	-	3,943.9	-	-	-	-	21,035	-
1924	-	53.6	-	3,961.9	-	1.4	-	-	21,269	-
1925	-	34.8	-	3,978.3	-	0.9	-	-	21,538	-
1926	-	32.9	-	4,073.4	-	0.8	-	-	21,758	-
1927	33.0	31.7	64.7	4,061.7	0.8	0.8	1.6	247	22,885	1.1
1928	39.8	34.4	74.2	4,040.2	1.0	0.9	1.8	267	22,708	1.2
1929	54.2	38.8	93.0	4,074.6	1.3	1.0	2.3	354	23,349	1.5
1930	70.7	55.9	126.6	3,919.8	1.8	1.4	3.2	438	23,796	1.8
1931	77.9	52.9	130.8	3,818.9	2.0	1.4	3.4	510	21,817	2.3
1932	82.9	52.0	134.6	3,819.5	2.2	1.4	3.5	567	21,616	2.6
1933	86.6	47.6	134.2	3,781.1	2.3	1.3	3.5	625	21,793	2.9
1934	95.7	50.3	146.0	3,791.4	2.5	1.3	3.9	689	22,141	3.1
1935	105.6	52.5	158.1	4,025.9	2.6	1.3	3.9	761	22,037	3.5
1936	115.0	52.9	167.9	4,321.1	2.7	1.2	3.9	823	23,573	3.5
1937	123.8	53.3	177.1	4,505.4	2.7	1.2	3.9	884	24,549	3.6
1938	134.7	79.2	213.3	4,882.8	2.8	1.6	4.4	961	25,113	3.8
1939	150.4	70.7	221.1	5,065.1	3.0	1.4	4.4	1,050	26,023	4.0
1940	164.8	80.0	244.8	5,383.8	3.1	1.5	4.5	1,146	26,775	4.3
1941	181.9	104.2	286.1	5,480.8	3.3	1.9	5.2	1,236	27,411	4.5
1942	192.7	95.1	287.8	5,629.0	3.4	1.7	5.1	1,299	27,400	4.7
1943	215.6	99.7	315.3	6,106.5	3.5	1.6	5.2	1,408	28,176	5.0
1944	238.1	118.5	356.6	6,472.3	3.7	1.8	5.5	1,512	29,081	5.2
1945	262.2	135.6	397.8	7,302.2	3.6	1.9	5.4	1,599	29,546	5.4
1946	318.3	177.0	495.3	7,655.6	4.2	2.3	6.5	1,725	30,333	5.7
1947	338.1	176.4	514.5	8,784.5	3.8	2.0	5.9	1,818	30,489	6.0
1948	388.3	406.1	794.4	9,129.8	4.3	4.4	8.7	1,980	31,179	6.4
1949	431.5	254.3	685.8	10,322.4	4.2	2.5	6.6	2,039	32,171	6.3
1950	483.1	244.2	727.3	10,664.9	4.5	2.3	6.8	2,181	33,485	6.5
1951	541.3	202.8	744.1	11,174.2	4.8	1.8	6.7	2,312	35,681	6.5
1952	589.1	237.2	826.3	13,260.7	4.4	1.8	6.2	2,457	37,407	6.6
1953	603.0	240.9	843.9	13,777.4	4.4	1.7	6.1	2,471	40,361	6.1
1954	649.0	243.7	892.7	15,043.8	4.3	1.6	5.9	2,546	40,823	6.2
1955	698.1	296.7	993.8	15,343.2	4.5	1.9	6.5	2,611	40,528	6.4
1956	767.6	333.2	1,100.8	17,255.4	4.4	1.9	6.4	2,725	41,241	6.6
1957	830.0	349.1	1,179.4	17,808.5	4.7	2.0	6.6	2,812	41,003	6.9
1958	881.0	319.5	1,200.5	17,847.9	4.9	1.8	6.7	2,839	41,073	6.9
1959	937.0	350.2	1,287.2	18,784.5	5.0	1.9	6.9	2,942	40,071(e)	7.3

Table 2.5: *continued*

Year ended	*Pensions and other allowances (£'000)*	*Lump sums and gratuities (£'000)*	*Total super-annuation (£'000)*	*Salaries, wages and allowances (£'000)*	*Pensions/ salaries %*	*Lump sum/ salaries %*	*Total superann./ salaries %*	*Number of pensioners*	*Number employed*	*Number of pensioners/ No. employed %*
1960	997.5	355.5	1,353.0	20,490.3	4.9	1.7	6.6	3,015	39,548	7.6
1961	1,066.4	478.0	1,544.4	22,909.4	4.7	2.1	6.7	3,048	40,105	7.6
1962	1,171.0	476.6	1,647.6	23,981.7	4.9	2.0	6.9	3,196	40,113	8.0
1963	1,279.1	564.4	1,843.5	27,197.4	4.7	2.1	6.8	3,289	40,814	8.1
1964	1,366.4	552.1	1,918.5	27,791.0	4.9	2.0	6.9	3,380	42,303	8.0
1965	1,499.5	561.9	2,061.4	32,166.5	4.7	1.7	6.4	3,496	42,997	8.1
1966	1,666.0	706.0	2,372.6	37,128.0	4.5	1.9	6.4	3,553	44,359	8.0
1967	1,780.0	661.0	2,441.0	38,703.7	4.6	1.7	6.3	3,672	44,650	8.2
1968	1,945.1	683.4	2,628.5	41,301.9	4.7	1.7	6.4	3,789	44,208	8.6
1969	2,112.7	716.6	2,829.3	47,102.2	4.5	1.5	6.0	3,891	44,601	8.7
1970	2,288.7	833.0	3,121.7	52,322.8	4.4	1.6	6.0	3,954	45,367	8.7
1971	2,623.8	886.9	3,510.7	63,805.9	4.1	1.4	5.5	3,931	46,079	8.5
1972	2,976.6	1,025.0	4,001.6	77,607.5	3.8	1.3	5.2	3,996	47,551	8.4
1973	3,408.0	1,318.2	4,726.2	87,910.3	3.9	1.5	5.4	4,015	49,155	8.2
1974	4,219.0	1,574.0	5,793.0	105,187.5	4.0	1.5	5.5	4,115	50,837	8.1
1975 Dec.	6,392.0	2,768.0	9,160.0	144,741.2	4.4	1.9	6.3	4,271	57,251	7.5
1976	8,205.0	3,572.0	11,777.0	183,347.3	4.5	1.9	6.4	4,445	58,210	7.6
1977	9,650.0	4,340.9	13,990.9	209,211.4	4.6	2.1	6.7	4,692	59,182	7.9
1978	11,176.0	4,794.0	15,970.0	237,235.4	4.7	2.0	6.7	4,885	60,923	8.0
1979	14,435.0	6,322.0	20,757.0	283,639.7	5.1	2.2	7.3	5,065	61,609	8.2
1980	17,875.0	8,221.0	26,096.0	363,991.0	4.9	2.3	7.2	5,048	64,412	7.8
1981	22,619.0	9,743.0	32,362.0	490,000.0	4.6	2.0	6.6	5,618	66,362	8.5
1982	27,266.0	9,729.0	36,995.0	531,000.0	5.1	1.8	7.0	5,760	69,917	8.2
1983	31,147.0	10,840.0	41,987.0	576,000.0	5.4	1.9	7.3	6,112	70,001	8.7

Sources: Derived from data in Tables 2.1 and 2.3.

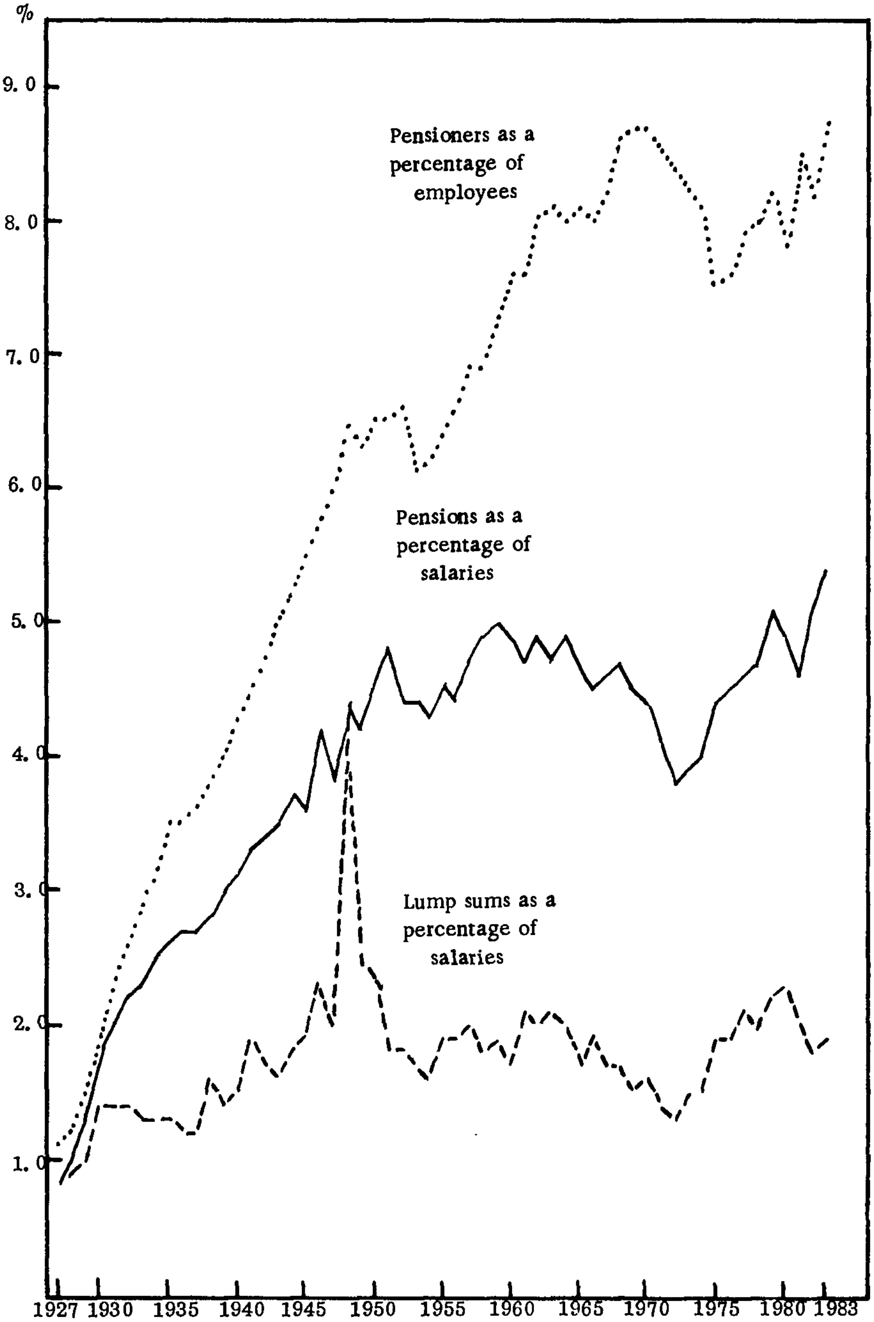
e Estimated by linear interpolation.

Table 2.6: *Annual average compound growth rates in pension, salary and employment series for the civil service, 1923-30, each decade thereafter and 1980-83*

Period	*Pensions and other allowances*	*Lump sums and gratuities*	*Total super-annuation*	*Salaries, wages and allowances*	*Number of pensioners*	*Number of employees*
1920-30	28.9[1]	0.7[2]	25.1[1]	−0.1	21.0[1]	1.8
1930-40	8.8	3.6	6.8	3.2	10.1	1.2
1940-50	11.4	11.8	11.5	7.1	6.6	2.3
1950-60	7.5	3.8	6.4	6.7	3.3	1.7
1960-70	8.7	8.9	8.7	9.8	2.7	1.4
1970-80	22.8	25.7	23.7	21.4	2.5	3.6
1980-83	20.3	9.7	17.2	16.5	6.6	2.8
1923-83	13.0[3]	9.4[4]	12.3[3]	8.7	5.93	2.0

1: 1927-30; 2: 1924-30; 3: 1927-83; 4: 1924-83.

Figure 2.3: *Civil service pensioners as a percentage of employees, pensions and lump sums as a percentage of salaries, 1927-83 (established officers)*



2.6: Cost of Widows' and Children's and Article 10 Pensions

Contributory and non-contributory pension schemes for the widows and children of civil servants were introduced in 1968 but the amounts spent on these schemes were negligible until the following fiscal year. Table 2.7 therefore provides information on the cost of these pension schemes in the Department of Posts and Telegraphs and in the central civil service from the year ending March 1970 to date. In their first full year of operation the two schemes cost less than £60,000 for the Department of Posts and Telegraphs and less than £135,000 for the central civil service. Costs rose substantially during the following years and by 1983 the two schemes for Posts and Telegraphs were costing nearly £2.5 million while for the central civil service they were costing £6.25 million. In the early years the *ex-gratia* schemes cost considerably more than the contributory schemes due to the greater number of persons eligible for non-contributory benefits. However, as the contributory scheme matured the number of persons eligible for benefits increased and the cost of the contributory scheme in both parts of the civil service surpassed the cost of the non-contributory scheme in the early 1980s. No information is available on the number of pensioners receiving benefits under these schemes from the Department of Posts and Telegraphs but the data on number of pensioners benefitting from the central civil service shows that there has been a steady growth in the number receiving contributory pensions while the number receiving non-contributory benefits has declined considerably since 1970.

Article 10 Pensions

In the years following Independence a considerable amount of the time given in the Dail to discussing superannuation for public sector employees was concerned with the arrangements which had been made for transferred officers and ex-RIC men. The cost of their pensions and allowances from 1923 to date is shown in Table 2.8. At the beginning of the period the number of persons receiving these pensions and their cost was quite substantial and considerably in excess of the corresponding figures for the civil service shown in Table 2.5. In fact, the cost of pensions and allowances under Article 10 exceeded the cost of pensions and allowances payable under the Superannuation Acts. Since the number of persons eligible for pensions or allowances under Article 10 could not be added to after Independence the number of pensioners receiving benefits had to decline once the inflow of transferred officers into retirement was offset by the outflow of retired officers due to death. The turning point occurred in 1936 and since then the number of pensioners in each of the categories identified in Table 2.8 has declined. In 1983 just over 50 pensioners were receiving benefits under Article 10 at a cost to the State of less than £65,000.

Table 2.9 and Figure 2.4 show Article 10 pensions and pensioners as

Table 2.7: *Widows' and children's pensions, 1969-85*

Year ended	*Payments under civil servants' widows' and children's pension scheme (£'000s)*	*Ex-gratia pensions for the widows and children of certain former officers (£'000s)*	*Payments under contributory pension schemes for widows and children of civil servants and members of the judiciary and court officers (£'000s)*	*Number of pensioners*	*Ex-gratia pensions for widows and children of civil servants and members of the judiciary and court officers (£'000s)*	*Number of pensioners*
	Posts and Telegraphs		*Central civil service*			
1970 Mar.	10.00	45.00	20.00	–	114.00	–
1971	17.00	90.00	40.00	117	303.00	1610
1972	39.90	82.00	70.00	164	298.00	1450
1973	48.20	114.80	166.00	200	441.00	1550
1974	62.90	163.10	267.00	242	552.00	1526
1975	134.90	246.00	449.00	396	734.00	1553
1976	155.70	269.30	660.00	492	854.00	1526
1977	291.30	301.70	732.00	431	1,135.00	1523
1978	335.60	443.40	910.00	486	1,240.00	1500
1979	482.90	572.10	1,397.00	567	1,829.00	1446
1980	787.50	882.50	1,650.00	659	2,250.00	1433
1981	1,000.50	934.50	2,315.00	732	2,590.00	1396
1982	1,104.50	1,025.50	2,923.00	815	2,808.00	1375
1983	1,356.50	1,083.50	3,334.00	875	2,912.00	1350
1984	–	–	3,990.00	986	3,132.00	1252
1985	–	–	4,350.00	1102	3,000.00	1145

Sources: Estimates for Public Services 1970/71 to 1985

Note: Increases in pensions for Posts and Telegraphs have been apportioned in proportion to expenditure on contributory and ex-gratia schemes

Table 2.8: *Compensation allowances and pensions under Article 10 of the Treaty, 1923-85*

Year ended	*Compensation allowances under Article 10 of the Treaty of 1921*		*Number of allowances*		*Pensions to resigned and dismissed RIC, including widows*	*Number of pensioners*
	Remainder of the Civil Service	*Department of Posts & Telegraphs*	*Remainder of the Civil Service*	*Department of Posts & Telegraphs*		
1923 Mar.	139,000	21,000	–	–	–	–
1924	135,000	150,000	–	–	49,000	–
1925	110,500	148,800	–	–	120,000	–
1926	118,500	120,000	371	–	70,000	523
1927	130,000	112,000	410	623	60,000	528
1928	167,000	115,420	672	629	51,000	526
1929	201,000	112,000	672	622	52,900	526
1930	203,700	111,285	662	613	55,200	557
1931	284,800	122,000	1,216	606	53,000	552
1932	227,000	79,500	1,280	813	53,000	555
1933	221,000	74,000	1,336	807	51,500	553
1934	228,000	71,035	1,318	794	57,400	555
1935	238,000	71,000	1,298	786	52,500	558
1936	229,500	70,000	1,369	783	51,500	555
1937	228,400	68,735	1,349	775	56,400	550
1938	212,800	69,400	1,309	750	54,500	595
1939	210,000	76,500	1,275	728	54,000	593
1940	198,198	69,800	1,257	705	53,500	592
1941	195,000	70,600	1,238	712	52,000	589
1942	189,500	69,400	1,195	688	53,020	588
1943	184,000	66,800	1,164	664	52,600	586
1944	177,000	64,400	1,128	645	52,000	579
1945	175,000	61,400	1,099	622	52,000	573
1946	171,000	59,500	1,060	599	51,500	567
1947	163,000	56,940	1,018	576	52,000	557
1948	160,000	54,000	986	545	51,000	550
1949	150,000	50,960	940	522	51,000	545
1950	141,000	47,500	908	490	50,000	538
1951	130,000	45,400	875	470	70,000	521
1952	110,000	41,000	800	440	65,500	509
1953	104,000	38,200	755	409	64,000	498
1954	98,000	35,700	720	383	62,500	488
1955	93,000	30,500	687	350	61,500	481
1956	88,000	29,300	657	328	60,000	467
1957	83,000	26,500	608	278	64,000	458
1958	75,000	23,000	573	256	64,000	446
1959	65,000	20,800	532	239	61,000	431

Table 2.8: *continued.*

Year ended	*Compensation allowances under Article 10 of the Treaty of 1921*		*Number of allowances*		*Pensions to resigned and dismissed RIC, including widows*	*Number of pensioners*
	Remainder of the Civil Service	*Department of Posts & Telegraphs*	*Remainder of the Civil Service*	*Department of Posts & Telegraphs*		
1960	59,000	18,000	499	208	60,400	419
1961	54,000	16,500	449	185	62,000	398
1962	50,000	16,300	405	180	60,000	380
1963	42,000	14,500	364	162	70,700	359
1964	38,000	13,100	331	150	65,359	309
1965	35,000	11,400	309	152	68,950	305
1966	32,000	10,000	287	131	69,400	303
1967	29,000	8,000	251	115	67,200	289
1968	24,000	6,700	229	100	67,600	273
1969	21,000	5,700	208	88	63,700	243
1970	19,000	5,000	190	73	67,320	232
1971	16,000	5,000	176	70	75,500	222
1972	15,650	5,000	150	69	81,000	173
1973	15,600	4,500	150	60	90,000	162
1974	15,000	4,000	152	45	93,000	140
1975 Dec.	8,000	3,000	118	34	95,000	124
1976	8,000	3,000	101	33	100,000	97
1977	7,000	3,000	83	20	96,000	55
1978	5,000	3,000	73	18	75,000	55
1979	4,500	3,000	57	18	87,000	53
1980	3,000	3,000	52	18	71,000	44
1981	2,300	1,000	43	18	74,000	34
1982	1,000	1,000	37	16	59,000	28
1983	2,500	1,000	30	14	48,000	22
1984	1,000	–	20	–	42,000	17
1985	1,000	–	20	–	40,000	13

Sources: Estimates for Public Services 1923-24 to 1985.

Table 2.9: *Total superannuation payable under Article 10 of the Treaty, total number of pensioners, civil service wage and salary bill and number of employees and superannuation and pensioners as percentages of wages and salaries and employment in the civil service 1923-1983*

Year ended	*Total superann. under Article 10 of Treaty (£'000)*	*Salaries, wages and allowances for the civil service (£'000)*	*Super-annuation/ salaries, wages and allowances %*	*Number of pensioners*	*Number employed*	*Pensioners/ employees %*
1923 Mar.	160.0	3,943.9	4.1	–	21,035	–
1924	334.0	3,961.9	8.4	–	22,269	–
1925	379.3	3,978.3	9.5	–	21,538	–
1926	308.5	4,073.4	7.6	894	21,758	4.1
1927	302.0	4,061.7	7.4	1,561	22,885	6.8
1928	333.4	4,040.2	8.3	1,827	22,708	8.0
1929	365.9	4,074.6	9.0	1,820	23,349	7.8
1930	370.2	3,919.8	9.4	1,832	23,796	7.7
1931	459.2	3,818.9	12.0	2,374	21,817	10.9
1932	359.5	3,819.5	9.4	2,648	21,616	12.3
1933	346.5	3,781.1	9.2	2,696	21,793	12.4
1934	356.4	3,791.4	9.4	2,667	22,141	12.0
1935	361.5	4,025.9	9.0	2,642	22,037	12.0
1936	351.0	4,321.1	8.1	2,707	23,573	11.5
1937	353.5	4,505.4	7.8	2,674	24,549	10.9
1938	336.7	4,882.8	6.9	2,654	25,113	10.6
1939	340.5	5,065.1	6.7	2,596	26,023	10.0
1940	321.5	5,383.8	6.0	2,554	26,755	9.5
1941	317.6	5,480.8	5.8	2,539	27,411	9.3
1942	311.9	5,629.0	5.5	2,471	27,400	9.0
1943	303.4	6,106.5	5.0	2,414	28,176	8.6
1944	293.4	6,472.3	4.5	2,352	29,081	8.1
1945	288.6	7,302.2	4.0	2,294	29,546	7.8
1946	282.0	7,655.6	3.7	2,226	30,333	7.3
1947	271.9	8,784.5	3.1	2,151	30,489	7.1
1948	265.0	9,129.8	2.9	2,081	31,179	6.7
1949	252.0	10,322.4	2.4	2,007	32,171	6.2
1950	238.5	10,664.9	2.2	1,936	33,485	5.8
1951	245.4	11,175.2	2.2	1,866	35,681	5.2
1952	216.5	13,260.7	1.6	1,749	37,407	4.7
1953	206.2	13,777.4	1.5	1,662	40,361	4.1
1954	196.2	15,043.8	1.3	1,591	40,823	3.9
1955	185.0	15,343.2	1.2	1,518	40,528	3.7
1956	177.3	17,255.4	1.0	1,452	41,241	3.5
1957	173.5	17,808.5	1.0	1,344	41,003	3.3
1958	162.0	17,847.9	0.9	1,275	41,073	3.1
1959	146.8	18,784.5	0.8	1,202	40,071(e)	3.0

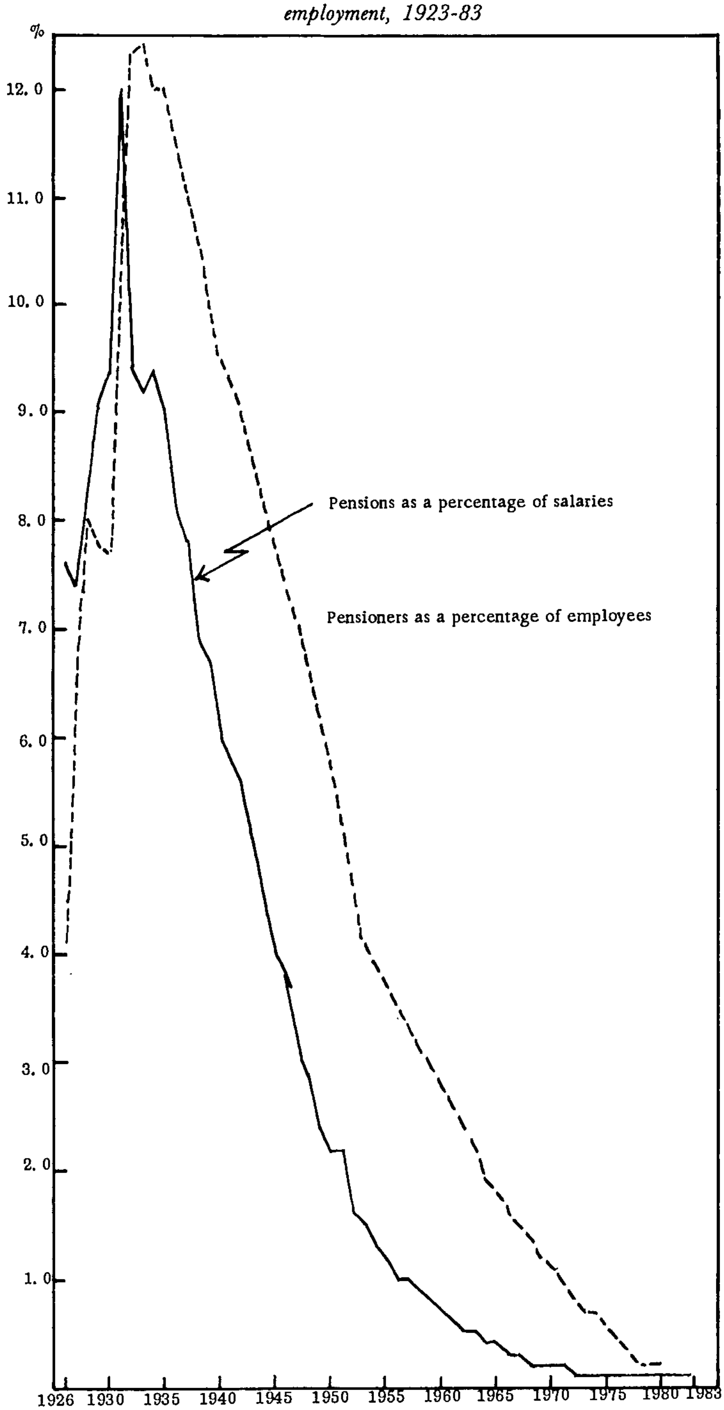
Table 2.9: *continued.*

Year ended	*Total superann. under Article 10 of Treaty (£'000)*	*Salaries, wages and allowances for the civil service (£'000)*	*Super-annuation/ salaries, wages and allowances %*	*Number of pensioners*	*Number employed*	*Pensioners/ employees %*
1960	137.4	20,490.3	0.7	1,126	39,548	2.8
1961	132.5	22,909.4	0.6	1,032	40,105	2.6
1962	126.3	23,981.7	0.5	965	40,113	2.4
1963	127.2	27,197.4	0.5	885	40,814	2.2
1964	116.5	27,791.0	0.4	790	42,303	1.9
1965	115.4	32,166.5	0.4	766	42,997	1.8
1966	111.4	37,128.0	0.3	721	44,359	1.6
1967	104.2	38,703.7	0.3	655	44,650	1.5
1968	98.3	41,301.9	0.2	602	44,208	1.4
1969	90.4	47,102.2	0.2	539	44,601	1.2
1970	91.3	52,322.8	0.2	495	45,367	1.1
1971	96.5	63,805.9	0.2	468	46,079	1.0
1972	101.7	77,607.5	0.1	392	47,551	0.8
1973	110.1	87,910.3	0.1	372	49,155	0.7
1974	112.0	105,187.3	0.1	337	50,837	0.7
1975 Dec.	106.0	144,741.2	0.1	276	57,251	0.5
1976	111.0	183,347.3	0.1	231	58,210	0.4
1977	106.0	209,211.4	0.1	158	59,182	0.3
1978	83.0	237,235.4	0.1	146	60,923	0.2
1979	94.5	283,639.7	0.1	128	61,609	0.2
1980	77.0	363,991.0	0.1	114	64,412	0.2
1981	77.3	490,000.0	0.1	95	66,362	0.1
1982	61.0	531,000.0	0.1	81	69,917	0.1
1983	51.5	576,000.0	0.1	66	70,001	0.1

Sources: Tables 2.5 and 2.8

e Estimated by linear interpolation.

Figure 2.4: *Article 10 pensions and pensioners as percentages of civil service wages and salaries and employment, 1923-83*



percentages of civil service wages and salaries and employment. The chart shows what a heavy burden was imposed by these pension costs on the public finances during the early years of the State. In 1923 superannuation costs were just over 4 per cent of the wage bill for the civil service. In the following eight years a significant number of transferred officers resigned under Article 10 of the Treaty due to disimprovements which occurred during the 1920s and early 1930s in civil service pay and conditions of service (see Appendix 1 for further details). This caused superannuations cost as a percentage of the wage bill to triple to 12 per cent by 1931. The government took action in 1929 to limit retirement under Article 10 and this was effective as the burden of Article 10 pensions reached a peak in the early 1930s and declined continuously thereafter.

2.7: Total Cost of Civil Service Pensions

All of the information presented so far in this chapter relating to pensions for established, unestablished, and transferred officers and ex-RIC men and to employment in the civil service from 1923 to 1983 is brought together in Table 2.10. In 1923 total expenditure on superannuation amounted to £162,300 or just over 4 per cent of the wage and salary bill for the civil service of £3.9 million. The cost of superannuation built up rapidly during the 1920s as transferred officers took advantage of the favourable retirement terms available under Article 10 of the Treaty and by 1931 the cost had increased to nearly £600,000. As noted previously the wage and salary bill for the civil service fell during the early 1930s due to a decrease in the price level and the combination of a declining wage and salary bill and an increasing superannuation bill pushed the burden of providing for retired civil servants in 1931 up to the highest level reached during the inter-war period.

Despite an almost continuous increase in the number of pensioners during the 1930s the cost of superannuation did not surpass its 1931 peak until ten years later when the pressure of inflation due to the Second World War began to push up the cost of wages, salaries and pensions. The number of transferred officer pensioners peaked in 1937 at 2,707 and it has decreased continuously since then. In 1983 only 66 transferred officers or ex-RIC men were still in receipt of a pension under Article 10 of the Treaty and this category of pensioner should disappear from the *Estimates for Public Service* in the next few years. Since the early 1940s the cost of superannuation has increased nearly every year just as the cost of wages and salaries has. By 1983, the last year for which data on both categories of expenditure is available, the cost of superannuation was £49.3 million while the wage and salary bill was £576 million.

Table 2.10: *Cost of superannuation for established (EO), unestablished (UO) and transferred officers (TO) and as a percentage of the civil service wage bill, number of pensioners in each category and pensioners as a percentage of numbers in the civil service 1923-85*

Year ended	Civil Service				Salaries, wages and allowances (£'000)	Superannuation/ wages %	Number of Pensioners				Number employed	Pensioners/ employed %
	EO (£'000)	UO (£'000)	TO (£'000)	Total (£'000)			EO	UO	TO	Total		
1923 Mar.	–	2.3	160.0	162.3	3,943.9	4.1	–	–	–	–	21,035	–
1924	–	3.1	334.0	337.1	3,961.9	8.5	–	–	–	–	22,269	–
1925	–	3.1	379.5	382.4	3,978.3	9.6	–	–	–	–	21,538	–
1926	–	2.2	308.5	311.6	4,073.4	7.6	–	–	894	894	21,758	4.1
1927	64.7	2.6	302.0	368.9	4,061.7	9.1	247	–	1,561	1,808	22,885	7.9
1928	74.2	2.6	333.4	410.2	4,040.2	10.2	267	–	1,827	2,094	22,708	9.2
1929	93.0	4.2	365.9	463.1	4,074.6	11.4	354	–	1,820	2,174	23,349	9.3
1930	126.6	4.0	370.2	500.8	3,919.8	12.8	438	–	1,832	2,270	23,796	9.5
1931	130.8	4.1	459.8	594.7	3,818.9	15.6	510	–	2,374	2,884	21,817	13.2
1932	134.6	3.6	359.5	497.7	3,819.5	13.0	567	–	2,648	3,215	21,616	14.9
1933	134.2	3.1	346.5	483.8	3,781.1	12.8	625	–	2,696	3,321	21,793	15.2
1934	146.0	2.9	356.4	505.3	3,791.4	13.3	689	–	2,667	3,356	22,141	15.2
1935	158.1	3.5	361.5	523.1	4,025.9	13.0	761	–	2,642	3,403	22,037	15.4
1936	167.9	3.1	351.0	522.0	4,321.1	12.1	823	–	2,707	3,530	23,573	15.0
1937	177.1	3.0	353.5	533.6	4,505.4	11.8	884	–	2,674	3,558	24,549	14.5
1938	213.3	3.3	336.7	553.3	4,882.8	11.3	961	–	2,654	3,615	25,113	14.4
1939	221.1	3.3	340.5	564.9	5,065.1	11.2	1,050	–	2,596	3,646	26,023	14.0
1940	244.8	3.7	321.5	570.0	5,383.8	10.6	1,146	–	2,554	3,700	26,775	13.8
1941	286.1	4.3	317.6	608.0	5,480.8	11.1	1,236	–	2,539	3,775	27,411	13.8
1942	278.8	3.8	303.9	595.5	5,629.0	10.6	1,299	–	2,471	3,770	27,400	13.8
1943	315.3	3.8	303.4	622.5	6,106.0	10.2	1,408	–	2,414	3,822	28,176	13.6
1944	356.6	4.1	293.4	654.1	6,472.3	10.1	1,512	–	2,352	3,864	29,081	13.3
1945	397.8	4.6	288.6	691.0	7,302.2	9.5	1,599	–	2,294	3,893	29,546	13.2
1946	495.3	5.5	282.0	782.8	7,655.6	10.2	1,725	–	2,226	3,951	30,333	13.0
1947	514.5	7.8	271.9	794.2	8,784.5	9.0	1,818	–	2,151	3,969	30,489	13.0
1948	794.4	15.4	265.0	1,074.8	9,129.8	11.8	1,980	–	2,081	4,061	31,179	13.0
1949	685.8	17.8	252.0	955,6	10,322.4	9.3	2,039	–	2,007	4,046	32,171	12.6
1950	727.3	15.0	238.5	980.8	10,664.9	9.2	2,181	–	1,936	4,117	33,485	12.3
1951	744.1	14.1	245.4	1,003.6	11,175.2	9.0	2,312	–	1,866	4,178	35,681	11.7
1952	826.3	14.6	216.5	1,057.4	13,260.7	8.0	2,457	–	1,749	4,206	37,407	11.2
1953	843.9	15.1	206.2	1,065.2	13,777.4	7.7	2,471	–	1,662	4,133	40,361	10.2
1954	892.7	16.1	196.2	1,105.0	15,043.8	7.3	2,546	–	1,591	4,137	40,823	10.1
1955	993.8	18.6	185.0	1,197.4	15,343.2	7.8	2,611	–	1,518	4,129	40,528	10.2
1956	1,100.8	19.7	177.3	1,297.8	17,255.4	7.5	2,725	–	1,452	4,177	41,241	10.1
1957	1,179.4	20.7	173.5	1,373.6	17,808.5	7.7	2,812	–	1,344	4,156	41,003	10.1
1958	1,200.5	19.5	162.0	1,382.0	17,847.9	7.7	2,839	–	1,275	4,114	41,073	10.0
1959	1,287.2	24.5	146.8	1,458.5	18,784.5	7.8	2,942	–	1,202	4,144	40,071(e)	10.3

Table 2.10: *continued.*

Year ended	*Civil Service*				*Salaries, wages and allowances*	*Superannuation/ wages*	*Number of Pensioners*				*Number employed*	*Pensioners/ employed*
	EO (£'000)	*UO (£'000)*	*TO (£'000)*	*Total (£'000)*	*(£'000)*	*%*	*EO*	*UO*	*TO*	*Total*		*%*
1960	1,353.0	23.7	137.4	1,514.1	20,490.3	7.4	3,015	–	1,126	4,141	39,548	10.5
1961	1,544.4	35.4	132.5	1,712.3	22,909.4	7.5	3,048	–	1,032	4,080	40,105	10.2
1962	1,647.6	55.0	126.3	1,828.9	23,981.7	7.6	3,196	–	965	4,161	40,113	10.4
1963	1,843.5	59.5	127.2	2,030.2	27,197.4	7.5	3,289	–	885	4,174	40,814	10.2
1964	1,918.5	57.5	116.4	2,092.4	27,791.0	7.5	3,380	–	790	4,170	42,303	9.9
1965	2,061.4	71.0	115.3	2,247.7	32,166.5	7.0	3,496	–	766	4,262	42,997	9.9
1966	2,372.6	85.7	111.4	2,569.7	37,128.0	6.9	3,553	–	721	4,274	44,359	9.6
1967	2,441.0	101.0	104.2	2,646.2	38,703.7	6.8	3,672	–	655	4,327	44,650	9.7
1968	2,628.5	134.5	98.3	2,861.3	41,301.9	6.9	3,789	–	602	4,391	44,208	9.9
1969	2,829.3	180.2	90.4	3,099.9	47,102.2	6.6	3,891	–	539	4,430	44,601	9.9
1970	3,121.7	188.0	91.3	3,401.0	52,322.8	6.5	3,954	–	495	4,449	45,367	9.8
1971	3,510.7	358.8	96.5	3,966.0	63,805.9	6.2	3,931	–	468	4,399	46,079	9.5
1972	4,001.6	498.0	101.7	4,601.3	77,607.5	5.9	3,996	–	392	4,388	47,551	9.2
1973	4,726.2	814.0	110.1	5,650.3	87,910.3	6.4	4,015	432	372	4,819	49,155	9.8
1974	5,793.0	768.0	112.0	6,673.0	105,187.5	6.3	4,115	622	337	5,074	50,837	10.0
1975 Dec.	9,160.0	1,099.0	106.0	10,365.0	144,741.2	7.2	4,271	922	276	5,469	57,251	9.6
1976	11,777.0	1,535.0	111.0	13,423.0	183,347.3	7.3	4,445	1,303	231	5,979	58,210	10.3
1977	13,990.0	2,608.0	106.0	16,704.9	209,211.4	8.0	4,692	1,535	158	6,385	59,182	10.8
1978	15,970.0	3,140.0	83.0	19,193.0	237,235.4	8.1	4,885	2,107	146	7,138	60,923	11.7
1979	20,757.0	2,882.0	94.5	23,733.5	283,639.7	8.4	5,065	2,364	128	7,557	61,609	12.3
1980	26,096.0	4,057.0	77.0	30,230.0	363,991.0	8.3	5,048	2,498	114	7,660	64,412	11.9
1981	32,362.0	5,744.0	77.3	38,183.3	490,000.0	7.8	5,618	3,099	95	8,812	66,362	13.3
1982	36,995.0	5,835.0	61.0	42,891.0	531,000.0	8.1	5,760	3,456	81	9,297	69,917	13.3
1983	41,987.0	7,240.0	51.5	49,278.5	576,000.0	8.6	6,112	3,820	66	9,998	70,001	14.3

Sources: Derived from data in Tables 2.2, 2.4, 2.5 and 2.8.
e Estimated by linear interpolation.

The annual average compound rates of growth for 1923-30, 1980-83 and each decade in between for the superannuation and employment series are shown in Table 2.11. As will be seen the annual average growth rates for the superannuation and number of pensioner series were from 1.3 to 2.3 per cent in excess of the salary and number of employee series over the period 1923-83. Consequently the cost of superannuation expressed as a percentage of the wage and salary bill doubled from 4.1 per cent in 1923 to 8.6 per cent in 1983 and the number of pensioners relative to the number of employees more than tripled from 4.1 per cent in 1926 to 14.3 per cent in 1983. The last two series are graphed in Figure 2.5 from which it will be seen that both reached a peak of approximately 15 per cent in the early 1930s, declined almost continuously until the early 1970s and began to increase thereafter. This increase occurred as the number of unestablished officers entitled to superannuation benefits under the new schemes

Table 2.11: *Annual average compound growth rates in superannuation costs for established, unestablished and transferred officers and ex-RIC men and in salary and employment series for the civil service, 1923-30, each decade thereafter and 1980-1983*

Period	*Superannuation*	*Salaries, wages, and allowances*	*Number of pensioners*	*Number of employees*
1923-30	17.5	−0.1	26.2[1]	1.8
1930-40	13.0	3.2	5.0	1.2
1940-50	5.6	7.1	1.1	2.3
1950-60	4.4	6.7	0.1	1.7
1960-70	8.4	9.8	0.7	1.4
1970-80	24.4	21.4	5.6	3.6
1980-83	17.6	16.5	9.3	2.8
1923-80	10.0	8.7	4.3	2.0

1: 1926-30.

introduced in the 1970s began to increase and as the civil servants who had been recruited to cope with the expansion in the State's activities during the Second World War retired. The historical record in relation to superannuation costs for the whole civil service since the foundation of the State shows that these costs now are a lower percentage of the wage bill than they were for most of the period since Independence.

If the civil service scheme were a self-contained pay-as-you-go scheme, like a State pension scheme covering the insured labour force, then the cost of superannuation relative to the wage bill would represent the contribution rate that would have to be paid on their earnings by those employed in the civil service. Since civil service superannuation is paid out of taxes on the working population a better measure of the burden which it imposes is to measure the cost relative to the wage and salary bill of the entire economy. This is done in Table 2.12 and Figure 2.6 for each year since 1938, the earliest year for which official national accounts are available. The table and chart show that the cost of superannuation for the whole civil service relative to the tax base from which it is financed fell from a peak of around 0.8 per cent of the national wage and salary bill to half that figure in 1974. Since 1974 the burden of civil service superannuation has increased to about 0.6 per cent of the national wage bill. Part of this increase may be due to the change in 1974 from a fiscal year to a calendar year basis in the period to which the civil service data refer. Although the burden of civil service superannuation has been getting heavier in recent years the record of the implicit annual contribution rates required to finance the shceme shown in Table 2.12 and Figure 2.6 shows that the country was able to afford considerably higher contribution rates in the past than it is required to pay at present.

Past experience is, of course, not necessarily a good guide to how civil service superannuation costs relative to the national wage and salary bill are likely to

Figure 2.5: *Established, unestablished and transferred officer pensioners as a percentage of employees in the civil service and superannuation costs as a percentage of the wage and salary bill, 1927-83*

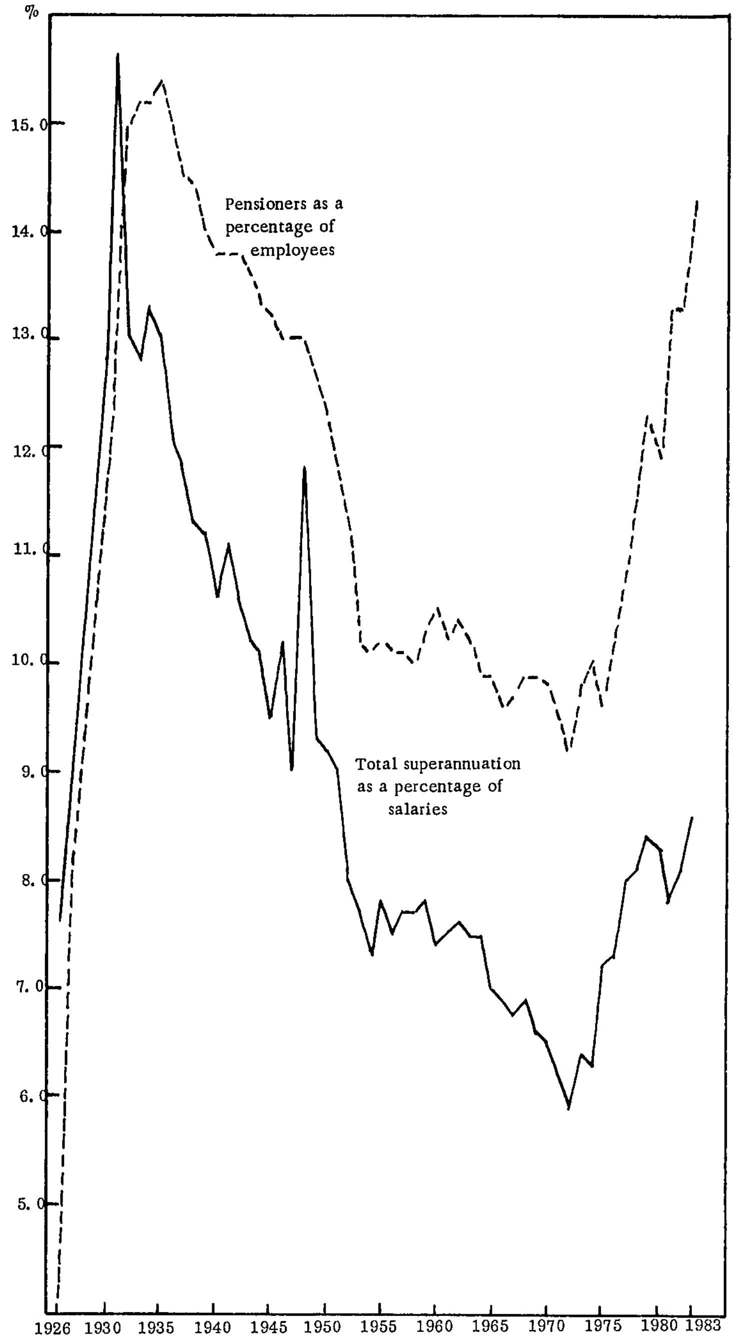


Table 2.12: *Cost of superannuation and pay for the civil service as a percentage of the national wage bill, 1938-83*

Year	*Civil service superann. (£'000)*	*National wage bill (m)*	*CS superann/ nat.wg.bl.*	*Civil service wage bill (000)*	*CS wage bill/nat. wage bill*
1938	553.30	74.60	0.7417	4,882.80	6.5453
1939	564.90	71.40	0.7912	5,065.10	7.0940
1940	570.00	74.90	0.7610	5,383.80	7.1880
1941	608.00	78.80	0.7716	5,480.80	6.9553
1942	595.50	80.30	0.7416	5,629.00	7.0100
1943	622.50	85.40	0.7289	6,106.00	7.1499
1944	654.10	103.10	0.6344	6,472.30	6.2777
1945	691.00	113.70	0.6077	7,302.20	6.4223
1946	782.80	124.90	0.6267	7,655.60	6.1294
1947	794.20	140.20	0.5665	8,784.50	6.2657
1948	1,074.80	155.70	0.6903	9,129.80	5.8637
1949	955.60	166.30	0.5746	10,322.40	6.2071
1950	980.80	179.40	0.5467	10,664.90	5.9448
1951	1,003.60	194.70	0.5155	11,175.20	5.7397
1952	1,057.40	204.50	0.5171	13,260.70	6.4844
1953	1,065.20	219.60	0.4851	13,777.40	6.2739
1954	1,105.00	228.20	0.4842	15,043.80	6.5924
1955	1,197.40	238.30	0.5025	15,343.20	6.4386
1956	1,297.80	249.50	0.5202	17,255.40	6.9160
1957	1,373.60	248.70	0.5523	17,808.50	7.1606
1958	1,382.00	257.20	0.5373	17,847.90	6.9393
1959	1,458.50	270.50	0.5392	18,784.50	6.9444
1960	1,514.10	292.70	0.5173	20,490.30	7.0004
1961	1,712.30	320.20	0.5348	22,909.40	7.1547
1962	1,828.90	354.70	0.5156	23,981.70	6.7611
1963	2,030.20	381.90	0.5316	27,197.40	7.1216
1964	2,092.40	443.00	0.4723	27,791.00	6.2734
1965	2,247.70	471.90	0.4763	32,166.50	6.8164
1966	2,569.70	511.80	0.5021	37,128.00	7.2544
1967	2,646.20	552.90	0.4786	38,703.70	7.0001
1968	2,861.30	619.30	0.4620	41,301.90	6.6691
1969	3,099.90	718.40	0.4315	47,102.20	6.5565

Table 2.12 *continued.*

Year	*Civil service superann. (£'000)*	*National wage bill (m)*	*CS superann/ nat.wg.bl.*	*Civil service wage bill (000)*	*CS wage bill/nat. wage bill*
1970	3,401.00	844.80	0.4026	52,322.80	6.1935
1971	3,966.00	979.10	0.4051	63,805.90	6.5168
1972	4,601.30	1,144.30	0.4021	77,607.50	6.7821
1973	5,650.30	1,393.10	0.4056	87,910.30	6.3104
1974	6,673.00	1,686.80	0.3956	105,187.50	6.2359
1975	10,365.00	2,155.80	0.4808	144,741.20	6.7140
1976	13,423.00	2,566.30	0.5230	183,347.30	7.1444
1977	16,704.90	3,032.40	0.5509	209,211.40	6.8992
1978	19,193.00	3,621.10	0.5300	237,235.40	6.5515
1979	23,733.50	4,495.20	0.5280	283,639.70	6.3098
1980	30,230.00	5,585.00	0.5413	363,991.00	6.5173
1981	38,183.30	6,618.30	0.5769	490,000.00	7.4037
1982	42,891.00	7,551.40	0.5680	531,000.00	7.0318
1983	49,278.50	8,209.60	0.6003	576,000.00	7.016

Sources: Cols. 2 and 5, Table 2.10; Col. 3, National Income and Expenditure, 1938-44, 1938 and 1944-50, 1969, 1970, 1972, 1973, 1974, 1970-82 (Review issued Feb. 1985), 1985, and 1986.

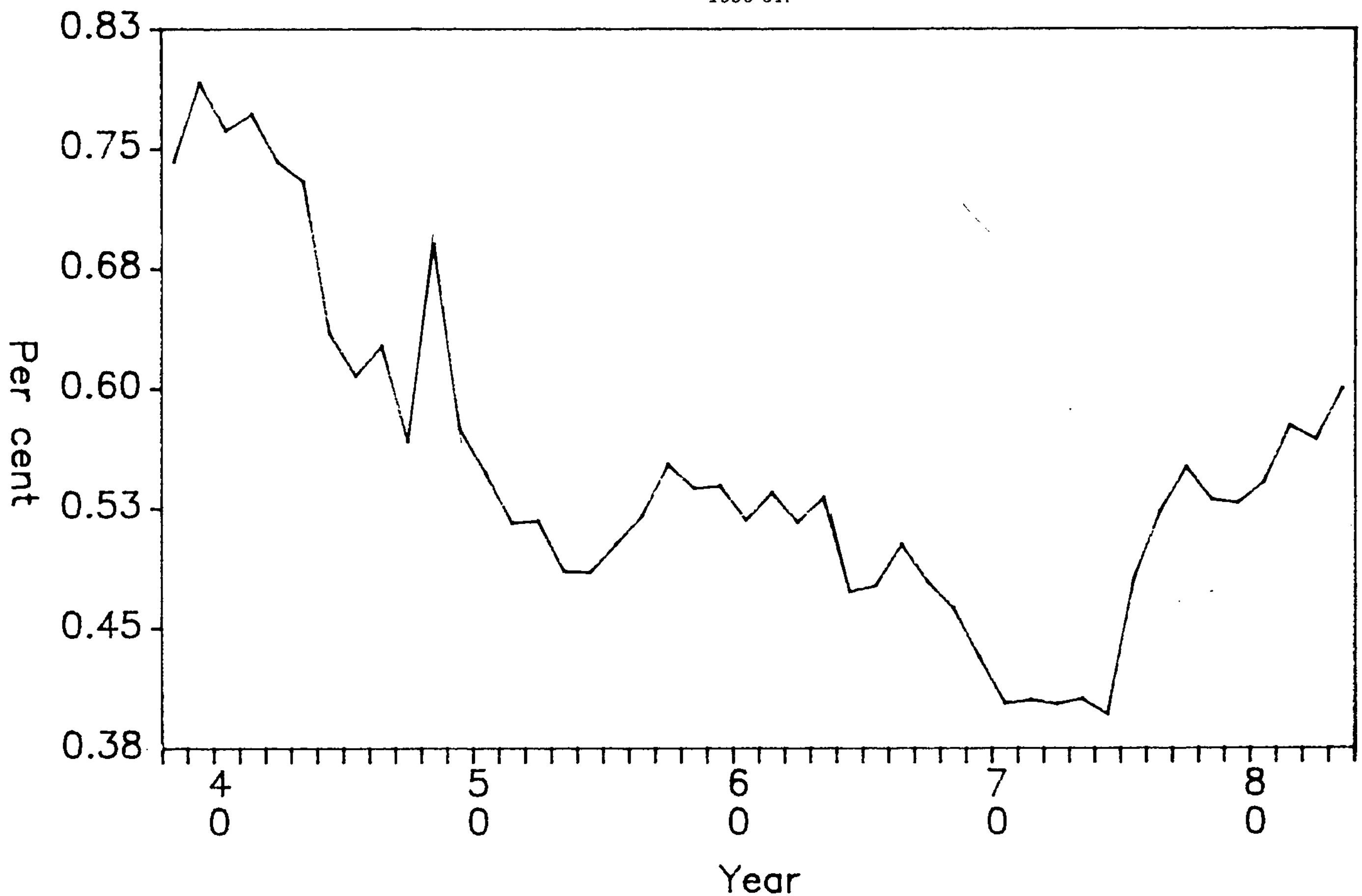
Note: (1) The figures for the national wage bill for the years 1939-43 are not directly comparable with those for subsequent years due to changes in concepts and methods.

(2) The data for the civil service refer to the fiscal year up to 1974 and to the calendar year thereafter. The data for the national wage bill refer to the calendar year.

develop in the future. Unfortunately, it is not possible to analyse the likely future development of these costs because of lack of published information on the structure of the civil service. For example, the tables which have been published from time to time in the Official Report of the Parliamentary Debates in Dail Eireann in response to Parliamentary Questions about the numbers employed in the civil service do not cross classify the data by year of recruitment, age, sex and grade. However, it will be recalled that the unpublished study of the likely cost of the civil service superannnuation scheme in the future, which the Minister of State at the Departments of Finance and the Public Service referred to in 1986, indicates that the cost of the scheme is likely to remain relatively constant in real terms during the next 30 years. The implicit contribution rate for the civil service scheme may, therefore, increase somewhat in the future but it is unlikely to increase to a level which is unaffordable as some critics of the scheme have suggested.

In view of the public interest in the future cost of the civil service superannuation scheme it is regrettable that the study to which the Minister

Figure 2.6: *Cost of civil service superannuation as a percentage of the national wage and salary bill, 1938-84.*



of State referred has not been published. Reluctance to publish information about the civil service superannuation scheme may have contributed to the view among some commentators and members of the public that it is something the country can no longer afford. It would be helpful in combatting this view and for informing the public about the likely future cost of the scheme if information on the structure of the civil service could be published in a regular official report on civil service employment, pay and pensions.

It is worth noting in passing that the picture presented in Figure 2.6 of the implicit contribution rate for the civil service superannuation scheme is very much the same as the picture presented in Figure 2.5 of the cost of this scheme relative to the civil service wage and salary bill. The reason for the similarity in the two charts is that the civil service wage and salary bill is a roughly constant proportion of the wage and salary bill for the entire economy. The series in the last column of Table 2.12 which is graphed in Figure 2.7 shows that the cost of civil service pay has fluctuated around 6.5 per cent of the economy's wage and salary bill during the last half century and that there is no evidence of either an upward or downward trend in the series.

2.8: Comparison of Civil Service Pension Costs in Ireland and Britain, 1929-64 and 1970-81

It is of interest to see how changes in the cost of the Irish scheme compare with changes in the cost of civil service pension schemes in other countries. Data on the cost of civil service pensions in Britain for the periods 1929-64 and 1970-81 are available in Rhodes (1965, p. 223) and the Scott Report (Great Britain 1981, Table 2). Unfortunately the data in these two publications are not comparable because of differences between the coverage of the wage and salary and superannuation series. Rhodes's superannuation data includes marriage gratuities whereas Scott's does not and Rhodes's wage and salary data relates only to non-industrial civil servants while Scott's covers all civil servants. These differences mean that the *level* of superannuation costs as a percentage of the wage bill in Britain during the two periods cannot be compared because Rhode's data overstates this percentage. Rhodes's data on superannuation costs as a percentage of the wage bill cannot be compared with the Irish data, for the reasons already given, but a comparison of the *trend* in pension costs in the two countries during the period 1929-64 can be made. This comparison is made in Table 2.13. It will be seen that pension costs in both countries declined from the beginning of the 1930s to the beginning of the 1950s. This trend continued in Ireland until the end of the period covered by Rhodes's data but supperannuation costs in Britain had reached their trough in 1949/50 and increased significantly thereafter. The data in the Scott Report on expenditure on retirement benefits as a

Figure 2.7: *Cost of civil service pay as a percentage of the national wage and salary bill, 1938-84.*

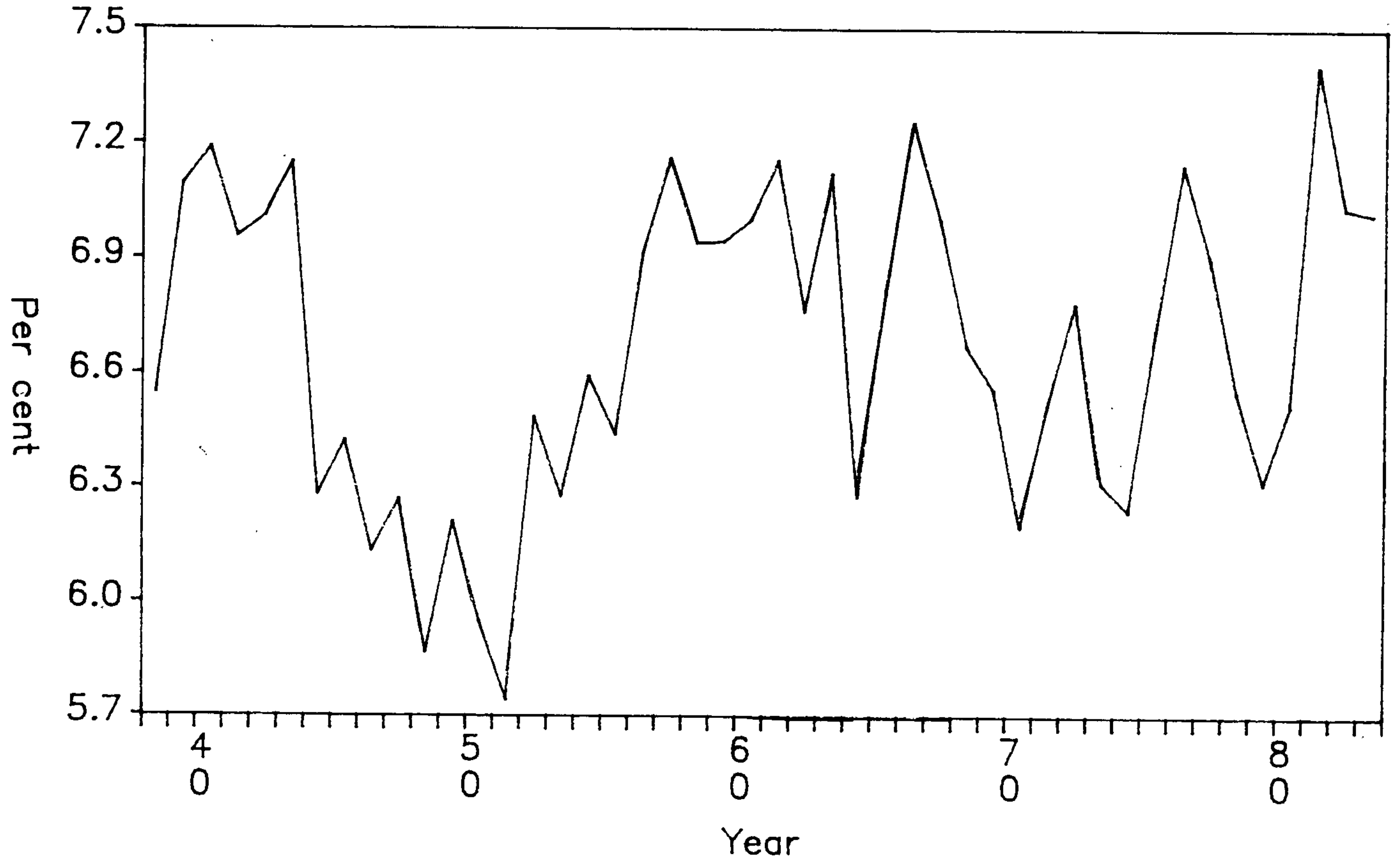


Table 2.13: *Cost of civil service superannuation in relation to wages and salaries in Ireland and Britain (including the Post Office), 1929-64 (£ million)*

	Britain					Ireland
(1) Financial year	(2) Gross cost of superannuation (excluding pensions increase)	(3) Cost of pensions increase	(4) Total gross cost (i.e., (2) + (3))	(5) Cost of salaries and wages (non industrial only)	(6) Cost of pensions as a percentage salaries	(7) Superannuation as a percentage of salaries and wages
1929-30	—	—	7.0	67	10.5	12.8
1947-48	—	—	21.7	245	9.0	11.8
1949-50	—	—	22.9	273	8.0	9.2
1950-51	—	—	25.4	298	8.5	9.0
1951-52	—	—	27.6	339	8.0	8.0
1952-53	—	—	29.8	350	8.5	7.7
1953-54	—	—	31.9	364	9.0	7.3
1954-55	31.6	2.8	34.4	386	9.0	7.8
1955-56	35.6	2.7	38.3	395	10.0	7.5
1956-57	38.0	4.5	42.5	439	10.0	7.7
1957-58	46.6	4.1	49.7	467	11.0	7.7
1958-59	53.8	3.9	57.7	484	12.0	7.8
1959-60	60.0	4.8	64.8	520	12.5	7.4
1960-61	62.7	5.6	68.3	552	12.0	7.5
1961-62	66.7	5.2	71.9	590	12.0	7.6
1962-63	70.4	6.5	76.9	620	12.0	7.5
1963-64	76.6	9.4	86.0	650	13.0	7.0

Sources: Britain. Rhodes (1965, p.233); Ireland. Table 2.10.

Notes: Col. (2) includes all payments to or for both industrial and non-industrial civil servants, including gratuities to unestablished staff and marriage gratuities.

Col. (5) relates only to non-industrial civil servants: approximately 80 per cent of non-industrial but rather less than half of industrial civil servants are pensionable under the Superannuation Acts.

Col. (6) does not, therefore, purport to give an exact figure of the cost of super- annuation in relation to the salaries and wages of those at present covered by it, but for the reasons given above these percentages are likely to be too high rather than too low.

percentage of the pay bill of the British civil service appear to be comparable to the data for the Irish civil service which was given earlier in this chapter. The data for both countries for the period 1970-81 are given in Table 2.14. This table shows that the cost of superannuation for the Irish civil service, including payments to widows and orphans, was lower throughout the period than the cost of superannuation for the British civil service. It also shows that while pension costs for both civil services increased during the 1970s the rate of increase was much greater for the British than for the Irish civil service. Consequently by the end of the 1970s superannuation costs for the British civil

Table 2.14: *Expenditure on retirement benefits as a percentage of the pay bill in British and Irish civil services, 1970-71 to 1980-81*

Financial Year	*Basic*	*Britain* *PI*	*Total*	*Ireland*
1970-71	6½	1	7½	6.9
1971-72	6½	1½	8	6.5
1972-73	7½	2	9	7.3
1973-74	8½	2½	11	7.3
1974-75	8	2½	10½	—
1975-76	8½	3	11½	8.3
1976-77	9	4	13	8.4
1977-78	9	4	13	9.2
1978-79	10½	5½	16	9.3
1979-80	11	6	17	9.9
1980-81	11½	6	17½*	9.8

Sources: Britain. Scott Report (Great Britain 1981, Table 2); Ireland. Table 2.7 and 2.10.

Notes: (1) Some figures may seem not to tally because of rounding.
(2) The figures for Ireland for 1975-76 and subsequent years refer to the calendar year.
(3) PI stands for pensions increase.
(4) Differences in the coverage of the pay bill used in deriving the British estimates in this and the previous table account for the discrepancy between the figures for Britain shown in column 6 of the previous table and the figures in the "Total" column above.

* Estimate.

service as a percentage of the wage bill were over 75 per cent larger than for the Irish civil service. The rate of increase in superannuation as a percentage of pay for the British civil service is remarkable when compared with the rate of increase for the Irish civil service because the cost relative to pay was approximately the same in the two services at the beginning of the 1970s.

Hartman (1983, Table 1.1) provides data for the period 1960 to 1980 on the cost of pay and pensions for the Federal civil service in the United States. These data exclude the Postal Service so it is not possible to say if civil service pensions cost more or less relative to wages and salaries in the United States than they do in Ireland or Britain. Changes in the trend of costs can, however, be compared and the data for the United States show that the rate of increase in civil service pension costs relative to pay has been even more dramatic there than in Ireland or in Britain during the 1970s. In 1960 in the United States pension benefits cost 7.8 per cent of pay for Federal civilian employees. By 1970 this had increased to 12.0 per cent. In the next ten years pension costs very nearly tripled to 33.6 per cent of the wage and salary bill as the number of Federal retirees increased from 959,000 to 1,675,000. The dramatic increase in the number of retirees during the 1970s was a reflection of the very large increase in federal civilian employment during the Second World War.

The experience of both Britain and the United States shows that civil service pension costs can increase significantly in a relatively short period. Although the study done by the former Department of the Public Service of the cost of the Irish civil service superannuation scheme in the future indicates that it is likely to be relatively constant in real terms over the next 30 years the matter ought to be kept under review. There should be regular official assessments of the emerging cost of civil service pensions over a long planning period to give adequate time to prepare for any significant increase in future costs.

Chapter 3

EMPLOYEE CONTRIBUTIONS TO PENSION COSTS IN THE PUBLIC AND PRIVATE SECTORS

3.1: Introduction

The data presented in the previous chapter show that the cost of retirement benefits for civil servants since Independence has varied from less than 5 per cent to over 15 per cent of the wage bill for the civil service. It is generally assumed that all of the cost of the scheme, apart from the cost of the spouses' and children's benefits, is borne by the taxpayer because the scheme is non-contributory and employees in the civil service therefore do not make an explicit contribution towards the cost of their retirement benefits. There is evidence, however, that civil servants do make implicit contributions towards the cost of different components of their superannuation scheme. We will review that evidence in this chapter and compare the contributions by civil servants and private sector employees towards the cost of their respective retirement benefits. To begin we will consider the evidence relating to employee contributions towards the cost of the British civil service scheme and we will then look at the evidence relating to employee contributions towards the cost of the Irish civil service scheme.

3.2: Employee Contributions to the British Civil Service Superannuation Scheme

In the early years of the British civil service superannuation scheme the government attempted to introduce a contributory scheme following a report by the Treasury in 1821 on the necessity for superannuation contributions by employees in the civil service. In 1822 it compelled civil servants to contribute 1½ per cent of salaries between £100-£200 and 5 per cent on salaries over £200 towards the cost of their superannuation. These contributions would have paid only half of the cost of superannuation and the remaining half was paid for by the government out of general taxation. Only two years later, however, in 1824, an Act of Parliament abolished superannuation contributions in response to opposition by civil servants who regarded their imposition as a violation of the terms on which they had entered the service. The 1824 Act also provided for the return of any contributions towards superannuation which had already been paid. In 1828 a Select Committee recommended the re-introduction of contributions as a means of reducing public expenditure and the Treasury in a Minute issued in the following year, 1829, imposed deductions of 2½ per cent on salaries up to £100 per annum and 5 per cent on salaries over £100. These contributions, however, were payable only by new entrants to the civil service and the money which was contributed was not accumulated in a fund out of which civil service pensions were to be paid in the future. In 1856, a Royal Commission was established to inquire into the operation of the civil service superannuation scheme. In its report in 1857, it drew attention to numerous anomalies in the working of the scheme, including one where officers in Post Office establishments in London, Edinburgh and Dublin were charged with deductions and received superannuation whereas officers in Liverpool, Manchester and Glasgow neither paid deductions nor received superannuation. The main anomaly, however, concerned the deduction imposed on those joining the service after 1829 and the exemption of these who joined before 1829. The Commission thought that a serious objection to the contributory scheme was that it implied the maintenance of a superannuation fund "although there was none", as Rhodes (1965, p.50) has noted. In the same year as the Commission reported, a Private Member's Act was passed finally abolishing the payment of superannuation contributions by civil servants. While other commissions, such as the Ridley Commission in 1888 and the Tomlin Commission in 1931, have argued for the introduction of a contributory scheme, the civil service schemes in both Britain and Ireland have remained non-contributory down to the present day although contributory schemes have been introduced in both countries for other parts of the public sector.

The absence of a cash contribution by civil servants towards their superannuation does not, however, mean that the total cost is borne by the State. In Britain the civil service unions have long argued that a notional contribution is made by civil servants because the government has reduced their pay below what it would be in the absence of a superannuation scheme. The Post Office Engineering Union, in a memorandum of evidence to the Priestly Commission which issued a report in 1956, contended that "superannuation benefits are taken into account by the Department (i.e., the Treasury) when fixing scales of pay, and that scales of pay are lower than they would be if superannuation did not exist" (Great Britain, 1956, p.469) and it noted that in 1903 the Royal Commission on Civil Service Superannuation asked Sir F. Mowatt, Secretary to the Treasury, if in fixing the scale of pay, a value was placed on the superannuation benefit and that he answered that this was not done on strict arithmetical calculations but that:

> of late years when we have moved men from the non-pensionable part of the Service to the pensionable part of the Service we have usually reduced their pay by something under 10 per cent. But I must explain to the Commission that does not mean a permanent reduction of 10 per cent throughout the service, but only this — that so long as they are in a particular class to which they are transferred

> that deduction is continued. When they are promoted, say from the third class into the second class above them, that deduction terminates so that practically it is very much under the 10 per cent. (Great Britain, 1956, p.469).

The union went on to note that there is a percentage relationship between the superannuation payments and the salaries and wages of different grades and that in 1930 the Postmaster General, Mr Lees-Smith, indicated that for male staff the percentage of wages (including bonus) represented by the current provisions for pension liability, following actuarial investigations, ranged from 9.62 per cent for postmen to 14.2 per cent for administrative and clerical staff, and for female staff from 9.68 per cent for telephonists and supervisors to 12.26 per cent for administrative and clerical staff. It argued that these relationships were used by the Post Office during wage negotiations to determine wages and salaries of Post Office employees. As evidence of this, the union noted that:

> in 1938, the Post Office in a written submission to the Civil Service Arbitration Tribunal stated that the civil service pension scheme, provided by the Superannuation Acts, represented an addition to the cash value of wages which was estimated by the government actuary as from 9½ per cent to 12 per cent in the case of established manipulative staff (Great Britain, 1956, p.471).

It also noted that in 1949 the Post Office submitted evidence to the Arbitration Tribunal showing that "the government actuary estimated that the cost to the Exchequer of civil service superannuation amounted to — men 15½ per cent, or 16½ per cent, and women, 12 per cent". On the basis of this evidence the union argued that "a percentage of wages is assessed for superannuation purposes. The civil servant, therefore, throughout the whole of his working life receives less pay than he would do if he were not within a superannuation scheme" (Great Britain, 1956, p.471).

The Treasury, in its written evidence to the Priestley Commission, submitted a memorandum dealing with the actuarial value of civil service pension rights in which it said that:

> The best estimate which can be made of the value of full superannuation rights for an average new entrant to the salaried grades of the Civil Service is 15 per cent of salary. This takes into account all benefits and includes the net charge falling on the Exchequer for widows' and children's and dependants' benefits, for which the participants contribute 1¼ per cent of salary. It excludes benefits under the Injury Warrants and the cost of counting unestablished service before establishment. It does not, of course, take into account future changes in salary levels.

The memorandum went on to note that the figure would be 14½ per cent for those who "would not normally be expected to have reached a salary exceeding about £800 a year at the time of retirement, and 15½ per cent for other salaried staffs" (Great Britain, 1956, p.792) and that for Post Office and other non-industrial staff outside the salaried grades the figure would be about 10 per cent. Treasury witnesses, in replying to questions by Commission members, acknowledged that were it not for the existence of the civil service superannuation scheme, civil service pay would be higher than it is. Thus, Sir Thomas Padmore, Second Secretary to the Treasury, was asked to comment on a statement made in 1928 by the Chancellor of the Exchequer, Mr Neville Chamberlain that "one of the conditions of the employment of civil servants was that part of their pay should be deferred for the purpose of providing superannuation allowance", said that, "in one sense quite clearly pensions are deferred pay, in that the man's wage packet is smaller than it would otherwise be if there were no pension expectation, and that the diminution is, in fact, as it were, notionally used in order to provide the payment made to him when he is superannuated" (Great Britain, 1956, p.813, Q.2588). The Treasury witnesses did not, however, say by how much the wage packet is reduced because of the existence of the superannuation scheme. Fortunately, a recent report on the civil service superannuation scheme by Bourn (1986, pp.404-405) is quite precise in putting a figure of 8.5 per cent of salary as the value of the reduction. Bourn notes that:

> The principal Civil Service Pension Scheme is formally a non-contributory scheme. However, this is taken into account when levels of pay are set, and in practice, therefore, officers effectively do contribute towards the cost of their superannuation benefits. The effective male employee contribution (including contributions for widows' benefits) is assessed at about 8.5% of salary. This represents about 40% of the total value of Civil Service pension benefits.

Hence, for male employees in the British civil service the total value of their pension benefits is 21.25 per cent of salary. As in the Irish case this is an average figure for the retirement system for male employees and the value of the benefits can be considerably larger for full-career civil servants as we will see in the next chapter. The British Government Actuary, for example, has estimated the value of superannuation benefits for top civil servants recruited at age 24 and retiring at age 60 in 1984 with final salary up to 4.75 times starting salary in real terms to be 28½ to 33½ per cent of salary (Great Britain, 1985, Appendix F, Table 1).

3.3: Employee Contributions to the Irish Civil Service Superannuation Scheme

The Brennan Commission did not discuss the effect which the existence of the civil service superannuation scheme had on civil service pay at the time that it was sitting in the early 1930s but it did note the implications which the scheme might have for public expenditure in the future and it recommended that an actuarial evaluation of the scheme should be carried out. This was done and a report was submitted to the Minister for Finance sometime after the matter was last referred to in Dail Eireann on 6 May 1947 (see DEPD, Vol. 105, Cols.

2068-9). The actuary's report, however, was never laid before the Houses of the Oireachtas or published by the government.

The principle that superannuation benefits are taken into account during collective bargaining over civil service pay seems to be as true for the Irish civil service as it is for the British, as the Irish civil service appears to have followed precedents laid down in Britain in regard to civil service pay and pensions. Thus, the general secretary of the Association of Higher Civil Servants, Mr John Dowling, noted in an article in *The Irish Times* on 20 August, 1985, entitled "Government May Face a United Pay Front" that "the formula put forward by the Priestley Commission in 1955, has been accepted in pay bargaining for the Irish public service for three decades" and the general secretary of the Civil Service Executive Union, Mr Daniel Murphy, stated in a letter in the *Sunday Tribune* on 25 November 1984 that:

> civil servants pay a contribution towards their pensions. My members pay a pension contribution of 9.275% of pay. This is made up as follows — (a) the basic pay is calculated at 95% of the pay arrived at by comparison with employees paying a superannuation contribution, (b) a 1½% explicit contribution on that 95%, and (c) an explicit reduction of a further 3% of the 95%.

Some of Mr Murphy's figures appear to be based on a report (No. 474) by the Civil Service Arbitration Board on a claim by his union for increases in the pay of Executive Officers, Higher Executive Officers and Administrative Officers. The report was issued on 3 May 1983 by the Chairman of the Arbitration Board, Mr Hugh Geoghegan, who recommended that the post-retirement adjustments attaching to the civil service pension scheme should be valued at 3 per cent and that a further 2 per cent deduction should be made to take account of the job security available to civil servants.

The Dail Committee on Public Expenditure in its review of the Department of the Public Service was told by the Secretary of the Department, Mr Kevin Murphy, that in making pay comparisons when fixing pay rates in the civil service it always compares in net terms and allows from 5 to 6½ per cent for the existence of superannuation in the civil service excluding the 1½ per cent which civil servants pay for widows' and orphans' pensions. He also noted that the automatic adjustment of civil service pensions to compensate for inflation is taken into account when pay claims go to arbitration and that the Review Body on Higher Remuneration in the Public Sector has:

> built in a factor of, I think, 3½ per cent to allow for post-retirement adjustments. In other words, your pay is now 3½ per cent less than it might have been were you not entitled to these automatic adjustments. In addition, in a recent arbitration finding on the executive grades we did get the arbitrator to also build in a factor for security of tenure. I think the figure he put on that was 2 per cent. (Ireland, Dail Eireann, 1985A, Q.28).

It is of interest to note that the Scott Report (Great Britain, 1981) valued post-retirement adjustments to civil service pensions in the UK at 3.8 per cent in 1980 and that it was unable to come forward with any evaluation of job security.

The figure of 3½ per cent of the pay of higher civil servants which the Department of the Public Service accepts as the value of the automatic adjustment of civil service pensions to parity with the salaries of current civil servants may be derived from the work which an actuary, Mr W. A. Honohan, was commissioned by the Devlin Review Group to do on its behalf. It was put to the group that post-retirement increases in pensions available in the public sector "are far more favourable than those generally available in the private sector" (Ireland, Department of the Public Service, 1979, p.13). The actuary secured information regarding the superannuation arrangements for chief executives in 37 of the leading companies in the private sector who occupied positions broadly comparable with top posts in the public sector. He noted that about 70 per cent of private sector companies in the sample granted post-retirement increases in pensions and that these were related broadly to the cost of living rather than to increases in salary as in the civil service. He estimated that the cost of the normal public sector pensions updating arrangements was 7 per cent versus 6 per cent for the updating arrangements provided by the private sector and he recommended that some broad adjustment between the private and public sector should be made to take account of the lack of automatic adjustment in 30 per cent of the private sector companies in the sample. Given the nature of the data available to him, the actuary suggested "the crude and rather unscientific adjustment of taking 30% of the 7% new entrant contribution rate which represents the cost of updating 80ths pensions on a salary-parity basis" (Ireland, Department of the Public Service, 1979, p.310).

In considering what value to put on the post-retirement adjustments which are automatically made to civil service pensions, the actuary indicated that:

> The most usual way in which the cost of pension arrangements is expressed is by way of the 'new entrant contribution rate'

and that

> the well known 'traditional' 15% civil service rate was presumably of this character (although this is not certain), but although it is still quoted and used for some purposes, its validity must now be discounted because it was no doubt related to the original superannuation benefits and to experience rates and economic conditions which have long ceased to be relevant (Ireland, Department of the Public Service, 1979, p.308).

This observation may have led the Department of the Public Service to revise the civil service contribution upwards to 16⅔ per cent initially and subsequently to the 18 per cent referred to by the Secretary to the Department in his evidence to the Public Expenditure Committee which has been commented upon above.

If we bring together the information given above relating to the cost to the employee of the civil service superannuation scheme, the implicit costs for different grades in the established civil service appear to be as shown in Table 3.1. Employees in the higher grades of the established civil service make an implicit contribution of 10-10½ per cent of gross salary whereas those in the lower grades contribute around 6½ per cent. Unestablished civil servants do not make an implicit contribution for either their basic pension or the post-retirement increases in the pension but they do make a direct contribution of 1.5 per cent to the widows' and children's pension scheme.

Table 3.1: *Implicit pension contribution rates for employees in the civil service in different grades, 1984*

Level of pay and reason for education in pay	*Established Officers*			*Unestablished Officers*
	AP, PO, AS, Sec.	*AO,EO, HEO.*	*Other*	
Starting point in calculating gross pay	100.00	100.00	100.00	—
First reduction in lieu of contribution for basic pension	5.00	5.00	5.00	—
	95.00	95.00	95.00	
Second reduction in lieu of contribution for post-retirement increases	3.33	2.85	—	
Gross pay	91.67	92.15	95.00	100.00
Explicit contribution for widows' and children's pension	1.38	1.38	1.43	1.5
Net pay	90.29	90.77	93.57	98.50
Total implicit pension contribution	9.71	9.23	6.43	1.50
Total implicit pension contribution rate as a percentage of gross pay	10.59	10.02	6.77	1.50

Sources: See text.

Note: AO = Administrative Officer, EO = Executive Officer, HEO = Higher Executive Officer, AP = Assistant Principal, PO = Principal Officer, AS = Assistant Secretary, Sec. = Secretary

The average contribution rate for the three groups of established officer identified in Table 3.1 can be derived by weighting the contribution rates for each group by its share of the total wage bill. Unfortunately, no information is given in the Estimates volumes on how much of the civil service pay bill is accounted for by each grade. However, Ross (1986, Table 21) provides information on the numbers in the main grades in the general service in 1984 and we can combine this with information from the State Directory 1984 on rates of pay for general service grades to get an estimate of the pay bill for each of the three groups in which we are interested. Our calculations are presented in Table 3.2.

Table 3.2: *Estimates of pay bill for three groups in the general civil service in 1984*

Grade	*Number employed*	*Mid-point of salary scale (£)*	*Pay bill (£)*
Secretary	16	33,646	538,336
Deputy Secretary	9	29,850	268,650
Assistant Secretary	86	24,234	2,084,124
Principal Officer	284	19,922	5,657,848
Assistant Principal	688	14,791	10,180,336
Sub-total	1,083		18,729,294
Administrative Officer	140	11,442	1,601,880
Higher Executive Officer	1,426	12,661	18,054,586
Executive Officer	2,190	9,118	19,968,420
Sub-total	3,756		39,624,886
Staff Officer	959	10,058	9,645,622
Clerical Officer	3,611	7,189	25,959,479
Clerical Assistant	8,193	6,130	50,223,090
Sub-total	12,763		85,828,191
Total	17,602		144,182,371

Sources: Ross (1986, Table 21) and State Directory 1984.

The first group in Table 3.2, senior management, accounted for 12.99 per cent of the pay bill, the second group, middle management, accounted for 27.48 per cent, and the third group, the remainder of the general service grades, accounted for 59.53 per cent of the pay bill. Weighting the appropriate contribution rates in Table 3.1 with these percentages gives an average contribution rate for the average civil servant of 8.16 per cent of gross pay.

The estimate which we have made of the employee contribution towards the cost of the civil service superannuation scheme rests on an acceptance of the statements by both sides participating in industrial relations procedures for civil servants in Ireland and Britain that salaries are lower than they would be in the absence of the superannuation scheme. Both sides have a mutual interest in establishing this point but their interests diverge when it comes to agreeing the precise amount by which salaries are lower. This may explain why it has not been possible to secure independent evidence to support the point from a proper comparison of pay scales inside and outside the civil service. The only comparisons of pay and pension benefits which have been undertaken relate to the higher civil service grades rather than to the lower grades in which the majority of civil servants are employed. The comparisons which were made for the Devlin Committee (Ireland, Department of Finance, 1972 and Department of the Public Service, 1979) and for the Association of Higher Civil Servants (1986) of the pay and fringe benefits of higher civil servants with those of persons of equivalent rank in the private sector do not show the cost of pay and pensions separately. It is not possible, therefore, to measure by how much the salaries of higher civil servants may be reduced to take account of their retirement benefits. However, all these surveys found, in the words of the first report of the Devlin Committee (Ireland, Department of Finance 1972, p.20) that "top rates of pay, relative to job worth, were generally higher in the private sector than anywhere in the public sector" after adjusting total remuneration outside the civil service up or down to take account of differences in superannuation. Salaries for higher civil servants, therefore, appear to be lower than for similar workers in the private sector because of the way in which civil servants contribute towards the cost of their superannuation but there are other factors which also depress their pay. We cannot go further than this in the absence of detailed comparisons of total compensation packages for comparable jobs in the public and private sectors. However, a recent survey undertaken by the ESRI for the Department of Social Welfare contains information which permits some comparisons to be made of employee contributions toward the cost of pensions in the civil service and the private sector.

3.4 Survey Information on Employee Contributions to Occupational Pension Schemes in the Private Sector

We have estimated that the employee contribution towards the cost of the civil service superannuation scheme is 8.16 per cent. How does this figure compare with the average employee contribution to occupational pension schemes outside the civil service? Two surveys of occupational pension schemes in all sectors of the economy, except the non-commercial public sector, have been carried out by the ESRI's Survey Unit in recent years and the information provided by these surveys will help us to answer this question. The first survey was carried out in the Spring of 1981 for the Irish Association of Pension Funds (1982) and the second was done in the Spring of 1985 by Keogh and Whelan (1985) for the Department of Social Welfare. In comparing the civil service and private sector schemes, information from the second survey will be used as it is more up-to-date, although both surveys present a similar picture of occupational schemes in the private sector.

In drawing up their sample, Keogh and Whelan (1985) began by disaggregating the labour force in 1984 into sectors where pension coverage was known to be nearly 100 per cent or zero and sectors where coverage was unknown. Sub-groups falling into the first category were Agriculture, Forestry and Fishing where pension coverage was known to be near zero, Private Sector Building and Construction where coverage was known to be near 75 per cent and the

Non-commercial Public Sector where coverage was known to be very nearly 100 per cent. The remaining sub-groups fell into the second category and these can be characterised as belonging to the non-agricultural private sector and commercial public sector. The second category accounts for over half of the employed labour force and it is on this sector that the survey was focused. Three different sampling frames were used to stratify the sample by size of organization, industrial type and region and this provided a sample of 711 organizations for which the response rate was 52 per cent. This response rate is similar to that obtained in regular surveys carried out in the United Kingdom by the National Association of Pension Funds and it is considered satisfactory for drawing inferences about the population as a whole. The organizations responding to the survey provided information on occupational pension schemes which, when grossed up, indicates that the population of schemes in the second category is approximately 2,500.

The response to the survey indicated that those who were mainly self-employed in agriculture or industry or working for small firms in the services sector, who accounted for nearly 36 per cent of those in the employed labour force in the Spring of 1985, had virtually no pension coverage. Just on 38 per cent of the labour force were employed in industrial and large service firms, excluding building and construction, and about three-fifths of these were covered by an occupational pension scheme. The remaining quarter of the employed labour force were engaged in building and construction or in the non-commercial public sector and when the coverage rates for these sectors are combined with the coverage rates provided by the survey for the remaining sectors, it appears that 47 per cent of the employed labour force was covered by occupational pension schemes in 1985. This is an average for all sectors and when coverage in the non-commercial public sector and the private sector is considered separately, a very significant difference in coverage between the public and private sectors of the economy emerges. In the non-commercial public sector, coverage is virtually 100 per cent, as we have noted above, but in the private sector, including semi-state organizations, the coverage rate is only 33 per cent. Hence, nearly all civil servants and employees in non-commercial public sector bodies are guaranteed an occupational pension during retirement while only one in three private sector employees or employers have such a guarantee. Even greater differences in occupational pension coverage between the two sectors must have existed in the past as only one in twenty of the 2,500 schemes in existence in 1985 were established before 1960. The growth of pension plans since 1960 was stimulated by the Finance Acts of 1958 and 1972 which laid down conditions for the approval by the Revenue Commissioners of occupational pension plans.

On the benefit side, the main differences between the civil service and private sector schemes relate to the level of pensions and the provisions which are made to adjust them to compensate for increases in the cost of living. Most occupational pension schemes in the private sector calculate the pension which is payable by multiplying pensionable pay, which is related to levels of pay in the years preceding retirement, by a factor of $^{1}/_{60}$th for each year of service up to a maximum of $^{40}/_{60}$ths whereas the civil service scheme multiplies by a factor of $^{1}/_{80}$th for each year of service up to a maximum of $^{40}/_{80}$ths. Hence, in the private sector the maximum pension payable is $^{2}/_{3}$rd of pensionable pay whereas in the civil service scheme it is $^{1}/_{2}$. The difference arises because the civil service scheme commutes part of the pension into a lump sum on retirement equal to $^{3}/_{80}$ths of pensionable pay for each year of service up to a maximum of $^{120}/_{80}$ths, or $1^{1}/_{2}$ times' pensionable pay. This is the maximum cash sum that the Revenue Commissioners will allow members of occupational schemes to convert part of their pension into on retirement. The survey shows that only three-fifths of those covered by occupational pensions in Industrial and Large Service Firms belong to schemes which provide an option to commute part of the pension by a factor which is directly related to length of service.

The actual pensions which were being paid to retired civil servants in 1984 appear to be significantly better than the pensions being paid to workers in the private sector. The survey shows that the average pension paid to retired employees who had worked in Industrial and Large Service Firms was £3,649 while the average payment to dependants was £1,748. The average pension paid to retired civil servants in 1984 was £6,189 while the average payment to dependants was £4,047. These differences in benefit levels, however, are virtually eliminated if private sector employees qualify for a full contributory old age or retirement pension under the Pay Related Social Insurance Scheme to which they have to contribute for pension and other social insurance benefits. Adding the relevant payments from the old age contributory pension scheme to the occupational benefits paid to private sector employees would have increased the amount received by retired private sector employees in 1984 to £6,076 while the amount paid to dependants would have risen to £3,297. Hence, the State social insurance scheme for employees provided an index linked pension amounting in 1984 to two-thirds of the occupational pension received by single people in the private sector and it also provided index linked payments for dependants amounting to nine-tenths of the payments for dependants made by the occupational schemes. These are, of course, maximum figures based on the assumption that occupational pensioners in the private sector were entitled to a full State pension. However, the actual amounts received could have been less than these figures indicate because the average occupational pensioner in the private sector may not have fulfilled all of the qualifying conditions for a full State pension. Such factors as unemployment or movement in and out of the social insurance system up to 1974 due to changes in the income limits for coverage by the social insurance system may have precluded the contribution record necessary for the full social insurance pension. In addition to this consideration, one would expect the civil service pension to be somewhat greater than total pension received by private sector employees because the civil service scheme has been in operation since before Independence. Thus, the years of service factor used to determine benefits is near the maximum for the average civil servant on retirement whereas most occupational schemes in the private sector are not yet fully mature.

Over four-fifths of those in occupational schemes covered by the survey belonged to schemes which made some provision for indexation of pensions to compensate for increases in the cost of living but only 27 per cent of members were in schemes which provided for adjustment by parity with pay of current employees. This is the method used to adjust civil service pensions for inflation and productivity increases so there is a significant difference in favour of civil servants in the degree of protection against inflation which their scheme offers compared with occupational schemes in the private sector even though private sector employees can qualify for a flat-rate indexed linked social insurance pension from the State.

3.5: Comparison of Employee Pension Contributions to the Civil Service and Private Sector Schemes

In addition to differences in coverage and in benefits between the private sector and the civil service schemes differences also exist in the contributions which are made towards the cost of providing pension benefits. The data provided in Keogh and Whelan's survey on the contribution income of occupational schemes in the private sector suggest that the average contribution rate for employees is 4.43 per cent. In April 1984 the standard rate of PRSI contribution by employees to the State pension schemes (the Old Age (Contributory) Pension and the Retirement Pension) was 1.54 per cent while for employers it was 3.48 per cent of salary. Hence, employees in the private sector who were covered by an occupational pension scheme contributed 5.97 per cent of their wages and salaries towards the cost of State and occupational pensions.

This is not the whole story however because the employee and employer contribution rates for the Old Age (Contributory) and Retirement Pension schemes do not cover the full cost of government expenditure on these pensions. The State makes an annual contribution to the Social Insurance Fund to cover the gap between receipts from employers' and employees' PRSI contributions and expenditure on various social insurance schemes including the two pension schemes mentioned above. Separate accounts for each social insurance scheme are not published so it is not possible to say how much of the expenditure on employee pensions was covered by PRSI contributions for these pensions.

However, it is understood that the pension contribution rates given above are derived by apportioning the total PRSI contribution rate in the same proportion as pension expenditure to total expenditure. This means that we can gross up the actual pension contribution rate in 1984 by the reciprocal of the percentage of all social insurance expenditure covered by PRSI receipts, i.e., 73.39 to derive an estimate of what the pension contribution rate should have been in order to cover the full cost of the State pension schemes for employees. The full pension contribution rate which this yields is 6.84 per cent.

The difference between this figure and the actual PRSI contribution rate for social insurance pensions, 5.02 per cent, gives the rate at which the State subsidies these pensions, i.e., 1.82 per cent. We will assume that the cost of the State contribution is paid out of taxes on income rather than consumption. This implies that most of the burden of the State contribution ultimately falls on employees rather than on employers or the self-employed.

Our estimate of the contribution rate which would have been necessary to cover the full cost of social insurance pensions enables us to show in Table 3.3 how much employees in the civil service contributed towards the cost of their superannuation scheme compared with the average contribution made directly or indirectly by employees in the private sector towards the cost of their occupational and social insurance pensions.

Table 3.3: *Comparison of employee contributions to the civil service, private sector occupational and State social insurance pension schemes in 1984.*

Pension Scheme	%
Employee contribution to the civil service scheme	8.16
Employee contribution to private sector occupational scheme	4.43
Employee contribution to social insurance schemes	1.54
Direct contributions by employees in the private sector	5.97
Indirect contributions from income tax to State schemes	1.82
Total contributions by employees in the private sector	7.79

It will be seen from the table that when the employee and State contributions needed to pay for social insurance pensions for employees are taken into account the implicit and explicit contributions made by civil servants towards the cost of their superannuation scheme are about 0.4 per cent more than the direct and indirect contributions by employees in the private sector towards the cost of their occupational and social insurance pension schemes.

The implicit deduction which has been made in recent years from the pay of certain grades in the civil service to offset the cost of index linked pension benefits has ensured that the pension contribution of employees in the civil service is somewhat more than the contribution made by employees in the private sector. The level of this deduction should be kept under review as the inflation rate changes to ensure that the adjustments which are made to civil service pay for indexation of pensions are correct.

Chapter 4

SOME CIVIL SERVICE PENSION POLICY QUESTIONS

4.1: Introduction

There are a number of issues regarding the civil service superannnuation scheme which arise out of the analysis in previous chapters. The main questions we wish to discuss concern the integration of the scheme with the State's contributory old age pension schemes, the use of the average cost of the scheme as the charge-out rate for civil servants on loan or as the norm when comparing the remuneration of higher civil servants with that of senior managers outside the civil service, and the relevance of arguments for funding the scheme rather than financing it on a pay-as-you-go basis.

4.2: Integration of the PRSI Pension Schemes with the Scheme for Established Civil Servants

The first issue we wish to consider insofar as it relates to civil service pensions is the Commission on Social Welfare's recommendation (Ireland 1986, p.239) "that all public servants be liable for the full rate of social insurance and entitled to benefits as appropriate". One of the implications of this recommendation is that civil servants should be asked to contribute to the cost of the State's contributory old age pension schemes just like other employees in return for the same old age pension benefits.

The idea of including all employees in the PRSI scheme is an attractive one but it overlooks a number of points which weigh against it. The kind of public pension arrangements which we now have for civil servants, other public sector employees, and employees in the private sector have evolved in response to differences in their conditions of employment. Established civil servants were excluded from coverage of the State's contributory old age pension schemes because they already had their own very good occupational pension scheme. Employees outside the civil service were included because many of them did not have any occupational pension cover. The occupational schemes which developed after the introduction of the State's schemes were designed to take account of the existence of the State schemes. The result of these developments is that the difference between provision for retirment between civil servants and other employees is much less on both the contribution and benefit sides than may be generally realised.

The analysis in the last chapter, for example, shows that the contribution of civil service employees to the cost of their retirement benefits in 1984 was somewhat greater than the combined contributions of private sector employees to their occupational and State old age pension schemes. Since the average civil servant already appears to be paying at least as much towards pension costs as the average employee in the private sector who is covered by an occupational pension scheme, the case for asking civil servants to contribute to the cost of the State's contributory old age pension schemes just like other employees is therefore considerably weaker than it appears at first sight.

It would be reasonable to ask civil servants to pay substantially more for their occupational pension if they are not making an adequate contribution towards its cost. It may be that the extra contribution which civil servants make relative to private sector employees is not sufficient to pay for the extra retirment benefits provided by the civil service scheme. This would have to be established by a detailed comparison of the terms of the civil service and private sector occupational schemes and the State contributory schemes. If it could be shown that civil servants should be making a larger contribution than they are at present it would be more sensible to make them do so by increasing the existing implicit deduction from their pay rather than asking them to make PRSI contributions to the State's old age pension schemes for insured employees.

It was also shown in the last chapter that the average pension received by employees in the private sector from their occupational schemes and the State's contributory schemes was about the same as the average pension received by retired civil servants. If civil servants earn an entitlement to the State's contributory old age pension benefits, as they would have to if they pay the same PRSI contributions as other employees, there is a danger that they would receive higher total pension benefits than other employees and that the cost of the State's contribution to its contributory old age pension schemes would increase rather than decrease as is presumably intended by those who argue that civil servants should contribute to the cost of the State's contributory schemes. The existence of this danger is shown by experience in Britain following the integration of the civil service and national insurance pension schemes and here following the integration of the civil service scheme for unestablished staff with the State's contributory old age pension schemes.

When a national system of contributory old age pensions was introduced in Britain for the first time in 1925, civil servants and a number of other public sector employees were exempted from taking part in it. When the new National Insurance Scheme based on the Beveridge proposals was introduced in 1948, everyone, including public servants, "were for the first time brought within the scope of state insurance, paying contributions and receiving benefits on the same terms as everyone else", as Rhodes (1965, p.159) notes. In order to avoid duplication of benefits under both an occupational and a national pension scheme, the British Government proposed a reduction in the occupational benefit which was not to exceed the rate of retirement pension for a single person under the national scheme. Because of the "no detriment" rule, this modification applied only to new entrants to the civil service. Existing civil servants who were aged 55 or less in the case of males or aged 50 or less in the case of females could qualify for the State pension after contributing to the scheme for 10 years. Thus, from 1958 onwards, retiring civil servants who had joined the service before 1948 could look forward to the prospect of a double pension — an unmodified civil service pension and the State retirement pension — because they would have satisfied the contribution conditions necessary to qualify for a National Insurance pension. Hence, in spite of the very careful thought that was given by the British Government to devising a method of modifying occupational pensions which would take account of the existence of the State pension scheme in order to avoid duplication of benefits, Rhodes' (1965, p.164) conclusion after reviewing a decade and a half's operation of the modification arrangements is that:

> ...there are serious limitations on the extent to which in practice duplication of benefit is avoided now, sixteen years after the introduction of the National Insurance Scheme.

He also notes that difficult problems arose in trying to modify percentage contributions for occupational pension schemes in the public sector to take account of a State scheme which at that time was based on flat-rate contributions and benefits just as the Irish schemes were until 1979. Modifications to the contribution rates for occupational schemes in the public sector were made in 1948 but thereafter no further change was made although there have been regular increases in the State scheme's contributions and benefits since then. The reason for not linking the modification rates to changes in the State pension scheme is that this would have made the modification system unworkable because of the cumulative effect of the changes which would have been needed to derive fair contribution rates for the occupational schemes. It would also have been extremently difficult to estimate the correct occupational pension benefit to pay after up to forty years of service during which State pension benefits could have been changed up to once or twice a year in order to maintain real living standards. As an example of the complications which arose even under the simple method of modification adopted in 1948, he cites (Rhodes, 1965, p.167) the case of the local government pension scheme in the United Kingdom where the two existing contribution rates (one for males and one for females) were transformed into six contribution rates after the modification arrangements were adopted. In addition to failing to avoid duplication of pension benefit, the attempt to integrate occupational schemes with the State scheme may have increased the cost of income maintenance for civil servants during their old age because the employee contribution to the National Insurance pension scheme does not cover the full cost of the State pension.

These and other difficulties which arose in the United Kingdom in the attempt to integrate the State pension scheme and occupational pension schemes led Rhodes (1965, p.189) to argue that one thing which is clear from this attempt is:

> that the system of flat-rate modification generally adopted in the public sector has not proved to be the most suitable method for its purpose in the situation which has developed since 1948.

Ireland has had some experience with integrating occupational and State pension schemes along the lines used in the United Kingdom. Unestablished civil servants in Ireland have their pension benefit reduced by twice the single person's contributory old age pension and most occupational schemes in the private sector reduce the pension benefit by one-and-a-half times the single person's State pension benefit, as Keogh and Whelan (1985, Table 2.10) note. The effect of these reductions on the proportion of income replaced by all pension payments, including the pension equivalent of lump sum payments, is shown in Table 4.1 for the relevant superannuation schemes and a comparison is also given with the replacement ratio for the established civil servants' scheme. It is assumed that 40 years' service has been given to the employer in all cases.

Table 4.1: *Proportion of pre-retirement income replaced by pension benefits available to civil service and private sector employees*

Category of employee	*Pension*	*Lump-sum pension equivalent*	*Total replacement ratio*
Single unestablished civil servant	50.0	16.7	66.7
Married unestablished civil servant	70.0	16.7	86.7
Single or married established civil servant	50.0	16.7	66.7
Single person in private sector	66.7	–	66.7
Married person in private sector	86.7	–	86.7

It is evident from the table that the integration of the occupational and State schemes achieves the objective of avoiding duplication of benefit in the case of single persons but it does not do so in the case of married persons because they qualify for dependant's allowance under the State scheme. In addition to this the rate of old age contributory pension which is deducted before payment of the occupational pension for unestablished officers is the rate applying at the time of retirement. No adjustment is made subsequently to account for increases in the social insurance pension so it is possible for an unestablished officer's total pension receipts to increase faster than the pension payments to established officers. It is also possible for an unestablished officer retiring now to have a smaller pension than an unestablished officer who retired some years previously because the latter's occupational pension does not take account of increases in the social insurance pension since retirement.

Ireland has been no more successful in avoiding duplication of State and civil service pension benefits than Britain has. Both the Irish and British experience with integration of civil service pension schemes with the State contributory old age pension schemes show that there are considerable difficulties in sucessfully adjusting schemes, such as the civil service scheme, which are based on percentage contributions and final salaries to schemes, such as the State contributory schemes, which are based on flat-rate contributions and benefits as the Irish schemes were until 1979. It may be even more difficult to adjust to a State scheme which is a mixture of percentage contributions and flat-rate benefits as the Irish State contributory old age pension schemes have been since 1979. Based on past experience one of the dangers of attempting to integrate the civil service superannuation scheme with the State's contributory old age pension schemes is that it could cost the Exchequer more than it does under the present arrangements. If civil servants earned entitlements to the State contributory old age pension benefits under the proposed arrangements, as the Commission on Social Welfare intends, the cost of these benefits would have to be subsidised, just as they are now for insured employees, because the PRSI pension contributions which are made by employers and employees towards the cost of these schemes are not large enough to cover their full costs (see Hughes, 1985, Chapter 5).

The Commission on Social Welfare's recommendation that all public servants should be liable for PRSI contributions and eligible for benefits as appropriate applies to the social insurance system as a whole and not just to those parts of it which are concerned with the State's contributory old age pension schemes. Considering the old age pension schemes separately however, the arguments which have been presented above concerning the somewhat greater contribution which civil servants make towards their pension costs and the extra expenditure which the government might have to make if it attempts to integrate the civil service superannuation scheme with the existing State contributory old age pension schemes it appears that there is little justification for asking civil servants to contribute to the cost of these schemes in the same way as private sector employees and that there would be very little long-term advantage to the government in doing so.

There may be arguments which would support the Commission on Social

Welfare's recommendation that civil and other public servants should be liable for the full rate of PRSI, e.g., the extra cost of providing State pensions for civil servants might be offset by savings on expenditure on other parts of the system such as unemployment and disability insurance because the claims rate for civil servants would probably be lower than average. The best way to bring civil servants into the PRSI system, from the government's point of view, would be to cover all new entrants to the civil service rather than those who are already working in the civil service. This option was considered some years ago but no decision was taken because of the difficulties which were foreseen in trying to implement the change in the conditions of employment of civil servants. The Minister of State at the Department of Social Welfare, Mr. S. Pattison, said in reply to a Dail question in April 1986 that:

> The Department of Finance have always contended that proposals along these lines would ultimately leave the Exchequer in the position of a net loser because of higher employer contributions and the possibility of consequential pay compensation for public servants. On the cost factor, the inclusion of public servants in full social insurance would raise major administrative, financial and industrial relations problems. Existing occupational pension and sick pay entitlements would have to be reduced to take account of the new social insurance entitlements — the much higher employer's contribution which is 12.33 per cent, class A, compared with 2.28 per cent, class D, which would largely fall to be met by the State either directly, as employer, or through participation in the financing of the organisation concerned. Of course employees would also be required to pay higher contributions — 7.5 per cent class A, compared with 2.9 per cent class D, from which no additional benefit would be derived. I have not got the overall cost figure which would have to be worked out at the time.

4.3: The Value to Full-Career Civil Servants of their Retirement Benefits

It will be recalled from Chapter 2 that the Dail Committee on Public Expenditure was concerned in its report on the Department of the Public Service with how much a self-employed person would have to provide annually to secure the same superannuation benefits as the average civil servant. The Secretary of the Department replied that a charge of 18 per cent of salary would be made for a civil servant on loan to another organisation. This figure, however, refers to the actuarial cost for a member of the civil service group scheme, which is referred to as the system cost. The system cost may not be the appropriate figure to use when considering the value of superannuation benefits to individual civil servants. The difference between the system cost and the value of superannuation benefits for individual civil servants could have practical implications for the rate which should be charged for civil servants on loan to other organisations and for comparing levels of remuneration for senior civil servants and senior managers in the private sector. The Review Body on Top Salaries in the civil service in the United Kingdom has recognised this difference in a number of reports in which the costs of the total compensation packages for senior civil servants and senior managers in other organisations have been compared. In its fourteenth report on top salaries (Great Britain, 1980), for example, it noted that:

> 78. ...widespread interest has been expressed in particular in the value attributed to the inflation-proofed pension arrangements available in the public services...
> 79. ...Assessments made in the past by the Government Actuary have been on actuarial principles, whose relevance for actuarial purposes we have always recognised. However, we have also consistently expressed doubts about their direct relevance and adequacy for the purpose of comparing levels of remuneration in the public and private sectors.
> 80. The value of a pension that is fully index-linked can be expected to be higher for those close to retirement. It is therefore pertinent that those within our remit will be either in mid-career or in the later stages of a career.

Although the Review Body and the Government Actuary disagree about the relevance of the Actuary's assessments of the value of the inflation-proofed pension arrangements for civil servants the Actuary noted in an evaluation of superannuation benefits which he undertook at the request of the Review Body in its eighteenth report (Great Britain, 1982, p. 85) that:

> the actual costs of the benefits for different members of a pension scheme will vary widely. Consider for instance three specimen cases; a member who serves his whole career in the scheme and ultimately reaches high rank, another who does not progress beyond an average grade, and a third who leaves the scheme on a change of job. The first of these will reap substantial benefits from the scheme, as the benefit in respect of the whole of his career will be calculated on the salary of his final, senior post, the second will reap less substantial benefits as his final pay is more modest, and the third probably very little benefit. If it was known in advance what the outcome of each individual's career would be, an appropriate contribution could be paid for each member of the scheme from the outset. The contributions illustrated in Tables 1 and 2 [in the Actuary's evaluation report] are those which would be appropriate from outset for officers who ultimately reach high rank given this foreknowledge. Thus they are reasonable contributions to use when considering the pension value to be attached to senior posts.

The value of superannuation benefits for individual civil servants can vary therefore according to length of service and salary level so there can be divergences in these benefits for different groups of civil servants. For example, civil servants who leave the service with less than 5 years' experience are not entitled to a deferred pension and the value of their superannuation benefits is nil. At the other extreme civil servants who pass their full career in the service of the State will receive the greatest benefit in the form of deferred compensation from the superannuation scheme as is intended in the design of the scheme.

Unfortunately, information is not published on the age of retirement and length of working life of different groups of civil service employees so it is not feasible to fully investigate divergences in the value of retirement benefits to different groups of civil servants. However, the information assembled in Chapter 2 on the wage and pension costs of the civil service and the number of civil servants and civil service pensioners can be used in conjunction with information on the rate of return on long-term government bonds, the expectation of life and assumptions about length of service and age at retirement to assess the approximate value of the superannuation scheme to one group of civil servants, i.e., full-career civil servants who retired between 1962 and 1972. Given information on these factors it is possible to calculate how much would have had to be set aside to provide the retirement benefits which they actually received during retirement. The number of assumptions which it is necessary to make to estimate the value of superannuation benefits for this group of civil servants is kept to a minimum as the main input into the calculations can be derived from the actual operation of the civil service pay and pension schemes since the early 1920s.

Following the method used by Hartman (1983, Appendix B) estimates can be made of the value of retirement benefits to civil servants who entered as Clerical Officers between 1923 and 1933, served for 40 years, and retired between 1962 and 1972 at age 62. The choice of the entry and retirement years is dictated by the availability of information in Chapter 2 on the operation of the civil service pay and pension schemes for the central civil service and by the expectation of life at retirement age. As the expectation of life for a male retiring in the early 1970s at age 62 was approximately 13 years, 1972 is the latest year for which we have actual information on pensions in payment relevant to the retirement experience of civil servants completing their careers in the early 1970s.

The first step in Hartman's method is to estimate the implicit value of the pension wealth which the full-career civil servant is entitled to on retirement. It will be recalled from Chapter 1 that on retirement the civil service provides an index linked pension and a lump sum. From the information given in Table 2.3 for the central civil service an estimate can be made of the average value of the pension being paid to retired civil servants (A). This average will reflect different pension entitlements for persons with different civil service careers and it will be somewhat less than the pension at retirement of a person serving 40 years. This means that our estimates of pension wealth will be biased downwards. If full-career civil servants had 40 years service on average their average pension would be about half of their final salary and the lump sum (L) would be 1½ times this figure. The present value of pension wealth (W) depends on the lump sum, the rate of growth of the pension during retirement (p), the nominal rate of interest on long-term government bonds (g), the expectation of life at retirement (n), and the value of the pension in the year of retirement (A). In the first year of retirement the value of the pension is A. In the second year the pension will grow to $A(1+p)$ and the present value is this amount discounted by the rate of return on long-term government bonds, $(1+g)$. In the third year the pension will grow by $A(1+p)^2$ and the present value is this amount discounted by $(1+g)^2$. Hence, the present value of the retirement benefits is the sum of a geometric series with initial value A and common factor $(1+p)/(1+g)$ which yields:

$$W = A \left\{ 1 - \frac{(1+p)^n}{(1+g)} \bigg/ 1 - \frac{(1+p)}{(1+g)} \right\} + L \qquad 4.1$$

The second step in Hartman's method is to estimate what fraction of the employee's annual pay or salary would have to be set aside each year to provide this pension wealth. Given the value of pension wealth accumulated at retirement, the question which has to be answered is what proportion of salary would have to be put aside each year to provide pension wealth of this magnitude? Let us assume that the amount which has to be put aside each year for investment in a retirement fund is k times S the annual salary of the civil servant. If the amount contributed in the first year is invested in long-term government bonds at nominal interest rate g it will be worth

$$kS(1 + g)^{m-1}$$

when the civil servant retires m years later. The rate of return on government bonds is used rather than a weighted average of the returns on bonds and equities because of the lack of time series data on the returns on equities for most of the period since Independence and because investments for most of the period we are dealing with would have had to be in such bonds under the terms of the 1893 Trustee Act. If we assume that average earnings in the civil service grow at the same rate, e, per year, they will have grown by a factor $(1 + e)$ by the second year. Thus, the amount contributed in the second year will be

$$kS(1 + e)$$

and this will earn interest for a year less than the amount contributed in the first year so that after m years it will be worth

$$kS(1 + e)(1 + g)^{m-2}$$

The value at retirement of the contribution made in any subsequent year can be derived by replacing the index on the wage growth term by the number of years since contributions began and reducing the index on the nominal interest rate term by the same number plus one. Thus, the contribution made in the 20th year of working life will be worth

$$kS(1 + e)^{19} (1 + g)^{m-20}$$

on retirement after m years of work. If we assume that the contribution is made at the end of each year, the value of the last year's contribution is

$$kS(1 + e)^{m-1} \text{ or } kF$$

where F stands for final salary. We now have a series showing the value at retirement of the contributions made during each year of working life. The value of the fund accumulated in year m when the civil servant comes to retire is the sum of a geometric series with first term kF and common factor $(1 + g)/(1 + e)$. Since the wealth of the fund should be equal to the present value of the stream of pension payments plus the lump sum the two can be equated to give a relationship from which the annual contribution rate, k, can be derived as shown in Equation 4.2

$$W = kF \left\{ \frac{1 - \dfrac{(1+g)^m}{(1+e)}}{1 - \dfrac{(1+g)}{(1+e)}} \right\} \qquad 4.2$$

Inserting the figures for final salary, nominal interest rate and earnings growth and the value of pension wealth (given by Equation 4.1) we can solve this equation for k to get the fraction of salary which would have to be put away each year in a retirement fund to provide a pension equal to half of final salary plus a lump sum equal to 1½ times final salary. The nominal interest rate and wage and retirement benefit data needed to estimate k for civil servants retiring in the period 1966-72 are given in Tables 4.2 and 4.3 and the values of k which are derived are given in the last row of Table 4.3.

The results presented in Table 4.3 show that the typical male civil servant who entered the service as a Clerical Officer during the decade 1923-33 and retired on the average pension during the decade 1962-72, after a working lifetime of 40 years,had an entitlement to a lump sum and an income stream during retirement which was worth from 9¼ to 9⅓ times final salary. The annual value to the individual of these deferred benefits ranged from a quarter to a third of salary. The difference in value is due mainly to differences in pay on entry and in the rate at which the pension is indexed during retirement. New entrants in 1923, for example, received higher pay than new entrants in 1933 because the bonus element in their pay was higher while the basic element was the same

Table 4.2: *Rate of interest on long-term government securities 1923-85*

Year	*Rate of interest*	*Year*	*Rate of interest*	*Year*	*Rate of interest*
1923	5.00	1944	3.25	1965	6.75
1924	5.00	1945	3.00	1966	6.50
1925	5.00	1946	3.00	1967	6.50
1926	5.00	1947	3.00	1968	7.00
1927	5.00	1948	3.00	1969	8.50
1928	5.00	1949	3.00	1970	8.75
1929	5.00	1950	3.50	1971	8.06
1930	4.50	1951	3.50	1972	8.00
1931	5.00	1952	5.00	1973	10.38
1932	5.00	1953	4.58	1974	13.28
1933	3.50	1954	4.42	1975	12.57
1934	3.50	1955	4.47	1976	13.41
1935	4.00	1956	5.29	1977	11.365
1936	3.50	1957	5.59	1978	11.7133
1937	3.50	1958	5.50	1979	14.2092
1938	3.75	1959	5.25	1980	14.6242
1939	4.00	1960	6.00	1981	16.752
1940	3.50	1961	5.75	1982	14.28
1941	3.25	1962	5.75	1983	14.03
1942	3.25	1963	5.75	1984	14.92
1943	3.25	1964	6.00	1985	11.60

Sources: 1923-52, *Finance Accounts* 1924-53. 1953-85, Department of Finance databank of economic time series. I am indebted to John FitzGerald for supplying the data for the period 1953-85.

Note: Up to 1970 the rate of return is the interest rate on new national loans. Subsequently it is the average yield on government securities with 8 years to maturity.

and the rate of growth of the pension during their retirement was lower due to a lower rate of inflation during the period 1962-75 than during the period 1972-85.

For the purpose of these calculations we have assumed that those retiring at the beginning of the 1970s served for 40 years in the service of the State. The Department of the Public Service estimated, in response to a request for this information, that "the average service of established civil servants who retired on age grounds (age 60 and over) in 1985 was 36 years 318 days". In order to test the sensitivity of the contribution rate, k, to differences in the number of years worked we have examined in Table 4.3 the case of a male civil servant who joined the service at the beginning of 1936, worked for 37 years and retired at the end of 1972 with a life expectancy of 13.48 years. It will be seen from the second last column that the value of pension wealth in this case is less than 9 times final salary but the contribution rate is more than a third of salary because of the shorter period during which the fund is accumulated.

Due to their longer expectation of life at retirement, female civil servants with

Table 4.3: *Wage and retirement benefit data required to estimate the fraction of employee's pay needed to fund retirement benefits for established civil servants working in the central civil service who retired during the period 1966-72.*

Wage or pension variable	*Male* Date of entry Jan. 1923, date of retirement Dec. 1962	*Male* Date of entry Jan. 1927, date of retirement Dec. 1966	*Male* Date of entry Jan. 1933, date of retirement Dec. 1972	*Male* Date of entry Jan. 1936, date of retirement Dec. 1972	*Female* Date of entry Jan. 1929 date of retirement Dec. 1968
Average pay on entry (£)	133.00	133.00	108.50	112.70	126.00
Average pension on retirement (£)	435.52	521.50	774.70	774.70	559.75
Implicit pay on retirement (£)	871.04	1,043.00	1,549.40	1,675.02	1,119.50
Implicit lump sum (£)	1,306.56	1,564.50	2,324.10	2,324.10	1,679.25
Annual average compound growth rate in pay and increments during working life (%)	4.94	5.42	7.06	7.80	5.76
Expectation of life on retirement at age 62 (years)	13.32	13.25	13.48	13.48	17.28
Average civil service pay in year of retirement (£)	691.17	952.82	1,752.03	1,752.03	1,047.65
Average civil service pay in expected year of death (£)	2,643.45	4,805.33	11,851.85	11,851.85	11,851.85
Annual average compound growth rate in civil service pay during retirement (%)	10.87	13.25	15.84	15.84	15.34
Annual average rate of interest on long-term government bonds during working life (%)	4.28	4.41	4.84	4.94	4.50
Annual average rate of interest on long-term government bonds during retirement (%)	8.31	10.29	13.32	13.32	12.14
Value of pension wealth when pension is fully indexed (£)	8,038.40	9,739.02	14,352.10	14,352.10	13,965.65
Ratio of pension wealth to final pay	9.23	9.34	9.26	8.57	12.47
Percentage of pay required to provide superannuation benefit (k)	26.02	27.99	33.85	34.49	39.00

Source: Tables 2.3 and 3.1.

the same number of years' service as their male colleagues should have greater pension wealth than males at retirement. If they also had the same earnings profile over their careers as male civil servants the required contribution rate should also be higher than it is for males. The last column of Table 4.3 shows that both of these expectations are correct in the case of a female civil servant who joined the government service at the beginning of 1929, served for 40 years and retired at the end of 1968 with a life expectancy at age 62 of 17.28 years. Her pension wealth would have amounted to nearly 12½ times final salary and the annual value of her retirement benefits would have been nearly 40 per cent of her pay during her working life.

The pension wealth and contribution rate estimates presented in Table 4.3 are based on the actual behaviour of the pay and pension schemes for the civil service since Independence. It will be recalled that one of the most important benefits which the superannuation scheme has provided since the early 1970s is full indexation of the pension in line with increases in civil service pay rather than with increases in the consumer price index as is the case for civil service pensions in the United Kingdom. The value of this benefit in terms of additions to pension wealth can be shown by estimating what the ratio of pension wealth to final pay would have been if there had been no indexation or indexation in line with prices rather than wages. The extra benefit which full indexation provides over these cases can then be estimated by subtracting the results for these two cases from the results in Table 4.3 for the full indexation case. The results of this exercise are presented in Table 4.4.

It will be seen that full indexation of the civil service pension for full career civil servants who retired during the decade 1962-72 increased their implicit pension wealth by from 70 to nearly 150 per cent more than it would have been if the pension had not been indexed and it added from 11 to 23 per cent per annum to the value of their superannuation benefits. It will also be seen that the annual value of fully indexed pensions for some categories exceeded the annual value of the basic pension. Thus, the annual value of the basic pension for a male civil servant retiring in 1972 after 40 years' service would have been 16.67 per cent of pay whereas the value of full indexation would have been 17.18 per cent per annum. The advantages of wage indexation over price indexation are considerably less than in the case of no indexation but they are not insignificant. Additional pension wealth would have ranged from ¾ to 2 times final pay more than in the case of price indexation and the annual contributions necessary to provide indexation in line with wages rather than prices would have ranged from about 3 to 6½ per cent more.

The estimates of implicit pension wealth and contribution rates which have been presented so far are based on data on the actual operations of the civil service pay and pension schemes since Independence. It is also worth considering what is likely to be the value of implicit pension wealth and the cost of providing it for full-career civil servants who retired in 1985 after giving 37 or 40 years service and who are likely to survive until the end of the century. It is necessary

Table 4.4: *Value of pension indexation arrangements for full career civil servants retiring during the period 1962-72*

Wage or pension variable	*Male* Date of entry Jan.1923, date of retirement Dec.1962	Date of entry Jan.1927, date of retirement Dec.1966	Date of entry Jan.1933, date of retirement Dec.1972	Date of entry Jan.1936, date of retirement Dec.1972	*Female* Date of entry Jan.1929 date of retirement Dec.1968
			No indexation		
Value of pension welath when pension is not indexed (£)	4,742.24	5,249.82	7,067.20	7,067.10	5,655.25
Ratio of pension wealth to final pay	5.44	5.03	4.56	4.22	5.05
Percentage of pay required to pay superannuation benefit (k)	15.35	15.09	16.67	16.99	15.79
Additional value of pension wealth when pension is fully indexed (£)	3,296.16	4,489.20	7,285.00	7,285.00	8,310.40
Additional multiples of final pay when pension is fully indexed	3.79	4.31	4.70	4.35	7.42
Additional percentage of pay required to provide fully indexed pension	10.67	12.90	17.18	17.50	23.21
			Indexation in line with CPI		
Value of pension wealth when pension is price indexed (£)	7,079.20	8,721.12	13,112.10	13,112.10	11,613.65
Ratio of pension welath to final pay	8.13	8.36	8.46	7.83	10.37
Percentage of pay required to provide superannuation benefit (k)	22.92	25.07	30.93	31.51	32.44
Additional value of pension wealth when pension is fully indexed	959.20	1,017.90	1,240.00	1,240.00	2,352.00
Additional multiples of final pay when pension is fully indexed	1.10	0.98	0.80	0.74	2.10
Additional percentage of pay required to provide fully indexed pension	3.10	2.92	2.92	2.98	6.56

to make some assumptions about the future in order to provide such estimates. The most important assumption which has to be made concerns the relationship between the pension growth rate, p, and the rate of return on long-term government bonds, g, during the period of retirement, i.e., 1986-2000. In view of the decline which has taken place in recent years in the rate of inflation it seems reasonable to expect the rate of return on long-term government bonds to decline from the high level which it has been at in the 1970s and the early 1980s. We will assume, therefore, that it will fall on average in the range 6 to 10½ per cent per annum. During the post-war period the wage growth rate for the civil service has exceeded the rate of return on long-term government bonds by around 1 to 2 per cent on average so some of our estimates will be based on the assumption that this differential will continue in the future. In order to test the sensitivity of our results to differences in this relationship we will also do the calculations for cases where the traditional relationship between these variables is reversed. The assumptions which we will make about the relationship between the pension growth rate and the long-term bond rate during the period 1985-2000 are as follows, (i) $p = 9.5\%$, $g = 8.5\%$, (ii) $p = 10.5\%$, $g = 8.5\%$, (iii) $p = 8\%$, $g = 6\%$, (iv) $p = 6\%$, $g = 8\%$, and (v) $p = 5\%$, $g = 8\%$. The number of years service in all of these cases will be taken to be 40 but we will also use 37 years service to test the sensitivity of our results to differences in length of service.

Our results are presented in Table 4.5 from which it will be seen that if the pension growth rate exceeds the long-term bond rate in the future, as it has in the past, the typical civil servant retiring in 1985 would have implicit pension wealth valued at from £114,000 to £120,000 or around 9 times final salary. The annual addition to salary which would have been needed to provide pension wealth of this magnitude would have been nearly 40 per cent. These results are not very sensitive to differences in the assumption concerning length of service or the excess of the pension growth rate over the long-term bond rate. However, where the long-term bond rate is greater than the pension growth rate there is a significant difference in the results. Where the bond rate exceeds the pension growth rate the value of pension wealth falls to less than £100,000 or around 7 to 8 times final salary and the annual addition to pay required to provide this amount of pension wealth would be just about one-third.

The annual value of superannuation benefits for the typical full-career civil servant who survives to enjoy his or her retirement to the end of the century could be the same, at around one-third of pay, or higher, at around 40 per cent of pay, than it was for full-career civil servants who received retirement benefits during the period 1962-85. The outcome will depend on the future relationship between the pension growth rate and the long-term government bond rate.

Our estimates of the value of pension wealth for full-career civil servants who received retirement benefits during the last quarter century or who will receive them during the years to the end of the century show that the contribution necessary to provide this wealth is considerably higher than the average contribution required to cover the cost of the superannuation scheme for civil servants as a group. This has implications for the charge-out rate for civil servants on loan to other organisations and for the allowance which should be made for

Table 4.5: *Wage, retirement benefit and other data needed to establish the fraction of employee's pay required to fund superannuation benefits for established civil servants in the central civil service who retired at the end of 1985*

Wage or pension variable	*Date of entry Jan. 1946, date of retirement Dec. 1985*	*Date of entry Jan. 1949, date of retirement Dec. 1985*	*Date of entry Jan. 1946, date of retirement Dec. 1985*	*Date of entry Jan. 1949, date of retirement Dec. 1985*	*Date of entry Jan. 1946, date of retirement Dec. 1985*	*Date of entry Jan. 1946, date of retirement Dec. 1985*	*Date of entry Jan. 1946, date of retirement Dec. 1985*
Average pay on entry (£)	180.80	205.70	180.80	205.70	180.80	180.80	180.80
Average pension on retirement (£)	6,337.39	6,337.39	6,337.39	6,337.39	6,337.39	6,337.39	6,337.39
Implicit pay on retirement (£)	12,674.78	13,702.46	12,674.78	13,702.46	12,674.78	12,674.78	12,674.78
Implicit lump sum (£)	19,012.16	19,012.16	19,012.16	19,012.16	19,012.16	19,012.16	19,012.16
Annual average compound growth rate in pay and increments during working life (%)	11.51	12.37	11.51	12.37	11.51	11.51	11.51
Expectation of life on retirement at age 62 (years)	14.11	14.11	14.11	14.11	14.11	14.11	14.11
Assumed average compound growth rate in pension during retirement (%)	9.50	9.50	10.50	10.50	8.00	6.00	5.00
Annual average rate of interest on long-term government bonds during working life (%)	8.04	8.45	8.04	8.45	8.04	8.04	8.04
Assumed average rate of interest on long-term government bonds during retirement (%)	8.50	8.50	8.50	8.50	6.00	8.00	8.00
Value of pension wealth when pension is fully indexed (£)	114,003.79	114,003.79	120,087.32	120,087.32	120,340.80	98,351.41	93,852.13
Ration of pension wealth to final pay	8.99	8.32	9.47	8.76	9.49	7.76	6.86
Percentage of pay required to provide superannuation benefit (k)	39.00	39.69	41.09	41.81	41.17	33.65	32.11

superannuation when comparing the remuneration of senior civil servants and senior managers outside the civil service.

The charge-out rate which is made for civil servants on loan to other organisations according to evidence supplied by the Secretary of the Department of the Public Service to the Dail Committee on Public Expenditure is 18 per cent of pay (see Ireland,Dail Eireann, 1985A, Q.29). This figure is an estimate of what it costs to provide retirement benefits for the group of civil servants who are eligible for them, i.e., it is the system cost. It may not be the appropriate figure to charge for particular individuals who are on loan to outside organisations because it ignores information about their careers in the civil service which could be used to estimate an individual contribution rate. While no published data are available on the characteristics of civil servants on loan it is safe to assume that they are likely to be experienced officers with considerably more years of service than the average and with much greater probability of completing their working life in the civil service. The charge for their superannuation should, therefore, be higher than the average cost of the superannuation scheme for all civil servants. Since the estimates in this section are illustrative and may not correspond to the experience of actual civil servants it is recommended that this question be examined by experts in the field in the civil service to determine what the appropriate charge should be on the basis of information available to them about the careers of civil servants on loan to outside organisations.

A similar argument applies to the allowance which is made for superannuation when comparing the remuneration of senior people in the civil service and in other organisations. The Review Body on Higher Remuneration in the Public Sector (Ireland, Department of the Public Service, 1979, p. 13) reported that in its approach to pay determination for the higher civil service " we regarded the civil service superannuation scheme as the norm for the purposes of comparison. We made allowance for employee contributions where they arose and for better or worse benefits in other employments". Hence, it appears that what was allowed for in the comparison was the difference in system costs between the civil service and other organisations rather than differences in contributions needed to provide the pension wealth attached to particular posts. If this is the approach which was adopted it should be re-evaluated in any future comparisons of the remuneration of higher civil servants and senior managers outside the civil service as there is a strong case for making the comparison on the basis of individual contributions rather than on the average contribution for the civil service group scheme.

4.4. Funding versus Pay-As-You-Go

The last question we wish to consider is should the civil service superannuation scheme be funded rather than financed out of general taxation on a pay-as-you-go basis? We will consider this question by discussing six arguments which are frequently made for funding occupational pension schemes such as the civil service scheme.

1. Funded schemes are safer than pay-as-you-go schemes. The money contributed to the pension fund is invested in property, government bonds, equities, and other assets and the income from these assets is available for the sole purpose of providing pensions. If the annual contributions are adequate and the investments are wisely chosen, assets are created which will ensure that pensions are paid even if the employer goes bankrupt.

This argument derives its force from the possibility that an organization may become bankrupt. Hence, it is necessary to ensure that the pension rights of the employees are safeguarded against this risk by having a fund out of which pension benefits can be paid if the organization gets into financial difficulties. This argument, however, is not applicable in the case of civil service pensions, for as Rhodes (1965, p.216) notes:

> In the case of the civil service, the ability to pay pensions lies in the central government's continuing and permanent powers of taxation. The guarantee that pensions will be paid lies partly in the Acts of Parliament authorizing such payments; but, ..., in strict law the civil servant has no entitlement to pension and probably of more practical importance is the fact that over the years confidence has developed between civil servants and their employers that pensions will be dealt with in a fair and reasonable manner.

Nottage (1975) notes that a similar response to the security of funding argument was put forward in the late 1960s by a joint committee of the Civil Service National Whitley Council in the United Kingdom which had been asked to review pension arrangements in the civil service and to consider whether these arrangements should include funding. The committee concluded (Nottage, 1975, p.14) that:

> ..., there would be no particular advantage in funding Civil Service pensions. The main purpose of funding is to ensure the security of pension benefits, and this is why it is regarded as the only satisfactory basis on which to set up a pension scheme in the private sector. If there were no fund and pensions were paid out of ordinary trading income, employees of a company would find their pension benefits at risk if the company subsequently failed or fell on hard times. But this situation does not arise where the central Government is the employer. Here the security of benefits is guaranteed by the Government, and no greater security would be achieved by setting up a fund.

This position is supported in recent studies of civil service retirement costs in the United States. Thus, the Congressional Budget Office (1981, p.12) noted that:

> ..., because CSR [Civil Service Retirement] is backed by a permanent institution — the federal government — the system does not need full funding as a safeguard against bankruptcy or insolvency, prospects that cannot be overlooked in private pension plans. The taxing power of the federal government provides the ultimate assurance that federal retirement benefits can be paid.

Leonard (1984, p.66) argues that civil service pension debt in the United States is similar in burden per dollar to national debt and recommends that the existing unfunded liability should be converted to an explicit debt by the issue of debt securities by the government, that the cash raised should be transferred to the retirement system and invested, as required by law, in Treasury securities. He recognizes that the retirement system "would wind up taking the money and buying back the securities issued to fund it" but believes that the more explicit recognition which this would give to the cost of the civil service retirement system would be beneficial although "what really backs the pensions is unchanged — it is still a promise that the federal government will make the necessary funds available when the time comes".

Similar arguments against funding public service pensions were put forward by the Taoiseach, Dr Garret FitzGerald in an address on 17 April 1986 to an Irish Association of Pension Fund's Conference when he said that:

> Historically, this country in common with many other European states has preferred the pay-as-you-go system for its public servants. The system is based on the state's permanent and continuing ability to discharge its obligations as they arise. If funding were to be seen as an alternative, it would be possible to develop an elaborate accounting system whereby an adequate fund would be established whose assets were entirely Government securities. As this would not materially alter the position of public service pensioners in the future, or that of any other section of society, the fund would be little more than an elaborate fiction. If private sector funding practices were to be adopted, the capital formation involved would require a very significant increase in taxation or, alternatively, a sizeable jump in our already overstretched Exchequer borrowing requirement. I need hardly underline the objections in present circumstances to either of these courses which would significantly increase present burdens without making any real difference to public service pensioners in the future.

2. Funding is necessary for the proper costing of the services produced by an organisation. Pensions are as much a cost of production as wages and salaries and it is important for the long-run viability of the organisation that the pension liabilities incurred in a particular year should be reflected in the cost of the organisation's products.

This argument assumes that there is a unique way of meeting pension commitments, i.e., through funding. This is not correct as there are a number of different ways of meeting these commitments. If the pay-as-you-go method is chosen costing can be done as properly as in the case of a funded scheme and liabilities which are not reflected in current costs can be estimated on the basis of reasonable assumptions about the future behaviour of the organisation's labour force, interest rates, inflation and other relevant variables.

3. Funding ensures inter-generational equity in financing pensions. Under a pay-as-you-go scheme the cost of pensions gradually builds up to a steady state level as the scheme matures. The burden on the present generation would be less, while that on future generations would be more than in the case of a funded scheme which would even out the cost between present and future generations.

This argument only considers costs at the time the pension scheme is introduced. If costs are considered over a longer time horizon which embraces both the start-up and mature phases of both methods of financing there should be no difference in the discounted present value of the stream of costs.

4. Funding ensures an investment income which can reduce the cost of the scheme. Provided that investments are made which earn a rate of return in excess of the rate of earnings and membership growth, income from pension fund assets can reduce the cost of pensions below what they would be under a pay-as-you-go scheme.

It is clearly the case that when the fund has been built up, the investment income accruing offsets some of the cost of running the scheme. However, as in the case of the previous argument, this argument ignores the time horizon over which costs should be looked at. Building up a fund entails higher contributions in earlier periods than would be the case under a pay-as-you-go scheme. When account is taken of these higher contributions together with the investment income which they generate there should be no difference between the cost of a funded and a PAYG scheme.

5. Funding provides better information about current and future pension costs. Regular actuarial valuations show the state of the scheme's finances and enable action to be taken to increase contributions if there is a deficit or to increase benefits if there is a surplus. It also brings out the financial consequences of changes in demographic, labour cost, and labour turnover variables which influence the cost of the pension scheme.

This argument is often presented as if pay-as-you-go schemes suffer from an inherent lack of control. While many pay-as-you-go schemes publish no financial information about their activities, including the civil service scheme, it is not necessary that a fund should be established in order to keep track of their activities. It is possible to provide a framework in which the financial operations of pay-as-you-go schemes can be monitored by using the device of a notional fund which enables an assessment to be made of what the incomings and outgoings of the scheme would be if the scheme were actually funded. The advantage of notional funding is that it gives correct information to government and taxpayers on the price of public sector output whereas the information given by a pay-as-you-go scheme about future taxes and expected pension wealth may be misleading.

The failure of the pay-as-you-go method of financing to provide information on the future cost of the scheme means that decisions have to be taken about recruitment to the civil service and about the retirement benefit structure in the absence of information which might impose a fiscal restraint on these decisions. The scheme, therefore, needs to be reformed in a way which will enable accurate information on costs to be provided to government, taxpayers, and civil service employees. A notionally funded scheme would enable this information to be provided and it would at the same time avoid the problems which would arise if an attempt was made to actually establish a fund. Kay (1983, p.22), for example, argues that:

> ...the principal arguments for funding public sector pension schemes rely on the signalling function of the funding arrangements. Notional funding is a procedure for giving correct signals without incurring the administrative costs and other functions of the operation of actual funds in the public sector.

and also that:

> Notional funding gives a current measure of the relative prices of public and private sector outputs, which actual funding does also but which PAYG fails to achieve. It is also essentially similar in its effects on capital formation, since these depend on the net impact of public sector activities on borrowing and tax rates and on perceptions of these at present and in the future, and these will be the same under both notional and actual funding.

Consideration should therefore be given to the the use of the notional fund approach to the financial control of the civil service superannuation scheme and to the appointment of a Government Actuary to undertake the task. The provision of regular published reports on the notional cost of the civil service pension scheme would not, of course, be the actuary's only responsibility as there are a number of government departments, such as the Departments of Finance, Labour, Health, and Social Welfare, which are responsible for expenditure programmes which require regular actuarial assessment if they are to be properly administered.

6. *Funding increases capital accumulation.* The savings which a pension fund enforces lead to additional capital investment which leads to future output being higher than under a pay-as-you-go scheme. In the long run, therefore, the burden of pension costs is lower under a funded than under a pay-as-you-go scheme because of the increase in output which is made possible by a higher capital stock.

The argument is primarily concerned with the effect of pay-as-you-go financing of social security on private savings but it is also relevant to pay-as-you-go financing of other areas of government activity such as the civil service superannuation scheme. Feldstein (1974) and others have argued that the introduction of State pensions for the elderly after the Depression in the United States led to a reduction in private saving because of the substitution of State provision for private provision for old age. As no fund is accumulated when pensions are paid for on a pay-as-you-go basis he estimated that this method of financing social security in the United States had halved personal savings and that the long-run effect of the consequent decrease in investment was a reduction of 38 per cent in the private capital stock. The implications of this result are so important for economic growth that considerable effort was devoted to checking the result for the United States and to testing for a similar effect in a number of other countries. The results of these efforts were that Leimer and Lesnoy (1982) found an important programming error in the construction of one of Feldstein's key social security wealth variables which, when corrected, led, as Aaron (1982, p.43) noted:

> to estimates that social security dramatically and implausibly increased saving ..., or that social security had decreased saving, but by less than half as much as Feldstein had estimated.

If there is any effect of pay-as-you-go financing of public pensions on the capital stock it would take a very long time to build up and Beach, Boadway and Gibbons (1984) have observed that in the long run the independent variables in Feldstein's model are themselves endogenous. They allowed for feedback effects in a simple five-equation model of a single-sector growing economy using data revised by Feldstein in the light of Leimer and Lesnoy's criticisms and they found that the capital stock in the United States in 1981 was only 5 per cent less due to the introduction of the social security system than it would have been in its absence. The evidence from international studies of the effects of social security schemes in Canada, Britain, West Germany, France, and Sweden on their savings rate provides, as Munnell (1982, p.88) has noted, "no indication that social security has adversely affected private saving" in those countries.

Apart from the weakness of the empirical evidence concerning the effect of pay-as-you-go social security schemes on the savings rate, economists in open economies, e.g., Canada, have argued that even if it could be shown that pay-as-you-go financing does cause personal saving to decline, it does not follow that investment and hence the capital stock must also decline. Such economies, as Jump (1984) has observed, have their domestic interest rates determined by world capital markets. If domestic saving declines for some reason, foreign capital inflows will simply replace domestic investment, so total investment will be unaltered. This does not mean that small open economies should not be concerned with the implications of pay-as-you-go pension schemes for private saving. The way in which ownership of a country's assets is divided between domestic and foreign residents has important implications for the control of the economy and the destination of the income stream generated by those assets.

Jump (1984, p.309) also shows that "a fully funded pension plan that invests exclusively in government debt will offer no advantages over a pay-as-you-go alternative". Thus, if the civil service superannuation scheme were funded and the assets were invested in government securities, as Dr. FitzGerald implies would have to be the case in the statement quoted above, there would be no advantage to the government over the present arrangement while there would be considerable disadvantages.

Our review of the arguments for funding occupational pension schemes strongly suggests that most of them are based on considerations which are appropriate for private sector organizations but which are inappropriate for public sector organizations, such as the civil service, which cannot go bankrupt or which have alternative means of exercising financial control over their pension schemes.

Chapter 5

CONCLUSIONS

The Irish civil service superannuation scheme has been criticised in recent years on the grounds that it is costing too much and that its cost is likely to increase significantly in the future. It has been argued that the provision of index linked benefits favours civil servants at the expense of the taxpayer and that the argument by the civil service unions that their members pay for their pensions through implicit and explicit contributions is nonsense. Hence, it is advocated that civil servants, and other public servants, should be asked to contribute to the cost of the State's contributory old age pension schemes just like other employees. Concern has been expressed about the accuracy of the estimate by the former Department of the Public Service that the average cost of superannuation for eligible civil servants is 18 per cent of pay. Finally, some critics of the scheme believe that it should be funded to ensure that resources will be available in the future to pay the expected increase in pension costs and to give correct measures of cost which the present pay-as-you-go method of financing may fail to do.

The data presented in Chapter 2 show that although the cost of the scheme for the whole civil service relative to the pay bill has risen during the period 1972-83 from about 6 per cent of the wage bill to around 8½ per cent, it is considerably less now than during the period 1927-1950 when its cost ranged from 9 to 15½ per cent of the wage bill. The transfer of the functions of the Department of Posts and Telegraphs to An Post and Bord Telecom means that projections of the cost of civil service pensions in the future can be confined to the cost for the central civil service. Projections of pension costs in the future based on the assumption that the proportion of pensioners to civil service employees increases by a fifth indicate that pension costs should not amount to more than around 10 per cent of the pay bill in the year 2015. These estimates also show that the proportion of pensioners relative to employees would need to double in the next 30 years for pension costs for the central civil service to reach the same proportion of the wage bill in 2015 as it did in 1931 for the civil service as a whole.

An unpublished study undertaken recently by the former Department of the Public Service of the expected change in pension costs over the next 30 years shows that these costs are likely to remain relatively constant in real terms. Hence the big increase in civil service pension costs which some commentators have predicted due to the growth in the public service in the late 1970s is unlikely to materialise before 2015. While there could be a significant increase in civil and other public service pension costs thereafter government sources expect it to be of manageable proportions.

In view of the public interest in the future cost of the civil service superannuation scheme it would be a helpful contribution to public knowledge about the civil service pension scheme if the government would publish the report by the former Department of the Public Service which was initiated as a result of enquiries by Dail Eireann's Public Expenditure Committee. Reluctance in the past to publish information about the scheme may have contributed to misinformation about its cost and fears that the country might not be able to afford to pay its civil servants pensions in the future. Consideration should also be given to publishing regular reports on pay and pension costs for the civil service which would make available detailed information on the number of civil service pensioners and employees, their year of entry and exit, age, sex, grade, salary and other characteristics which might influence the current and future cost of civil service pay and pensions.

The arguments that civil servants' index linked retirement benefits favours them at the expense of the taxpayer and that they should be asked to contribute to the cost of the State's contributory old age pension schemes assumes that civil servants make no contribution towards the cost of their retirement benefits. This assumption is incorrect. For a very long number of years civil servants have made an implicit contribution to the cost of their superannuation scheme because their pay has been reduced below what it would be in the absence of their scheme and they have made explicit contributions towards the cost of pensions for their dependants since the late 1960s. A comparison of employee contributions to the civil service, private sector occupational and the State's contributory old age pension schemes shows that the cost of civil servants' implicit and explicit contributions in 1984 was 8.2 per cent of pay whereas private sector employees contributed 7.8 per cent of pay assuming that the full burden of the State subsidy to the contributory old age schemes fell on them rather than being shared with other taxpayers.

On the benefit side the average retired civil servant received a pension of £6,189 in 1984 versus £6,076 for retired private sector employees who were covered by an occupational pension scheme and the State's contributory old age pension schemes. The average pension being paid to dependants of civil servants was £4,047 while the amount being paid to dependants of private sector employees was £3,297. Hence there was hardly any difference between the personal pensions being paid to civil servants and non-civil service employees who were covered by an occupational scheme but civil servants dependants' pensions were higher than dependants pensions for covered private sector employees. The argument that civil servants should make PRSI contributions to the cost of the State old age pension schemes therefore ignores a number of points which weigh against it and the case for asking them to contribute to the State schemes just like other employees is considerably weaker than it appears at first sight.

If it can be shown that civil servants enjoy far better compensation than comparable private sector employees and that the pension component is one of the reasons for this it would be reasonable to ask that they should contribute more than they do at present. However, it would be more sensible to use the existing arrangements to increase their contribution by raising the implicit deduction from their pay rather than undertaking the far more difficult task of integrating the civil service and State contributory old age pension schemes. Experience in Britain with the integration of their civil service scheme with the national insurance old age pension scheme, which was reviewed in Chapter 4, shows that there is a danger with such an undertaking of increasing some civil servants' total pension benefits as well as the subsidy which the State has to give to cover the shortfall between employer and employee PRSI pension contributions and the cost of its contributory old age pension schemes.

The unpublished study of the expected future cost of the civil service superannuation scheme carried out by the former Department of the Public Service in response to concerns expressed by Dail Eireann's Public Expenditure Committee has confirmed the accuracy of the estimate of 18 per cent of pay which is used by the civil service as the average cost of superannuation. This is the figure which outside organisations are charged to recoup superannuation costs for civil servants on loan. However, since superannuation costs for individual civil servants vary according to length of service, salary level and other variables it may not be the appropriate figure to charge outside organisations for civil servants on loan to them. Such civil servants are likely to be experienced officers with considerably more years of service than average and with much greater likelihood than average of completing their working lives in the civil service.

Our estimates of the value of pension wealth for full-career civil servants who retired between 1962 and 1972 suggest that the annual contribution which would have been required to provide their retirement benefits would have ranged from a quarter to a third of salary. The appropriate contribution rates for civil servants on loan are likely to be closer to these estimates than to the figure which is currently charged for civil servants on loan. Our estimates are illustrative due to lack of published information on the characteristics of civil servants on loan. Hence, it is recommended that the appropriate contribution rates should be determined by experts in the field in the civil service using information available to them about the career paths of such civil servants.

It appears that the approach of the Review Body on Higher Remuneration in the Public Sector to estimating the value of superannuation for higher civil servants may have been similar to the approach taken in the civil service to estimating the charge-out rate for civil servants on loan. If so it is recommended that this approach should be re-assessed in any future comparison of the remuneration of higher civil servants and senior managers outside the civil service.

The main arguments in favour of funding occupational pension schemes such as the civil service scheme are based on considerations which are appropriate to private sector organisations. They do not apply, in general, to the civil service scheme which cannot go bankrupt and there are alternative methods of exercising financial control over this scheme. One of these is the method of notional funding. It is recommended that consideration be given to using this method as it would enable accurate information on future costs to be given to government, taxpayers, and civil service employees. Consideration should also be given to the appointment of a Government Actuary to carry out this task as well as to provide a wide range of actuarial services to government departments, such as the Departments of Finance, Labour, Health, and Social Welfare, which are responsible for expenditure programmes which require regular actuarial assessment for their proper administration.

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Appendix 1

A BRIEF HISTORY OF THE IRISH CIVIL SERVICE SUPERANNUATION SCHEME

A1.1: Origins of the Irish Civil Service Superannuation Scheme

Introduction

Article 17 of the Anglo-Irish Treaty of 1921 provided for the transfer from Britain to the "provisional government to be elected in Ireland the powers and machinery necessary for it to discharge its duties". Part of the "machinery" transferred included about 21,000 civil servants, half of whom were in the Post Office, who had been responsible for the administration of Irish affairs under the Crown. Differences in the economic circumstances of Britain and Ireland necessitated reductions in 1924 in the salary scales of general service and departmental grades inherited from the British Administration (Ireland, Department of Finance, 1936a, pp.138-139). However, the structure of the civil service was not changed, as Dooney (1976, p.1) notes. The pension law and regulations governing the British civil service continued to be applicable to the Irish civil service, as the Civil Service Federation noted in its evidence to the *Commission of Inquiry into the Civil Service* (Ireland, Department of Finance, 1936b, p.180) which sat from 1932 to 1935. This commission is referred to as the Brennan Commission after its Chairman, Mr. J. Brennan. Hence, the Irish and British civil service pension schemes have common origins.

The British Civil Service Superannuation Scheme and its Development up to 1921

The system of occupational pension provision which we now have dates from a number of different arrangements in the 18th century for providing for the needs of British civil servants in their old age. A summary of the historical development of the British civil service pension scheme from its origins at the end of the 18th century to the present day is provided in Table A1.1. At the end of the 18th century some civil servants were remunerated by a salary while others received fees for services rendered. These pay arrangements gave rise to a variety of different methods of providing for old age. Post Office employees, for example, were allowed to negotiate annuities with their successors while Customs and Excise officials contributed to a superannuation fund which had been established by their departments early in the 18th century. The variety of methods of payment for civil servants in that century led to abuses of the system of public offices and in 1785 a commission was set up to inquire into "Fees, Gratuities, Perquisites and Emoluments" of these offices. The commission

Table A1.1: *Historical development of the British civil service pension scheme, 1785-1956*

18th c.	Customs and Excise establish superannuation funds early in the century. 1785 Commission of inquiry into "fees, gratuities and emoluments" of various public offices.
1803	Treasury lays down scale of allowances for customs officers.
1803	Committee on Public Expenditure considers cost of superannuation.
1810	First Act of Parliament on superannuation.
1821	Treasury Minute on necessity for superannuation contributions.
1822	Introduction of superannuation contributions of 2½% on salaries between £100-£200 and 5% on salaries over £200. Only half of the cost covered.
1824	Act of Parliament abolishes superannuation contributions.
1828	Select Committee considers reasons for escalating cost of superannuation and suggests reintroduction of contributions and establishment of pension fund.
1829	Treasury Minute reintroduces contributions of 2½% on salaries up to £100 and 5% on salaries over £100, but no fund established.
1834	First Superannuation Act devoted exclusively to pensions. Provides basis for today's civil service pension scheme.
1856	Royal Commission of Inquiry into Operation of the Superannuation Acts.
1857	Private Member's Act abolishes contributions by civil servants.
1859	Superannuation Act consolidates earlier changes in Civil Service Scheme. Pension scale fixed in 60ths of final salary to give maximum pension of ⅔ of final salary after 40 years' service. Minimum retirement age fixed at 60.
1888	Royal Commission of Inquiry into the Civil Establishments (the Ridley Commission) considers the case for contributions.
1902	Commission of Inquiry (the Courtney Commission) into provision of a death benefit.
1909	Introduction of lump sum benefits on death and retirement and of pension based on 80ths to give half pay plus lump sum after 40 years' service.
1931	Tomlin Commission considers case for contributions.
1935	Voluntary pension for widows introduced.
1948	Established status extended to many industrial civil servants.
1949	Introduction of contributory widows' and orphans' pensions. Maximum limit for pensionable service raised from 40 to 45 years.
1956	Priestly Commission endorses Treasury view of civil service pension scheme.

Source: Rhodes (1965).

was primarily concerned with eliminating the abuses which had arisen under the existing system of remuneration and it suggested that this could be done by forming an establishment for the public service which would eliminate the numerous sinecure offices which then existed. Because of the close connection between pay and pensions this recommendation had implications for pensions which, if accepted, would lead to a proper system of superannuation, as the commission recognised when it noted that acceptance of the principle of an establishment for the public sector would entitle every Public Officer "to a provision upon retirement, not dependent upon caprice or accident, or arising from the perpetuation of abuses, but known and certain, free from the competition of individuals, or the animadversion of the public" (Rhodes, pp. 16-17).

It took a considerable amount of time for the principle of providing pensions for civil servants to be recognised officially as it was not until 1810 that an Act of Parliament was passed which concerned itself generally with pensions in the public service. This Act had three main principles, as Rhodes (pp.46-47) notes, which still apply to the civil service scheme and to many other occupational schemes. These were:

(1) Only those who were unable to work because of old age or physical or mental incapacity should receive a pension;

(2) The pension should be positively related to the number of years of service worked;

(3) The pension should not be greater than final pay.

The reasons why these three principles were made the cornerstone of the civil service pension scheme were clarified over the years by a number of Commissions of Inquiry into the operation of the Superannuation Acts. A Royal Commission in 1856 said that the strongest reason why civil servants should be pensionable was that it provided a means whereby those who had become incapable of performing their duties due to old age or infirmity could be removed from office without causing hardship. The Ridley Commission, reporting in 1888, argued that pensions related to length of service helped to reduce mobility out of the civil service to banks, railway companies, and other commercial undertakings which operated their own pension schemes. The Courtney Commission argued in its report in 1903 that the civil service pension scheme has two distinct advantages for the State. First, it induces civil servants to provide continuous service to the State, and second, it enables the State to dispense with its employees' services when they become less efficient due to old age or infirmity.

When the 1810 Act was passed no attempt was made to make civil servants contribute towards the cost of their pensions as the Act provided that both pay and pensions were to be charged to the "Fee Fund" in any department which had one.[2] The question of the cost of civil service pensions, however, became an issue only 10 years after passage of the 1810 Act when the cost of superannuation allowances was examined as part of a general inquiry into the cost of the public service and the Treasury recommended in 1821 that civil servants should contribute towards the cost of their pensions.

In the following year an Act of 1822 provided that the rates of contribution should be 2½ per cent on salaries between £100 and £200 per annum and 5 per cent on salaries over £200. It was estimated that these contribution rates would provide sufficient income to meet half the cost of the retirement scheme. This Act met with very strong opposition from civil servants as the payment of contributions was regarded as a breach of the terms on which existing civil servants had entered the service. This view prevailed when a further Act was passed in 1824 which abolished contributions and returned those which had been paid since the 1822 Act was passed.

The Treasury and the government were not content to let matters rest there and in 1828 a Select Committee on public income and expenditure recommended the re-introduction of pension contributions for new entrants to the civil service. As well as recognising the contractual rights which existing civil servants had to their pensions the committee recommended that no pension should be greater than two-thirds of pay because of the advantages of providing a greater reward for the performance of official duties than for the non-performance of them due to age or infirmity. These proposals were implemented in a Treasury Minute of 1829 which provided for deductions of 2½ per cent on salaries up to £100 per annum and 5 per cent on salaries in excess of £100.

The government thought it was unsatisfactory that laws relating to civil service pensions should be enacted in one session of Parliament and repealed the next. It made an attempt in the Superannuation Act of 1834 to settle the principles on which the civil service pension scheme should be based. This was the first Act which was devoted exclusively to the provision of pensions in the public service. It formalized the distinction concerning contributions in the 1829 Treasury Minute between old and new entrants and also introduced another distinction between the maximum pension benefit which each group could receive. Pre-1829 entrants were normally entitled to a maximum pension of three-quarters of salary but the 1834 Act reduced this to two-thirds for those joining the service after 1829. These distinctions gave formal recognition to the "no detriment" rule whereby existing members of a pension scheme should not be made worse off by changes in the scheme.

2. In the 18th century British Customs officers were paid salaries from public revenues and gratuities and fees by merchants and the holders of patent offices for the collection of revenue on imports and exports also received substantial fees. These fees were accumulated in a "Fee Fund" before disbursement (see Raphael, 1964).

Nevertheless, the distinctions which were formalized in the 1834 Act were felt by civil servants to be anomalous and they gave rise to numerous complaints which were put to a commission of inquiry into the operation of the 1834 Act which was set up in 1856. The commission argued in its report that a major objection to the contribution system was that a pension fund had not been established and that in the absence of a fund all that the 1834 Act had accomplished was a surreptitious reduction in pay. The commission thought that if that was the government's intention it should have been done openly as it said that:

> It appears to us that the most natural and proper course in all such transactions is, to call things by their right names... If it is intended that the salary actually paid to a Civil Servant shall be of a certain amount and that in addition to this salary, he shall, under certain circumstances, be entitled to a retired allowance according to a prescribed scale, it seems *prima facie* to be the most correct course to describe the remuneration of the Civil Servant as consisting of a certain salary, with a prospect, under certain circumstances, of a retired allowance, rather than to add to the salary a certain nominal amount which is supposed to be an equivalent for the chance of a superannuation allowance, and thus to describe the salary as being of a larger amount than it really is, without mentioning the superannuation (Rhodes, 1965, pp.50-51).

The argument that a contributory system would offer greater protection to the pension rights of civil servants than a non-contributory system was not understood by the Commission as it could not see "how their case is strengthened by making a nominal addition to their salaries, which is never paid to them, and calling this nominal addition a deduction or abatement paid by them for the purpose of providing their superannuation" (Rhodes, 1965, p.51). The Commission's arguments did not persuade the government to change the pension arrangements but they did convince Parliament as a Private Member's Act was passed in 1857 which finally abolished the payment of contributions by civil servants.

The government did, however, accept other recommendations in the commission's report and it embodied these in the Superannuation Act of 1859 which consolidated many of the provisions in earlier civil service pension Acts and laid the basis for the scheme which Ireland inherited on gaining Independence in 1921. The pension scale was fixed in terms of sixtieths for each year of service to give a maximum pension of two-thirds of final pay after forty years' service and the minimum retirement age was fixed at 60 as the 1857 commission had argued that this is the age at which productivity often begins to decline due to old age or infirmity.

The case for a contributory civil service pension scheme has been examined by a number of different commissions over the years and arguments for re-introducing contributions have been put forward, e.g., by the Ridley Commission in 1888, but these arguments have never received the political support necessary to re-establish the principle of direct contributions. Nevertheless, for many years civil servants in both Ireland and Britain have made indirect contributions towards the cost of their pensions because their pay has been less than it would have been if their superannuation schemes did not exist. The 1859 Act settled the question of funding versus pay-as-you-go for the civil service scheme and no major change was made in the scheme until 1909 when death benefits were introduced, at no extra cost to the Treasury, by fixing the pension scale in terms of eightieths for each year of service, reducing the maximum pension to half of final salary and introducing lump sum benefits on retirement and at death.

A1.2: Development of the Irish Civil Service Superannuation Scheme Since 1921

The Irish Scheme in 1921

The main features of the civil service pension scheme which Ireland took over from Britain on gaining Independence in 1921 are shown in Table A1.2. The legal status of the Superannuation Acts which had been passed since 1810 was formally recognised by the Irish Government in Article 73 of the Constitution of the Irish Free State which came intó effect on 6 December 1922. This article provided that the laws in force in the Irish Free State at the date of the coming into operation of the Constitution should continue to be of full force and effect until repealed or amended by enactment of the Oireachtas. Article 78 of the Constitution provided that civil servants who had transferred their services from the British Government would be entitled to the benefit of Article 10 of the Treaty signed on 6 December 1921 between Great Britain and Ireland which stipulated that the Irish Government agreed to pay fair compensation to public servants who it would discharge or retire as a consequence of the change of government. Civil servants in this category were subsequently generally referred to as "transferred officers". Much of the pension legislation relating to the civil service which was passed in Ireland between the wars was concerned with the interpretation and implementation of Article 10 of the Treaty or with providing pension terms to post-Treaty civil servants which would be comparable to the terms provided to the transferred officer category. A summary of the development of the civil service scheme since Independence is given in Table A1.3.

Special Provisions for Certain Categories

The first Superannuation Act which was directly concerned with pensions for Irish civil servants was the Superannuation and Pensions Act, 1923. It made provision for payment of pension to certain persons in the service of Saorstat Eireann notwithstanding that they were not appointed in the manner prescribed by the 1859 Act, e.g., civil servants who had worked for the Provisional

Table A1.2: *Main Features of the Irish Civil Service Pension Scheme in 1921*

Membership:
Permanent or established civil servants who had been appointed to the civil service directly by the Crown, by certificate from the Civil Service Commissioners or by tenure of professional office.

Contributions:
No contributions were payable either by the employee or the employer.

Age of Retirement:
The normal retirement age was 65 but officers could retire or be required to retire from age 60 onwards. If an officer was permanently incapable of discharging his duties on medical grounds, permission could be granted for the officer to retire earlier than 60.

Qualification for Age Pension:
At least ten years service were required before acquired rights to a pension at age 60 were vested.

Benefits on Retirement on Age Grounds:
For officers appointed before September 1909 an annual allowance of $^{1}/_{60}$th of annual salary and emoluments of office was payable for each year of service up to a maximum of $^{40}/_{60}$ths. For officers appointed after September 1909 or pre-September 1909 appointees who had opted for the terms of the 1909 Act an annual allowance of $^{1}/_{80}$th of annual salary and emoluments of office was payable for each year of service up to a maximum of $^{40}/_{80}$ths together with a lump sum equal to $^{1}/_{30}$th of annual salary and emoluments for each year of completed service up to a maximum of $1\frac{1}{2}$ times salary and emoluments.* Benefits were paid without deduction of taxes or duties except for the tax on income or property. Heads of departments were allowed to include any fees or other sources of profit which formed part of the emoluments of office as part of the sum upon which the superannuation allowance would be granted.

Benefit on Retirement Because of Permanent Ill-Health:
A retiring allowance not exceeding the amount for which length of service would qualify could be paid to officers with more than 10 years' service. Officers with less than 10 years' service could be granted a gratuity of one month's pay for each year of service.

Death Benefit:
A male civil servant dying in service after more than 5 years' service could have granted to his legal representatives a gratuity equal to the annual salary and emoluments of office. This benefit applied only to staff covered by the terms of the 1909 Act. Where a civil servant died after retirement and the amount of superannuation received was less than the annual salary and emoluments his legal representatives could be granted a gratuity equal to the deficiency.

Widows' and Children's Pensions:
None.

Indexation:
A Pensions (Increase) Act was passed in 1920 which provided for an increase in the pensions received by officers retiring prior to August 1914.

*The civil service pension scheme was improved in 1975 retrospectively to 1 June 1973. One of the improvements was a revised basis for calculating the lump sum based on $^{3}/_{80}$ths rather than $^{1}/_{30}$th of pay for each year of service (see Ireland, 1977, pp.28 and 31).

Table A1.3: *Historical Development of the Irish Civil Service Pension Scheme, 1922-84*

1922	Article 10 of the Treaty stipulates payment of fair compensation to public servants discharged or retired as a consequence of change of government.
1922	Legal status of Superannuation Acts passed since 1810 by the British Parliament recognised by Article 73 of the Constitution.
1923	First Superannuation and Pensions Act passed by Dail Eireann makes provision for civil servants not appointed in the manner prescribed by the 1859 Act.
1924	Civil Service Regulation Act gives the Minister for Finance power to control pay and pensions in the civil service.
1929	Superannuation and Pensions Act extends pensions to ex-RIC men who resigned from their posts prior to 1922 due to their national sympathies.
1929	Civil Service (Transferred Officers) Compensation Act implements agreement between Irish and British governments concerning compensation for transferred officers.
1936	Brennan Commission recommends funding of civil service pensions.
1936	Superannuation Act rectifies anomalies which had arisen in administration of Superannuation Acts passed from 1834 to 1923.
1940	Civil Service (Stabilisation of Bonus) Regulations freeze salaries and pensions.
1942	Superannuation Act extends pensions to Ordnance Survey Officers who were discharged from their duties during the First World War due to their national sympathies.
1945	Emergency Powers Order (No. 354) adjusts pensions of those who retired before the end of 1944 to compensate for change in cost of living since 1940.
1946	Superannuation Act increases gratuities and allowances payable to civil servants injured in the discharge of their duties.
1947	Superannuation Act indexes pensions in line with changes in the cost of living since 1940.
1950	First Pensions (Increase) Act passed.
1954	Superannuation Act removes discrimination in pension benefits payable to female civil servants and introduces death-in-service benefits.
1956	Superannuation Act allows civil servants to allocate part of their pension in favour of pension for dependants (wife or one dependant).
1963	Superannuation Act provided for transfer of service within the public sector or to designated organisations.
1964	Superannuation Act provides for indexation of pensions by means of Statutory Instrument instead of an Act of the Oireachtas. Makes pensions portable within the public service.
1969	Contributory and *ex-gratia* pension schemes introduced for widows' and children. Contribution rate set at 1½ per cent of salary.
1975	Statutory Instrument provides for automatic increase in pensions from 1 July each year in line with wages and salaries in the civil service.
1976	Superannuation and Pensions Bill provide for establishment of statutory pension schemes by means of Statutory Instruments.

Table A1.3: *continued*

1977	Statutory Instruments used to provide legal basis for the Civil Service Widows' and Children's Contributory Pension Scheme and for the Civil Service Widows' and Children's *ex-gratia* Pension Scheme.
1981	Spouses' and children's pension scheme introduced for female civil servants.
1984	Revision of spouses' and children's scheme extends coverage to all children of members, regardless of members' marital status and also to the spouses of post-retirement marriages. These improvements have also been applied to the *ex gratia* scheme.

Source: see text.

Government prior to Independence and who had become part of the official civil service after Independence. The terms on which the pensions were to be paid were those laid down in the Superannuation Acts, 1834 to 1919.

The Civil Service Regulation Act, 1924 gave the Minister for Finance power to make regulations controlling pay and conditions in the civil service. These powers were very sparingly used during the inter-war period and all matters relating to public service pensions were dealt with by Acts of the Oireachtas which could only be initiated by the government as the expenditure of public funds was involved. The principle that pension Bills were automatically regarded as money Bills was established in 1925 when a private member's Bill designed to amend the 1923 Act was introduced so that teachers living outside the State could be paid their pensions. The Minister for Finance, Mr. Blythe, would not facilitate passage of this Bill as Bills involving the expenditure of public funds should, in his opinion, only be moved by the government of the day. This principle was accepted by the Dail and the Bill was withdrawn on second stage. It was subsequently reintroduced by the Minister for Finance and passed by the Oireachtas without opposition.

The Superannuation and Pensions Act, 1929 extended pensions to ex-RIC men who had resigned from the force between April 1 1916 and 6 December 1921 because of their national sympathies. Following the resignation of the first Secretary of the Department of Finance, Mr. Joseph Brennan, in 1927 under Article 10 of the Treaty in a way which "was irksome to the ministers with whom he had previously worked so closely in the early twenties", as Fanning (1978, p.190) notes, the Civil Service (Transferred Officers) Compensation Act, 1929 was introduced to implement an agreement between the Irish and British Governments which supplemented and interpreted Article 10 of the Treaty and set up a Statutory Committee to consider all claims for compensation under this Article from transferred officers who considered their terms of employment had been altered to their detriment by the Irish Government and who wished to be allowed to retire from the public service.

The Superannuation Act, 1936 was designed to make special provision for diverse cases which had arisen in the course of the administration of the Superannuation Acts, 1834 to 1923. It was confined exclusively to civil service superannuation and its main aim, in the words of the Minister for Finance, Mr MacEntee, was "to secure that a number of civil servants who by reason of interruption of service due to association with the events of 1916 to 1923 will be in no worse position as regards the application of the Superannuation Code than they would have been in if there had been no such interruption in their service" (DEPD, vol. 63, col. 1134).

The Superannuation Act, 1942 was concerned with Ordnance Survey Officers discharged from their employment during the 1914-18 War because of their political sympathies and it provided that their service for pension purposes could be reckoned on a continuous basis from the date of their first employment in a pensionable capacity in the British civil service. This Act also provided that where Local Appointments Commissioners had rendered service to local authorities in connection with the Local Authorities (Officers and Employees) Act, 1926 a charge for superannuation liability could be included as part of the expenses of services rendered by the State. During the Dail debates on the Bill the Minister for finance, Mr O'Ceallaigh, noted that pension rights were portable for someone transferring from a local authority to central government but not the other way around.

The Superannuation Act, 1946 provided that the Minister for Finance could modify the provisions of the Superannuation Act, 1887 which granted power to make a warrant regulating gratuities and allowances to civil servants injured in the discharge of their duty. The 1887 Act allowed payment of a maximum gratuity of up to one year's salary or an allowance including superannuation allowance which would not exceed the annual salary of the person concerned or £300 per year whichever was less. The 1946 Act removed the upper limit of £300 by stipulating that the allowance should not exceed $^5/_6$th of salary.

Cost of Living Adjustments Between the First World War and the Korean War

The Superannuation Act, 1947 was designed to adjust civil service superannuation granted during the period of operation of the Civil Service (Stabilisation of Bonus) Regulations which fixed salaries from 1 July 1940 on the basis of the cost of living index figure obtaining then. It is necessary to explain how civil service pay and pensions were fixed during the inter-war period to understand the purpose of the 1947 Act.

The 1914-18 War was accompanied by severe inflation which eroded the living standards of those, such as civil servants, whose income was fixed in nominal terms. To compensate for inflation an adjustment was made in 1920 to the remuneration of civil servants whereby the basic rate of pay was supplemented by a cost of living bonus. This system of remuneration was taken over by the Irish Government on Independence. The cost of living index reached its highest level on 1 March 1921 when it stood at 265 to base 1914 = 100. It then declined almost continuously for the next twelve years to reach a low of 151 in 1933. A consequence of this was that the total pay bill for the civil service declined significantly between 1926 and 1934 due to the reductions in the cost of living bonus paid to active and retired civil servants.

Civil servants generally held the view that rates of remuneration in the private sector which had moved upwards in times of rising prices had been maintained without serious reduction notwithstanding subsequent downward movements in the cost of living and that the absence of conciliation and arbitration machinery for the civil service prevented them from protecting their nominal rates of pay as the private sector had done.[3] The discontent which this engendered in the civil service combined with the desire of the staff associations to return to the Whitley system of joint industrial councils for the civil service, which operated under the British Administration, eventually led to the establishment in 1932 of a Commission of Inquiry into the Civil Service under the chairmanship of Mr. Joseph Brennan.

The effect of the Civil Service (Stabilisation of Bonus) Regulations on pensions was to freeze all pensions paid after 1 July 1940 at a level determined by the basic rate of pay and the cost of living index number which obtained when the regulations were introduced or which existed when modifications were introduced subsequently which dated from the end of December 1944. The consequence of this was that the living standards of civil servants who retired after July 1940 were not adjusted to compensate for the effects of wartime inflation until the last year of the war when an Emergency Powers (No. 354) Order was passed to permit adjustment of pensions of those who had retired up to the end of 1944 on the basis of a cost of living index figure of 210 instead of 185 on which salaries had been frozen in 1940.

The Order did not allow adjustment of lump sum and gratuity awards and the Superannuation Act, 1947 provided for their adjustment and also for the adjustment of all pensions on the basis of the cost of living index obtaining on the date of retirement provided it did not exceed 270, the figure "by reference to which Civil Service salaries have been consolidated" since 1 November 1946 as the Minister for Finance, Mr. Aiken, noted during the second stage debate on the Superannuation Bill 1947 (DEPD, vol. 108, co. 1195).

Opposition speakers welcomed the 1947 Bill but argued that it should have increased pensions for those who retired before 1940 whose pensions had been

3. This view, however sincerely held at the time, was mistaken as is shown in Section 1.3 of Chapter 1.

based on a cost of living index figure substantially less than 185. The Minister argued that the State could not guarantee maintenance of purchasing power for any section of the community and noted that "there never was anything in a civil servant's contract or a teacher's contract that the pension he would draw at the end of his days would be sufficient to keep him at any particular standard of life" (DEPD, vol. 108, col. 1214).

This argument was not accepted by the opposition who rejected it on the grounds that since a pension is deferred pay there is an obligation on the government to maintain its purchasing power. During the General Election campaign of January 1948, the main opposition party pledged that it would increase public service pensions and when the first inter-Party Government was returned to office it passed a Pensions (Increase) Act 1950 which gave increases ranging up to 30 per cent on pensions in excess of £346 3s 1d and up to 50 per cent on pensions less than that amount. These increases did not compensate all retired civil servants for increases in the cost of living since the date of retirement and the Minister for Finance, Mr.McGilligan, adverted to the difficulties involved in legislating for public service pensions when he told the Dail (DEPD, Vol. 118, col. 2469) that:

> there are all sorts of anomalies, here, there and everywhere. It would be an impossible task to correct all injustices done with regard to the allocation or distribution or termination of pensions in regard to certain people. I take pensions as they are and give certain increases. That is the best I can do.

The Brennan Commission

Dissatisfaction within the civil service over the effect of the cost of living adjustment on pensions together with other matters relating to pay and conditions of employment led to the establishment of a commission of inquiry (the Brennan Commission) into the civil service in 1932. The Brennan Commission noted in an interim report (Ireland, Department of Finance, 1934, pp.12-13) that:

> it is well understood that the civil service makes its appeal to the well-educated youth of the country by holding out prospects of a safe career with considerable opportunity for advancement, reasonable emoluments according to standards immune from the extreme fluctuations, whether favourable or unfavourable, of the commercial world and ultimate pension.

In return for these conditions of service the recruit to the civil service had to make a commitment to the employer, the State, to a degree not characteristic of employment in the private sector. The disadvantages to the employee in this arrangement were considered by the Commission to be more than offset by the guarantee that the State is always able to remunerate its employees because of its power of taxation. The Commission argued, however, that this power is not unlimited as the government has always to consider what the electorate will approve. It regarded the government's ability to meet pay or pension claims as of crucial importance. It recommended that "no arrangement should be made whereby the award of an independent arbitration tribunal should be recognised either legally or *de facto* as finally binding upon the Executive Council or upon the Minister for Finance" (Ireland, Department of Finance, 1934, p. 19).

Hence, it recommended that "arbitration should take place only on specific issues to be agreed on each occasion between the Minister for Finance and the body of Civil Servants concerned" (Ireland, Department of Finance, 1934, p.21). In addition to this recommendation the Commission considered what matters should properly be referable for arbitration and concluded that "superannuation,..., ought certainly,..., to be excluded as being a matter which is at present reserved to itself by the legislature and on which only scant discretion is entrusted even to Ministers" (Ireland, Department of Finance, 1934, p.22).

Regarding the operation of the cost of living bonus the Commission thought it necessary to point out in its final report that "the operation of the bonus system during the past fifteen years...effectively ensured that the remuneration of the civil service should not be open to criticism for exhibiting so questionable a rigidity" (Ireland, Department of Finance, 1936a, p.133) as was manifested in the private sector. Despite this advantage, however, the Commission argued that the bonus system had some disadvantages in so far as it affected pensions because:

> the bonus affects not merely the pay of serving officers but also the pensions of those who retire. Consequently through the impossibility of forecasting the cost of living index number at a future date it prejudices any attempt to estimate actuarially the liability to be borne hereafter by the State for pensions in respect of the services being rendered by Civil Servants now in office (Ireland, Department of Finance, 1936a, pp.135-136).

The Commission recommended abolition of the bonus element in the remuneration package by consolidation of pay and bonus. This recommendation was not implemented until 1946 when civil service basic pay and cost of living bonus were consolidated as one of the consequences of the inflation which had taken place during the Second World War.

The Brennan Commission considered general questions concerning superannuation and the age of retirement, and it recommended that the normal retirement age should remain unchanged at age 65 and it also recommended that the uncertainty surrounding the State's liability for civil service pensions due to fluctuations in the cost of living index number together with uncertainty about the cost of introducing pensions for widows and orphans should be resolved by an actuarial investigation of the pension scheme to ascertain the extent of the pension liability accrued to date.

It also strongly recommended that there should "be set aside in a special pension fund each year during a pensionable officer's service a contribution or premium actuarially computed so that the accumulations in the fund would enable the pension to be paid out of the fund when the officer retires without any further burden on the taxpayer" (Ireland, Department of Finance, 1936a, pp. 161-162). The recommendation that civil service pensions should be funded was not accepted by all members of the Commission and Thomas Johnson, in a Minority Report, argued that this recommendation left a lot of questions unanswered as it could mean:

> (a) that the taxpayer is to be required to pay annually a sum which is not required to meet the year's expenditure, (b) that the recent enactment of the Oireachtas in respect of the Teachers' Pension Fund was wrong in principle inasmuch as it abolished the system of annual payments into the fund and enacted that the pension charges should be met along with teachers' salaries as part of the yearly expenditure for education and paid out of voted moneys.[4]

He also wondered "how far is it desirable or practicable to treat the State's liabilities and assets in the manner of commercial accounts?" and noted that acceptance of the principle would mean that funds should also be set up for the old age pension and widows' and orphans' pensions. Finally, he noted that "heavy expenditures on health services today is calculated to add appreciably to the number of old age pensioners in the future" and asked "ought the financial consequences, assets and liabilities, to be reflected in the annual budget?" (Ireland, Department of Finance, 1936a, all quotes from p.236).

Following the recommendation in the report of the Brennan Commission arrangements were made in 1937 for the institution of an actuarial investigation into civil service superannuation by the British Government actuary, to whose staff an officer of the Department of Finance was temporarily attached for training. He made estimates for the Department of the capital liability for civil service pensions at the beginning and end of the Second World War but they were never laid before the Houses of the Oireachtas or published by the Government.

Indexation of Pensions Since the Korean War

The quickening in the rate of inflation in the 1950s, following the Korean War, and in the 1960s and its damaging effect on the living standards of retired civil servants living on fixed incomes were reflected in the passage of Pensions (Increase) Acts in 1956, 1959, 1960 and 1964. These Acts only partially compensated retired public servants for changes in the cost of living by confining

4. The National Teachers' Pension Fund had a deficit of £5 million in 1931 according to a Department of Finance memorandum quoted by Fanning (1978, p.213).

the increases to those who had retired some years before the Acts were passed and by graduating the percentage increases awarded so that those in receipt of the highest pensions got the lowest percentage increase. The 1956 Act, for example, gave increases which ranged from 15 per cent on pensions of less than £100 per annum to 6 per cent on pensions in excess of £450 per annum and it confined the increases to those who had retired before the beginning of November 1952. It also stipulated that no one retiring before the beginning of November 1952 could receive a larger pension than someone of identical rank and service who retired on 1 November 1952 and whose pension was calculated wholly by reference to the salary rates obtaining on that date.

The imposition of overriding maxima on pensions increases and the lack of complete indexation to the cost of living attracted considerable adverse comment from the opposition during the Dail Debates on these Bills. It was argued that civil service pensions in Britain and Northern Ireland had been increased seven times between 1920 and 1959 while they had been increased only three times in the Republic. It was also argued that some other European countries increased their civil service pensions in line with the cost of living and that arrangements for automatic adjustment of civil service pensions to compensate for increases in the cost of living should be made in Ireland.

The Minister for Finance, Dr. Ryan, did not accept these arguments during the course of the debates on the Bills introduced in 1960 and 1962 (the latter only being passed in 1964). He told the Dail that he had tried to get information on pensions policy for the public service in other countries but found it "very hard to get any reliable information on what any country is doing" (DEPD, Vol. 208, col. 1312) and that no country had an "out and out" system of increasing pensions exactly in line with the cost of living. He argued that "if we were able to say today, in the case of pensioners, that we would as circumstances arise increase their present pensions by some figure related to the increased cost of living, we would have done as much as could be expected of the State for them" (DEPD, Vol. 208, cols. 1312-1313). He also made the point that in increasing public service pensions the State should have regard to what employers in the private sector can afford as he did not see how they could afford to index pensions because their "funds will no longer be sound if it is expected that they should increase the pension of those who have already gone out" (DEPD, Vol. 208, col. 1313).

The Minister for Finance appointed a committee in September 1964 to inquire into the principles which should underlie post-retirement adjustments in public service pensions. This committee investigated the arrangements for indexation of public service pensions in other countries and found that, contrary to what the Minister had said in the Dail, most countries did have formal arrangements for indexing civil service pensions in line with increases in the cost of living or with increases in the current pay of civil servants. The committee's findings regarding the arrangements in fourteen, mainly European, countries are summarised in Table A1.4 which shows that it was only in Ireland and countries in the British Commonwealth that informal methods were used whereas all other countries had formal arrangements to index in line with the cost of living or current pay. The table also shows that Ireland and Britain were not unique in operating non-contributory schemes in the early 1960s. About one-third of the

Table A1.4: *Civil service pension arrangements around 1964 in European and other countries*

Country	*Employee contribution for basic and/or widow's and orphans' (W & O) pension*	*Basis for calculating pension*	*Basis for indexation*
Austria	5%	Retiring pay	Current pay
Belgium	Basic: non-contributory W & O: 6½%	Average pay in last five years service	Up to 1962: current pay After 1962: cost of living
Denmark	4%	Retiring pay	Wage regulating price index and current pay
France	6%	Retiring pay	Current pay
Luxembourg	Non-contributory	Retiring pay	Cost of living
Netherlands	6.4%	Retiring pay	Current pay
Spain	5%	Retiring pay	Current pay
Sweden	Non-contributory	Average pay in last five years service	Current pay
Switzerland	6% plus 72 Swiss francs plus a single contribution of half of each increase in total emoluments	Retiring pay	Cost of living
Canada	Male: 6½%; Female: 5%	Average of six highest consecutive years pay	*Ad hoc*
Britain	Basic: non-contributory W & O: 1¼%	Average pay in last three years service	*Ad hoc*
New Zealand	Varies with age of entry from 5% if under 30 to 10% if over 50	Average pay in last five years service	*Ad hoc*
United States	6½%	Highest annual salary during any five consecutive years	Cost of living
Ireland	Non-contributory	Retiring pay	*Ad hoc*

Source: Ireland (1965, pp.13-17).

Note: In Luxembourg civil servants pay 2⅛ per cent and in the Netherlands 1½ per cent in return for indexation arrangements.

countries surveyed had non-contributory pension schemes for their civil servants while the remaining two-thirds required their civil servants to contribute from 4 to 6½ per cent of salary.

A review by Balluteau (1986) of national reports on civil service superannuation schemes in the 1980s presented to the eighth *Colloque de l'Association Internationale de la Fonction Publique* shows that the contribution rate for the widows' and orphans' scheme in Belgium has increased to 7.5 per cent while the employee contribution rate has risen to 7 per cent in France and to 10.45 per cent in the Netherlands. There was no change in the financing arrangements for Ireland, Britain or Switzerland and it has not been possible to get information on current contribution rates for the remaining countries listed in Table A1.4 apart from the United States where the contribution rate has been increased to 7 per cent according to Hartman (1983, p. 54).

The committee rejected a claim by the Joint Consultative Council of Retired State Servants that public service pensions should be indexed in line with current pay as it felt that this would be too costly and would give preferential treatment to public servants relative to employees in the private sector. It recommended that Ireland should adopt formal methods for indexing public service pensions in line with increases in the cost of living and that adjustments "should be granted only when a general pay increase is being granted to serving personnel in all categories" (Ireland, 1965, p.19). The Committee noted (Ireland, 1965, p.20) that:

> Increases in public service pensions to offset cost of living increases represent such a valuable improvement in pension terms that the payment of some premium or contribution for the improvement appears to be justified. Otherwise the full cost would have to be borne by taxpayers of whom only a minority have pension schemes with terms as favourable as the existing public service schemes.

As existing pension schemes for civil servants, national teachers (pre-1968) and the defence forces were non-contributory the Committee considered that it would be difficult to get public service employees to make a contribution towards the extra cost of indexing pensions in line with increases in the cost of living and it suggested instead that they should bear part of the cost by having their pension based on pay averaged over the last three years of service rather than on retiring pay. The committee considered that averaging would result in a reduction in the amount of pension which would compensate for the additional benefit conferred if formal methods of indexation were adopted. As we will see formal methods of indexation as suggested by the committee were adopted but the *quid pro quo* of calculating the pension on the basis of average pay over the last three years' service was not. However, the additional benefit conferred by indexation was eventually taken into account by the Review Body on Higher Remuneration in the Public Sector in 1979 (Ireland, Department of the Public Service, 1979) and by the Conciliation and Arbitration Board in 1983 by building in a factor of 3 to 3½ per cent when comparing civil service pay to private sector pay to allow for post-retirement adjustments.

The accelerating rate of inflation during the late 1950s and early 1960s necessitated frequent Acts of the Oireachtas to validate any new pension increase granted to public servants in the Budget for a particular year. To relieve the Dail of the necessity of passing an Act to validate every new pension increase provision was made in the 1964 Act that future increases in public service pensions could be authorised by statutory regulations made by the Minister for Finance and laid before the Houses of the Oireachtas. This power has been used extensively as Pensions (Increase) Regulations have been made frequently since 1966. Two Regulations were made in 1966. The first provided for an increase from 1 October 1964 of 5 per cent in public service pensions awarded prior to the date of the eighth round pay increase and the second provided for an increase of approximately 9 per cent from 1 August 1965 on public service pensions awarded between the eighth and ninth round pay increase. The 1967 Regulations added certain military and police pensions to the Schedule of pensions in the 1964 Act. The 1968 Regulations provided for an increase of up to 12 per cent from 1 August 1967 in public service pensions awarded prior to the ninth round and the 1969 Regulations provided for an increase in these pensions of up to 5 per cent from 1 August 1968.

The 1970 Regulations moved away from a percentage increase for all public service pensions and towards parity of pensions by grade irrespective of date of retirement by providing that public service pensions would be increased, with effect from 1 August 1969, by an amount which would bring them up to the level they would have been at if based on February 1964 rates of pay or by 28.184 per cent on eighth round rates of pay if this would give a better pension. No pension, however, was allowed to increase by more than would be payable if the pension were based on rates of pay obtaining from 1 August 1968. The 1971 Regulations considerably narrowed the gap between the date on which the increase in pension was given and the latest date of retirement to which it referred by providing for an increase with effect from 1 August 1970 which would be based on June 1968 rates of pay. The Regulations for 1972, 1973 and 1974 continued this trend by granting increases with effect from October of the previous year based on rates of pay in June 1969, January 1972 and July 1973 respectively. From 1975 to 1982 the standard practice established under the Regulations was to increase public service pensions on 1 July each year by reference to changes in rates of pay during the previous twelve months.

The Minister for Finance noted in his 1984 Budget Statement that there had been pressure for a number of years for pension increases to take effect from the same date as the pay increases and that the Minister for the Public Service had agreed, as an exceptional measure, that the first phase of the 1983 Public Service Pay Agreement would "apply with effect from 1 September 1983 to pensions in course of payment on that date". Furthermore, he noted that "the Government have now decided that in the case of general pay increases such as the second phase of the Public Service Pay Agreement, full parity will be implemented from 1 February 1984 onwards" (Budget, 1984, p. 16). These arrangements were extended to special pay increases in the 1986 Budget with effect from 1 July, 1986. Full parity of the civil and other public service pensions with increases in current rates of pay in the public service has, therefore, now been achieved.

After indexation of pension benefits the most important developments in relation to the civil service superannuation scheme in the post-war period occurred in connection with the issues of sex discrimination in the benefits structure, portability of pensions within the public sector, and benefits for dependants.

Sex Discrimination in Superannuation Benefits

Discrimination against female civil servants existed in the terms of the superannuation scheme just as it did in the terms on which other employment benefits were offered. The main legislation relating to civil service pensions was the 1859 Act which provided for $^{1}/_{60}$th of salary for each year of service up to the maximum allowable. It did not provide for a lump sum payment on retirement. The 1909 Act provided for payment of a lump sum, for male civil servants, of $^{1}/_{30}$th of salary for each year of service subject to a maximum of $^{45}/_{30}$ths by calculating the basic pension entitlement on the basis of 80ths of salary rather than 60ths.[5] Hence the entitlements of female civil servants on retirement under the 1859 Act gave them no lump sum and no coverage for their next-of-kin in the event of death-in-service while the 1909 Act gave male civil servants a lesser pension in return for a lump sum on retirement and coverage for their next-of-kin in the event of death-in-service. The discrimination which the 1909 Act introduced was never accepted by female civil servants and they campaigned for many years to have their pensions calculated on the same basis as their male colleagues. They finally achieved this with the passage of the 1954 Superannuation Act which was designed to give female civil servants similar benefits to those available to male civil servants. The removal of sex discrimination in the Irish civil service superannuation scheme took place nearly 20 years after

5. Fry, Hammond and Kay (1985, p.11) believe that this was the result of an administrative muddle "in which a reasonable demand for compensation for the loss of rights to pension in the event of death in service had accidentally been translated into a provision for lump sum payment on any involuntary termination of employment".

female civil servants in the UK had secured the same right with the passage of the 1935 Superannuation Act (see Rhodes, 1965, p. 70, footnote 1).

Portability

The lack of portability of civil service pensions referred to by the Minister for Finance, Mr. O'Ceallaigh, during the Dail debates on the 1942 Superannuation Act impeded mobility between the civil service and other organisations. The Superannuation and Pensions Bill 1962 was introduced mainly "to facilitate transfers between branches of the public service, where such transfers are desirable to promote better performance of public business, by enabling a transferee to carry into his new appointment pension credit earned in his first post" as the Minister for Finance, Dr. Ryan, noted (DEPD, Vol. 202, col. 1594) when the Bill was given its second reading. Similar arrangements had been made for the civil service in the UK under the Superannuation (Miscellaneous Provisions) Act of 1948 (see Rhodes, 1965, p. 83).

The Minister indicated that in drawing up this Bill he had taken account of the views of the staff side of the Civil Service General Council and also of recommendations made by a committee set up by the Institute of Public Administration. The Bill provided for transfer of pension credit between the civil service and other organisations designated by statutory order for the purpose of these transfer arrangements. In addition, it provided that a contribution would be payable by the organisation from which the person transferred towards the cost of any superannuation award made by the body to which he or she transferred. Opposition speakers welcomed the Bill but drew attention during the Dail debates to many anomalies which, they alleged, had arisen in connection with the superannuation arrangements for other public service workers such as army officers, CIE workers, ESB workers and Social Welfare officers. The difficulties which many Dail deputies encountered in dealing with pensions legislation for the public sector were given forceful expression by Mr. Sean Dunne of the Labour Party, when he observed that:

> It has always seemed to me that in matters of legislation which relates to superannuation, whatever we try to do produces a result wherein confusion is worse confounded. One of the difficulties is that all superannuation legislation, in my experience at any rate, is related back to previous legislation which in turn,is related back to other previous legislation, and one would need to spend a great deal of one's life studying this aspect of law to get even a grasp of the subject at all. (DEPD, Vol. 202, Col. 1610).

Dependants' Benefits

Although the 1954 Act provided for death-in-service benefits for the dependants of both male and female civil servants pensions were not provided until 1968 for dependants of civil servants who died after retirement. However, the Superannuation Act 1956 was passed to enable retiring civil servants to surrender part of the annual superannuation allowance in return for a pension for a widow or one dependant. Maximum and minimum limits on the amount of the pension which could be surrendered were specified in the Act and the amount payable to a dependant was calculated as the actuarial equivalent of the amount surrendered so that in the long run the value of pensions surrendered should balance the value of pensions paid to dependants. Similar arrangements had been made in the UK in the Superannuation Act of 1935 (see Rhodes, 1965, p.79).

Very few civil servants elected to surrender part of their pension in the event of death in retirement to provide for their dependants. Some years later in 1962 the Minister for Finance, Dr. Ryan, speculated in the Dail that this could have been due to the widespread circulation of a story shortly after the 1956 Act was passed "of a man who opted to make provision for his widow who died the next day and he lost half his pension and lost on the transaction" (DEPD, Vol. 208, col.1316). Efforts in the Dail, and elsewhere, to get the Minister for Finance to introduce a pension scheme for widows and other dependants of civil servants were resisted by the Minister, Dr. Ryan, who told the Dail that "I do not think we should be expected to legislate for the potential widow when her husband is not prepared to do anything about it" (DEPD, Vol. 202, col. 1634).

The absence of a pension scheme for widows of civil servants was noted by Mr. Norton who observed that "when he dies his widow gets merely one year's salary" (DEPD, Vol. 202, col. 1616) and he called on the Minister to introduce a proper pension scheme for them. Other speakers argued that the abatement of pensions of retired public service workers who were re-employed in the public sector was discriminatory as it did not apply to those who found jobs during their retirement in the private sector.

Both of these matters were dealt with in the next two pieces of pensions legislation, the Pensions (Abatement) Bill, 1965 and the Superannuation and Pensions Bill, 1976. The 1965 Bill provided that where a public service pensioner is re-employed his or her pension would not be abated unless the employment was that from which the pensioner had retired. The 1976 Bill provided for the establishment of statutory pension schemes to facilitate administration and simplification of the civil service superannuation code.

This code is derived from 20 separate Superannuation Acts. This makes it difficult for civil servants to view their pension terms as a whole, as the Minister for Finance, Mr. Ryan, noted on the second reading of the Bill. Unfortunately, consolidation of the regulations as provided for in the 1976 Act has not yet been completed due to the scale and complexity of the task. The task is, however, now underway and the initial drafting work on the consolidation scheme is understood to be at an advanced state.

The Minister also noted that the ability to establish statutory pension schemes would provide the appropriate legislative cover for the arrangements which had been made eight years previously for a widows' and orphan's contributory pension scheme. The periodic contribution rate had been set at 1½ per cent of annual salary and the scheme was introduced with effect from 23 July 1968. No provision was made for pensions for the widows of civil servants who had died before 23 July 1968. The Minister for Finance, Mr. Haughey, responding to requests inside and outside the Dail introduced an *ex gratia* scheme for the pre-1968 widows under which they would receive half the appropriate benefit under the contributory scheme. The financial aspects of both schemes were approved by the Dail in 1969 by means of a Supplementary Estimate for the Superannuation and Retired Allowances Vote and the Minister indicated that he would come "to the House with legislation in due course" (DEPD, Vol. 239, Col. 903). Legislation was not introduced until the 1976 Bill empowered the Minister for the Public Service to introduce statutory schemes by means of Statutory Instruments.

This power was used the following year when the Civil Service Widows' and Children's Contributory Pension Scheme 1977 was introduced under Statutory Instrument No. 132 of 1977 and the Civil Service Widows' and Children's *Ex Gratia* Pension Scheme 1977 was introduced under Statutory Instrument No. 133 of 1977. The contributory scheme is deemed to have come into effect on 23 July 1968. The scheme has been revised on a number of occasions, notably in 1981 when it became the Spouses' and Children's Pension Scheme for the Civil Service and in 1984 when coverage was extended to non-marital children of members. The scheme allows the Minister power to grant a spouse's pension equal to one-half of the pension which the contributor would have got if it were based on pensionable pay at the date of death and on actual and potential service up to normal retiring age, subject to a maximum of 40 years' service plus a children's pension payable at the rate of one-third of the spouse's pension for each child subject to a maximum of three children.

Where a spouse's pension is not being paid and there is only one child the children's pension is payable at the rate of two-thirds of what would have been the spouse's pension or at a rate equal to what would have been the spouse's pension if there are two or more children. Contributions to the scheme are made on a periodic and a non-periodic basis. The periodic contribution rate is 1½ per cent of salary or wages while the non-periodic contribution is 1 per cent of retiring salary for each year of reckonable service for which deductions from pay have not been made, e.g., pre-scheme service.

When the *ex-gratia* scheme was introduced the rates of pension were set at half the rates payable under the contributory scheme as this is what the State would have had to pay if there had been a contributory scheme for pre-1968 established civil servants. The pre-1968 Public Service Widows' Association, however, has campaigned over the years for increases in the rate of pension payable under the *ex gratia* scheme. It was increased to $\frac{2}{3}$rds of the contributory rate in 1977, $\frac{5}{6}$ths in 1979, $\frac{11}{12}$ths in 1986, and to full parity from 1 January 1987. The terms of the two civil service schemes for widows and children were extended to other parts of the public sector some years after the introduction of the civil service schemes.

Use of Statutory Instruments rather than Pensions Acts

The power granted in the Superannuation Acts of 1963, 1964, and 1976 to designate organisations for transfer of pension entitlements, to increase pensions to compensate for inflation, and to change or add to the pension arrangements for public employees by means of Statutory Instruments has been used extensively. Only two Acts of the Oireachtas dealing with superannuation for civil servants have been passed since 1963. An important consequence of this is that civil service pensions now are hardly ever discussed in the Dail, apart from the annual debate on the Superannuation Vote, whereas previously they were a subject of frequent debate. There appears to have been no Dail debate on the terms of the pension arrangements for civil servants' widows and children under the contributory and *ex-gratia* schemes and no official account seems to have been given of the method by which the contribution rates in the contributory scheme were derived. It appears, however, that when the scheme was being considered it was thought that it should not cost more to run than the equivalent scheme for the British civil service and the contribution rates were chosen on that basis. The employee periodic and non-periodic contribution rates are designed to meet half of the cost of the scheme. The other half of the cost is paid by the State.

Appendix 2

COMMENTS BY MINISTER OF STATE FOR FINANCE AND THE PUBLIC SERVICE ON THE COST OF PUBLIC PENSIONS IN PRESS RELEASE ISSUED ON 22 DECEMBER 1986

New Study on Public Service Pension Costs

Claims that public service pension costs are about to escalate due to a combination of faulty costings and the young age structure of the public service were described today as "nonsense" and "irresponsible scaremongering" by Mr Jim O'Keeffe T.D., Minister of State for Finance and the Public Service.

Mr O'Keeffe was commenting on a new study of public service pension costs carried out by his Department with the assistance of outside actuarial expertise. The cost of public service pensions had been queried by the Public Expenditure Committee (PEC) in their 1985 report on the Department of the Public Service and this study was initiated as a result.

"The study confirms that the figure of 18% of pensionable salary given to the PEC as the cost of civil service pensions is reasonable; it could be as low as 14%, depending on inflation and interest rates", said Mr O'Keeffe. "It also shows that pension costs for the civil service are expected to remain relatively constant in real terms over the next 30 years. Similarly, pension costs for the Gardai and Teachers will not increase in real terms for about 15-20 years while pension costs for the Defence Forces are projected to remain relatively stable for the next 30 years and beyond", he added.

Mr O'Keeffe went on to say that while there will be a significant increase in pension costs for the civil service, teachers and the Gardai beyond these time horizons -due mainly to the growth in public service members during the late 1970s — "it must be remembered that pension costs will remain, on any reasonable assumption a relatively small proportion of total public expenditure". "At present public service pensions account for just 3% of total current expenditure", he added.

Public service pensions are funded on a "pay-as-you-go" basis from current state revenue. On the question of changing this arrangement and establishing a separate pension fund such as exists in private sector pension schemes, Mr O'Keeffe said that there was nothing to be gained from this approach. "As any such fund would be bound up with the national finances; I agree with the Taoiseach when he said earlier this year that its creation would be little more than an elaborate fiction".

"The creation of such a fund would initially be very costly", added Mr O'Keeffe. A public service fund would not be starting from scratch. There would be an immediate liability for the pensionable service already acquired by serving staff. Finding the money to fund this liability now would involve further borrowing or taxation neither of which can be contemplated", he said.

Appendix 3

COMPARISON OF SUPERANNUATION EXPENDITURE DATA IN ESTIMATES AND APPROPRIATION ACCOUNTS VOLUMES

The annual *Estimates for Public Services* contain information on the amounts which it is estimated will be spent under various headings in the coming year on civil service pay and pensions. The annual *Appropriation Accounts* record the actual amounts spent each year under the main headings but they do not record actual expenditure in the same detail as is given in the *Estimates* volumes.

If we are to use the *Estimates* data with confidence in its ability to reflect growth in the cost of pensions expenditure under particular schemes we have to be assured that there is a close correspondence between the expenditure data given in the *Estimates* and the *Appropriation Accounts* volumes. Table A3.1 gives pensions expenditure data as shown in the *Appropriation Accounts* and the *Estimates* under the following heads for fiscal years 1950/51 to 1973/74 and calendar years 1975 to 1984.

Table A3.1: *Appropriation Accounts and Estimates for the Public Services data on cost of civil service pensions, fiscal years 1950/51 – 1973/74 calendar years, 1975-84 (£000)*

Year Ended	*Superannuation allowances, compensation allowances, pensions and certain children's allowances*		*Additional allowances and gratuities and payments in respect of transferred service*		*Post and Telegraphs superannuation etc.*	
	Appropriation Accounts	*Estimates*	*Appropriation Accounts*	*Estimates*	*Appropriation Accounts*	*Estimates*
1951 Mar.	350	351	152	163	365	361
1952	373	385	184	196	361	370
1953	397	397	196	198	386	377
1954	429	434	221	212	375	376
1955	471	476	262	276	375	367
1956	512	525	251	291	404	412
1957	550	577	266	290	415	462
1958	614	609	292	275	472	450
1959	642	650	274	313	454	462

Table A3.1: *continued*

1960	674	700	312	320	463	481
1961	743	749	381	430	504	522
1962	793	841	292	418	549	557
1963	821	912	378	485	575	620
1964	943	959	509	469	607	658
1965	1,022	1,078	454	468	686	668
1966	1,114	1,213	574	623	687	725
1967	1,272	1,310	563	635	725	702
1968	1,311	1,453	553	626	809	759
1969	1,499	1,566	593	671	876	847
1970	1,565	1,680	754	692	952	1,101
1971	1,709	1,913	612	723	1,128	1,342
1972	1,876	2,089	742	880	1,562	1,621
1973	2,077	2,425	1,229	1,222	1,766	1,885
1974	2,949	2,962	1,303	1,449	2,303	2,397
1975 Dec.	4,539	4,566	2,320	2,264	3,450	3,662
1976	5,851	6,050	3,047	3,015	4,330	4,300
1977	6,829	6,970	3,735	3,785	5,296	5,440
1978	8,113	8,400	4,088	4,124	5,949	6,100
1979	10,246	10,939	4,800	6,061	7,095	7,225
1980	12,847	13,000	6,907	6,880	10,490	11,287
1981	16,121	16,583	7,246	8,373	11,858	12,735
1982	19,221	20,115	7,691	8,407	14,016	14,829
1983	22,431	23,398	8,472	8,812	20,299	17,500
1984	26,215	26,224	9,679	9,679	–	–

Sources: Appropriation Accounts 1950-51 to 1984 and *Estimates for the Public Service* 1950-51 to 1985.

Superannuation and Retired Allowances Vote.

A. Superannuation Allowances, Compensation Allowances, Pensions and Certain Children's Allowances.

B. Additional Allowances and Gratuities in respect of Established Officers payments in respect of Transferred Service.

Posts and Telegraphs Vote.

C. Superannuation, etc.

Designating series A as ecspens, series B as ecslsum and series C as patpens, the correlations between the data series taken from the *Appropriation Accounts* and the *Estimates* volumes for the period 1951-84 and for various sub-periods are given in Table A3.2.

Table A3.2: *Correlations between* Appropriation Accounts *and* Estimates for Public Services *Data Series on Pensions Expenditure, 1951-84 and Various Sub-periods*

Series	*1951-64*	*1965-74*	*1975-84*	*1951-84*
A. ecspens	0.994	0.985	0.999	1.000
B. ecslsum	0.903	0.978	0.983	0.996
C. patpens	0.983	0.991	0.982[1]	0.993[2]

1. 1975-83: 2. 1951-83.

The correlations between the *Appropriation Accounts* and *Estimates* data for the three series are almost unity for the full sample period and very close to unity for the three sub-periods identified in the table. The smaller correlation coefficients in the earlier sub-period 1951-64 indicate that there was a bigger discrepancy between the two data sources at the beginning of the data period than there was at the end. However, the discrepancy between the expenditure series from the two data sources was never very large at any time during the period 1951-84 and the data in the *Estimates* volumes can, therefore, be relied on to give an accurate indication of trends in expenditure on civil service pensions over the years.

In addition to requiring that there be a close correlation between the data from the two sources we are using, we require that there should be a very close correspondence between the level of the expenditure data for the various pension schemes in the two data sources. The correspondence between the levels of the expenditure data can be assessed by running an OLS regression of the data from one source on that from the other. An a at the end of a variable identifies an *Appropriation Accounts* series and an e identifies an *Estimates* volume series. The regression results are as follows:

Regression Period: 1951-84

$$\text{ecspensa} = \underset{(1.13)}{-42.698} + \underset{(217.82)}{0.996}\ \text{ecspense} \qquad R^2 = 0.9993$$

$$\text{ecslsuma} = \underset{(0.03)}{-1.778} + \underset{(63.76)}{0.941}\ \text{eclsume} \qquad R^2 = 0.9992$$

Regression Period: 1951-83

$$\text{patpensa} = \underset{(0.86)}{-101.92} + \underset{(47.45)}{1.023}\ \text{patpense} \qquad R^2 = 0.9864$$

None of the intercepts is significantly different from zero and none of the regression coefficients is significantly different from one. The level of the expenditure data from the *Estimates* volumes is, therefore, almost identical to the level of the data from the *Appropriation Accounts*. Hence, the data from the *Estimates* volume will give an accurate indication of the level of expenditure on civil service pensions as well as of its trend.

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