An Roinn Caiteachais Phoiblí
Sheachadadh PFN agus Athchóirithe
Department of Public Expenditure
NDP Delivery and Reform

Application of "Pay Parity" as Pension Increase Policy, in line with the Public Service Agreement 2024-2026

24 September 2024
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Dear HR Manager / Pension Administrator,

The purpose of this letter is to confirm the continuation of pension increase policy for pre-existing public service pension schemes for the duration of the Public Service Agreement 2024-2026, and convey sanction for the implementation of that policy until 30 June 2026 (inclusive). Pre-existing public service pension schemes are defined in the Public Service Pensions (Single Scheme and Other Provisions) Act, 2012, which excludes the Single Scheme.

This letter should be brought to the attention of all public service bodies and pension administrators under the aegis of your Department/Office.

1. **Application of pension increase policy from 01 January 2024 to 30 June 2026 inclusive**

The Minister for Public Expenditure, NDP Delivery and Reform has agreed that pension increases for occupational pensions in payment under pre-existing public service pension schemes will continue to be applied under the policy known as "pay parity" for the duration of the Public Service Agreement 2024-2026.

2. **Guidance on practical application of pay parity**

Any pension increases due under *Building Momentum - A New Public Service Agreement 2021-2022* or its extension to end-2023 should be applied in accordance with Circular 10/2021: *Instruction on the pension increase policy in the public service until end 2022*[1] prior to the application of any increase due under the Public Service Agreement 2024-2026.

This letter includes appended guidance on the general application of pay parity, including for the duration of the Public Service Agreement 2024-2026, and some examples of how pay parity is applied.

[1] This includes pension increases under the extension to the Building Momentum Agreement that are effective from dates in 2023.

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3. Queries

Further information on public service pension policy may be found at the following link: https://www.publicservicepensions.gov.ie/.

- Individual queries about this Letter from retired or serving public servants should be raised with their pension administrators or local HR units.
- Queries from public service bodies should be raised with their parent Department.
- Departments with queries should raise the matter with this Department via email to pensions@per.gov.ie.

Yours sincerely,

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Jasmina Behan
Assistant Secretary
Work and Pensions Division

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Appendix 1: Guidance on the application of pay parity

Part 1: Introduction

1. This circular relates to pre-existing public service pension schemes as defined in the Public Service Pensions (Single Scheme and Other Provisions) Act, 2012, which excludes the Single Scheme. Post-retirement increases to pensions in payment awarded under pre-existing public service pension schemes are generally not provided for under pension scheme rules, and therefore there is no guarantee or entitlement to such increases.

2. Section 29(2) of the Pension Increase Act 1964 provides that the Minister for Public Expenditure, NDP Delivery and Reform (previously the Minister for Finance[2]) may make regulations to provide for increases to public service pensions in payment. Such increases are awarded at the discretion of the Minister.

3. A policy of increasing public service pensions in payment developed incrementally from the 1960s onwards as part of pay negotiations with public service trade unions, and has not taken precisely the same form over that time. The guidance in this document is specific to the policy in its current form, which has been in use since the mid-1980s.

4. In general, this policy (known as "pay parity") means that pensions are increased in proportion with increases applied to the pay scale of the grade or post held by the pensioner at retirement, and that the timing of such pension increases is effective from the same dates as the corresponding pay increases.

5. Operational implementation of public service pension increases is a matter for the relevant Department and pension administrator.

Part 2: Pension increase methodology under pay parity

6. Under the policy of pay parity, pensions qualify for an increase in proportion with the increase applied to the relevant pay scale (and scale point) and with effect from the same effective date as that increase.

7. Such increases must be a permanent feature of the pay scale, and therefore lump sum or bonus payments awarded to public service employees do not pass to public service pensioners via the policy of pay parity.

[2] Functions transferred under s.9(1)(a)(i) of the Ministers and Secretaries (Amendment) Act 2011

8. Where a retiree is awarded a pension based on net pensionable remuneration, which takes account of the rate of social insurance pension / State Pension (Contributory) (SPC) paid on the date of retirement, increases will be applied to the occupational element of the pension.

9. In respect of the methods described below in paragraph 10 the following terminology definitions apply:

    - "*In-service salary*" means the salary of those still serving in the same grade and at the same scale point as the pension recipient, provided there hasn't been a permanent structural adjustment to the pay scale for the grade that effectively breaks the link with the pensionable salary on which the pension was based at date of retirement.[3] Where relevant this can also be taken as the salary that would apply if there was an employee still serving in that grade.

    - "*Pensionable remuneration*" means the rate of pay used in calculating a public service pension award, uprated as appropriate by any pay increases post-dating retirement which were passed on to the pension; this includes the value of pensionable variable allowances and pensionable fixed periodic allowances used in the pension calculation, also uprated as appropriate.

    - "*Pensionable salary*" means that part of pensionable remuneration which relates to salary only. It differs from pensionable remuneration in excluding pensionable variable and pensionable fixed allowances.

    - A "*service decimal*", where used, is generally created on initial calculation of the pension, and is derived by dividing the occupational pension payable by the relevant pensionable remuneration.

10. Where a pension qualifies for an increase, the two main methods for calculating the amount and applying the increase are the "multiplier method" and the "service decimal method". There is no difference in the final calculated pension using either method.

    - The **multiplier method** requires finding the difference between the pensionable salary, and the corresponding in-service salary (including in-service pensionable variable allowances, if any) after the pay increase is applied. This amount is expressed as a percentage of the pensionable remuneration. The pension is then increased by this percentage.

[3] Where at any stage there has been a permanent structural adjustment to the pay scale for the grade that effectively breaks the link with the pensionable salary on which the pension was based at date of retirement, the pension is no longer linked to a salary scale for serving staff but to a "notional salary scale", defined as a salary scale that is not in payment to serving staff of the public service body in question but that serves for pension increase purposes only. See Part 6 below.

- Use of the **service decimal method** for pension increases requires that a service decimal has already been established. The part of the pension relating to pensionable salary is increased by applying the service decimal related to it to the newly uprated pensionable salary; this takes account of the increased in-service salary. Any part of the pension relating to a fixed pensionable allowance is likewise increased by applying the service decimal to the newly uprated allowance amount.

The method used in a given case generally depends on the established operations of the body administering the pension increase.

11. Where a pension increase is applied retrospectively, arrears should be calculated from the effective date of the pension increase.

Part 3: Guidance relating to general round pay increases

12. A general round pay increase is typically administered as an across-the-board salary increase, with either a fixed amount or a percentage pay increase being applied to all pay scales. This may include all sectors of the public service, or may be sector-specific.

13. Pensions do not qualify for an increase under pay parity if their former pay scale did not receive a pay increase (actual or notional). This could arise where certain pay scales are not increased under a pay agreement involving use of a sectoral bargaining fund.

Part 4: Guidance relating to special increases in pay

14. In practice, some special pay increases for serving staff have been passed on to pensions and some have not.

15. If the increase is to be passed on to the relevant cohort of public service pensioners, this will generally be confirmed in the relevant written agreement formalising the pay increase or, in the relevant formal implementation instruction (such as a circular).

16. While not a comprehensive list, some conditions which may have to be met before special pay increases are passed on to pensions are:

    - The increase must apply to all staff serving in the grades or posts concerned;
    - Assimilation of serving staff to the revised pay scales must be on the basis of “corresponding points” (i.e. not on “starting pay on promotion” or ‘‘re-grading’’ terms);

- The increase must not have been awarded in consequence of a substantial restructuring or alteration of duties which, in effect, constitutes regrading of the posts or grades concerned;
- The increase must not have been awarded in respect of increased productivity from serving staff; and
- The increase must be a permanent feature of the pay scale.

Part 5: Guidance relating to pensionable allowances

17. Whether pension increases should be passed on under pay parity to pensionable allowances will typically be confirmed in the relevant formal instruction with regard to adjustments to pay, such as a Circular.

18. For example, Circular 04/2024 - Application of 1 January 2024 Pay Adjustments provides that all allowances in the nature of pay will be increased from 1 January 2024 and therefore the increase should also be applied to the portion of pensionable remuneration comprised of pensionable allowances.

19. Under the policy of pay parity, if a pay allowance which was not pensionable becomes pensionable, or a new pensionable pay allowance is introduced with effect from a specific date, officers who have retired prior to that date do not benefit from a pension increase as a result.

Part 6: Guidance relating to pensions linked to different salary scales than the pensioner retired on (including notional scales)

20. Where a post or grade is abolished, the normal practice is to base the pension of an officer who has retired from that post or grade, on the scale point of an existing related grade which is closest to the point held at retirement by the former employee. Future increases in the pensions of retirees from the abolished grade/post are then based on application of the relevant percentage increase to the existing grade concerned.

21. Alternatively, if there is no suitable related grade, the pay scale relating to the abolished grade may be maintained as a “notional scale”.

22. Where a post is upgraded or downgraded following the date of an officer’s retirement, the pension is increased by reference to the pay the officer would have received if they had remained in the post as it was, ignoring the upgrading or downgrading which occurred post-retirement.

    For example, if a cohort of current employees / their representatives negotiate a pay increase by way of additional scale points being added to the relevant pay scale, or by a move to a new pay scale, then those retirees who had previously occupied the role will not generally see a change to their pension as a result.

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Appendix 2: Examples of application for 1 January 2024 general round increase, by reference to both the multiplier and service decimal calculation methods

In accordance with Section 3.1 of the Public Service Agreement 2022-2026, a general round increase in annualised basic salary for all public servants of 2.25% or €1,125, whichever is greater, applies on 1 January 2024.

Salary pre-increase	Salary post-increase	Percentage increase*	Pension pre-increase	Service Decimal	Pension post-increase	Monetary Difference**
€33,017.00	€34,142.00	3.41%	€16,508.50	0.500000	€17,071.00	€562.50
€39,508.00	€40,633.00	2.85%	€8,691.76	0.220000	€8,939.26	€247.50
€59,560.00	€60,900.00	2.25%	€15,936.59	0.267572	€16,295.13	€358.55
€84,325.00	€86,222.00	2.25%	€29,513.75	0.350000	€30,177.70	€663.95
€88,204.00	€90,189.00	2.25%	€44,102.00	0.500000	€45,094.50	€992.50

* As this increase applies a pay increase of 2.25% or €1,125, whichever is greater, the percentage increase can be more than 2.25%.

** Application of pension increases via pay parity involves increase by the relevant proportionate amount, as applied to the pay rate. Therefore, the pension increase to apply will flow from the increase applied to the relevant salary and a comparison of % vs. monetary increase does not occur i.e., the 2.25% or €1,125 comparison is only relevant in determining the pay increase amount and does not apply to pensions directly.

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