

## PUBLIC SERVICE PAY COMMISSION REPORT

MAY 2017

### SUMMARY OF MAIN POINTS

- Pensions under (2013) standard accrual 'Single Public Service Pension Scheme' are on a par with private sector DC schemes.
- Depending on "a range of reasonable assumptions," (pre-2013) legacy schemes are worth between 12% and 18% more than private sector schemes. It's a matter for the parties to assess the information and agree on an evaluation of the value.
- Fast accrual schemes more valuable again, with value depending on specific scheme.
- Higher value of pre-2013 arrangements should be addressed through increased employee contribution, applied in agreed adjustments as PRD is discontinued

#### Pensions: supplementary notes

- *Most submissions to PSPC used reasonable and comparable methodologies. Difference is in the assumptions and "there are many possible valid approaches to deciding upon economic assumptions" and "different views can reasonably be taken."*
- *Assumptions include longevity, relationship with state pension (and movements in state pension) and long-term investment returns.*
- *Actuarial comparisons (including DPER's) are with private sector organisations with occupational pension schemes (DC and DB).*
- *60% of private sector staff have no occupational pension, but PSPC says this is a 'broader societal matter' and a reasonable comparison should be between public and private sector workers with occupational pensions.*
- *Milliman report (PSPC actuarial review) suggests a 13-14% public-private differential.*
- *50,000 members of post-2013 Single Public Service scheme.*
- *243,000 member of pre-2013 schemes.*
- *23,000 members of 'fast-accrual' schemes*
- *The post-2013 single scheme differs by (1) employing career average (2) link to CPI (3) applying state pension minimum age.*
- *12% of value of pensions was reflected in pay levels in 2007.*
- *Public sector pension bill doubled from €1.5bn to €3bn between 2008 and 2016, but exceptional circumstances at play (eg, spate of crisis-period retirements).*
- *The 2012 future public service pension liability fell 16% to €98bn between 2009 and 2012.*
- *Public servants contribute between €500m and €550m PA.*

#### **PAY**

- By 2014, average public service pay "approaching parity" with private sector earnings (when you take account relevant characteristics like education, experience, etc).
- Public service earnings trail the private sector at higher pay levels, and outpace the private sector at lower levels.
- In recent years, private sector pay settlements have been between 1.5% and 2.5% PA, depending on sector and ability to pay. For large companies, average increase over last two years was 2.5%.
- Public service pay adjustments must be contingent on the delivery of reform and continuous improvement.

### **Pay: supplementary notes**

- *Gross public service pay bill (net of PRD) fell 9% between 2007 and 2016 – down to €15.6bn from €16.6bn.*
- *Average private sector pay was 3% above 2008 levels in 2016. Public service pay was 8% below 2008 levels in 2016. LRA will increase public sector earnings by 1.7% by 2018 (making them 6.5% lower in 2018 than in 2008).*
- *The public-sector average earnings premium has declined and is approaching zero.*
- *There is still a public service premium at the lower end of earnings, and for women.*
- *Differences in earnings across sectors (including public-private) are due to characteristics of enterprises (eg, size, sector) and characteristics of employees (eg, gender, age, education, qualifications, responsibility, experience, length of service, occupation).*
- *Earnings distribution: In private sector, those in top decile earn 6.9 times more than those in bottom decile. In public service the difference is 3.6 times.*
- *2007-2010: Private sector saw largest pay reductions among lowest earners, and smallest reductions for highest earners. Opposite pattern in public service.*
- *Public-private studies examined by PSPC take no account of PRD or company size. Models control for union membership between 2002 and 2014, but not in earlier years. The figures suggest trade union membership delivers a pay premium of 6%.*

### **INCREMENTS**

- On average, public servants receive “significantly lower gains in earnings” for each additional year of experience compared to private sector counterparts with similar experience.

### **NEW ENTRANTS' PAY**

- Recurring theme in submissions and a significant matter “on equity grounds” for cohorts concerned, but differences between employees, in pay and superannuation, not confined to public service.
- “We found no evidence to support the view that reduced rates for new entrants represents a barrier to recruitment to the public service in general.”
- Where they exist, recruitment problems should receive separate comprehensive examination.

### **INTERNATIONAL PAY COMPARISONS**

- Difficult to draw definitive conclusions on International comparisons because of methodological differences in the data.
- PSPC analysis is not ‘like for like,’ and doesn’t include PRD, tax, social insurance or other deductions.

### **International pay comparisons: supplementary notes**

- *In predominantly public service sectors, Irish earnings are “among the highest” compared to similar EU and EFTA countries.*

## SECURITY OF TENURE

- Security of tenure has a value, but there is no satisfactory scientific evidence that could reasonably be used to put a specific monetary value on it.
- Increased prevalence of public service fixed term/service contracts means security of tenure is “not a feature intrinsic to public service employment or extrinsic to private sector employment.”
- However, public servants on permanent contracts are generally at lower risk of compulsory redundancy than those in the private sector.
- Security of tenure also has a value to employers – recruitment, retention, retaining skills post-training, public want experienced staff with appropriate expertise.
- The PSC notes PSC argument that all concessions made since 2010 (Croke Park) motivated by desire to protect employment, and it would be unacceptable to use this against.

## RECRUITMENT AND RETENTION

- No significant recruitment difficulties in the large-scale public service vocational streams, but some problems in specific areas including ‘internationally traded’ groups, particularly in the health sector. But remuneration not the only factor.
- Argument for revisiting previous flexibilities in pay scales in specialist and scarce areas, and for examining structural and organisational recruitment constraints.
- Evidence of difficulties attracting candidates for senior leadership positions. Need to examine structural issues.
- Areas where problems identified: psychologists and paramedics; top health management and consultants; mental health nursing and other specific nursing areas; radiography; public dentistry; various specific defence areas including aviation; senior execs and specialists across civil and public service.
- Should consider commissioning a more comprehensive examination of underlying difficulties, where they exist.
- In areas of recruitment difficulty, pay talks could examine measures like entry above minimum point, accelerated incremental progression and allowances.
- It “may be appropriate” to revisit €200,000 ceiling on senior public service pay, though pay isn’t the only issue causing recruitment difficulties.

### ***Recruitment and retention: supplementary notes***

- *Numbers fell to 288,300 in 2013 (10% fall); now 306,570. Biggest percentage fall in local government (still falling).*
- *Health and education biggest increase since 2013 (10% increase in health since 2013 including: 11% management/admin, 13% AHP/social care; 5% nursing; 19% other patient and client care).*
- *Health management/admin fell 16.2% between 2007-2014 (compared to 12.3% all grades, 12.3% nursing and 13.1% AHP/social care). Biggest drop except general support staff (27.9%).*
- *Health turnover rates significantly lower if trainees (including student nurses) excluded. And they are distorted by movement within the health sector.*
- *Turnover rates (excluding trainees) are significantly higher for therapists and health professionals than for nursing (page 59).*
- *PAS says civil service specialists can earn “at least” 30% more outside civil service.*
- *Challenge to attract executives across the civil and public service. Pension no longer seen as incentive, and lack of performance bonus, car and health packages identified by PAS as*

*disincentives. Number of private sector applicants for top posts down to 22% in 2015, from 45% in 2014.*

- *Some challenge to fill local authority technical and specialist posts, but no issue in admin.*
- *Defence sector losing specialists (including aviation, IT and engineer grades) to better-paid private sector work. A “significant exit” of these grades.*
- *No problem recruiting Garda or teachers (though INTO says entry pay a problem).*
- *Private sector has higher churn than public service, which has ‘job stayer rate’ of 90% over age 35, 80% (age 25-35), and 53% (age 20-24).*
- *“We found no evidence to support the view that reduced rates for new entrants represents a barrier to recruitment to the public service in general.”*
- *PSC and union submissions raised pay, new entrant pay, allowance for new entrants, working hours, geographical issues, non-payment of outstanding awards, etc, as factors.*

## **WORKING HOURS**

- Issue raised in PSC and union submissions.
- 15 million additional hours introduced by HRA, not FEMPI. Therefore, a matter for the parties, not the Commission.
- PSC analysis of public-private pay comparisons takes account of working time.

## **OVERTIME AND PREMIUM PAYMENTS**

- Not covered by FEMPI, so outside PSC terms of reference.
- PSC analysis of public-private pay comparisons takes account of overtime and premium payments.
- Matter for the parties.

## **ABILITY TO PAY**

- There is a basis for the parties to enter pay negotiations, but the State’s ability to pay, and competing demands on public purse, are critical factors.
- It will be a matter for the parties to negotiate a timeframe for the orderly unwinding of FEMPI, having regard to maintaining sustainable national finances and competitiveness, other spending priorities, public service reform, and equity considerations.

## **ITEMS OUTSIDE PSC TERMS OF REFERENCE**

- Issues raised included outstanding pay adjudications/recommendations and working conditions.
- Parties should consider appropriate process to deal with these.
- Parties should consider process to deal with grade-specific adjudications.

### ***Items outside terms of reference: supplementary notes***

#### **• 43 submissions received. PAY AND PUBLIC SPENDING**

“Employee compensation as a percentage of general government expenditure in Ireland was 25% compared with 21% for the Euro area and 21% for the UK. However, Ireland’s general government expenditure as a percentage of GDP at 29.4% lagged behind the Euro area (48.5%) and the UK (42.9%).” Gross public pay bill (net of PRD) down 9% between 2007 and 2016.