

# planning ahead

## AN POST PENSION SCHEMES | JUNE 2013 PROPOSED CHANGES TO YOUR PENSION SCHEME



The aim of this newsletter is to give you detailed information on the proposed changes to your pension Scheme. You received a letter a few weeks ago, introducing the proposed changes and the reasons why change is necessary.

This document sets out further details, examples, a Q&A and information on support available to you to help you reach a decision when voting on the proposal.

### The proposal

The proposal can be summarised as capped future increases in your pensionable remuneration up to retirement, capped discretionary increases to your pension in payment after retirement and a later Normal Retirement Age.

We appreciate that these changes are difficult, but change is necessary to protect your pension and make the pension Scheme sustainable for the future.

#### THE KEY POINTS OF THE PROPOSAL ARE:

- For 2013, there will be no increases in pensionable remuneration or pensions in payment.
- From 2014 onwards, increases to pensionable remuneration and to pensions in payment will be limited to the lesser of:
  - actual pay increases, if any, or
  - the increase in the Consumer Price Index, or
  - 2%.
- Normal Retirement Age for your pension will increase in line with increases in State pension age; 66 from 2014, 67 from 2021 and 68 from 2028.
- For PRSI Class D employees, Normal Retirement Age will be 40 years after their date of commencing pensionable service, but never before age 60 and never after State pension age.
- Retirement before Normal Retirement Age will be possible, but on a reduced pension.
- An Post will pledge €100m of contingent assets as part of the required risk reserve.

## The proposal

### The need for change

The assets of the An Post Pension Scheme are not sufficient to provide the pensions that members have accrued to date. This means there is a deficit or shortfall in the Scheme. A plan must be put in place to eliminate this deficit in order to ensure that pensions can continue to be paid to all members in the future.

The current shortfall of approximately €320 million is a significant gap that needs to be closed. Every pension scheme must have enough assets to pay benefits that have already been accrued by members. We all want a sustainable Pension Scheme, so eliminating the gap is a common goal.

It's not just about eliminating the €320 million shortfall. As each employee completes more service and gets closer to retirement, the value of their pension increases. In order to have a sustainable Pension Scheme for the long term, we need to control the growth in the value of pensions. This is why limiting future increases to pensions in payment and future increases in pensionable remuneration is an important feature of the proposal.

### Are there any advantages to retiring later?

We know that a later Normal Retirement Age may be disappointing for some people. However, there are certain advantages.

- It gives you the opportunity to earn more pensionable service and therefore increase your pension. However, pensionable service continues to be subject to a maximum of 40 years. You cannot earn more than 40 years of service.
- In addition, for coordinated employees (i.e. Class A PRSI contributors who will receive a State pension) it avoids a gap between the age you retire and the age you receive State pension. Retiring earlier than the new State pension age might have been financially difficult, as there would have been a shortfall in income until State pension was paid at age 66, 67 or 68 depending on your date of birth.

### Are there any disadvantages to retiring early?

A key feature of the proposal is a later Normal Retirement Age, but you have the option of retiring before then, any time after age 60, on a reduced pension. Pension and lump sum will be reduced if you retire before your new Normal Retirement Age, to allow for the additional cost to the Scheme. The reduction is calculated by the actuary and covers the cost of early payment. The level of the reduction may be reviewed over time, but we have set out some examples on page 5 and 6.

## TIMELINE

The An Post Group of Unions will conduct a ballot of its members on the proposal during **June 2013**.

If the proposal is accepted and approved, the changes will take effect from **September 2013**.

## The proposal

### Before and after comparison

	Before	After
<b>Pension</b>	$\frac{1}{80} \times \text{Net Pensionable Remuneration} \times \text{Reckonable Service}$ .	No change in the formula used.
<b>Lump Sum on retirement</b>	$\frac{3}{80} \times \text{Pensionable Remuneration} \times \text{Reckonable Service}$ .	No change in the formula used.
<b>Lump Sum on death before retirement</b>	Between 1 and 1.5 times Pensionable Remuneration.	No change in the formula used.
<b>Member contributions</b>	5% (post-2003 members) plus 1.5% for spouse and children's Scheme.	No change in the formula used.
<b>Shortfall or deficit (MFS) in the pension Scheme</b>	€320 million, as at 31 December 2012.	Pension Scheme expected to be fully funded (deficit eliminated) by year end 2023.
<b>Normal Retirement Age</b> (For coordinated employees (PRSI Class A))	65 with the option of retiring after age 60.	State pension age (66, 67 or 68) with the option of retiring after age 60. On retirement before State pension age, pension and lump sum will be reduced to allow for early payment.
<b>Normal Retirement Age</b> (For uncoordinated employees (PRSI Class D))	65 with the option of retiring after age 60.	State pension age (66, 67 or 68) or, if earlier, after 40 years pensionable service (subject to reaching age 60). On retirement before your new Normal Retirement Age, pension and lump sum will be reduced to allow for early payment.
<b>Pensionable Remuneration used to calculate pension and lump sum at retirement and on death</b>	Based on pensionable pay at Normal Retirement Age plus pensionable allowances averaged over the preceding three years.	No change in the formula used.
<b>Future increases to pensions in payment</b>	Discretionary: in line with pay increases.	Discretionary: lower of pay increases, if any, CPI or 2% every year.

**PLEASE NOTE THAT THE DEFINED BENEFIT PENSION SCHEME IS BEING RETAINED**

## The proposal

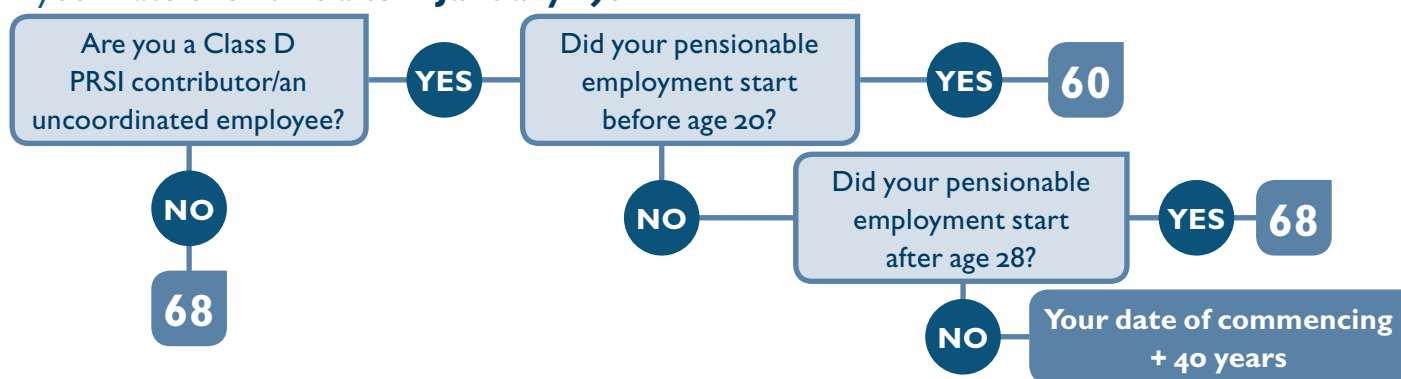
### Working out your proposed new Normal Retirement Age

The first factor affecting your proposed new Normal Retirement Age is your date of birth. The increase to the State Pension Age is being introduced on a phased basis depending on when you were born.

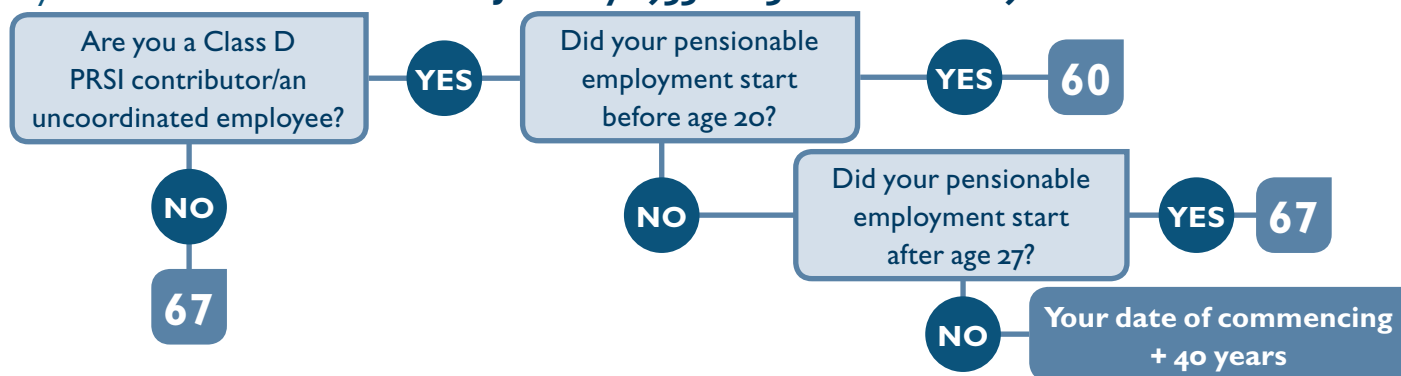
The second factor affecting your proposed new Normal Retirement Age is whether you pay Class A or Class D PRSI. Class D PRSI applies if you were recruited to a permanent and pensionable post in the public sector before 6 April 1995. If you pay Class D PRSI, you are called an uncoordinated employee because when calculating your pension, there is no offset from your pay to take account of State pension.

The following illustration shows how to work out your proposed new Normal Retirement Age. If in doubt, please call the JustASK member helpline and they will help you work out your proposed new Normal Retirement Age.

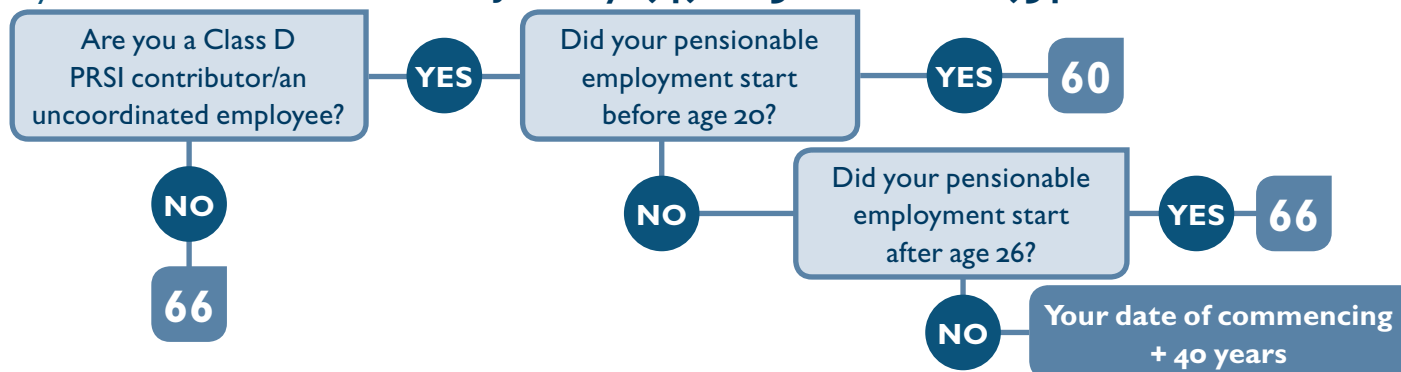
#### If your date of birth is after 1 January 1961



#### If your date of birth is between 1 January 1955 and 31 December 1960



#### If your date of birth is between 1 January 1949 and 31 December 1954



## Examples

### Example - Ciara

Ciara was born in 1965. She joined An Post in 1987 when she was 22. It was her first job. Ciara pays Class D PRSI and is therefore an uncoordinated member who will not receive a State pension. Ciara's pensionable remuneration is €40,000 p.a. Ciara's new Normal Retirement Age would be 62, which is 40 years after her pensionable service starts.

	Before		After	
Retiring at age 60	Calculation	Result	Calculation	Result
Pensionable Service	60-22 (max 40)	38 years	60-22 (max 40)	38 years
Company Pension	$38/80 \times €40,000$	€19,000 p.a.	$38/80 \times €40,000 \times 90.4\%^*$	€17,176 p.a.
Lump Sum	$3 \times 38/80 \times €40,000$	€57,000	$3 \times 38/80 \times €40,000 \times 94.5\%^*$	€53,865
Retiring at age 62	Calculation	Result	Calculation	Result
Pensionable Service	62-22 (max 40)	40 years	62-22 (max 40)	40 years
Company Pension	$40/80 \times €40,000$	€20,000 p.a.	$40/80 \times €40,000$	€20,000 p.a.
Lump Sum	$3 \times 40/80 \times €40,000$	€60,000	$3 \times 40/80 \times €40,000$	€60,000

The example shows Ciara's "before" and "after" pension, if she chooses to retire at age 60 and if she chooses to retire at age 62. Ciara might have chosen to work to age 62 anyway in order to earn a full 40 years of pensionable service; in that case, there is no difference between the before and after numbers. If the changes are implemented, Ciara could choose to retire at age 60 as before, but an actuarial reduction\* would be applied. The effect of the reduction is shown in the example.

**Please note:** the examples in this newsletter are for illustrative purposes only and have no legal effect.

\* See the actuarial reduction tables on page 12.

## Examples

### Example - Pat

Pat was born in 1975. He joined An Post in 2000 when he was 25. It was his first job. Pat pays Class A PRSI and is a coordinated member who will receive a State pension. Pat's pensionable remuneration is €40,000 p.a and his net pensionable remuneration (i.e., after deducting twice the State pension) is €16,048. Pat's new Normal Retirement Age is 68.

	Before		After	
Retiring at age 68			Calculation	Result
Pensionable Service			$68 - 25$ (max 40)	40 years
Company Pension (age 68+)			$40/80 \times €16,048$	€8,024 p.a.
State Pension (age 68+)				€11,976 p.a.
Total Pension (age 68+)			$€8,024 + €11,976$	€20,000 p.a.
Lump Sum			$3 \times 40/80 \times €40,000$	€60,000
Retiring at age 65	Calculation	Result	Calculation	Result
Pensionable Service	$65 - 25$ (max 40)	40 years	$65 - 25$ (max 40)	40 years
Company Pension (age 65+)	$40/80 \times €16,048$	€8,024 p.a.	$40/80 \times €16,048 \times 83.8\%^*$	€6,724 p.a.
Total Pension (age 65 - 68)	$€8,024 + €0$	€8,024 p.a.	$€6,724 + €0$	€6,724 p.a.
State Pension (age 68+)		€11,976 p.a.		€11,976 p.a.
Total Pension (age 68+)	$€8,024 + €11,976$	€20,000 p.a.	$€6,724 + €11,976$	€18,700 p.a.
Lump Sum	$3 \times 40/80 \times €40,000$	€60,000	$3 \times 40/80 \times €40,000 \times 91.8\%^*$	€55,080

The example shows Pat's before and after pension, if he chooses to retire at age 68 and if he chooses to retire at age 65. Age 68 would be his new Normal Retirement Age. If the changes are implemented, Pat could choose to retire at his old Normal Retirement Age of 65 as before, but an actuarial reduction\* would be applied. The effect of the reduction is shown in the example. There would also be a shortfall in his pension until the State pension begins at age 68. If Pat continues working to his new Normal Retirement Age of 68, this shortfall is avoided.

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\* See the actuarial reduction tables on page 12.

## Examples

Working out the proposed new rate of increases to pensions and pensionable remuneration

For 2013, there will be no increases in pensionable remuneration or pensions in payment. From 2014 onwards, any increases to pensionable remuneration and to pensions in payment will be limited to the lesser of:

- actual pay increases, if any, or
- the increase in the Consumer Price Index, or
- 2%.

Let's look at a few examples. These examples could apply to any year after implementation of the proposals.

### Example - Joe

Joe is receiving a pension of €10,000 p.a. During the year, pay increases were 2% and inflation was 1%.

Before	After
Joe's pension would have increased by 2%, in line with pay increases, to €10,200 p.a.	Joe's pension would increase by 1%, to €10,100 p.a., because the rate of inflation at 1% was lower than the rate of pay increases at 2%.

### Example - Mary

Mary is receiving a pension of €20,000 p.a. During the year, pay increases were 4% and inflation was 4%.

Before	After
Mary's pension would have increased by 4%, to €20,800 p.a.	Mary's pension would increase by 2%, to €20,400 p.a., because 2% is the maximum annual increase, regardless of the rate of inflation and the rate of pay increases.

### Example - John

John's pensionable remuneration is €30,000 p.a. He receives a pay increase of 1% and inflation was 2%.

Before	After
John's pensionable remuneration would have increased by 1%, to €30,300 p.a., in line with his actual pay increase.	John's pensionable remuneration would increase by 1%, to €30,300 p.a., in line with his actual pay increase. This is because his pay increase is less than inflation and less than the overall cap of 2%.

### Example - Carmel

Carmel's pensionable remuneration is €40,000 p.a. and she receives a pay increase of 4% and inflation was 3%.

Before	After
Carmel's pensionable remuneration would have increased by 4%, to €41,600 p.a., in line with her actual pay increase.	Carmel's pensionable remuneration would increase by 2%, to €40,800 p.a., because her pay increase and inflation both exceeded the overall cap of 2%.

**Please note:** the examples in this newsletter are for illustrative purposes only and have no legal effect.



## Your questions, answered

### Relevant for all members

#### How did the pension Scheme deficit come about?

The reasons why the deficit has come about are common to most defined benefit pension schemes in Ireland.

- The global financial crisis, which began in the second half of 2008, has resulted in many pension schemes suffering significant financial losses.
- The rate of return earned on the Scheme's assets has been lower than expected since 2008 and the markets continue to be unpredictable.
- People are living significantly longer; this is clearly good news but increases the cost of providing pensions.
- The required level of assets that pension schemes have to hold is higher due to new, and more demanding, regulations.
- Interest rates are at an all time low, which increases the cost of providing pensions.

#### Why doesn't An Post pay more contributions?

An Post currently pays a contribution rate of 14.4% of payroll into the pension Scheme each year. In addition to the 14.4%, a further contribution in excess of 25% of payroll, equivalent to circa €100m per annum, would be required to eliminate the deficit. The Company is not in a position to increase its contributions.

#### Why aren't the members being asked to contribute more instead of having their pension changed?

Employees currently contribute up to 6.5% (1.5% for pre 2003 members). Increasing the level of employee contributions was one of the options considered. Arising from discussions between the Company and the Group of Unions, it was decided not to progress this option given the level of additional contributions that would be required - as outlined in the previous question.

#### What other options were considered?

Many options were considered. Closing the Scheme and providing a Defined Contribution Scheme for the future was considered, but it was ultimately agreed to retain the current Defined Benefit Scheme. In any case,

closing the Defined Benefit Scheme would do nothing to address the existing deficit in the fund. Reductions to pensions were considered but all parties involved wished to avoid this.

#### What happens if the proposal is rejected?

If the proposal is rejected we will not be able to submit an agreed funding proposal to the Pensions Board. The Scheme would therefore fail to comply with regulations and the Pensions Board would have the power to step in and make decisions about the pension Scheme. This could involve reducing past service benefits for active and deferred members or ordering the wind up of the Scheme.

#### What happens if the Scheme is wound up?

In the event of the Scheme winding up, under current legislation, the assets of the Scheme would be first used to secure pensions in payment to pensioners, through the purchase of annuities. This does not provide for future pension increases. The remaining assets of the Scheme would then be used to pay pension benefits to active (employees) and deferred members. Given the size of the deficit within the Scheme, there are insufficient assets to secure the total accrued value of these benefits. As things stand, only 68% of member benefits would be secured.

#### Can you guarantee there will be no further changes to my pension if I agree to this?

The proposed changes are designed to ensure that the funding deficit will be fully addressed. Unfortunately, no guarantees can be made. The ability of the Scheme to pay all pensions in the future depends on many factors, such as the future investment performance of the assets, the future level of interest rates, and life expectancy.

Under the proposed solution there is the provision for a review of the performance of the pension Scheme. This will allow the Company to review the performance of the Scheme with the Group of Unions on a regular basis. The review clause also facilitates a process to discuss any measures which may be necessary in circumstances where the performance of the Scheme (the deficit) significantly improves or vice-versa.



## Your questions, answered

### What is the role of the Trustees?

The Trustees are responsible for the prudent management of the pension Scheme on behalf of the members and seek professional advice where appropriate. However, the Trustees are not responsible for deciding the rules of the Scheme or the level of pensions payable. Decisions on the nature of the proposed changes were therefore led by the Company rather than the Trustees. If the proposals are accepted, the Trustees will continue to monitor the financial progress of the Scheme and make decisions on how the assets of the Scheme are invested.

### I left An Post and have a pension that I expect to receive from age 60. Can I still transfer this pension if I wish?

Yes, you will still have the option to transfer the value of your pension to another organisation.

### What impact will the Funding Standard Reserve have on the Pension Scheme?

The Funding Standard Reserve is estimated to add in excess of €100m to the Scheme's liabilities under the Minimum Funding Standard. It applies from 2016 onwards and as such the proposal must allow for this additional requirement.

### Are pensioner members affected by the proposed changes?

While the changes will not impact pensioner members immediately, they may have an impact in the future, as pensions may increase at a lower rate. To date, although discretionary, pensions in payment have been increased in line with general pay increases awarded by the Company. In the future, increases will be limited each year to the lesser of:

- actual general pay increases awarded by the Company, if any, or
- the increase in the Consumer Price Index, or
- 2%.

## Relevant for all active members

### What happens to my death benefits?

The death benefit will continue to be provided and there will be no change in the lump sum calculation for which you are covered. All employees are covered for a lump sum in the event of death before retirement. The minimum lump sum is your annual rate of pensionable remuneration at date of death. The maximum lump sum is one and half times your annual rate of pensionable remuneration at date of death. The actual amount you are covered for depends on your length of service. Further details are in the Scheme booklet.

### Will I get a personal statement?

Benefit statements are issued to all members every year. If the proposal is approved, you will receive a personal statement next year setting out in detail your Normal Retirement Age, pension and lump sum under the amended rules. You will receive a statement as usual this year in June. This statement will reflect the current rules of the Scheme.

### Does the cap on pensionable salaries mean that I will not receive salary increases from An Post in future?

No. The proposal is to limit the amount of any salary increases that are eligible to be reckonable for pension purposes. Any salary increases above these limits will be non-pensionable earnings.

### Does the cap on pensionable remuneration increases cover increments or increases due to promotions?

No. Increments and increases due to promotions will continue to be included in calculating your pension.

### Will I still have the option of buying added years?

Yes. Members who will have less than 40 years of pensionable service at their Normal Retirement Age will continue to have the option of buying additional years.

## Your questions, answered

### I am purchasing five additional years in order to maximise my service at my 60th birthday. Can I still retire at age 60?

Added years purchased are not subject to an actuarial reduction. If you decide to retire at age 60, the rest of your pension and lump sum will be actuarially reduced based on your new Normal Retirement Age. You may of course choose to stay in service to your new Normal Retirement Age.

### I transferred service into the An Post Scheme from a previous employment. What happens to the additional service I received?

Transferred service, as accepted into the scheme, is treated the same as your pensionable service completed with An Post. No distinction is made in the proposal between pensionable service completed with An Post and pensionable service transferred in.

### If I retire before my new Normal Retirement Age, what reduction will be applied to my pension?

The reduction will depend on how many years you decide to retire in advance of your new Normal Retirement Age. The earlier you retire, the greater the reduction. A reduction will be applied to your pension and lump sum. See the actuarial tables on page 12 for the relevant reduction factor.

### Price inflation will now be a factor in deciding my pension increases/pensionable remuneration increases. What has the rate of price inflation been recently?

The average rate of price inflation over the past 11 years since the Euro currency came into use has been 2.2% p.a.

### If price inflation is negative, could my pension or pensionable remuneration reduce?

No. If price inflation is negative in any given year, then your pension or pensionable remuneration will remain unchanged.

### If the Normal Retirement Age is increased to 66 years from 1 January 2014, does that mean that I can continue to work to 66 years of age and accrue a further year of pensionable service?

Yes, you may choose to stay in service until your new Normal Retirement Age and have this reflected in your pensionable service, subject to an overall maximum of 40 years' pensionable service.

### After 2023 what will the minimum and maximum retirement age be for both Class D and Class A?

- Class D – Minimum 60, maximum 68
- Class A – Minimum 67, maximum 68

Based on current legislation State pension age is 67 years in 2023 for Class D and A PRSI members (rising to 68 from 2028 onwards). However Class D PRSI members, over 60 years of age can retire with no actuarial reduction if 40 years service has been completed.

## Specific to PRSI Class A employees

### Under the current Scheme's regulations, I can leave at 60 years of age without any penalty, why can I not leave at 60 years of age without reducing the service I have earned to 30 June 2013?

There are insufficient funds within the current Scheme to pay your expected pension entitlements. These changes are required in order to deal with the deficit that exists in the Scheme for your benefit and the benefit of all the members.

### Why are PRSI Class A members being treated differently to PRSI Class D members?

In accordance with legislation, PRSI Class D ceased on 5th of April 1995. PRSI Class A became the norm for all new entrants into An Post from 6th April 1995. This has given rise to two legally distinct groups of employees.

Under the law they are treated differently on a range of issues arising from their PRSI classification.

## Your questions, answered

### Specific to PRSI Class D employees

**I am a PRSI Class D contributor and I have 40 years service to date. Can I leave at 60 years of age without any reduction to my benefits?**

Yes. As a PRSI Class D contributor, you can retire without any reduction to your pension provided that you have 40 years pensionable service and have reached age 60.

**I am a PRSI Class D contributor and I will have 39 years service at 30 June 2013. Does this mean that the Scheme will not recognise the 39 years pensionable service in full until my 65th birthday?**

The full amount of the service will be recognised. However, you will not be able to retire without incurring an early payment penalty until you have built up 40 years of service. The youngest you can retire is age 60.

**I pay Class D PRSI contributions and my new Normal Retirement Age would be 40 years after I joined. However, I have job shared for a large part of my life. Does this affect my new Normal Retirement Age?**

Job sharing or working part-time is not a factor in working out the new Normal Retirement Age. For example, for a Class D PRSI contributor who joined at age 23 and job shared for many years, new Normal Retirement Age under the proposal would be age 63, assuming she/he had 40 years pensionable service. The amount of your pension will be calculated on your reckonable pension service.

**I pay Class D PRSI contributions and my new Normal Retirement Age would be 40 years after I joined. However I took a career break for four years. Does this affect my new Normal Retirement Age?**

Yes. You will have accrued 36 years reckonable pensionable employment due to your career break. Therefore, your new Normal Retirement Age will be 40 actual worked years after your joining date.

If you have any questions, contact the **JustASK** member helpline



### Contact the JustASK member helpline in the way that suits you best:

**Phone:** 1890 944 518

**eMail:** [AnPostSupport@mercero.com](mailto:AnPostSupport@mercero.com)

**Post:** JustASK, Mercer, Charlotte House, Charlemont Street, Dublin 2

The JustASK member helpline is available for calls weekdays (excluding holidays), 09.00-17.00.

The JustASK member helpline is a LoCall number: calls from your home phone or fixed line to the JustASK Helpline are charged at the rate of a local call.

LoCall numbers are not accessible from outside of Ireland - if you are calling from abroad please dial + 353 (0)1 4118505.

The JustASK Helpline will be available until the end of June 2013.

## Actuarial reductions

The following tables show the impact of the actuarial reduction on your pension if you choose to retire before your proposed new Normal Retirement Age. These factors are likely to change over time. The examples on page five and six show how the factors work in practice. The column you should read depends on your proposed new Normal Retirement Age. The row that you should read depends on when you wish to retire. For example, if your new Normal Retirement Age is 68 and your actual age at retirement is 60, you will receive 64.4% of your pension.

### Pension

Actual age at retirement	New Normal Retirement Age								
	68	67	66	65	64	63	62	61	60
60	64.4%	68.5%	72.6%	76.9%	81.3%	85.8%	90.4%	95.2%	100.0%
61	67.7%	72.0%	76.3%	80.8%	85.5%	90.2%	95.0%	100.0%	
62	71.2%	75.7%	80.3%	85.1%	89.9%	94.9%	100.0%		
63	75.1%	79.8%	84.6%	89.6%	94.8%	100.0%			
64	79.2%	84.2%	89.3%	94.6%	100.0%				
65	83.8%	89.0%	94.4%	100.0%					
66	88.7%	94.3%	100.0%						
67	94.1%	100.0%							
68	100.0%								

### Lump sum

Actual age at retirement	New Normal Retirement Age								
	68	67	66	65	64	63	62	61	60
60	78.0%	80.8%	83.5%	86.3%	89.0%	91.8%	94.5%	97.3%	100.0%
61	80.8%	83.5%	86.3%	89.0%	91.8%	94.5%	97.3%	100.0%	
62	83.5%	86.3%	89.0%	91.8%	94.5%	97.3%	100.0%		
63	86.3%	89.0%	91.8%	94.5%	97.3%	100.0%			
64	89.0%	91.8%	94.5%	97.3%	100.0%				
65	91.8%	94.5%	97.3%	100.0%					
66	94.5%	97.3%	100.0%						
67	97.3%	100.0%							
68	100.0%								