

FREQUENTLY ASKED QUESTIONS AND AGREED ANSWERS

Current Deficit

Q 1

What is the current deficit?

A 1

The asset valuation at 31 March 2013 was €2.1bn, with an MFS deficit of €241m. While an improvement is welcome, it is important to remember that the deficit figure is the difference between the valuation of the Scheme’s assets and its liabilities at a particular moment in time. Both asset and liability measures are subject to volatility and are affected by multiple factors. An estimate of the pension asset valuation and the MFS deficit figure may be calculated at regular intervals but should be viewed in the context of a multi-year recovery plan. Over the period of the proposed plan the assets are expected to produce an average return of approximately 4.5% per annum in order to fully meet the Scheme’s liabilities by 2023.

Set out below in table form is the quarterly change in the Minimum Funding Standard since March 2012

2012	31-Mar	30-Jun	30-Sep	31-Dec	2013	31-Mar
Assets	€ 1,886m	€1,880m	€1,958m	€2,018m		€2,116m
Liabilities	€ 2,178m	€2,220m	€2,281m	€2,341m		€2,357m
Deficit	€ 292m	€ 340m	€ 323m	€ 323m		€241m
Coverage	69%	65%	67%	68%		76%

Why Change?

Q 2	How did the pension fund deficit come about?
A 2	<p>The reasons why the deficit has come about are common to most defined benefit pension schemes in Ireland.</p> <ul style="list-style-type: none">• 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.
Q 3	Why have the Group of Unions taken this option and not agreed to further pension contributions from its members?
A 3	<p>Given that there has been a pay freeze in operation in An Post for the last number of years and given that the majority of postal workers are relatively low paid, it was the view of the Unions that many of our members would not be in a position to pay any further contribution to the Pension Fund.</p>

Q 4	Why have the Unions become involved in the negotiations on the future of the An Post Superannuation Fund if the power lies with the Trustees?
A 4	<p>The CWU, PESU and CPSU have already negotiated similar rescue packages for pension funds in both <i>eircom</i> and Vodafone. It has always been the view of those Unions that given they view pensions as deferred wages, they must take an interest in the performance of their members' pension funds. To do otherwise would be to walk away from a pension time bomb, which could leave many of their members in serious financial trouble at one of the most vulnerable times of their lives.</p> <p>It is interesting to note that both the <i>eircom</i> and Vodafone pension funds have since recovered and as a result, through the review process, changes have been made to those funds.</p>
Q 5	What other options were considered?
A 5	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.
Q 6	What happens if the Scheme is wound up?
A 6	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.

Review Clause?

Q 7	What is the Review clause?
A 7	<p>In the event that the proposals are accepted and approved, a review process will be implemented comprising the following:</p> <ol style="list-style-type: none"> 1) Quarterly update on performance of Pension Fund to Group of Unions to include an analysis of the performance of the Fund 2) Review of any external factors which may impact on the An Post scheme, e.g., legislation, 'Waterford Crystal' case. 3) Where there is significant ongoing over or under performance of the fund (i.e. in the event that the value of the assets significantly exceeds the value of the liabilities, or vice versa, at any time during the period up to end 2023), the parties will discuss any measures required to address 4) These discussions will take place in accordance with the agreed IR procedures including referral to the LRC and/or Labour Court as necessary

Q 8	How can the Review Clause be used if the situation improves?
A 8	The purpose of the Review Clause is to allow the Group of Unions to review performance of the Fund with the Company 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 Fund (the deficit) significantly improves or vice versa.

Q 9	Will the cap be reviewed in circumstances where inflation runs much higher than provided by the Agreement?
A 9	No – however there is a provision under the proposed agreement to review the performance of the amended scheme in the event that the value of the assets significantly exceeds the value of the liabilities at any time during the period up to end 2023.

Q 10	Should the fund meet its liabilities earlier than 2023, can we be guaranteed that the Company will not reduce the percentage level of the contribution to the fund?
A 10	The Company envisages paying a contribution of 14.4% up to 2023. However, if the deficit is resolved prior to 2023, then the review provision in the draft agreement will be implemented in line with actuarial advice.

Q 11	In any review between 2013 and 2023 will that be between the Company and the Group of Unions?
A 11	Yes but actuarial and legal advice may also be required. Any changes would require a similar process to that being currently undertaken.

Q 12	In any review, in a situation where the fund is improving faster / better than anticipated, and there is a disagreement between the parties in relation to what groups might have priority to be relieved, how is the disagreement settled? Is there a third party mechanism
A 12	In the event that a disagreement occurs between the parties during the review process, the relevant issues can be referred to third parties (LRC/Labour Court) in accordance with agreed procedures

Q 13	Does the capping of salary for pension purposes apply indefinitely?
A 13	The agreement between the Company and the Unions contains a review clause that allows any of the pension changes to be reviewed if circumstances improve. The salary capping mechanism will not be written into the rules of the pension scheme, but instead will operate as a practice outside the scheme. In that way, it can easily be lifted if the funding level in the scheme improves and both parties are in agreement that this should be the priority. However, the salary capping is likely to remain in place for the medium term at least to allow the scheme's financial position an opportunity to recover

Legislative and Other Changes

Q 14	What are Sovereign Bonds and how do they impact on the pension deficit?
A 14	Sovereign Bonds are bonds issued by the Irish Government or by any other Eurozone country. The purchaser of a bond receives interest during the term of the bond and a return of the capital invested either at the end of the term or spread out during the period. These bonds are considered a suitable investment for pension funds as a means of matching their liabilities, given that they provide a known pattern of future investment receipts. If a pension fund invests in Sovereign Bonds, the Pensions Board may allow a reduction in the calculation of Minimum Funding Standard (MFS) liabilities, subject to certain conditions. This in turn reduces the deficit, and means that the benefit changes needed to enable the scheme to return the scheme to solvency are less than would otherwise be required.

Q 15	Are An Post employees and their pension entitlements covered by the provisions of the Postal & Telecommunications Services Act, 1983?
A 15	<p>Yes, under the terms of the Act, it clearly states <i>“persons who immediately before the vesting day were members of the staff of the Department of Posts and Telegraphs shall not be on less favourable conditions than would apply if the benefits referred to had continued to be paid out of moneys provided by the Oireachtas”</i></p> <p>It is therefore open to the An Post Unions, or indeed individual employees, to take a case to the High Court in order to enforce this provision. However, it must be borne in mind that public servants have had pay cuts and pension contributions imposed on them through Croke Park I and further measures seem likely to occur as a result of Haddington Road Agreement. What you need to decide is whether the proposals are a better outcome for you than the proposals being imposed through legislation on other public/civil servants.</p>

Q 16	What is the impact of the “Waterford Crystal Proposal” on the Proposed Agreement?
A 16	None, the ECJ found that under EU law the State had an obligation to protect the pension entitlements of workers in the event of a company becoming insolvent. The protection is enshrined in the 2008 Insolvency Directive.
Q 17	What has been the impact of the pension levy on the pension fund?
A 17	The Government imposed a levy of 0.6% on pension fund assets for a period of 4 years. The scheme paid €10.8 m in 2011 and €10.6m in 2012. Additional payments of similar magnitude will be required in 2013 and 2014.
Q 18	What impact will the Funding Standard Reserve have on the pension fund?
A 18	The Funding Standard Reserve is estimated to add €120m - €150m to the Scheme’s liabilities under the Minimum Funding Standard. It applies from 2016 onwards and as such the Agreement must allow for this additional requirement
Q 19	How does the legislation and pension rules prevent an employee from earning more than the maximum entitlement under the Defined Benefit Scheme?
A 19	The maximum allowed is forty eightieths (40/80) of final salary, plus a lump sum of one and a half(1.5) times that salary subject to Revenue limits.

What is the impact of the change in Retirement Age?

Q 20	Why change the Retirement Age?
A 20	As you will be aware, the Government has passed legislation, which will change the retirement age in three phases up to the age of 68 years. There are no provisions in that legislation to ensure that members can continue to work until the new retirement age. This presents the prospect of members retiring at age 65 years and having no income for three years until the retirement age of 68 years. In those circumstances, the indications from Government have been that such people, if they could not find alternative employment, could apply for assistance through the Social Welfare system. Given that those same individuals would have received their pension lump sum, it is highly unlikely that they would be entitled to welfare payments while that lump sum is still available to them.

Q 21	After 2023 what will the minimum and maximum retirement age be for both Class D and Class A?
A 21	<p>Class D – Minimum 60, maximum 68</p> <p>Class A – Minimum 67, maximum 68</p> <p>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.</p>

Q 22	Are there any advantages to retiring later?
A 22	<p>We know that a later Normal Retirement Age may be disappointing for some people. However, there are certain advantages.</p> <p>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.</p> <p>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.</p>

Q 23	Are there any disadvantages to retiring early?
A 23	<p>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. There are a number of examples provided in the company Newsletter on pensions to be issued week ending 7th June 2013.</p>

What is the alternative?

Q 24	Are there any examples of the Pensions Board imposing changes on Defined Benefit Pension Funds and if so, where can I see them?
A 24	To date, any changes imposed on pension schemes by the Pensions Board have all been in agreement with the trustees and employers concerned. There have not been any cases yet where the Pensions Board has unilaterally imposed changes on a scheme. However, it must be remembered that most pension schemes only got into difficulty since the financial crisis in 2008, and the deadline for submitting recovery plans has been deferred on several occasions to the current deadline of 30 June 2013. We therefore have not had any real experience of schemes failing to submit an acceptable recovery plan and the Pensions Board having to take action. However, the Pensions Board, under Section 50 of the Act, has the power to limit payments to active and deferred members to the value of the available assets in the fund.

Q 25	In what way will the Pensions Board address the deficit to the An Post Superannuation Scheme and how is that process likely to be different from the Actuarial calculation?
A 25	<p>The Pensions Board's first option is to impose a sufficient reduction in the past-service benefits of active employees and deferred pensioners such that the scheme immediately meets the minimum funding standard after the reduction. The Pensions Board is not empowered to reduce the pensions being received by those already retired. In the case of the An Post scheme, a reduction in past-service benefits of actives and deferreds of approximately 32% would currently be needed to restore the scheme to full solvency.</p> <p>The Pensions Board will shortly acquire the power to wind up a scheme in certain circumstances, which is a further option for them.</p>

Q 26	If the members vote against these proposals, what are the next likely steps?
A26	This would be uncharted territory. If the proposal is rejected the Trustees would not be able to submit an agreed funding proposal to the Pensions Board. The Scheme will therefore fail to comply with regulations and we would therefore be at the mercy of the regulator. This could involve reducing benefits or the winding up of the Scheme.

Why were these proposals not considered?

Q 27	Why doesn't An Post increase its contribution to the Fund in order to tackle the deficit?
A 27	At this moment, An Post is not in a position to increase its contribution to the Fund as it is presently in a loss-making situation.

Q 28	What is the impact of introducing a pension contribution for class D coupled with a matching increase in the 14.4% charge? This is a significantly better option than what is an effective freeze on pension increase under the proposals?
A 28	This and indeed many other options were considered during discussion between the Group of Unions and the Company. The level of contribution that would be required to address the deficit was considered not to be affordable by the Company or the members, even if this was done on equally shared basis.

Q 29	How much of a % pension deduction would need to be made by individual members in order to counterbalance the proposal now been made? This will help members understand the real impact of the proposals?
A 29	If no changes were made to the Scheme a further 25% of pensionable pay would be required, circa an additional €90m per annum. Consequently employees could not possibly afford to fund this deficit, solely by increased contributions.

Impact of Changes

Q 30	What is the impact of the Proposed Agreement on the pensionable pay of any members who might be promoted?
A 30	None.

Q 31	How will increments be treated under the capping mechanism?
A 31	There will be no impact.

Q 32	What impact will the Agreement have on members who are employed under personal contracts, in circumstances where those members move on to a new personal contract with a higher salary?
A 32	This situation will be treated in the same manner as promotions.

Q 33	Will the Agreement have any impact on members' ability to purchase added years service and, furthermore, will it have any impact on the price of purchasing such years if the facility still exists?
A 33	There is no change, but in the future the 2% cap on pensionable pay increases may allow a reduction in the cost of purchasing added years.

Q 34	If there are no pay increases in any year does this mean that there is no pension increase?
A 34	Yes

Defined Contribution Scheme

Q 35	Would members who pay the Class A1 Social Welfare contribution not be better off in a Defined Contribution Scheme?
A 35	<p>That would depend on the benefits of the DC scheme. Changing to a DC scheme would not address the deficit in the Main Scheme. However, this question is worthy of further consideration and will be examined by the Unions and the Company when we have solved the issue of the existing deficit.</p> <p>We will organise an exercise to be carried out to establish whether or not such a scheme could be set up and how it would compare with the existing Defined Benefit Scheme.</p> <p>The issue itself will be far more difficult to manage if we end up with an imposed solution through the Pensions Board.</p>

Class D

Q 36	Can someone paying Class D PRSI retire after 40 years service without an actuarial reduction once they are over 60?
A 36	Yes

Q 37	For a Class D PRSI with 40 years' service at age 60 can they retire on full pension (40/80) at age 60 with no actuarial reduction?
A 37	Yes

Q 38	Why are PRSI Class D scheme members getting preferential treatment under these proposals and being allowed to retire at 60 if they have 40 years pensionable service? PRSI Class A scheme members could also have 40 years pensionable service at age 60 if they purchased additional years service or transferred their pension in from another scheme.
A 38	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.

Q 39	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?
A 39	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.

Q 40	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?
A 40	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.

Q 41	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?
A 41	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.

Q 42	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?
A 42	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.

Q43	After 2023 and the fund can meet its liabilities what will pension increases be based on?
A43	The changes being made are envisaged as a permanent change – ie, they will continue beyond 2023. Any change to the increase policy would need to be agreed at a future review.

Class A

Q 44	For a Class A PRSI person who retires at age 60 with 20 years' service, how is the actuarial reduction calculated? Is it based on the OSP portion or the overall portion and at what percentage etc.?
A 44	The reduction will be applied to their occupational scheme pension – the actual reduction depends on the individual's new normal retirement age, which will be in line with their state pension age. If the member has a new normal retirement age of 68 (ie, reached age 68 in 2028 or later), the pension would be discounted to 64.4%,

Other

Q 45	What is the difference between pensionable salary and ordinary salary?
A 45	Pensionable salary is the portion of your salary that attracts a pension. For example, subsistence payments are not pensionable and only 83.7% of the change allowance is pensionable. In circumstances where wage increases resume and where a cap applies to your pensionable pay, it is possible that you will receive a salary increase in excess of that cap. The excess amount would be paid as a non-pensionable amount.
Q 46	Has any Union seen fit to ask representatives of Pensioner Association how they view the proposed changes
A 46	The CWU has given the proposals to John (JJ) Higgins, Secretary of the an Post Pensioners Association, and he has contacted us to declare that he is very happy with the proposals and that he sincerely believes that we have negotiated the best possible outcome.
Q 47	Are all present pay increases passed directly on to the pension?
A 47	To-date this has been the norm, but it is crystal clear from the rules of the Superannuation Scheme, that the Company has sole discretion as to whether or not it passes such rises on the pension. (subject to the approval of the Minister)For example, the change allowances do not apply to existing pensioners who were not in receipt of those allowances when they retired and will only be pensionable up to 83.7% in the future.
Q 48	Will the current proposals significantly worsen the pension entitlements of lower paid staff members if inflation is higher than 2% per annum. It seems that lower paid staff will lose even the small annual pension they receive from the scheme at the moment and only receive the contributory old age pension in future years.
A 48	The current proposals will be applied equally to all scheme members. As already outlined there will be an examination of future options for Class A contributors including the option of setting up a DC Scheme

Q 49	What is the role of the Trustees?
A 49	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.
Q 50	What happens to my death benefits?
A 50	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
Q 51	Will I get a personal statement?
A 51	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 .
Q 52	Does the cap on pensionable salaries mean that I will not receive salary increases from An Post in the future?
A 52	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

Q 53	As a result of the closure of Sherriff Street in 1994 and then closure of SDS in 2003/2004 there had to be a considerable number of VER's which no doubt had a significant impact on the funding requirement. How was the impact of these VER's between 1994 and 2004 being taken account of by the company in terms of increased funding contribution between 1994 and 2005 prior to the practice of passing funds to the scheme on an annual basis for each VER calculated cost ?
A 53	The Scheme regulations provided for voluntary early retirement and any benefits given under these schemes would have been allowed for in the next actuarial valuation undertaken. The recommended contributions rate by the Actuary would have taken account of these benefits. Since 2004 the Company has made additional contributions to cover the costs associated with voluntary early retirement.

Q 54	What is the average rate of CPI since Ireland joined the Euro?
A 54	In the eleven years since Euro banknotes were introduced (2002-2012 inclusive), inflation has averaged 2.2% per annum. This is based on the Consumer Price Index (CPI), as compiled by the CSO.