Irish National Teachers' Organisation
Cumann Múinteoirí Éireann

Should I Stay Or Should I Go?

Considering Retirement by 29 February 2012

Q.1 Many of my colleagues are contemplating retirement on or before 29 February 2012. What is the significance of this date?

A. 1 In the 2010 Budget, the Government decided that with effect from 1 January 2010, the salaries of public servants, including teachers, would be reduced.

In the same Budget, it was announced that public servants who retired prior to a specific date, would have their pension and lumpsum entitlements calculated on their pre-pay cut salary (i.e. the salary scales in operation up to December 2009.) The "grace period" during which public servants could retire on the basis of the higher salary figure is now confirmed as 29 February 2012 (it was originally set at December 2010, then extended to December 2011 and more recently, has been finally extended to a deadline of 29 February 2012).

It is the attraction of having pension and lumpsum benefits calculated on the higher salary that has caused many of our colleagues to consider retiring prior to or on 29 February 2012.

Q.2 Would it be advantageous to me to retire on or before 29 February 2012?

A.2 The first thing that has to be established is whether or not you are eligible for retirement.

The earliest a teacher can retire on a voluntary basis is at age 55 **provided** she/he has a minimum threshold of teaching service.

In the case of a teacher with 2 years pre-service training, the minimum service requirement is 35 years; a teacher with 3 years pre-service education, the minimum service requirement is 34 years service and in respect of a teacher with a 4 year pre-service training, the minimum service requirement is 33 years*.

Teachers are also eligible for retirement from age 60 onwards, irrespective of the numbers of years of service. *

Compulsory retirement is at age 65.*

For teachers who do not meet the above age/service requirements there is a facility to retire on a "Cost Neutral" basis. This mechanism is significantly less advantageous and members should seek advice from INTO Head Office or elsewhere in advance of pursuing this route. (See also DES Circular Pen.07/05)

There is also a facility for teachers to seek retirement on grounds of ill-health.

***Note:** Different conditions may apply if a teacher has "broken service" and/or became a "new entrant" after 1 April 2004.

Q. 3 What is the advantage in having pension and lumpsum calculated on the higher salary?

A.3 Government policy is to reduce the overall number of public servants. As part of this strategy it sought to incentivise public sector employees to retire by allowing them to have their pension and lumpsum based on their pre-pay cut salary levels. For example, a teacher who earned €72,938 in 2009 is now earning €68,457 per annum. For those approaching retirement it was attractive to have pension and lumpsum based on the higher of these figures.

Accordingly, many public servants retired in 2010 to secure a "higher" pension and lumpsum.

However, in the Budget of 2011, the Government imposed a pension deduction on retired public servants (The pay cut imposed on serving staff in 2010 did not apply to retired staff). This levy known as the Public Service Pension Deduction (PSPD) applies to all retired public servants **<u>and</u>** to public servants who retire on or before 29 February 2012.

Q. 4 Why are public servants who retire after 29 February 2012 exempt from the PSPD?

A. 4 Public servants who retire after 29 February 2012 will have their pension and lumpsum benefits calculated on their current salary, i.e. the reduced salary. This automatically factors in a reduced pension and lumpsum and accordingly, the PSPD will not be applied.

On the other hand, those teachers who have their benefits calculated on their pre-pay cut salary are liable for the PSPD.

Q. 5 Does the PSPD negate the advantages of retiring prior to 29 February 2012?

A. 5 The introduction of the PSPD reduces the advantage of retiring prior to the deadline in relation to pension.

However, the PSPD does not apply to lumpsum, so there is still a significant advantage in having lumpsum calculated on the higher figure.

Q. 6 What is the difference in monetary terms to my pension and lumpsum if I retire prior to 29 February 2012?

A. 6 There is no single answer to this question. Each teacher's figures vary as they are based on "retiring salary" and "length of service" which are individual to each teacher. However, the following two examples can be used for illustrative purposes.

Example 1:

A teacher who has already completed 40 years' service. Her pre pay cut salary was €72,938 and following the pay decrease, she is currently on a salary of €68,457.

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Retirement Date	Service	Retiring Salary	Pension	Lumpsum
29 Feb 2012	40 years	€72,938	€36,469 - 1,843 * €34,626	€109,407
31 Aug 2012	40 years	€68,457	€34,229	€102,686

* PSPD

- In the example above, pension when calculated on the pre-pay cut salary is almost €400 per annum higher than when calculated on the post-pay cut salary. The fact that the two figures are close arises from the fact that the PSPD applies to retirements on or before 29 February 2012. Retirement benefits after that date, though calculated on the lower salary are not subject to the PSPD.

- In the example above, the lumpsum when calculated on the pre-pay cut salary is higher by €6,721 net.

Example 2:

A teacher who will complete 37 years and 8 months service on 29 February 2012, her pre- pay cut salary was €72,938 and following the pay decrease, she is currently on a salary of €68,457 per annum.

Retirement Date	Service	Retiring Salary	Pension	Lumpsum
29 Feb 2012	37.66 years	€72,938	€34,336 - 1,651 * €32,685	€103,007
31 Aug 2012	38.17 years	€68,457	€32,663	€97,989
31 Aug 2013	39.17 years	€68,457	€33,518	€100,555
31 Aug 2014+	40 years	€68,457	€34,229	€102,686

* PSPD

- In the above example, if the teacher retires in August 2012 (as distinct from 29 February 2012, her pension is only €22 per annum less. This arises for two reasons. Firstly, no PSPD applies to retirements after 29 February 2012 and secondly, in the above example, if the teacher retires on 31 August 2012, she has six months additional service.

- In the above example the lumpsum, however, is €5,018 more when calculated on the higher salary.

- You will also note from the above example that if the teacher continued in service until August 2013 or 2014, that pension and lumpsum rise further as service increases to the 40 year maximum.

Q. 7 How typical are the above examples?

A. 7 The above examples are for illustration only. The salary used is that of a teacher on the top of the scale, NT allowance, long service allowance, and Deputy Principal of a 6 Teacher School.

It is critical to emphasise however, that each teacher's figures will be different depending on their salary level and service.

Q 8 How can I calculate my own figures?

A. 8 There are two pension calculators on the INTO Website. One is for retirements prior to 29 February 2012 (as it factors in the PSPD deduction) and the second is for retirements after 29 February 2012.

Simply, put in your fortnightly salary, e.g. €2,795 and your service (e.g. 37.17 years) and the calculator will do the rest.

In respect of retirements prior to February 2012, use the details as per the 2009 salary slip. In respect of retirements after 29 February 2012, use a current salary slip.

The outcome of your calculations will be presented in two columns – one including the lunchtime supervision payment, the other without the lunchtime supervision payment.

Q. 9 Having done my own calculations, there is only a slight difference in my pension, irrespective of which date I choose to retire. However, if I stay on until 31 August, which I want to do, my lumpsum will be down €5,000 net.

A. 9 This is a significant difference in lumpsum. However, you should also bear in mind that if you remain in service until 31 August 2012, you will be on full salary up until that date rather than on pension and your increased earnings will offset / balance out a reduced lumpsum.

Q. 10 Should I stay or should I go?

A. 10 This is a really personal question that has to be answered by each individual. Many factors have to be taken into consideration in deciding when to retire, including job satisfaction, health, financial commitments, etc.

The significance of the 29 February 2012 deadline is only one of these considerations but on its own is unlikely to be the deciding factor.

Q. 11 How much notice am I required to give?

A. 11 Teachers are required under the terms of their contract to give 3 months notice of their retirement to the Board of Management.

DES Circular 45/2011 also requires teaches to give 3 months notice to the DES Pensions Unit. The Circular further states that “failure to give the required notice could result in a delay in payment of pension benefits and any other payments due”.

Q. 12 How is PSPD calculated?

A. 12 The rate of reduction on pension is as follows:-

Between 0 - 12K	-	0%
Between 12K - 24K	-	6%
Between 24K - 60K	-	9%

Q. 13 Are lumpsums going to be taxed?

A. 13 In the 2010 Budget, the Minister for Finance stated “I accept the Commission on Taxation’s recommendation that pension lumpsums below 200K should not be taxed”.

In the 2011 Budget, this position was confirmed but the Minister introduced a graded rate of taxation on lumpsums of 200K and over.

Q. 14 Could the arrangements regarding the 29 February 2012 be withdrawn the December Budget?

A. 14 At this stage we cannot be certain what will happen in the forthcoming Budget. However, it is stated Government policy to reduce the numbers of public servants. The arrangements surrounding the 29 February deadline were put in place specifically for the purpose of encouraging public servants to retire by that date. Any changes to these well signposted arrangements that would reduce the numbers retiring by that date would be counterproductive.

This document prepared in INTO Head Office is designed to assist members in their decision making. It is not intended to be a comprehensive guide on all aspects of retirement.