

The attached guidance on the **financing mechanism for the North/South Pension Scheme** was previously issued on 13 May 2009 as an annex to DAO (DFP) 04/09. DAO (DFP) 04/09 was cancelled by DAO (DoF) 03/17 which issued on 6 July 2017, when the North/South Bodies Annual Reports and Accounts Guidance was updated in line with FRS 102. However, the guidance on the financing mechanism for the North/South Pension Scheme is still applicable for North/South Bodies and so has been reproduced below.

FINANCING MECHANISM FOR NORTH/SOUTH (N/S) PENSION SCHEME

Introduction

This paper sets out the approach to financing the North/South Pension Scheme and addresses the following specific issues:

Section A: N/S Pensions/Benefits in payment

**Section B: Discharging Accrued Liabilities in respect of Prior Service/
Transfers In**

Section C: Transfers Out

Section D: Members' Contributions

**Section E: Financing the Pension Administrator and associated
Administration Costs of the Scheme**

Section F: Related Accounting issues

A number of scenarios are set out in this paper, highlighting the financing implications in relation to each of the issues at A to F above. For illustrative purposes a simple model will be used to highlight the differing treatment under each scenario. The model assumes three N/S bodies financed as per Figure 1 below. For the purposes of this paper it is assumed that all N/S Bodies and the Pension Administrator operate in euro. In reality the N/S Bodies and the Pension Administrator will have to work in dual currency.

The basis for apportioning the cost of pensions in payment will be the non-capital funding ratio for the Body concerned, adjusted, where appropriate, to take account of an individual's prior reckonable service for pension purposes. ASLCs will no longer be required, instead sponsor departments will now provide grant to cover the estimated cash needs of each body in respect of the North/South Pension Scheme. The cash needs will comprise:

- i. payments to pensioners (lump sums and ongoing pension payments)
- ii. cash paid for transfers out of the scheme
- less
- iii. cash received for transfers in

iv. employee contributions

Contributions towards the cost of pensions will be made via the Bodies.

Figure 1 (Non-capital N/S funding ratio for sample 3 bodies)

The table below sets out the contribution ratios North and South for the three N/S Bodies for their non-capital expenditure, their pay budgets, and their staffing complements. A simple model will be used to illustrate the proposed treatment in each scenario within this document.

Figure 1

North		N/S bodies		South
	<i>% North funding</i>		<i>% South funding</i>	
NDEPTA	20%	A Staff nos.=100 Pay = €2m	80%	SDEPTA
NDEPTB	30%	B Staff nos.=50 Pay = €1m	70%	SDEPTB
NDEPTC	40%	C Staff nos.=50 Pay = €1m	60%	SDEPTC
		Pension Administrator		

It should be noted that the majority of calculations are dependent on the funding ratios of the bodies and therefore it is imperative that any changes in the ratios are notified to the pension administrator immediately.

SECTION A: N/S PENSIONS/BENEFITS IN PAYMENT

There will be four categories of pensions (which includes for the purposes of this paper, spouses and other benefits) in payment:

- 1. Pensions for designated or Club / Network transferees from unfunded schemes;**
- 2. Pensions for designated or Club / Network transferees from funded schemes;**
- 3. Pensions for new recruits with no prior reckonable service; and**
- 4. Pensions already in payment from a Body, which was subsumed into a N/S Body, e.g. Bord na Gaeilge subsumed in Foras na Gaeilge.**

- 1. Pensions for designated or Club/Network transferees from unfunded schemes**

This category relates to pensions in payment for:

- (i) designated transferees, from unfunded schemes who have their service at date of transfer automatically reckoned in the new Body, or,
- (ii) new recruits to the Bodies who transfer prior service via the Club or Network from unfunded schemes.

For unfunded schemes within the UK, a transfer value in respect of a transferee's reckonable service at the date of transfer to the Body will be paid to the administrator by the former scheme. The Administrator will pay the full amount of this transfer value to the relevant Northern Sponsor Department via the North/South Body . The liability for the prior UK public service remains within the UK in that it remains a liability of the UK Exchequer until it is fully discharged, via the payment of a scheme benefit or the payment of a transfer value out in respect of a member who has left the Body.

In the case of a transfer from an unfunded Irish public service pension scheme, the liability for the prior Irish public service remains with the Irish

Exchequer until it is fully discharged via the payment of a scheme benefit or the payment of a transfer value out in respect of a member who has left the Body.

The approach to accounting for accrued liabilities in respect of prior service differs between the two jurisdictions and is dealt with in greater detail at Section B of this paper.

The pension payable to a designated transferee will be calculated by the Pension Administrator based on the individual's pensionable service in the Scheme and their prior reckonable service up to their date of designation.

The pension payable to a Club/Network transferee will be calculated by the Pension Administrator based on the individual's pensionable service in the Scheme and their transferred service.

In either case, the N/S split for financing the pension payable to the individual will be calculated by the Pension Administrator, which will be based on the financing contribution ratio for the Body concerned (see funding split in Figure 1), as adjusted to take account of the UK/Irish Exchequer liability, as appropriate, for the individual's amount of prior reckonable service for pension purposes before joining the Body.

The amount of the contribution by each administration would be determined as above, and may vary from individual to individual in a single Body. The example cited at Figure 2 below is for a designated transferee in Body A, who retires with 40 years service, 25 of which were accumulated in the Irish civil service.

A similar approach would apply in the case of a new recruit to the Body with 25 years prior Network service in the South from an unfunded scheme. The same methodology would apply in the case of designated transferees or new recruits with prior Club service in the UK.

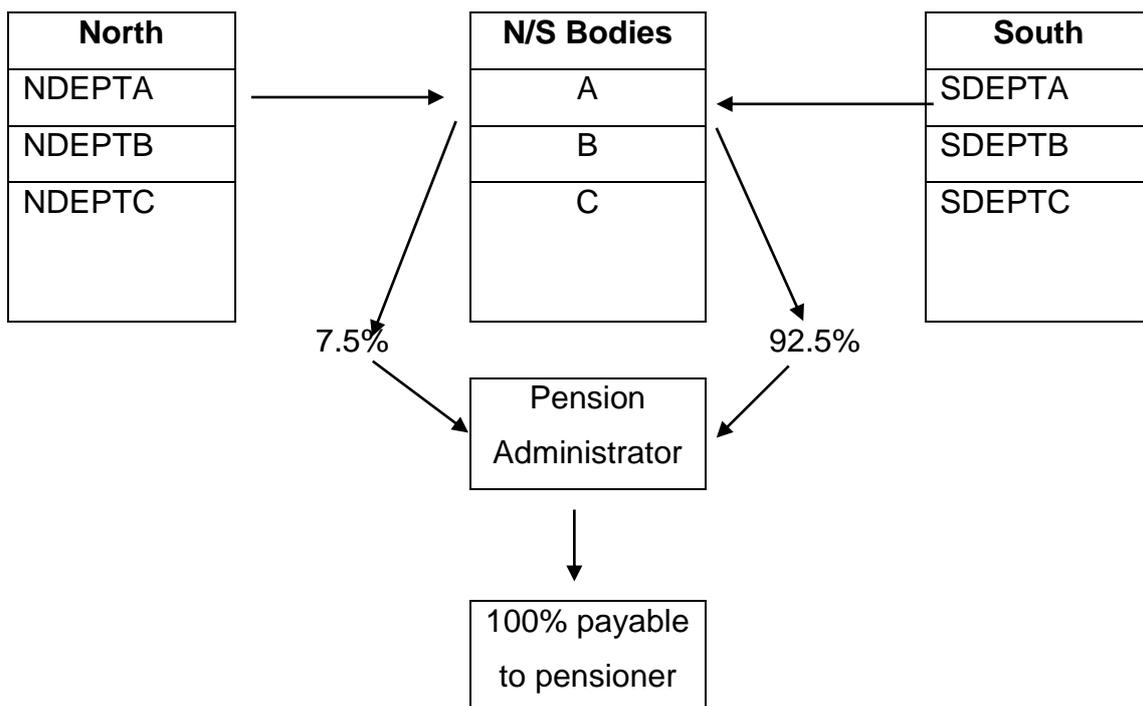
The N/S contribution ratio would be calculated as follows:

Figure 2

Service	North	South
25 years prior service	Nil	25 (25yrs x 100%)
15 years in N/S Body A	3 (15yrs x 20%)	12 (15 yrs x 80%)
40 years	3	37
100%	7.5%	92.5%

The pension payable in this example for an individual might be represented as in Figure 3 below, showing the flow of financing from the Southern & Northern Departments, through the Body.

Figure 3



Note: Service may be transferred via the Irish Public Service Transfer Network at any time up to the date that an individual leaves the Body.

2. Pensions for designated or Club/Network transferees from funded schemes

a. Funded Public Service Schemes (UK or Ireland)

This category relates to pensions in payment for:

- (i) designated transferees from funded public service schemes, that have a transfer value in respect of their reckonable service for pension purposes at date of transfer to the Body paid to the Administrator by their former scheme, or
- (ii) new recruits to the Bodies who transfer prior service via the Club or Network from funded public service schemes.

For funded public service schemes within the UK, a transfer value in respect of the transferee's reckonable service at the date of transfer to the Body will be paid to the Administrator by their former scheme. The Administrator will then pay this amount to the Northern Sponsor Department, via the Body .

For funded public service schemes within the South, a transfer value in respect of the transferee's reckonable service at the date of transfer to the Body will be paid to the Administrator by their former scheme. The Administrator will then pay this amount to the Southern Sponsor Department, via the Body.

The pension payable to a designated or Club/Network transferee will be calculated by the Pension Administrator based on the individual's service in the Body and their prior reckonable service up to their date of designation or their transferred Club/Network service as the case may be.

The N/S split for financing the pension payable to the individual will be calculated by the Pension Administrator, which will be based on the financing contribution ratio for the Body concerned (see funding split in Figure 4), as adjusted to take account of the UK/Irish Exchequer liability, as appropriate, for

the individual's amount of prior reckonable service for pension purposes before joining the Body or transferred Club/Network service, as the case may be.

The example below is for a designated transferee in Body B who retires with 40 years service, 10 of which were accumulated in a funded public service scheme in the NICS. A similar approach would apply in the case of a new recruit to the Body with 10 years prior Club service in the U.K. from a funded public service scheme.

The same methodology would apply in the case of designated transferees or new recruits with prior Network service in the South.

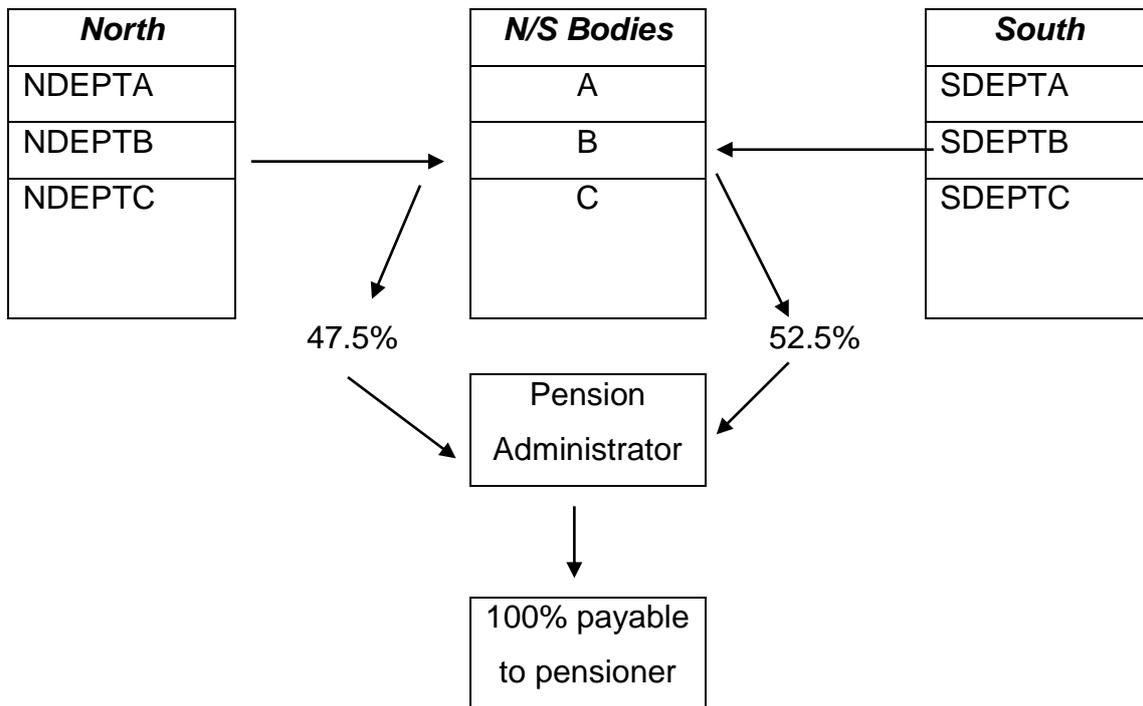
The North/South contribution ratio is calculated as follows:

Figure 4

Service	North	South
10 year prior service	10	Nil
30 years in N/S Body B	9 (30yrs x 30%)	21 (30 yrs x 70%)
40 years	19	21
100%	47.5%	52.5%

The pension payable in the example above (Figure 4) for an individual might be represented as follows in Figure 5, showing the flow of financing from the Northern & Southern Department, through the North/South Body.

Figure 5



Note: Service may be transferred via the Irish Public Service Transfer Network at any time up to the date that an individual leaves the Body.

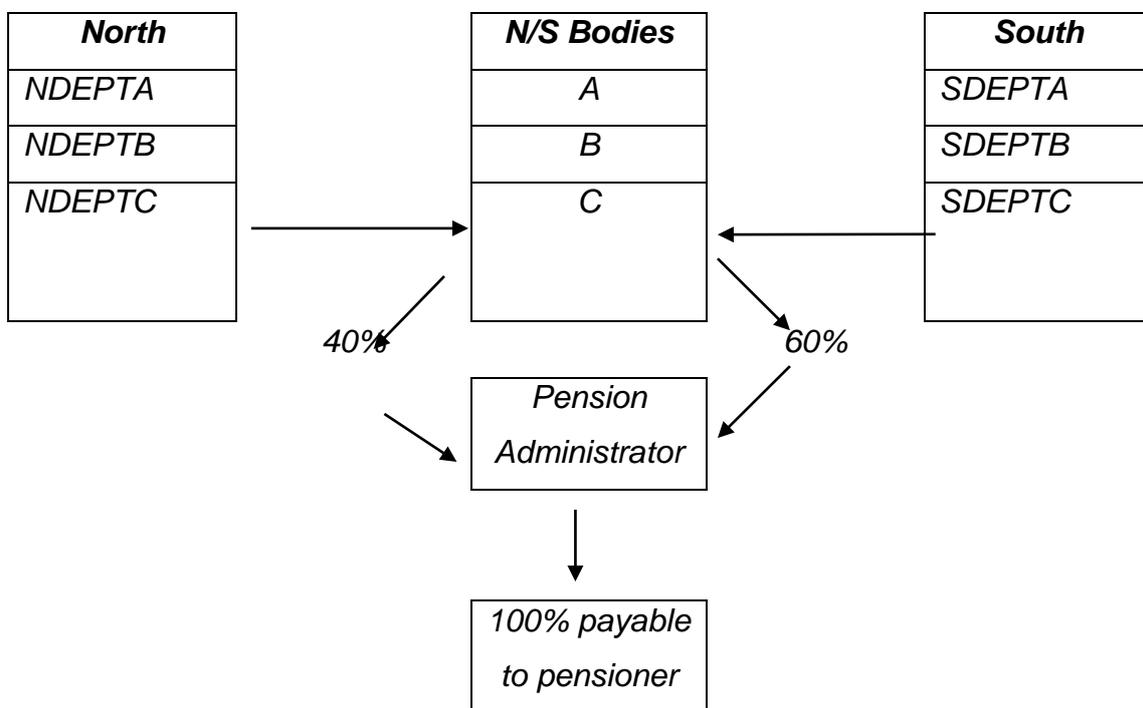
b. Transfer Value from non-public service (funded) schemes or private pension plans, PRSA's etc.

The Actuary will calculate the amount of service to be credited to the individual in respect of the transfer value. The transfer value will be split and apportioned to each jurisdiction in line with the funding ratio for the Body. The final benefit or transfer value out will be financed in line with the funding ratio for the Body – see 3 below.

3. Pensions for new recruits with no prior reckonable service

The pension payable to an individual, who has been recruited directly to a Body, will be based on his/her service in the Body, and will be financed on the basis of the funding contribution ratio for the Body (see Figure 1). The example used to illustrate this particular case, as shown in Figure 6, uses Body C.

Figure 6

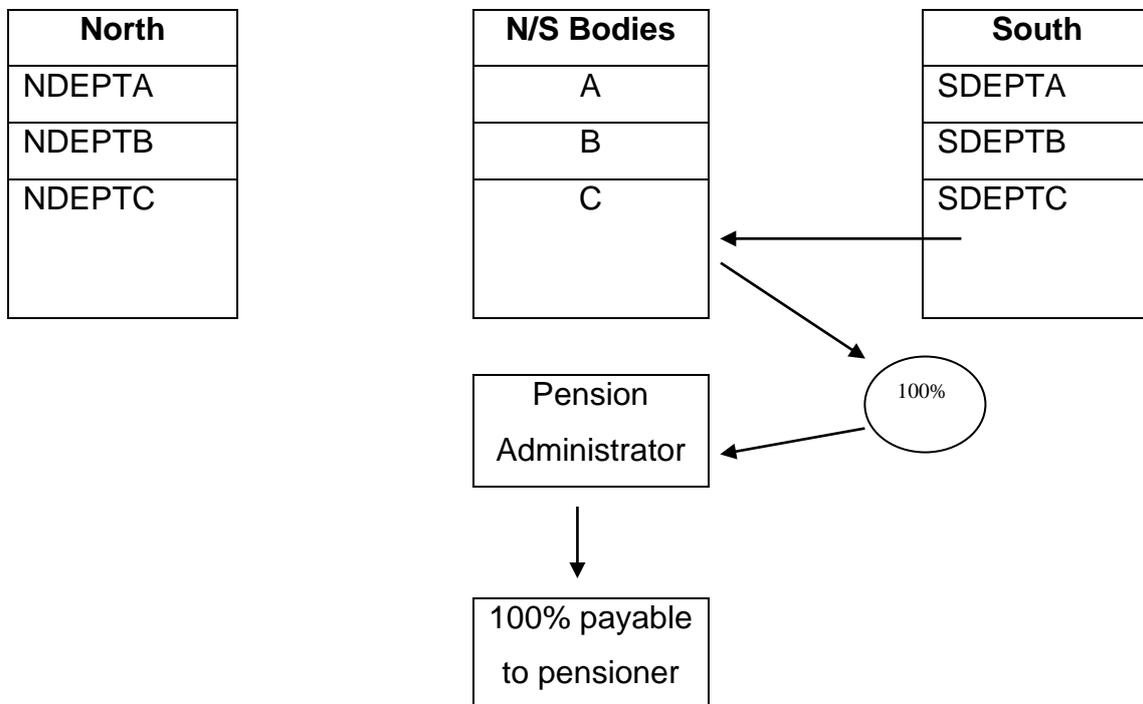


4. **Pensions already in payment from a Body, which was subsumed into a N/S Body, e.g. Bord na Gaeilge – Foras na Gaeilge**

In addition to the N/S pensions relating to N/S Bodies, the Pension Administrator will also process for payment other pensions in payment, i.e. the pensions of pre-existing Bodies, which have been wholly subsumed into a new N/S body, e.g. Bord na Gaeilge.

The example below assumes pensioner from Bord na Gaeilge, the cost of which is wholly carried (100%) by the Southern Department, SDEPTC, which has taken on responsibility for the successor Body/agency, Foras na Gaeilge – see Figure 7 below. The Pension Administrator will calculate the pension requirement for the pensioner concerned, and will receive payment of 100% of cost of pension from the Southern Department. There is no action required from any other Department in the North or South.

Figure 7



Summary of Administrator Computation of Contributions from NI and ROI, taking account of prior reckonable service where applicable, and using the examples (1) to (4) above. Such a model would be used to generate the estimates demands from each Dept in the South and the North. On an ongoing basis, the Administrator would calculate the pensions payment for the forthcoming quarter (Jan-Mar, etc) and would be resourced on request by the contributing Depts, through the Bodies to meet the payments arising. The example shown is for an individual in each category.

Figure 8

Body/ Pensioner	Annual Pension €	N/S contribution ratio Calculated by Administrator		NI cost €	ROI cost €
		NI	ROI		
Pension for a designated or Club/Network transferee from unfunded scheme Body A	30k	7.5%	92.5%	2.25k	27.75k
Pension for a designated or Club/Network transferee from funded scheme Body B	60k	47.5%	52.5%	28.5k	31.5k
Pension for new recruit with no prior reckonable service Body C	40k	40%	60%	16k	24k
Pension already in payment from a body, which was subsumed in N/S body Body C	20k	-	100%	-	20k
Total	150k			46.75k (*)	103.25k (**)

(*) charge on individual Northern Sponsor Departments Vote (subhead for Body)

(**) charge on individual Southern Sponsor Departments Vote (subhead for Body)

SECTION B: DISCHARGING ACCRUED LIABILITIES IN RESPECT OF PRIOR SERVICE/TRANSFERS IN

The accounting for accrued liabilities in respect of prior service will differ between the two jurisdictions. The basis for treating accrued liabilities and apportioning transfer values is set out below.

(i) Transfer In (from a UK funded public service scheme)

For funded public service schemes within the UK, a transfer value in respect of the transferee's reckonable service at the date of transfer to the Body will be paid to the Administrator by their former scheme. The Administrator will pay the full amount of this transfer value to the relevant Northern Sponsor Department via the North/South Body.

(ii) Transfer In (from a UK unfunded scheme)

For unfunded schemes within the UK, a transfer value in respect of a transferee's reckonable service at the date of transfer to the Body will be paid to the Administrator by their former scheme. The Administrator will pay the full amount of this transfer value to the relevant Northern Sponsor Department via the North/South Body.

In either case (i) or (ii) above, when a liability matures that element of the benefits, which derives from the prior UK public service, will be a charge on the Northern sponsor department. The liability in question remains on the Northern side and the actual liability will be financed by the Northern sponsor department via the North/South Body as and when it arises.

(iii) Transfer In (from an Irish funded public service scheme)

For funded Irish public service schemes, a transfer value in respect of the transferee's reckonable service at the date of transfer to the Body will be paid

to the Administrator by their former Scheme. The Administrator will then pay this amount to the Southern Sponsoring Department, via the Body.

(iv) Transfer in (from an Irish unfunded scheme)

In the case of a transfer from an Irish unfunded public service pension scheme, the liability for the prior Irish public service remains with the Irish Exchequer until it is fully discharged.

In either case (iii) or (iv) above the Irish Exchequer proposes to meet the liability for prior service in the Irish public service on a pay as you go basis in line with its normal method of meeting obligations for public service pensions. When a liability matures (i.e. a person reaches pension age or dies), that element of the benefits, which derives from the prior Irish public service, will be a charge on the relevant Irish Department and will be met in full from that Department's Vote, via the Body. The liability in question remains on the Irish side and the actual liability will be financed by the Irish Exchequer as and when it arises i.e. on a pay as you go basis.

(v) Transfer Values from non-public service (funded) schemes etc – see Section A2 b above

Transfer values from these schemes will be split and apportioned by the Administrator, and paid to the Sponsoring Departments in the North & South via the relevant Body in line with the funding ratio for the Body.

When a liability matures, it will be met by the relevant Sponsoring Department in the North & South via the Body in line with the funding ratio for the Body.

SECTION C: TRANSFERS OUT

Transfers Out

Transfers out of the Administrator's Account will flow from the Sponsoring Department in the North and South, via the Body.

(i) Service in Body only

Transfers out, based on service in Body, are funded North/South on the basis of the financing contribution ratio for the Body in which the individual is serving.

(ii) Service in Body and Prior Reckonable Service

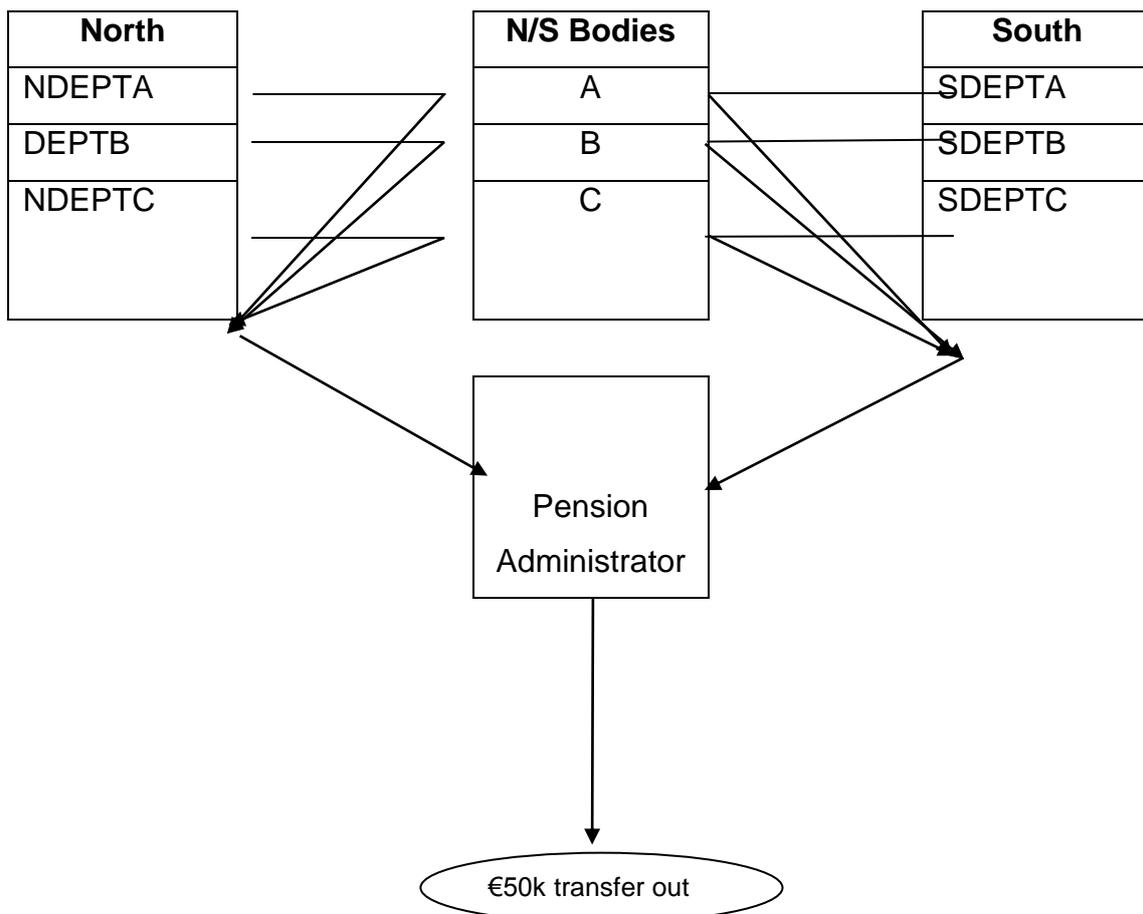
Transfers out where an individual has service in the Body, as well as prior reckonable service, are funded by applying the financing contribution ratio for the Body to that part of service accumulated in the Body, adjusted to take account of the UK/Irish Exchequer liability, as appropriate, for prior reckonable service.

The following example shows how a transfer out, where an individual has service in the Body and prior reckonable service, will be calculated. The example assumes a transfer out for an individual in Body A who has 15 years service, 5 of which is prior reckonable service in the Irish civil service. The same methodology would be used in the case of a transfer out for an individual with, for example, prior service in the NICS.

Figure 9

Service	North	South
5 years prior reckonable service	Nil	5 (5 years x 100%)
10 years in N/S Body A	2 (10 yrs x 20%)	8 (10 yrs x 80%)
15 years	2	13
100%	13.33%	86.66%

Figure 10 (this example assumes there is €50k of transfer values from the Administrators Account, flowing from the Sponsor Departments, via the Bodies in the North & South.)



SECTION D: MEMBERS' CONTRIBUTIONS

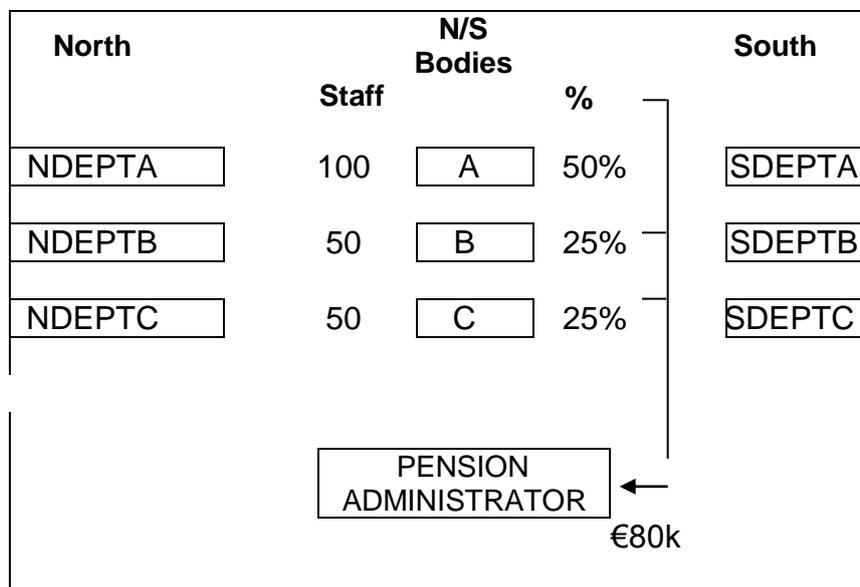
These are direct contributions from employees and are calculated as a percentage of relevant pay. The contribution is made by the employee, and thus does not represent a cost to the Body – rather it is an appropriation from gross pay, treated largely in the same way as tax. North/South Bodies will receive cash grant to cover payroll costs including employee contributions. Amounts deducted from individual employees will then be paid over by the Bodies to the relevant authorities (Sponsor Departments).

SECTION E: FINANCING THE PENSION ADMINISTRATOR AND THE ASSOCIATED ADMINISTRATION COSTS OF THE SCHEME

The basis for apportioning the Pension Administrator’s costs is to be the number of staff on payroll as at 1 April in any one year.

This illustration assumes the cost of the Pension Administrator to be €80k, and staff numbers are as illustrated in Figure 1.

Figure 12



Process

During the Estimates / Budget process in each financial year, the payroll numbers in each body are equated to an agreed percentage split and the annual cost of the Pensions Administrator is apportioned accordingly.

In this example, there are three bodies, 100 staff on payroll in Body A and 50 staff in Bodies B & C. Therefore Body A will pay 50% (€40k) and Bodies B & C will pay 25% each (€20k).

The cost of the Pension Administrator should be included as a cost in the annual budget for the body.

SECTION F: RELATED ACCOUNTING ISSUES

The general principle employed in the proposals is to include the N/S pensions in the allocation for each of their Bodies in the annual Estimates of the Northern & Southern Sponsor Departments.

The approach in this paper has been cleared with the relevant accounting authorities in the respective Departments of Finance and the C&AGs.