<u>Information Note on Occupational Pension Schemes Revaluation Rate 2018</u>
<u>S.I. Number 35 of 2018</u>

- A person who leaves employment, and who has been a member of their former employer's defined benefit pension scheme, may choose to either leave their accrued pension rights in the scheme of their former employer or transfer their rights to another vehicle which can accrue pension rights. Where the person chooses to leave their pension rights in the scheme of their former employer, pensions legislation safeguards those rights and ensures their pension value is 'preserved' and revalued annually to keep pace with changes in the annual rate of Consumer Price Inflation. *This maintains the spending power of these pension entitlements to a reasonable level.* These people are no longer contributing to the scheme and are not working for the employer. They may be in employment and contributing to the scheme of the new employer.
- Every year the Minister for Employment Affairs and Social Protection makes the Regulations required under Section 33 of the Pensions Act 1990 to maintain the spending power of these pension entitlements by specifying the percentage which will determine the amount by which this preserved pension benefit is to be increased or decreased.
- Under Section 33 the revaluation percentage is the lesser of 4% or the change (increase or decrease) in the general level of consumer prices during that year.
- As the average annual Consumer Price Index rate of inflation for the year 2017 was 0.4% (as per the Central Statistics Office in its January 2018 bulletin), the revaluation of preserved pension benefit for 2017 is due to be 0.4%.
- ***The requirement to apply revaluation is a legislative requirement and is not at the discretion of the Minister.***
- The Social Welfare and Pensions Act 2012 introduced a change as to how the preserved benefits of deferred members (i.e. former employees) are revalued. This provided for a change to the revaluation of preserved benefits to take account of the circumstance where the calculation of the revaluation rate to be applied to preserved benefits resulted in a negative percentage.
- In effect, the 2012 legislation allowed the revaluation of deferred members' benefits to track changes in the annual rate of CPI whether positive or negative.
- It may be noted that the revaluation rate caters for minimum standards. Scheme trustees, should the scheme rules allow it, are not precluded from applying revaluation rates that would be more beneficial to members where the scheme has the capacity to do so.
- The effect of this change on an individual preserved pension is illustrated in the following example;

  If a person left employment in 2009 and at that time had a deferred pension of €10,000, that pension would be revalued as below. The change in average industrial earnings for the same period is included for comparison purposes. This shows that deferred pensioners have had more favourable outcomes in recent years than active scheme members which are reflected in a 5.1% increase since 2009 as compared to a 1.3% reduction in earnings which would be reflected in an employee's pension entitlements.

Year	CPI	Revaluation Percentage Applied to Deferred Pension	Revalued Pension (€)	Change in average industrial earnings & impact on potential pension entitlements
2009	-4.5%	0%	10,000	-1.5%
2010	-1%	0%	10,000 (no change)	-2.5%
2011	2.6%	2.6%	10,260	-1.5%
2012	1.7%	1.7%	10,434	-0.8%
2013	0.5%	0.5%	10,487	-0.6%
2014	0.2%	0.2%	10,508	1.9%
2015	-0.3%	-0.3%	10,476	1.4%
2016	0.0%	0.0%	10,476	0.6%
2017	0.4%	0.4%	10,518	1.7%*
Overall Change	**-0.4%**	**5.1%**	**518**	**-1.3%**

*includes CSO Q3 2017 preliminary estimates of annual average weekly earnings