

NOTIONAL SERVICE PURCHASE

12 July, 1990.

Circular Letter S.8/90.
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REVISED SCHEME FOR PURCHASE OF SERVICE FOR SUPERANNUATION PURPOSES

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1. I am directed by the Minister for the Environment to say that agreement has been reached with the Staff side on the introduction of a revised scheme for the purchase of notional service for superannuation purposes. Details of the Scheme are set out in the attached Appendix.
2. The main differences between the existing and revised Schemes are as follows:-
 - (a) where service is being purchased by periodic deductions from salary or wages, these deductions will be payable up to age 65 (rather than age 60 as heretofore);
 - (b) an option to purchase by periodic contributions may be exercised at any time up to age 63 (formerly age 58);
 - (c) registered officers or registered employees may exercise lump sum purchase options within two years of appointment or during their final two years of service or (subject to certain conditions) on return to duty following a period of special leave without pay;
 - (d) where a person retires or resigns before age 65 (whether on grounds of ill-health or otherwise) service actually purchased by the last day of service will be subject to an actuarial reduction to reflect the fact that benefits accruing from that service are being paid earlier than anticipated; and
 - (e) new contribution rates are being introduced.

3. The revised Scheme will apply in the case of all options to purchase notional service where payment of contributions commences on or after 1st July 1990. The existing Scheme (S.I. No. 421 of 1986) will continue to apply to any cases where lump sum payments have been made, or periodic contributions have commenced, before that date. All staff who are pensionable under the 1986 Consolidation Scheme should be notified of the introduction of the revised Scheme.
4. A statutory scheme to give effect to the new provisions will be made in due course.
5. Any queries in relation to this circular letter should be addressed to the Superannuation Section in writing or by telephone 096-70677, extensions 406,407 and 408.

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REVISED SCHEME FOR PURCHASE OF SERVICE FOR SUPERANNUATION PURPOSES

1. COMMENCEMENT

- 1.1. This Scheme will be deemed to have come into force on 1 July 1990.

2. SCOPE

- 2.1 This Scheme applies only to registered officers and registered employees serving on or after 1 July 1990 who

- (a) would have at least nine years' actual reckonable service (excluding purchased service) by the time they reach age 65; registered employees whose employment pattern is of a broken nature such as would indicate their being unlikely to have the minimum of nine years' actual reckonable service by age 65 may not be allowed to participate in the Scheme;
- (b) are not on sick leave or special leave without pay or suspended from duty (with or without pay), or, being registered employees, are not registered employees by virtue of article 5(2) (b) of the 1986 Consolidation Scheme; and
- (c) exercise a valid option at the appropriate time (see paragraph 3).

3. CONDITIONS

- 3.1 The service which may be purchased under this Scheme may not exceed the limits described in Appendix 2.

- 3.2 An option to purchase service by periodic contributions may only be exercised where at least two years will elapse between the date of the person's next birthday and the date on which s/he will reach age 65.

- 3.3 An option to purchase service by lump sum contribution must be exercised

- (a) within two years of the beginning of pensionable service, or
- (b) on the date of the cesser of office/employment (hereinafter referred to as "retirement") of the person concerned or prior to and within two years of that date, or
- (c) within 6 months of the person's return to duty following a period of special leave without pay (the amount of service purchased in such a case may not exceed the duration of the period of special leave).

- 3.4 Where the amount of service being purchased is less than one year it must be paid for by lump sum contribution.

- 3.5 An option to purchase service by either method must be exercised in writing while the person is still serving.

- 3.6 Subject to subparagraph 3.7 following, persons will not be allowed to revoke options under this Scheme unless they give notice in writing to that effect before the lump sum contributions are made or the periodic contributions commence.
- 3.7 In the case of options to purchase by way of periodic contributions, persons may, if they so wish, choose to cease paying the contributions with effect from the date of their next birthday following receipt of their notification of cesser; in such cases their credit in respect of purchased service will be calculated in accordance with subparagraph 5.7.
- 3.8 If a person exercises more than one option to purchase service each such option will be treated separately for the purpose of this Scheme.

4. PROCEDURE

- 4.1 Service may be purchased by (a) periodic contributions or (b) lump sum contribution.
- 4.2 For the purpose of this Scheme the terms "salary/wages" mean -
- (a) the pensionable remuneration by reference to which the person's lump sum and pension are calculated, where the purchase option is made at retirement; or
 - (b) the actual rate from time to time of a person's pay where the purchase option is made before retirement.
- 4.3 Where, however, the purchase option is made before retirement and a person's superannuation benefits are calculated by reference to an amount which includes an element other than salary/wages, an extra contribution will be payable, by way of deduction from the lump sum or death gratuity or preserved lump sum or preserved death gratuity, in respect of such non-salary/wages element. The extra contribution will be the equivalent of the contribution, additional to that based on the person's salary/wages, which would be payable if
- (a) at the date of retirement, resignation or death, the person had exercised an option to purchase by lump sum an equivalent amount of purchased service, and
 - (b) the salary/wages by reference to which the contribution fell to be calculated was equal to the non-salary/wages element in the pensionable remuneration by reference to which the person's superannuation benefits were calculated.
- 4.4 Where an extra contribution under subparagraph 4.3 falls to be deducted from a preserved lump sum or preserved death gratuity, and the preserved lump sum or preserved death gratuity in question falls to be increased by reference to any pension increases under regulations made under the Pensions (Increase) Act, 1964 during the period between resignation and the date on which the preserved lump sum or preserved death gratuity becomes payable, the extra contribution shall be calculated by reference to an amount equivalent to the non-salary/wages element at date of resignation as increased by reference to the aforesaid pensions increases.
- 4.5 In the case of an option to purchase service by periodic contributions, the contributions will be levied on salary/wages payable from the date of the person's next birthday until the date s/he reaches age 65. the rate of contribution will be calculated in accordance with Table I or IA of Appendix 1.

4.6 In the case of an option to purchase service by lump sum contribution, the contribution will be levied on the person's salary/wages at the date the option is exercised. The rate of contribution will be calculated in accordance with Table II or IIA of Appendix 1 by reference to the person's age next birthday. The contribution must be paid within six months of the actual date of exercising the option; otherwise the option will be invalidated.

4.7 Where a person is in receipt of a reduced rate of salary/wages because of absence from employment, the contributions in respect of that period will be calculated by reference to the rate of salary/wages which would be payable if the person were not so absent. No contributions may be made during period of unpaid absence from employment and the service credit will be proportionately reduced in any such case.

5. CREDITING OF PURCHASED SERVICE

5.1 Subject to sub-paragraph 5.2 to 5.5 following, purchased service will be taken into account for the purpose of calculating all superannuation benefits. The person concerned must, however, have the requisite minimum actual reckonable service (excluding purchase service) to qualify for the benefit in question:

5.2 For the purpose of determining so much of a pension as relates to purchased service the pensionable remuneration of a registered employee who is fully insured will be reduced by twice the maximum personal weekly rate of old age contributory pension payable on his last service day to a man who has no adult dependant or qualified children.

5.3 In calculating the amount of any supplementary pension which may become payable to a registered employee no account will be taken of service purchased under this Scheme.

5.4 Purchased service will not reckon in the calculation of marriage gratuities.

5.5 Where an award of notional added service falls to be calculated by reference to a person's actual reckonable service (e.g. in the case of retirement on grounds of ill-health), purchased service will not be taken into account for the purposes of the calculation.

5.6 If a person continues to service up to age 65 and, in the case s/he is purchasing by way of periodic contributions, continues to pay such contributions up to age 65, the full amount of any service s/he has purchased will count as reckonable service.

5.7 If a person who is purchasing service under this Scheme by way of periodic contributions ceases to pay such contributions before age 65, or does not pay such contributions continuously up to age 65 owing to breaks in actual reckonable service, the amount of purchased service to be granted to the person will be determined by the formula

if someone stops paying notional service
$$\frac{A \times B}{C}$$

EG. 10 yrs
$$\frac{10 \times 8}{12} = 6.67 \text{ years}$$

where:-
A is the number of years' service which the person opted to purchase;
B is the period during which periodic contributions have actually been paid;
and
C is the period during which periodic contributions would have been paid if the person had paid such contributions on a continuous basis up to age 65.
if under 65 - have to reduce it further (see table)

An adjustment will also be necessary in any case where a person who is job-sharing purchases service. Any such case should be referred to the Department.

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5.8 If a person who has purchased service under this Scheme qualifies for a superannuation benefit (other than a death gratuity or a benefit under the Widows and Orphans/Spouses' and Children's Pension Scheme) which is payable before age 65 (e.g. in the case of ill-health retirement), the service so purchased - i.e. the full service purchased by way of lump sum contribution or the proportionate service (calculated in accordance with subparagraph 5.7) purchased by way of periodic contributions - will be actuarially reduced at a rate calculated in accordance with the Table in Appendix 3

5.9 Subject to subparagraph 5.8 above, where a person to whom the provisions of article 9(2) or 33(2) of the 1986 Consolidation Scheme apply exercises a purchase option under this Scheme, the exercise of the option shall only have the effect of increasing

(a) the person's pension or preserved pension by 1/80th of the pensionable remuneration (reduced by twice the old age contributory pension in relation to a registered employee) by reference to which that pension or preserved pension was calculated,

and

(b) the person's retirement lump sum, death gratuity, preserved lump sum or preserved death gratuity by 3/80ths of that pensionable remuneration

in respect of each year of purchased service.

6. REFUNDS

6.1 If a person who has purchased service

(a) is awarded a marriage gratuity, or

(b) does not qualify for a superannuation benefit and does not transfer service to another organisation for superannuation purposes.

all contributions paid under this Scheme will be refunded.

6.2 A person who is a member of the appropriate Widows and Orphans (not Spouses and Childrens) Pension Scheme and who, while unmarried

(a) dies in service, or

(b) retires or resigns and does not transfer service to another organisation for superannuation purposes,

will qualify for a return of his/her contributions for purchased service in respect of the appropriate Widows and Orphans Scheme as follows:-

(i) if s/he was unmarried during the whole of the period of his/her membership of the Scheme, all contributions paid will be returned;

(ii) in any other case:

(a) if s/he has paid by periodic contributions, all contributions paid since his/her last marriage ended will be returned;

APPENDIX 2 TO THE SCHEME FOR THE PURPOSE OF SERVICE FOR SUPERANNUATION PURPOSES:
LIMITS ON THE AMOUNT OF SERVICE WHICH MAY BE PURCHASED.

1. The maximum amount of service which may be purchased depends on the person's prospective pensionable service at age 65 and any retained benefits received or receivable by virtue of earlier service under another occupational pension scheme. (Retained benefits mean benefits from a previous pension scheme and include pensions, commutation payments, lump sum, gratuities and refunds of superannuation contributions).

2. For a person who would have at least nine years' actual reckonable service (excluding purchased service and notional added-service) at age 65 and who is not entitled to retained benefits from a previous pension scheme, the maximum amount of notional service which may be purchased is as follows:-

N.B.

Actual reckonable service (including transferred service but excluding purchased service, double years over 20 and notional added service) which the person would have if s/he remains in service until age 65	Maximum service which can be purchased
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20 years or more	Difference between 40 years and reckonable service by age 65
19 years	17 years
18 years	15 years
17 years	13 years
16 years	11 years
15 years	9 years
14 years	7 years
13 years	5 years
12 years	4 years
11 years	3 years
10 years	2 years
9 years	1 year

3. The limits outlined in the Table are subject to the overriding restriction that the amount of service which may be purchased, together with service which is otherwise reckonable, shall not in any case exceed 40 years.

4. Where the potential actual reckonable service at age 65 is less than 20 years but includes days of service in excess of a complete number of years, a number of days equal to 365 less the excess days in question may be purchased in addition to the appropriate number of years in the second column of the Table.

5. Where a person is entitled to retained benefits for earlier service under another occupational pension scheme, and those benefits are identical to the benefits which would be payable under the Local Government Superannuation Code for an equivalent period of service, the maximum number of years of notional service which may be purchased will be the smaller of

(1) the maximum specified in paragraph 2;

and

(2) $40 - A - B$,

where A is the reckonable service which the person would have at age 65 and B is the length of the person's pensionable service in the previous scheme.

6. Where the value of the retained benefits paid or payable is not identical to the value of the superannuation benefits which would be payable under the Local Government Superannuation Code in respect of an equivalent period, the case should be referred to the Department for a decision as to the amount of service may be purchased.

APPENDIX 3 TO THE SCHEME FOR THE PURCHASE OF NOTIONAL SERVICE FOR SUPERANNUATION PURPOSES. CALCULATION OF ACTUARIALLY REDUCED EQUIVALENT OF NOTIONAL SERVICE PURCHASED (SEE PARAGRAPH 5.2 OF SCHEME)

Where payment of a superannuation benefit, other than a death gratuity or a benefit under the widows and orphans/spouses and children's pension scheme, which takes account of purchased service commences before the date of the officer or employee reaches age 65 (e.g. where an officer or employee who is purchasing service retires before age 65) the following tables show the factors to be used in calculating the actuarially reduced equivalent of the proportionate service purchased at that date:

OFFICERS AND EMPLOYEES

<u>Age at which payment of of benefit commences</u>	<u>Factors to be used in calculating</u>	
	<u>(a) Lump Sum</u>	<u>(b) Pension</u> <u>Male</u> <u>Female</u>
64	0.98	0.920.93
63	0.95	0.850.87
62	0.93	0.780.82
61	0.91	0.730.77
60	0.89	0.680.72
59	0.87	0.630.68
58	0.85	0.590.64
57	0.83	0.550.61
56	0.81	0.510.58
55	0.79	0.480.55
54	0.78	0.450.52
53	0.76	0.420.49
52	0.74	0.400.47
51	0.72	0.380.45
50	0.71	0.360.43
49	0.69	0.340.41
48	0.68	0.330.39
47	0.66	0.310.37
46	0.64	0.290.35
45	0.63	0.280.34
44	0.62	0.270.33
43	0.60	0.250.31
42	0.59	0.240.30
41	0.57	0.230.29
40	0.56	0.220.28
39	0.55	0.210.27
38	0.53	0.200.26
37	0.52	0.200.25
36	0.51	0.190.24
35	0.50	0.180.23
34	0.49	0.170.22
33	0.47	0.170.21
32	0.46	0.160.20
31	0.45	0.150.20
30	0.44	0.150.19

10 x 0.89 =

10 x 0.72 =

APPENDIX 4

Examples of the treatment of cases of registered employees under the Purchase Scheme

1. Serving male employee aged 55 next birthday (22/12/1990) will on that day have 22.4 years reckonable service; his present pay is £156.78 a week and he is a member of the Spouse's and Children's Pension Scheme.

The maximum service which may be purchased is 7.6 years
[i.e. $40 - (22.4 + 10)$]

* He may opt at any time up to age 63 to purchase by periodic contributions.

* In addition to or in lieu of the option to pay periodic contributions he may opt at any time between 22/12/1998 and 21/12/2000 (i.e. the two year period preceding retirement) to purchase by lump sum contributions.

2. The employee in example 1 opts to purchase 1.6 years immediately by lump sum and a further 4 years by periodic contributions. His contributions will be calculated as follows:

* In the case of the lump sum option he will pay 4.78% of his full wages multiplied by 52 (i.e. $2.99\% * 1.6$ years) plus 20.69% of his net wages multiplied by 52 (i.e. $12.93\% * 1.6$ years). If the current single person's rate of contributory old age pension is £58.50 a week, he will pay a total of £817.68 i.e.

$$4.78\% \text{ of } £8,152.56 \text{ (} £156.78 * 52 = £8,152.56 \text{)}$$

plus

$$20.69\% \text{ of } £2,068.56 \text{ [} £8,152.56 - (£58.50 * 52 * 2) \text{]}$$

This contribution must be paid within 6 months of the option date.

* In the case of the periodic contribution option he will pay 1.32% of his full wages (i.e. $0.33\% * 4$ years) plus 6.28% of his net wages (i.e. $1.57\% * 4$ years) i.e. a total of £4.57 a week, viz

$$1.32\% \text{ of } £156.78$$

plus

$$6.28\% \text{ of } [£156.78 - (£58.50 * 2)]$$

This contribution will fall to be revised on the occasion of any change in the rate of either wages or contributory old age pension and will be payable each year until the employee attains age 65.

3. The employee in example 2 retires on ill-health grounds at age 59 with an entitlement to an immediate pension and lump sum. He will be credited with 1 ill-health added year (difference between age at retirement and age 60; purchased service is not taken into account in

calculating ill-health added years) giving a total of 27.4 years. The service he has purchased at age 60 is 3.2 years (1.6 years by lump sum and 1.6 years by periodic contributions - viz. $(4 \frac{4}{10})$, i.e. 1.6 years - see paragraph 5.7 of the Scheme). This 3.2 years falls to be actuarially reduced in line with paragraph 5.8 of the Scheme using the table in Appendix 3. He will be credited with 2.78 years for lump sum purposes (i.e. $3.2 * 0.87$) and 2.02 years for pension purposes (i.e. $3.2 * 0.63$) giving total reckonable service of 30.18 years for lump sum purposes and 29.42 years for pension purposes.