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REPORT FOR THE

ASSOCIATION OF SECONDARY TEACHERS IN IRELAND /

IRISH NATIONAL TEACHERS ORGANISATION /

& TEACHERS UNION OF IRELAND

FUTURE PENSION PROVISION

4 November 2010

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Background: Changes to date

The Teachers' Superannuation Schemes, along with all other public sector schemes, have been adjusted several times over the years in order to reduce the cost to the Exchequer. Amongst these changes have been:

1. 1995 integration with the State pension
2. 2004 fixing retirement age of 65 for new entrants
3. 2009 introduction of the pension levy

The impact of these changes has been to progressively reduce the value of the benefits paid to members, while increasing the portion of these benefits funded by member contributions.

Members' pensions are paid from the date of their retirement for life. The capital value of a person's retirement benefits is equal to (a) the sum needed at retirement that is expected to be sufficient to provide the pension payments for life together with (b) the retirement lump sum. Public sector pensions are, of course, funded on a pay-as-you-go basis but the capital value of benefits at retirement is essential to understand the relative value of the changes to date and the changes proposed. The capital value of contributions is compared to the capital value of benefits to demonstrate value to members.

The graph below shows this capital value for sample members who joined service at age 21 in 1980, 1985, 1990, 1995, 2000, 2005, and 2010. In compiling the graph below and other tables in this Report, our focus has been on the common pay scale for teachers; the scales of lecturing and other education grades were not specifically examined.

For instance, the teacher joining service in 1980, retiring at age 61 after 40 years could expect a lump sum on retirement of 1.5 times salary along with a pension of 50% of final salary to be paid for life[1]. This total benefit has a capital value of 12.5 times or 1250% of salary[2].

Life expectancy has increased in the past and we assume that this trend will continue in the future. This means that if there are no changes to the benefits provided, the value of the benefits is expected to gradually increase for newer, younger members. This effect is shown in the increases in the first three columns in the graph below.

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[1] Society of Actuaries recommended mortality tables suggest that the pension would be paid for 25 years on average from age 65, including an allowance for the possibility of a spouse's pension being paid
[2] Capital value allows for increases to pensions in payment of 3% p.a. (assumed to equal pay parity awards) and discounting of future payments at 5.0% p.a. to reflect timing of future payments

In 1995, integration with the State pension caused a significant drop in the total value of benefits. Fixing the retirement age in 2004 caused another drop.

The pension levy was implemented in March 2009. The dark blue sections on the graph below show our assumption that teachers who joined more recently will pay the levy over a greater share of their careers – a 21 year old member who joined in 1980 was 50 in 2009 and only liable for the levy over the final part of their career while the graph illustrates the position in the event that a 21 year old joining in 2010 was obliged to pay the levy over their entire career.
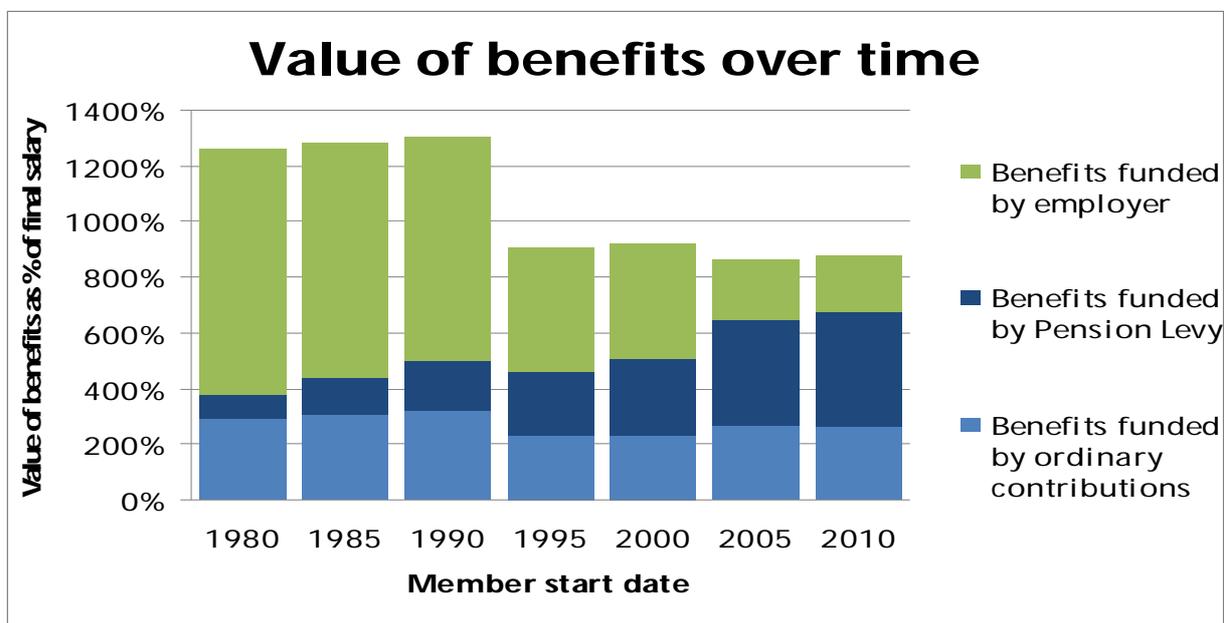
Based on member commencing service at age 21, the pension levy continuing indefinitely from 2009 and members retiring on the first opportunity when they have earned their full pension entitlement. There is currently no levy on the first €15,000 of salary, 5% on the next €5,000, 10% on amounts over €20,000 but not over €60,000 and 10.5% on any earnings above €60,000. We have assumed that these thresholds will increase in future in line with general pay awards.

Cost of existing pension arrangement

Since the implementation of the pension levy, members' contributions are sufficient to meet the majority of the cost of their benefits. If we assume a new member joining under the current pension structure at age 21 paid the pension levy over their entire career, we project the

contribution required from the employer to meet the balance of costs is as low as 3.4% of salary[3].

The value of benefits to a teacher who is promoted is higher. The value (and hence the required contribution rate) depends on the level of promotion but for instance for a teacher who is granted a special duties post at the age of 40 the cost increases to 4.0%. Those who are not promoted and those whose only promotion is a special duties post represent the majority of the teaching population.

The 3.4% cost is significantly less than the average employer contribution within private sector defined contribution schemes[4]. For a member commencing service at age 25, we project that an employer contribution of 5.7% of salary is required – this is still less than the average private sector employer contribution.

Proposed changes

The Government have proposed changing the benefits payable under the scheme. The proposed changes can be summarised as follows:

(1) <u>Career average:</u> Pensions and lump sum will be based on "career average" earnings rather than final salary

(2) <u>Later retirement age:</u> The public service retirement age will increase to 66 and in future will be linked to the State pension age. The Government has already announced that the State pension age will be increased to 68 by 2028.

(3) <u>Increases to pensions in payment:</u> A change may be made to link increases to pensions in payment to CPI. It is unclear as to whether this change will be implemented.

We have assessed the implications of these changes below. Due to the lack of available detail on the Government proposal, we have made a number of assumptions regarding how the scheme would work. We have based our interpretation of "career average" on indications provided by the Department of Finance to the ICTU Public Services Committee.

These indications are that the scheme would operate as follows:

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[3] This is based on the cost of funding a pension for a teacher who joins as a graduate and who does not subsequently secure a promoted post allowance.
[4] Source: UCD Michael Smurfit Graduate Business School 2008 DC survey reports average private sector defined contribution scheme employer contribution rate of 5.8% of salary

1. Money amounts will be accrued each year as follows:
   - Pension: On earnings up to $3\frac{1}{3}$ * State Pension: 1/200th of pay
     plus
     On earnings over $3\frac{1}{3}$ * State Pension: 1/80th of pay
   - Lump Sum: 3/80ths of pay
2. Accrued annual amounts are revalued in line with CPI between the year earned and the year of retirement
3. Pension on retirement is the sum of accrued amounts each year

Value of benefits under the Government proposal

The graph below shows the value of benefits on retirement, for a new member joining service today at age 21, under

a. Current pensions conditions for new entrants
b. The proposed changes outlined in (1) and (2) above with pay-parity increases granted to pensions in payment
c. The proposed changes outlined in (1), (2) and (3) above, that is, with increases to pensions in payment linked to CPI
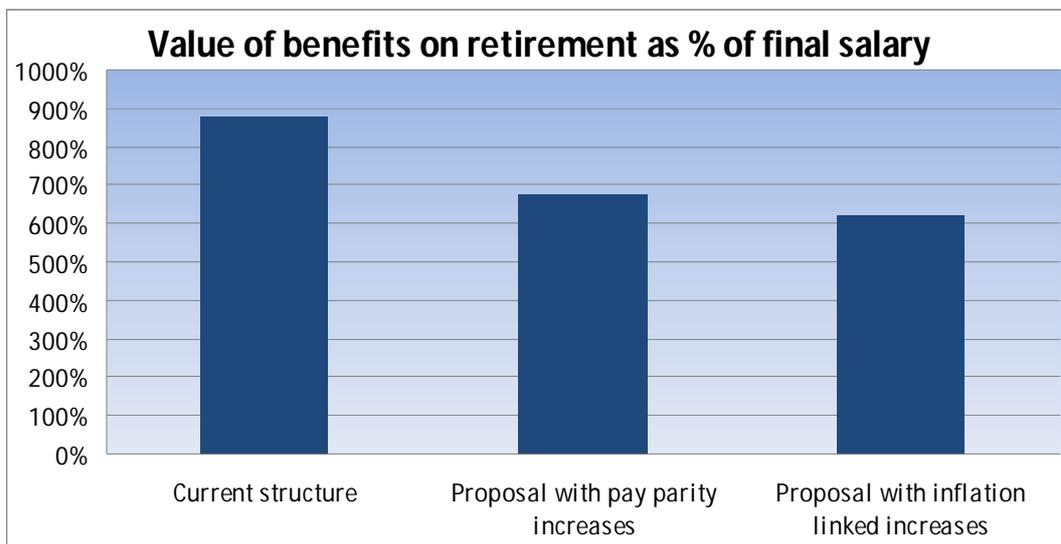
This proposal would mark a dramatic disimprovement of retirement benefits provided to new teachers and public servants generally. Removal of pay-parity increases would reduce the value of the benefit further.

All charts within the body of this report refer to a person joining at age 21. Appendix C sets out the equivalent values for a member joining service at age 25.

Value of benefits relative to contributions paid
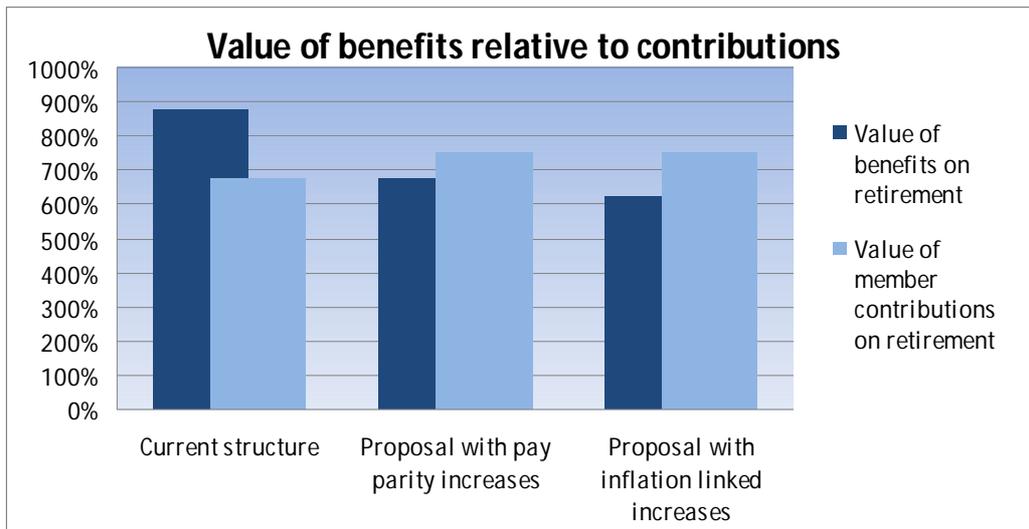
Current structure includes service to age 65. Proposal includes service to age 68

The contributions are higher under the proposal as we assume that contributions will be paid for three extra years as it is proposed that the retirement age of future employees will be linked to the State pension.

Under the Government's new proposal, the value of member contributions will exceed the value of the benefits that they will receive. This situation may be open to legal challenge.

If these changes were implemented, members would pay more to the scheme in contributions than they would receive from it in benefits. Given that membership is compulsory for all teachers, members would effectively be compelled to join a scheme from which they would expect to receive no net benefit.

Furthermore, for a private sector scheme to gain Revenue approval, "meaningful" employer contributions are required. The proposed new public sector scheme does not appear to meet this basic criterion. While the public sector schemes might be exempted from this Revenue requirement, the result would be that the public sector schemes would be less generous than all private sector schemes and less valuable (from an actuarial perspective) than no pension provision whatsoever. In other words, our assumptions indicate that employees would be

better off opting out of the proposed scheme (if permitted to do so) and investing their own contributions equivalent to the standard contributions and pension levy into a PRSA[5]

Value of benefits relative to notional contributions if levy cut by half

It can be seen from the graph on page 2 that the pension levy is the largest component of the contributions. The graph below shows the value of the benefits at retirement relative to contributions if the levy was reduced to 50% of its current level from 2011.

That is, a levy of 2.5% on earnings between €15,000 and €20,000, 5% on earnings between €20,000 and €60,000 and 5.25% on any further earnings, with these limits increasing in line with pay awards.
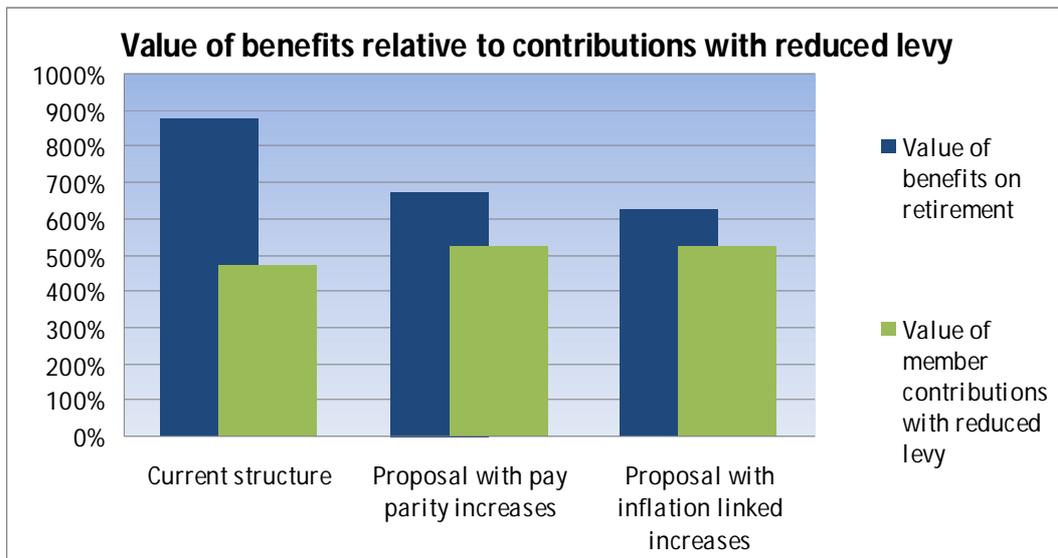
Under this scenario with the reduced levy, the projected required employer contribution would be 6.8% under the existing structure, 2.3% under the Government proposal with pension increasing with pay awards, or just 1.5% with CPI-linked increases.

At this reduced level, the levy would make up approximately 45% of the member contributions. If the levy was abolished from 2011 onwards, the total value of the member contributions would fall substantially, requiring a further increase in the employer contribution.

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[5] Personal retirement savings account: a pension vehicle requiring no contribution from the employer.

If the current pension structure remained, and the levy was abolished from 2011, an employer contribution of 10.2% of salary would be required. Under the proposal with pay-parity increase, the abolition of the levy would mean a required employer contribution of 5.7%, or 4.9% with increases to pensions in payment linked to CPI.

Value of benefits relative to contributions abolishing levy in 2011

[Bar chart showing three groups — Current structure, Proposal with pay parity increases, and Proposal with inflation linked increases — each with a "Value of benefits on retirement" bar (dark blue) and a "Value of member contributions with levy abolished in 2011" bar (green). Y-axis ranges from 0% to 1000%.]
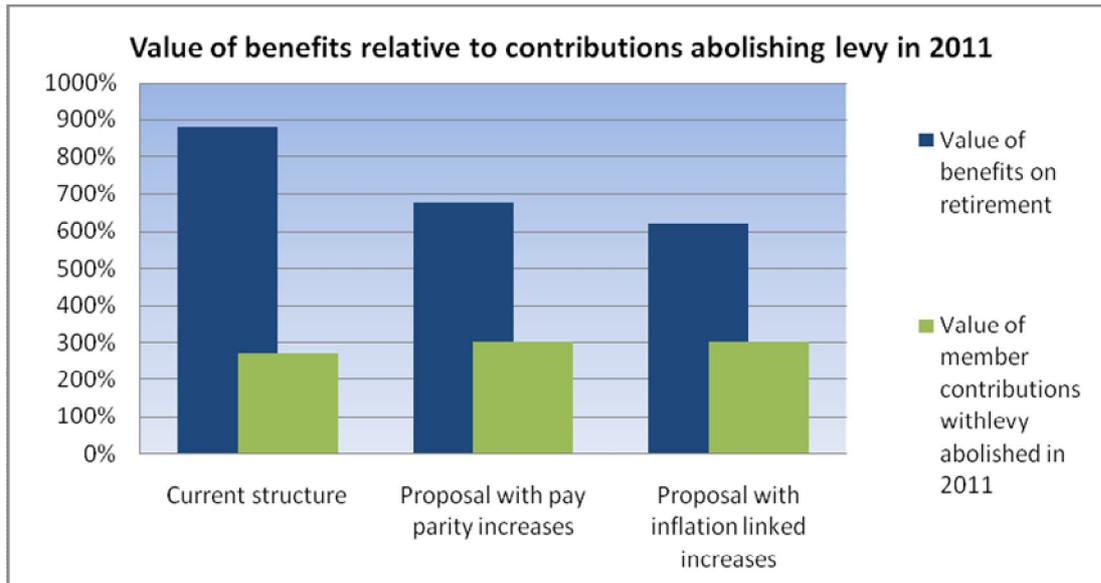
What this means for a typical worker

Under the current scheme, a teacher's pension (and the pension of a public servant with standard terms) on retirement after a full career is calculated as 40/80 * (Final Salary – 2 * State Pension). A teacher who begins service at age 21 under the current scheme could expect to receive a pension on retirement of 32% of his/her final salary (40/80 * Final Salary – State Pension), or a total pension of 50% including the State pension.

Under the Government proposal based on career average, the expected pension would reduce to 26% of final salary, 44% including the State pension after working three years longer.
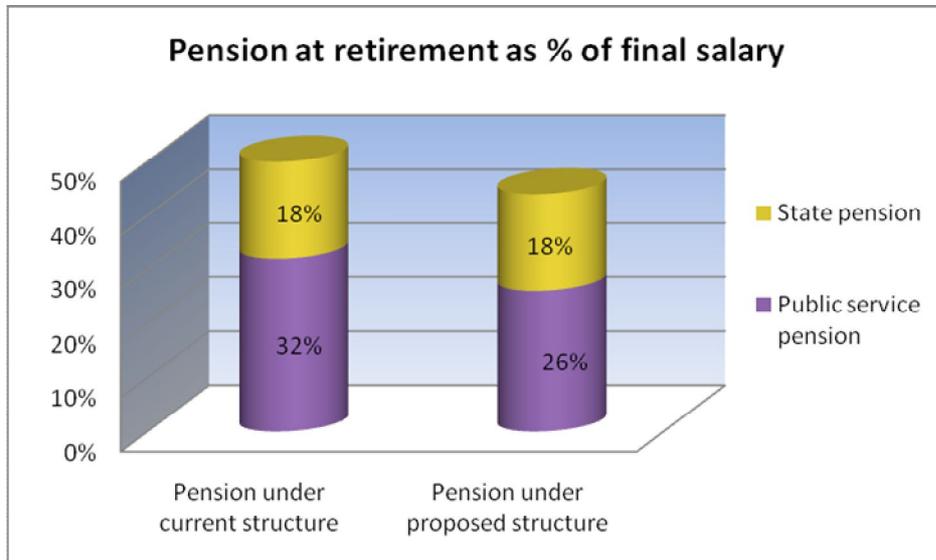
Pension at retirement as % of final salary

For this member, the lump sum on retirement would reduce from 150% of final salary under the current structure to 129% under the proposal after working three years longer.

This impact of the proposal is even more pronounced for a member with a shorter career. See Appendix C for results for member joining service at age 25.

Sustainability of present structure

From an employer's point of view, many of the risks associated with Final Salary schemes relate to the provision of large pensions on retirement following high salary growth at the end of a career.

However this is an area where teachers differ significantly from other groups of employees – a teacher's retiring salary can be forecast with much higher accuracy. In general, the career progression of teachers does not involve rapid salary progression. Salary scales are relatively compact – there are very few big earners. This also reflects the position for the great majority of public service workers.

In addition, the number of teachers in the future will remain relatively stable and can be projected based on population projections.

The combination of these factors means that the existing pension terms for teachers, taking into account the 1995 and 2004 changes among others, are sustainable.

There are we believe lessons which can be taken from the sustainability of teachers' pensions. A system which removes the risk associated with large pay increases could be used as a

foundation on which to build a public sector wide system which is sustainable. The foundation should be to protect the Exchequer against high pension costs through very high salary growth in later career.

This objective can be achieved through either of the alternatives shown below, while protecting the pensions of those on more modest earnings.

Possible alternatives

Alternative (a):   **Maximum public sector pension of €48,000 (€60,000 with State Pension)**

In order to cap the cost of providing large pensions to high earners, the current scheme could be altered so that the maximum public sector pension is €48,000. Taking into account the State pension, the maximum pension to a public servant would be €60,000. Based on a maximum 50% pension, this means that salaries up to €120,000 would continue to qualify as normal for a Public Service pension. Individuals earning in excess of this amount could make additional voluntary contributions if they wanted to provide a higher benefit.

The €48,000 cap would be increased annually in line with average salary awards.

Teachers and public servants generally would be mostly unaffected by this change.

Alternative (b):   **Provide a Defined Benefit pension on the first €90k of salary, with a Career-Average defined benefit on any further amounts earned**

Defined benefits to be provided on salary up to a limit of €90,000. The maximum benefit from this tier of pension would be €33,000 which combined with the State pension would provide a total pension of €45,000. This cap would increase annually in line with average salary awards.

Benefits on any earnings above this will be calculated on a career-average basis. If in any year a member earned in excess of the cap, this excess would be recorded and Career-Average benefits would apply – see example on page 11.

This would only impact a small number of public servants and a small minority of teachers who are entitled to significant allowances in excess of the basic scale. The cap might be adjusted upwards to include Principal Teachers of large schools and others somewhat above the suggested threshold.

Each of these alternatives:

- Protect those on modest incomes
- Reduce the cost and risk to the Exchequer
- Reduce the administrative complexity of the proposed new pension arrangements

Further issues for consideration

There are approximately 1/3 million employees in the public service. The implementation of a career average scheme that would eventually include this number of members would be administratively very complex. Salary records for every public servants career would have to be maintained. There must be serious questions surrounding whether the resources exist to administer such a scheme. Either of the two options outlined above would significantly reduce the administrative burden.

A central administration for Government pensions has been suggested but this may be ineffective if payroll remains decentralised.

Alternative (b) example

Age	Point on scale	Earnings	Cap	State pension	Career Average earnings element	Career average earned @ 1/80	Revalued career average pension
21	3	37,959	90,000	11,976	0	0	0
22	4	40,202	92,700	12,335	0	0	0
23	5	43,171	95,481	12,705	0	0	0
24	6	45,644	98,345	13,086	0	0	0
25	7	48,225	101,296	13,479			
26	8	52,814	104,335	13,883			
27	9	56,015	107,465	14,299			
28	10	59,686	110,689	14,728			
29	11	63,516	114,009	15,170			
30	12	67,538	117,430	15,625			
31	13	71,386	120,952	16,094			
32	14	76,014	124,581	16,577			
33	15	78,294	128,318	17,074			
34	16	80,643	132,168	17,587			
35	17	86,808	136,133	18,114			
36	18	89,412	140,217	18,658			
37	19	92,094	144,424	19,217			
38	20	94,857	148,756	19,794			
39	21	103,273	153,219	20,388			
40	22	106,371	157,816	20,999			
41	23	109,562	162,550	21,629			
42	24	112,849	167,427	22,278			
43	25	123,161	172,449	22,946			
44	25	126,856	177,623	23,635			
45	25	182,350	182,951	24,344	0	0	0
46	25	187,820	188,440	25,074	0	0	0
47	25	193,455	194,093	25,826	0	0	0
48	25	199,259	199,916	26,601	0	0	0
49	25	205,236	205,913	27,399	0	0	0
50	25	211,393	212,091	28,221	0	0	0
51	25	217,735	218,454	29,068	0	0	0
52	25	224,267	225,007	29,940	0	0	0
53	25	236,980	231,757	30,838	5,222	65	83
54	25	244,089	238,710	31,763	5,379	67	84
55	25	251,412	245,871	32,716	5,540	69	84
56	25	258,954	253,248	33,698	5,707	71	85
57	25	266,723	260,845	34,709	5,878	73	86
58	25	274,724	268,670	35,750	6,054	76	87
59	25	282,966	276,731	36,822	6,236	78	88
60	25	291,455	285,032	37,927	6,423	80	89
61	25	300,199	293,583	39,065	6,615	83	90
62	25	309,205	302,391	40,237	6,814	85	90
63	25	318,481	311,463	41,444	7,018	88	91
64	25	328,035	320,807	42,687	7,229	90	92
65	25	337,876	330,431	43,968	7,446	93	93
							1,142

> Example showing a teacher starting today on point 3 of the scale with promotion to Principal of a 27- teacher school at age 45.
>
> Inflation is assumed to be 2% p.a.
>
> The earnings cap starts today at €90,000 and increases in line with salary awards which is shown as inflation + 1% p.a.
>
> This cap makes a difference to the pension earned (-2%) due to exceeding the cap during the years preceding retirement.

Comparison

Current	DB = [337,876 – 43,968x2] x 40/80	124,970
Proposed	(1) DB = [330,431 – 43,968x2] x 40/80	121,248
	(2) CA = Sum of revalued career average	1,142
		122,389 i.e. 98% of current

APPENDIX A: ASSUMPTIONS

This report values streams of payments that are expected to be made over a substantial period of time. The results are sensitive to the economic and demographic assumptions made about the future.

The key assumptions used by us are shown below, as is a comparison with the assumptions used in the Comptroller and Auditor General's August 2009 report:

	Our assumptions	**C & AG report assumptions**
Inflation	2% p.a.	1.65% p.a.
Salary increases	Inflation + 1%	Inflation + 1.75%
State pension increases	Inflation + 1%	Inflation + 1.75%
Pre-retirement discount rate	Inflation + 3.0%	Inflation + 3.30%
Post-retirement discount rate	Inflation + 3.0%	Inflation + 3.30%

As the other assumptions are defined in terms of inflation plus a margin, the results are not overly sensitive to the inflation assumption itself.

Earnings growth
The most significant assumption in this study relates to the relationship between inflation and general salary awards. It is generally accepted that salaries will increase ahead of inflation as standards of living improve.

Actuarial guidance suggests a margin over inflation of 1.5% per annum. However, we would question whether this is appropriate over a 40+ year period. Salary awards of inflation + 1.5% would result in the purchasing power on retirement of a new entrant[6] being 1.9 times that of a teacher retiring now. That is, in today's terms the retiring salary after a full career will increase from €66,600[7] to €128,200.

The assumption of inflation + 1.75% used in the C & AG's report would result in the final salary for a new entrant in real terms of 2.1 times the current rate. We do not believe that salary growth of this level is likely over the long term.

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[6] Joining service at age 21, retiring at age 65
[7] Retiring salary at point 25 on the basic scale with allowance for 10 years at maximum point and allowance for honours primary degree

Salary awards in excess of inflation since 1978 have been approximately 1%[8] per annum. Over the career of a 2010 new entrant, this level of increases would result in final salary in real terms of 1.5 times the current level, that is, growth from €66,600 to €103,200.

We therefore believe that an assumption of inflation + 1% per annum is a reasonable estimate of future salary awards. We have assumed that the State pension will increase at the same rate.

A higher rate of real salary growth would increase the cost to the employer of the current structure. It would also cause the impact of the Government's proposal to be much more severe. Appendix B sets out the results assuming salary awards (and increases in the State pension) of inflation +2%.

<u>Discount rate</u>
The real discount rate used in the C & AG's report was derived from bond yields at 31 December 2008.

	31 December 2008	17 May 2010
German Govt bond (2037 4% coupon)	3.53%	3.62%
Irish govt bond (October 2018)	4.44%	4.44%
German Govt bond (July 2018)	2.95%	2.59%
Margin between Irish & German	1.49%	1.84%
French govt bond (FRTR October 2032)	3.94%	3.84%
French govt index linked (FRTRi July 2032)	2.25%	1.37%
Breakeven inflation	1.65%	2.43%
Nominal risk discount rate	5.02%	5.47%
Real discount rate	**3.31%**	**2.96%**

We have derived our rounded discount rate from updated yields on the same bonds.

<u>Mortality</u>
We have assumed post retirement mortality as follows:
Males   62% PNML00   } with an increase in the cost of pensions of 0.39% per annum
Females   70% PNFL00   } for future retirements

<u>Pension Levy</u>
The pension levy is currently applied to earnings between €15,000 and €20,000 at 5%, 10% on the next €40,000 and 10.5% on any earnings above €60,000. We have assumed that these caps will increase in line with salary awards to maintain the tiered effect of the levy.

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[8] Growth in excess of inflation for the first point on basic scale was 0.7% p.a., and 1.3% for the maximum point

APPENDIX B: **Salary awards of inflation + 2%**

As mentioned in Appendix A, the results are sensitive to the assumption regarding real salary growth. The graph below shows the value of benefits relative to member contributions on the following assumptions:

Inflation	2%
Salary growth	Inflation + 2%
State pension growth	Inflation + 2%
Discount rate	Inflation + 3%
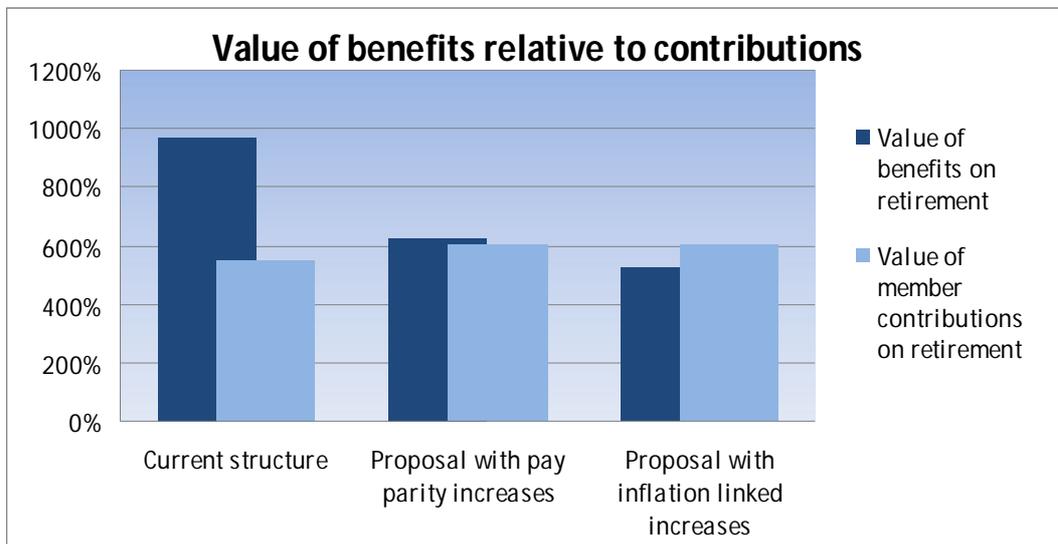
This increase in the level of salary growth causes the value of benefits under the current structure to increase from 879% to 971% (relative to the results assuming salary increases of inflation + 1% as shown in the body of the report). At the same time the value of the member contributions falls from 674% to 550%.

These two factors increase the cost of the current structure, causing the required employer contribution to increase to from 3.4% to 8.7%.

This change of assumption increases the impact of the Government's proposal as the value of the benefits drops more severely. The value of the pension on retirement under the proposal, shown on the graph below, falls to 22% of final salary.

C O N S U L T I N G

Pension at retirement as % of final salary
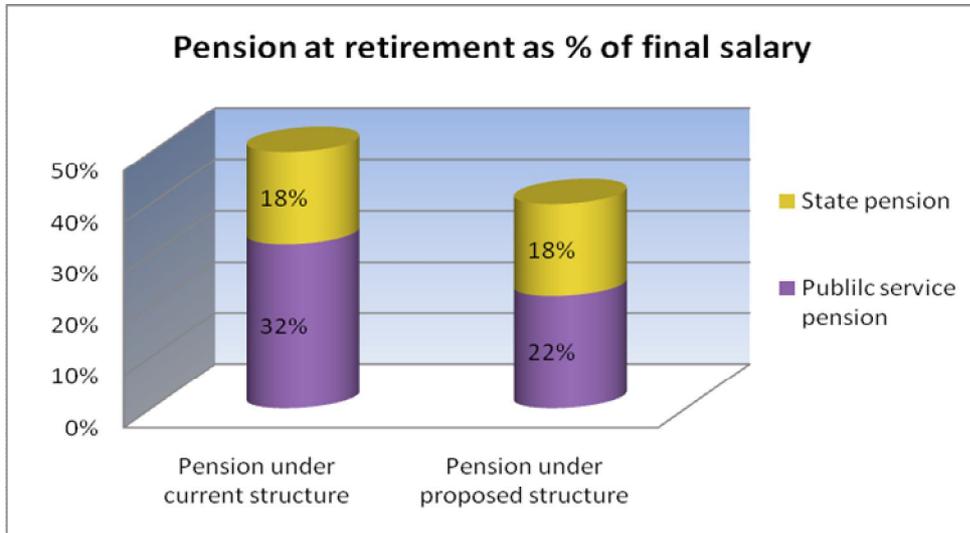
All graphs and examples in the body of this report relate to a member joining service at age 21. This appendix sets out the variation in the results given that the member joins service at age 25.

### Value of benefits on retirement

On retirement at age 65, the member joining at 25 will have completed 40 years service and will be entitled to a full service pension- of the same value as the 21 year old joiner.
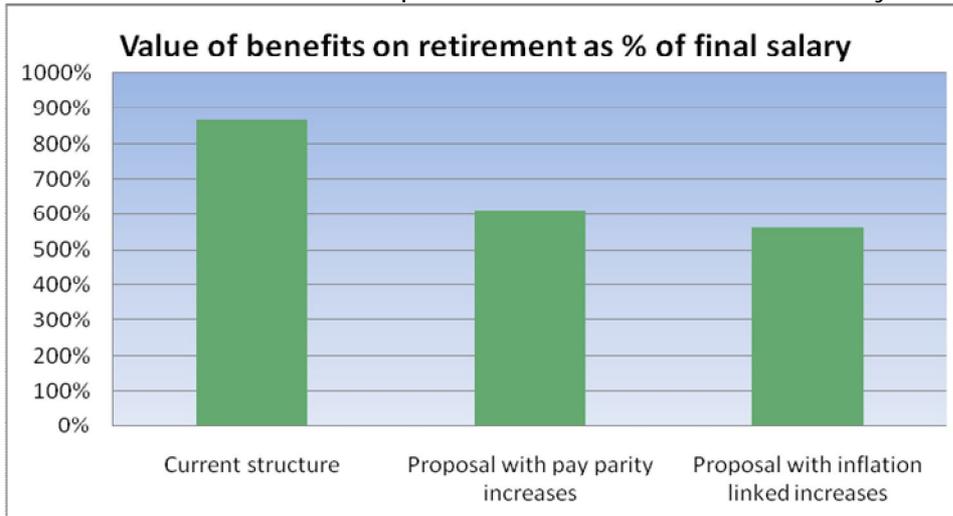
However, under the career average proposal, the shorter period of service for a member starting their career a few years later will have a significant impact on the value of benefits available.
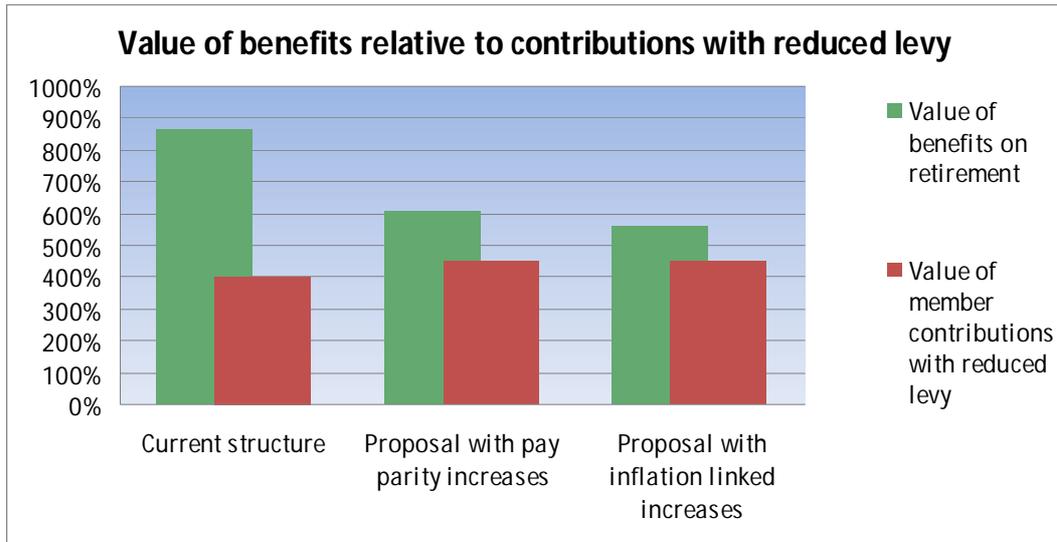
Value of benefits relative to contributions paid

A shorter career will reduce the value of accumulated contributions on retirement. The graph below shows the value at retirement of benefits and contributions for a member joining service at age 25.

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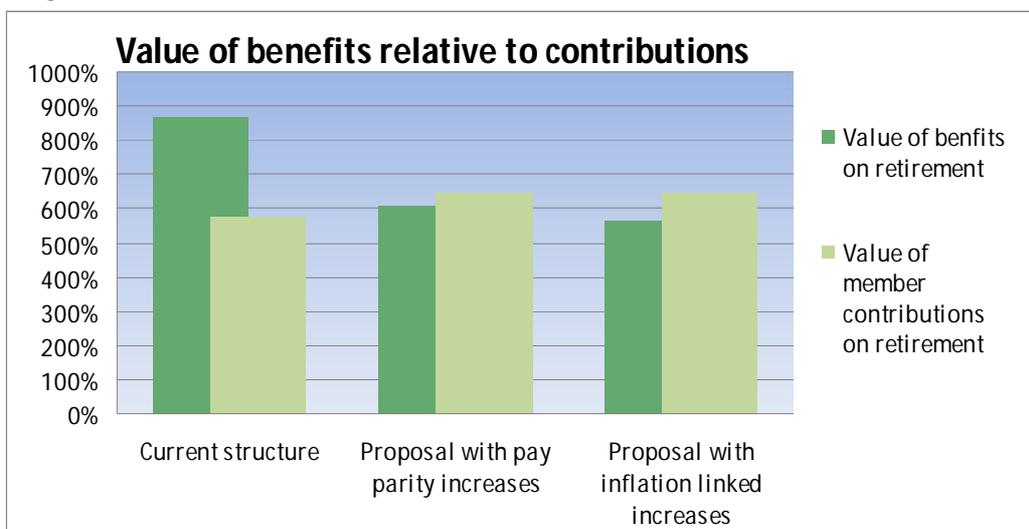
Under the Government's proposal, a shorter career will reduce the value of both contributions and benefits payable. The value of contributions will still exceed the value of benefits payable.

If the levy was reduced to 50% of its current level from 2011, the value of member contributions on retirement would fall.


Value of benefits relative to contributions with reduced levy

Legend:
- ■ Value of benefits on retirement
- ■ Value of member contributions with reduced levy

Categories: Current structure, Proposal with pay parity increases, Proposal with inflation linked increases

What this means for a typical worker

Under the current scheme, a teacher's pension on retirement after a full career is calculated as 40/80 * (Final Salary – 2 * State Pension). A teacher who begins service at age 25 under the current scheme could expect to receive a pension on retirement of 32% of his/her final salary (40/80 * Final Salary – State Pension), 50% including the State pension.

Under the Government proposal based on career average, the expected pension would reduce to 24% of final salary, 42% including the State pension after working three years longer.

For 25 year old new entrant, given salary awards of CPI + 1%, the expected pension on retirement under the current structure in today's terms is €31,000 at age 65. Under the Government's proposal, this would reduce to €23,000 from age 68.

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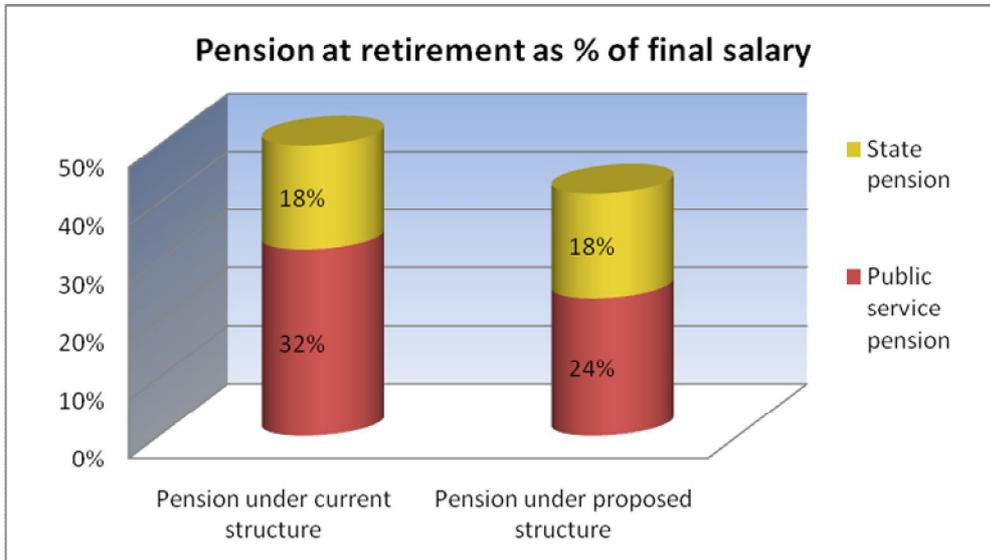
Based on member commencing service at age 25

For this member, the lump sum on retirement would reduce from 150% of final salary under the current structure to 119% under the proposal after working three years longer.

Alternative (b) example – joining at age 25

Age	Point on scale	Earnings	Cap	State pension	Career Average earnings element	Career average earned @ 1/80	Revalued career average pension
25	3	37,959	90,000	11,976	0	0	0
26	4	40,202	92,700	12,335			
27	5	43,171	95,481	12,705			
28	6	45,644	98,345	13,086			
29	7	48,225	101,296	13,479			
30	8	52,814	104,335	13,883			
31	9	56,015	107,465	14,299			
32	10	59,686	110,689	14,728			
33	11	63,516	114,009	15,170			
34	12	67,538	117,430	15,625			
35	13	71,386	120,952	16,094			
36	14	76,014	124,581	16,577			
37	15	78,294	128,318	17,074			
38	16	80,643	132,168	17,587			
39	17	86,808	136,133	18,114			
40	18	89,412	140,217	18,658			
41	19	92,094	144,424	19,217			
42	20	94,857	148,756	19,794			
43	21	103,273	153,219	20,388			
44	22	106,371	157,816	20,999			
45	23	155,486	162,550	21,629			
46	24	160,151	167,427	22,278	0	0	0
47	25	171,882	172,449	22,946	0	0	0
48	25	177,039	177,623	23,635	0	0	0
49	25	182,350	182,951	24,344	0	0	0
50	25	187,820	188,440	25,074	0	0	0
51	25	193,455	194,093	25,826	0	0	0
52	25	199,259	199,916	26,601	0	0	0
53	25	205,236	205,913	27,399	0	0	0
54	25	211,393	212,091	28,221	0	0	0
55	25	217,735	218,454	29,068	0	0	0
56	25	224,267	225,007	29,940	0	0	0
57	25	236,980	231,757	30,838	5,222	65	76
58	25	244,089	238,710	31,763	5,379	67	77
59	25	251,412	245,871	32,716	5,540	69	78
60	25	258,954	253,248	33,698	5,707	71	79
61	25	266,723	260,845	34,709	5,878	73	80
62	25	274,724	268,670	35,750	6,054	76	80
63	25	282,966	276,731	36,822	6,236	78	81
64	25	291,455	285,032	37,927	6,423	80	82
65	25	300,199	293,583	39,065	6,615	83	<u>83</u>
							716

> Example showing a teacher starting today on point 3 of the scale with promotion to Principal of a 27-teacher school at age 45.
>
> Inflation is assumed to be 2% p.a.
>
> The earnings cap starts today at €90,000 and increases in line with salary awards which is shown as inflation + 1% p.a.
>
> This cap makes a significant difference to the pension earned (-2%) due to exceeding the cap during the years preceding retirement.

Comparison

Current	DB = [300,199 – 39,065x2] x 40/80	111,035

| Proposed	(1) DB = [293,583 – 39,065x2] x 40/80	107,727
	(2) CA = Sum of revalued career average	<u>716</u>
		108,443 i.e. 98% of current

C O N S U L T I N G

This section looks at the implications on the required contribution rate for a member who joins service at age 25 and subsequently takes a 5 year career break[9].

Value of benefits on retirement
On retirement at 65 under the current structure, pension benefits will be based on 35 years completed service. Similarly, benefits under the career-average proposal will not accrue during the career break.
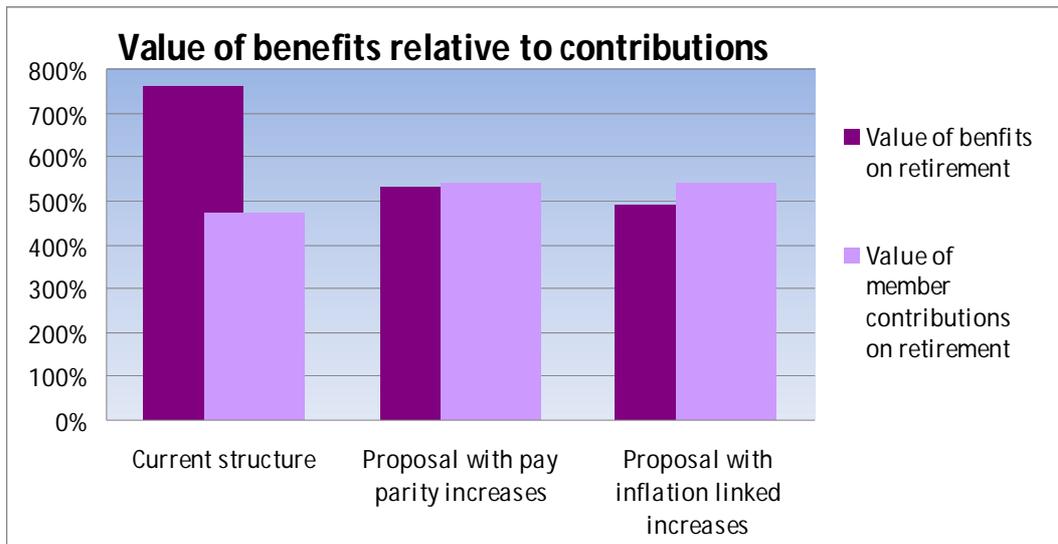
The value of both benefits and member contributions will fall for each of the structures relative to the unbroken service example in Appendix C.

For this member, the required employer contribution rate under the current structure is 6.7% of salary. Under the Government's proposals, the value of member contributions would still exceed the value of benefits.

As with the other scenarios described earlier in the report, a reduction in the levy, will lead to a corresponding increase in the required employer contribution.

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	6.7%	10.0%	13.3%
Proposal with pay-parity increases	No employer contribution required	3.2%	6.5%
Proposal with index-linked increases	No employer contribution required	2.3%	5.7%

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[9] Example based on 5-year career break taken after completion of 8 years' service

Start age: 21 - No promotion - Unbroken service

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	3.4%	6.8%	10.2%
Proposal with pay-parity increases	No employer contribution required	2.3%	5.7%
Proposal with index-linked increases	No employer contribution required	1.5%	4.9%

Start age: 21 - Special Duties post promotion at age 40 - Unbroken service

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	4.0%	7.5%	10.9%
Proposal with pay-parity increases	No employer contribution required	2.5%	5.9%
Proposal with index-linked increases	No employer contribution required	1.6%	5.1%

Start age: 25 - No promotion - Unbroken service

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	5.7%	9.1%	12.4%
Proposal with pay-parity increases	No employer contribution required	2.7%	6.1%
Proposal with index-linked increases	No employer contribution required	1.9%	5.3%

Start age: 25 - No promotion - 5 year career-break

	Levy remains at current level	Levy reduces to 50% of current level from 2011	Levy abolished from 2011
Current structure	6.7%	10.0%	13.3%
Proposal with pay-parity increases	No employer contribution required	3.2%	6.5%
Proposal with index-linked increases	No employer contribution required	2.3%	5.7%