

**Chairman and Committee members,**

I thank the Committee for the opportunity to present for its consideration the 2018 Supplementary Estimates on Vote 35 – the Army Pensions Vote.

The Army Pensions Vote makes provision for retired pay, pensions, allowances and gratuities payable to or in respect of members of the Defence Forces and certain dependants. The 2018 Estimate provides a gross sum of €239.1 million for the Army Pensions Vote; however, gross outturn this year is expected to be about €242.6 million, which leaves a shortfall of €3.5 million. The €3.5 million required is 1.5% of the original gross Estimate.

Later on in my statement, I will deal with the recent Spending Review of Defence Forces Pensions Expenditure, which is particularly relevant in the context of this Supplementary Estimate.

I will now set out the position regarding the relevant Subheads of the Vote:

Subhead A.2 is the largest subhead of the Army Pensions Vote. It covers spending on all pension benefits for former members of the Permanent Defence Force – the PDF – and their dependants. It accounts for ninety six percent of all military pensions spending, including gratuities. It is demand-driven and non-discretionary. The original provision of some €229.2 million for Subhead A.2 will not be sufficient to meet all requirements for the year. In the circumstances, the shortfall on this subhead is estimated at €4.7 million.

The main reasons for the shortfall in Subhead A2 are as follows:-

- The number of Defence Forces pensioners has continued to rise during the past year, and at end-October 2018 there were some 12,450 military pensioners of all categories. This is a net increase of about 460 since the end of 2013. Based on available information, it is projected that some 340 military personnel will retire with a pension and lump sum in 2018. Overall, this level of turnover during the year was greater than what was provided for in the original Estimate.

- This is driven by natural turnover of Defence Forces personnel annually, allied with increased life expectancy generally. New retirees going on pension continue to outnumber deceased pensioners by a ratio of about 2 to 1 on average.
- In other areas of the public service, most people leave at a standard retirement age and so their numbers and timing of departure numbers can generally be predicted well in advance. However, the PDF is different, as the vast majority of military personnel who retire on pension do so voluntarily; that is, before reaching maximum retirement age and at a time of their own choosing. As these voluntary early retirements are not known in advance, this can contribute to greater than expected expenditure on military retirement benefits in any given year.
- This situation is a product of the availability – for operational and HR policy reasons – of the early payment of pension benefits immediately on retirement after relatively short periods of service, and regardless of age.
- So in any given year, forecasting of Defence Forces pensions expenditure and the exact numbers of retirements is very difficult. During 2017, some seventy percent of military personnel who retired on pension did so voluntarily and the picture is much the same for 2018. In addition, many retirees qualified for the maximum retirement benefits, which also contributes to the ongoing increased expenditure.

The shortfall of €4.7 million on Subhead A.2 will be partly offset by expected savings of €1.2 million on Subheads A.3, A.4, A.5 and A.6.

To sum up, the purpose of the Supplementary Estimate for Vote 35 is to:

- Seek additional funding of €4.697 million for Subhead A2; and
- Re-allocate savings of €1.197 million on Subheads A.3, A4, A5 and A6 into Subhead A2.

This leaves a net supplementary estimate requirement of €3.5 million.

Earlier in my statement I referred to the recent *2018 Spending Review of Defence Forces Pensions Expenditure*. The review, which was published on Budget Day, was carried out as part of the 2018 round of spending reviews and was undertaken jointly by officials from my Department and the Department of Public Expenditure and Reform. Briefly, the Review came to the following conclusions:

- Defence Forces pensions expenditure – and pensioner numbers – have been increasing progressively year on year; and this trend is forecast to continue in the short to medium term.
- Military pensions expenditure – in common with public service pensions generally – is demand-driven and non-discretionary: so it cannot be arrested or reversed in the same way as may be possible with other aspects of Exchequer expenditure.
- Defence Forces superannuation arrangements differ in a number of key respects to the wider public service. These distinctions include earlier and more unpredictable retirement turnover with entitlement to immediate pension benefit, and atypical faster rates of benefit accrual. These factors make it more difficult to accurately predict annual funding requirements in any given year.

Of particular relevance is the review's conclusion that:

- Funding allocated in the annual Estimates process for Defence Forces pension benefits has proved insufficient in recent years. This has led to an annual requirement for a Supplementary Estimate, largely met through identified savings from the Defence Vote – Vote 36.

In noting the Supplementary Estimates that have been required in the past, the spending review goes on to recommend that the Army Pensions Vote should be allocated resources in line with the cost analysis in the review from 2019 onwards, to ensure that the full cost can be met.

As the Committee will be aware from previous Estimates debates, it has been my stated intention to seek extra funding for military pensions as part of the overall budgetary negotiations. I am pleased to report that solid progress has been made on that front.

As announced in *Budget 2019*, an extra €10 million has been allocated in the 2019 Estimates for the Army Pensions Vote, a 4.2% increase. This follows from an additional €6 million in the 2017 Estimates and an extra €9.5 million in the 2018 Estimates.

As stated in the pensions briefing material provided to the Committee for today's debate, the extra €10 million in Vote 35 for next year is generally in line with the forecast for Defence Forces pensions expenditure for 2019. The situation will be constantly monitored over the course of the coming year to ensure that appropriate funding is in place to meet all requirements.

In conclusion, I now wish to commend this Supplementary Estimate for the Army Pensions Vote to the Committee. I will be happy to take any questions regarding the Vote.