Chairman and Committee members,

I thank the Committee for the opportunity to present for its consideration the 2022 Supplementary Estimates on 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 dependents. The 2022 Estimate provides a gross sum of €270.65 million for the Army Pensions Vote. However, gross outturn this year is expected to be some €272.72 million (excluding Building Momentum) which leads to a gross shortfall of €2.07 million. It is also anticipated there will be a shortfall in receipts on Appropriations-in-Aid of some €0.037 million. This leaves a nett shortfall of €2.1 million, before the impact of the extended Building Momentum Agreement. The additional amount needed (excluding Building Momentum) is less than one per cent of the original gross Estimate.

I also need to address the additional funding required for the implementation of pension increases arising under the extended Building Momentum Agreement. In line with other Votes, and with the relevant Government decision regarding these increases, funding is being made available in 2022. The additional amount being made available is €7.224m. Work is underway to implement these increases, however, the Defence Forces pension scheme arrangements and payroll structures are atypical and of a complex nature and consequently this will be a significant challenge. Given this complexity it may not be operationally possible to pay the entirety of these increases in the current year, and payment (or a part thereof) may slip into early 2023. That being said however, absolutely every effort is being made to ensure that payment of some level of the increase can be made before year end. My Department will of course be communicating directly with the veteran's associations on the payment timelines.

On a combined nett basis, the additional amount requested for the Vote is €9.324m.

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 dependents.

It accounts for ninety six percent of all military pensions spending, including retirement lump sums. It is demand-driven and non-discretionary. The original provision of some €261.1 million for Subhead A.2 will not be sufficient to meet all requirements for the year, including the impact of the extended Building Momentum agreement. In the circumstances, the shortfall on this subhead is estimated at €9.27 million.

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

- Over the past number of years, there has been an ongoing nett upward trend in the number of military pensions. During the past year, the number of Defence Forces pensioners has continued to rise in line with this trend, and at end-October 2022 there were some 13,065 military pensioners of all categories. This is a net increase of about 380 over the last 3 years, since the end of 2019. Based on available information, it is projected that some 430 military personnel will retire with a pension and lump sum in 2022. Overall, this level of turnover during the year will be greater than the 400 provided for in the original Estimate, with new retirees going on pension continuing 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 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 mandatory 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.

- During 2021, over seventy percent of military personnel who retired on pension did so voluntarily and the picture is very similar for 2022.   In addition, many retirees qualified for the maximum retirement benefits, which also contributes to the ongoing increased expenditure.

So in any given year, forecasting of Defence Forces pensions expenditure and the exact numbers of retirements is very difficult.

Furthermore, as indicated earlier, the impact of the extended Building Momentum Agreement will add an additional €7m to the Supplementary ask for Subhead A2.

Subhead A3 of the Vote provides for the payment of disability pensions granted to former members of the Permanent Defence Force, as well as disablement gratuities in certain cases, and allowances payable to dependents of deceased members. These pensions will also be impacted by the extended Building Momentum Agreement. An additional amount of €0.224m is being sought to cover the cost of the increases arising from this.

In addition to the shortfall in Subheads A2 and A3, receipts under **Subhead B (Appropriations-in-Aid)** are projected to be slightly lower than the original estimate of €5.0m, with an estimated shortfall of €0.037m anticipated.

Subhead B provides for receipts by way of Appropriations-in-Aid to the Army Pensions Vote. Employee contributions to the (pre-2013) Pensions Schemes by serving Permanent Defence Force personnel account for the bulk of receipts under this Subhead. Under the new public service Single Pension Scheme rules, contributions of new entrant military personnel who join the PDF from 1 January 2013 onwards are not paid to the Army Pensions Vote as receipts, but instead must be transferred to Central Funds. There are also some receipts on foot of recoveries of overpayments and of payments received in respect of transferred service.

The level of receipts arising from the employee pension contributions vary according to personnel turnover changes, pensionable earnings and career progression across the PDF, and can therefore be difficult to predict in any given year. Receipts to date in 2022 are coming in lower than the original Estimate.

The shortfall of €9.495 million on Subheads A.2 and A3, and of €0.037 million in A-in-As will be partly offset by expected savings of approximately €0.208 million euro on Subheads 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 €9.495 million for Subheads A2 and A3 (which includes €7.224m in respect of the extended Building Momentum Agreement); and**

- **Re-allocate savings of €0.208 million on Subheads A4, A5 and A6 to offset the shortfall of €0.037 million anticipated in A-in-As, with the balance of savings to be used under Subheads A2 and A3.**

This leaves a nett supplementary estimate requirement of €9.324 million.

As the Committee will be aware from previous Estimates debates, in the past, from 2006 to 2019, funding allocated in the annual Estimates process for Defence Forces pension benefits proved insufficient. This led to an annual requirement for a Supplementary Estimate, largely met through transfer of identified savings from the Defence Vote (No. 36).

The joint DPER/DOD *2018 Spending Review of the Army Pensions Vote* recommended that the 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. That R*eview* also concluded that the upward trend of military pensioners is forecast to continue in the short to medium term. This is driven by natural turnover of Defence Forces personnel annually, allied with increased life expectancy generally.

There was a Supplementary Estimate of €1.9m in 2019 but in 2020 for the first year in over a decade there was no supplementary estimate at year end. That position was maintained in 2021 when there was also no supplementary estimate required at year end.

I am pleased to say that in the 2022 Estimates, the gross allocation for the Army Pensions Vote 35 was increased by €8 million to almost €270.7 million for 2022. This built on a previous funding

increase of €3.5 million in the 2021 Estimates. These higher allocations build on the steady progress made over recent years in securing additional funding for Vote 35.

However, the actual level of funding needed by Vote 35 in the Estimates process each year, will always be dictated by circumstances and by the demand-led drivers that I have outlined above. A combination of these factors, along with the additional costs arising from implementation of the Building Momentum Pay Agreement have led to a supplementary estimate requirement for 2022.

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.