IBEC Submission to the Public Service Benchmarking Body

July 2006

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Executive Summary

Overview

The preparation of the 2002 Report of the Public Service Benchmarking Body was both a challenging and an unprecedented exercise for the Irish public sector. The determination of pay in the public via benchmarking with the private sector is a more appropriate method of pay determination than the historical relativities of heretofore.

The previous Benchmarking Report involved comparison of thousands of jobs in the public sector with similar roles in the private sector. The Report ultimately resulted in a break in previous pay determination methods using relativities and recommended an average public sector pay increase of 8.9% on a phased basis. This new approach to pay determination in the public sector is more relevant to the current business environment and the largely positive industrial relations climate in the aftermath of the benchmarking process is a welcome development. Overall, however, the previous benchmarking exercise had numerous shortcomings and resulted in a substantial increase in the remuneration premium that public sector workers enjoy over those employed in the private sector. The upcoming benchmarking report must take on board the shortcomings of the previous exercise and redress the growing excess remuneration premium enjoyed by public sector workers.

The previous benchmarking exercise was instigated at a time when small sections of the private sector were benefiting greatly from a tech sector boom and increased variable pay (shares etc) benefits. Following some difficulties in relation to staff retention, largely relating to those working in IT, a perception developed that private sector remuneration levels were better than those in the public sector. Circumstances have changed considerably in the intervening years and while the labour market remains tight there is no evidence of the public sector experiencing a high level of staff turnover or staff retention difficulties. The tech boom has long since subsided and the growth in availability of share options and other variable benefits in the private sector has slowed.

The Benchmarking Body now has a great responsibility to ensure that the public sector pay bill is contained and public sector earnings are not allowed to further inflate earnings in the private sector. Government has warned for some time that unless earnings growth, in both the public and private sectors, is brought back in line with that in our main trading partners our competitiveness and overall economic prosperity will be further diminished.

Earnings trends

On average public sector workers earn substantially more than those employed in the private sector. On a nominal earnings basis the public sector premium was estimated by the CSO at 40% in 2003 and has since risen to about 45%. When employee attributes such as qualifications, age and work experience are taken into account the earnings premium enjoyed by the public sector on a like-for-like basis is estimated at about 20%. CSO surveys and other research work have therefore clearly indicated that on a nominal earnings basis alone, workers in the public sector fare much better than their counterparts in the private sector.

When other aspects of remuneration and non-monetary benefits are taken into account the reward premium enjoyed by public sector workers increases even further. The main factors to consider here are the very valuable pension schemes enjoyed by public servants; variable pay benefits in the private sector; workings hours and annual leave entitlements; and the value placed on job security in the public sector.

Quantifying all benefits – especially pensions

The single biggest development in relation to employee remuneration since the publication of the first benchmarking report has been the difficulties faced by the pensions industry. Pension schemes are becoming much more expensive to fund and there is increased awareness of the growing value of a good pension scheme to employees. Public sector workers benefit from almost full pensions coverage and the value of their schemes far exceeds those in the private sector. The current benchmarking exercise must ensure that pensions and other benefits are fully quantified and that all comparisons between the two sectors are done of the basis of detailed and transparent costing of total remuneration levels.

Pension costs have escalated in the past five years or so as a result of stricter funding standards, low long-term interest rates, poorly performing equity markets and increased life expectancy. The average cost of a defined benefit scheme in the private sector has spiralled to between 25% and 35% of earnings. Companies have been forced to seek higher contributions from employees and close membership of defined benefit schemes to new staff members. In contrast to the pensions difficulties in the private sector, public sector workers continue to benefit from largely non-contributory defined benefit schemes indexed to their pay scales. The average employer contribution to pensions in the private sector is currently estimated at 10%-15% of earnings while the value of pensions to public sector workers is estimated at 40%. In addition to the far superior value of pensions, public sector workers also enjoy almost full pensions coverage while only about one third of private sector workers have an occupational pension. When respective rates of pensions coverage are factored into the analysis, the average value of private sector pensions is just 5% of earnings compared to 36% in the public sector. It is essential that the Benchmarking Body factors in a detailed actuarial assessment of the value of pensions into its deliberations on remuneration levels in both the public and private sectors.

Variable pay in the private sector
Many workers in the private sector benefit from variable pay while in the public sector bonuses are largely limited to higher public servants. IBEC surveys have found that where variable pay or bonus schemes are in operation their value generally ranges from about 5% to 10% of earnings for most employee grades and average about 15% for senior managers and executives. Not all firms operate such schemes of course and on average the value of variable pay in the private sector is likely to be about 5%.

Valuing job security
In a time of increasing job churning and rising redundancies a greater value is now placed on job security. While our unemployment rate remains very low the average number of annual redundancies is now double what it was five years ago. Public servants have a unique position in the Irish workforce in that they are guaranteed a job for life. This benefit clearly has a monetary value and this value is growing. The Benchmarking Body must ensure that the value of job security is quantified and included in the analysis. Previous research has estimated this value to be in the range of 4% to 12% of earnings.

Research methodology
The accuracy of the analysis and validity of the recommendations produced by the Benchmarking Body will depend largely on the suitability of the research methodology. In many ways it is difficult to fully assess the research methodology used in the first benchmarking exercise due to a lack of transparency. From the limited detail that was published some key issues arise. One area of particular concern to IBEC is the limited nature of the private sector research work. Only 202 firms were involved in the analysis and although this included a total of 46,000 employees, the sample size of firms was small. The average firm size was about 230 and it appears that smaller firms were under-represented in the sample. Previous research shows that earnings levels and incidence of variable pay and other benefits are much greater in larger firms. It therefore appears likely that the private sector pay comparisons undertaken for the previous benchmarking exercise greatly exaggerated average remuneration levels. This would go some way towards explaining the significant difference between the results produced by the Benchmarking Body and those published by the CSO and others.

International comparisons
Analysis of the public-private sector pay differential in other countries shows that Irish public servants fare particularly well. A recent paper from the European Central Bank shows that the ratio of public to private sector pay in Ireland is well above the average for the Euro Area and the fifth highest of the 15 countries examined. There is also a growing emphasis in other countries to limit the cost of public sector pensions. In the US, where it is estimated that public sector pension costs are equivalent to 40% of salary, a number of states have moved from defined benefit to defined contribution schemes. The Cabinet Office in the UK has just recently signalled its intention to cap employer contributions from the state at 20%. At present it appears that Irish public sector workers continue to have the double benefit of higher wages and better pensions than the private sector. On both equity and economic grounds this situation can not continue.

Summary of IBEC Recommendations for Benchmarking II

The first benchmarking exercise had the following negative implications for Irish business:

- Excessive earnings growth in the public sector resulted in higher wage demands in the private sector and a resultant loss in the international competitiveness of Irish business
- The increase in the exchequer pay and pensions bill limits the opportunity for expenditure in other areas and generates a substantial liability for future generations in the form of unfunded pension commitments
- Private sector employers, in regional areas in particular, experience considerable difficulties in competing with public sector employers for scare labour resources
- The additional pay costs incurred by local authorities were directly passed on to businesses in the form of higher local charges for waste, water and rates.

In order to ensure that Benchmarking II is successful and is acceptable to Irish business the following issues must be addressed:

- Public sector earnings must follow those in the private sector on a basis that takes account of short-term spikes in private sector pay. The rapid rise in private sector IT salaries for example was a key motivation for the benchmarking process and salaries in the public sector were subsequently benchmarked to a peak in the private sector although salaries in that sector subsequently declined. Benchmarking II must ensure that the base period for private sector salaries takes account of such peaks and troughs
- The exercise must be conducted in an open and transparent manner and all elements of remuneration and employment benefits must be fully quantified
- A detailed comparison of the value of pensions and job security must be published
- Other benefits such as variable pay, annual leave and car parking etc should be fully quantified
- International trends in relation to public sector pay and pensions should be taken into account
- The survey of private sector earnings must be fully representative of all Irish businesses and not just of larger employers
- Allowing for specific confidentiality issues, all research analysis undertaken by the Benchmarking Body and commissioned from consultants should be made available to the public
- If public sector pay is to continue to be linked to that in the private sector, further modernisation measures are required in the public sector in order to make organisational and work practices more comparable to private enterprise. For example an obvious way to assess the market value of jobs in the public sector is to increase external recruitment
- The verification group process which has worked reasonably well under Benchmarking I must be refined so that it focuses more on impacts and service quality to end users rather than merely on internal processes in the public sector.

1. Economic Context

1.1 Macro economic outlook and competitiveness

The terms of reference of the Public Service Benchmarking Body state that its recommendations must take account of '*the need to underpin the country's competitiveness and continued economic prosperity*'. Central to this objective are the requirements to have a moderating influence on overall wage inflation within the economy and to control public sector pay and pension costs. The Benchmarking Body's first report failed to achieve either of these objectives.

The substantial increase in public sector earnings over the past three years or so was a significant factor in fuelling wage growth in the economy. In an economy with near full employment the pay premium available to workers in the public sector has had a significant crowding out effect on the private sector. Over the period of Sustaining Progress average public sector earnings increased at 20.4%. This contributed to wage drift in the private sector as employers were forced to compete for scare labour resources. The problem has been particularly acute in areas outside of the Greater Dublin Area (GDA) where employers, already struggling to cope with the competitive pressures of increased globalisation, are finding it increasingly difficult to match the very attractive remuneration packages available in the public sector.

Well above average increases in pay and non-pay costs in Ireland in recent years have severely dented our international competitiveness. The clearest evidence of this is provided by the loss of over 30,000 jobs in industry over the past four years and the stagnation of our goods exports. Government has continually urged pay restraint in the private sector. It has rightly acknowledged that our productive sector, which is subject to the pressures of global competition, can no longer allow pay increases ahead of those in our main trading partners. The Benchmarking Body must now ensure that same principle applies to our public sector so that it does not continue to have an inflationary impact on Irish wages with negative consequences for our international competitiveness.

While headline growth in the economy remains very strong and well ahead of most other EU countries, a number of factors indicate a slowing in economic growth in the medium-term. A worrying imbalance currently exists in the Irish economy as the main drivers of growth remain construction activity and consumer spending, both of which have been fuelled by availability of cheap money, while the manufacturing sector has remained largely stagnant. The European Central Bank has already started the return to higher interest rates and it is inevitable that the two sectors that have been so spectacularly driving the Irish economy in more recent years will experience some slowdown once interest rates increase further.

While the economy therefore is currently in rude health and the public finances are in a strong position, the situation is likely to worsen somewhat in the coming years. In order to avoid the necessity to cut public service provision levels in the event of an economic downturn, Government must now control current expenditure and in particular public sector pay costs. Government must also be mindful of not placing a substantial fixed cost burden on future generations of tax payers in the form of both a high public sector pay bill and more worryingly a rising and unfunded public sector pensions bill. In can be quite easy for Government to increase public sector numbers and pay when public finances are strong but it is very difficult to reduce public sector pay costs once the economy slows.

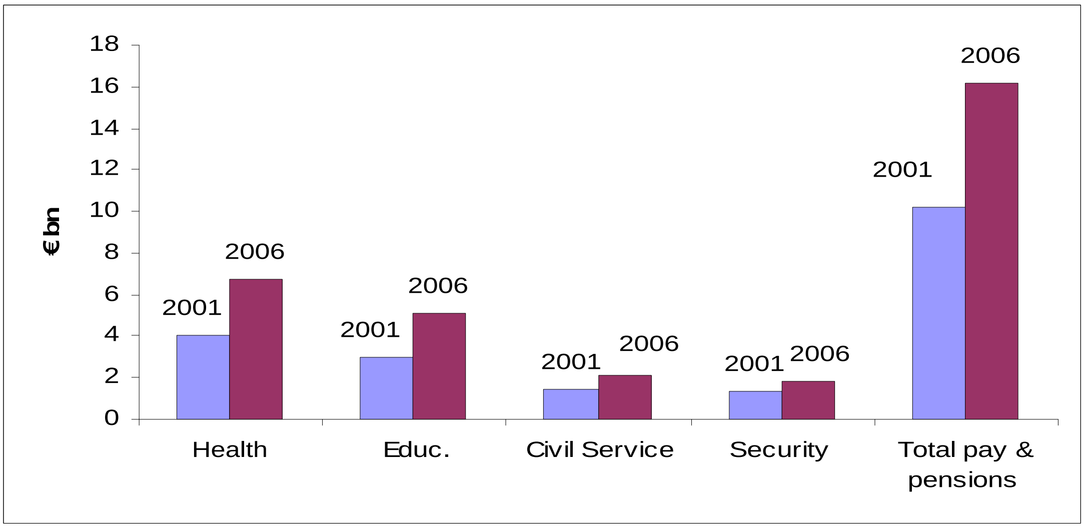
1.2 Exchequer pay and pensions bill

The exchequer pay and pensions bill increased by 59% from €10.2 bn in 2001 to €16.2 bn in 2006. Initial indications have also been provided of the looming escalation of public sector pension costs as the pensions bill has almost doubled over this period from €880 mn to €1.6 bn, while the pay bill increased by 57%. Figure 1.1 illustrates how the health and education sectors have been the main sources of pay and pensions cost growth – health experienced a 66% increase while the bill for the education sector grew by 67%. The pensions bill for the health sector increased by 104% over this period, while that for the education sector grew by 95%. The health sector now accounts for 41% of the total pay and pensions bill, the education sector 32%, security 11% and the non-commercial State Bodies the remaining 3%.

The pay and pensions bill has increased from 10.4% of GNP in 2001 to 11.2% of GNP in 2006. While this appears a relatively modest increase over the period, it must be viewed in the context of above average economic growth rates. It is highly unlikely that current growth rates of about 5% can be maintained in the medium-term. It is therefore inevitable that as economic growth rates slow, the public sector pay and pensions bill as a percentage of GNP will increase. Even if the growth in public sector numbers and pay levels moderates in the coming years, the unfunded pensions liabilities already built-up will place an increasing burden on tax payers. At present the public sector pay and pensions accounts for about 50% of net current spending. Any increase in this percentage in future years is likely to result in cutbacks in other non-pay aspects of public expenditure and will ultimately lead to poorer provision of services to the public and business.

About 257,000[1] exchequer funded (excluding local authority staff) public servants are currently employed – this represents an increase of about 18% since 2001. The continued increase in the number of public servants employed in Ireland is almost unique in the OECD where the trend over the past decade or so has been a declining public sector workforce. The average pay cost of each exchequer funded public sector employee in 2006 is estimated at just under €57,000[2].

Figure 1.1 Public sector pay and pensions bill by sector, 2001/ '06.



1 Expressed in wholetime equivalents
2 Department of Finance. *Analysis of Exchequer Pay and Pensions Bill, 2001-2006.* June 2006.

2. Earnings Trends

2.1 Introduction

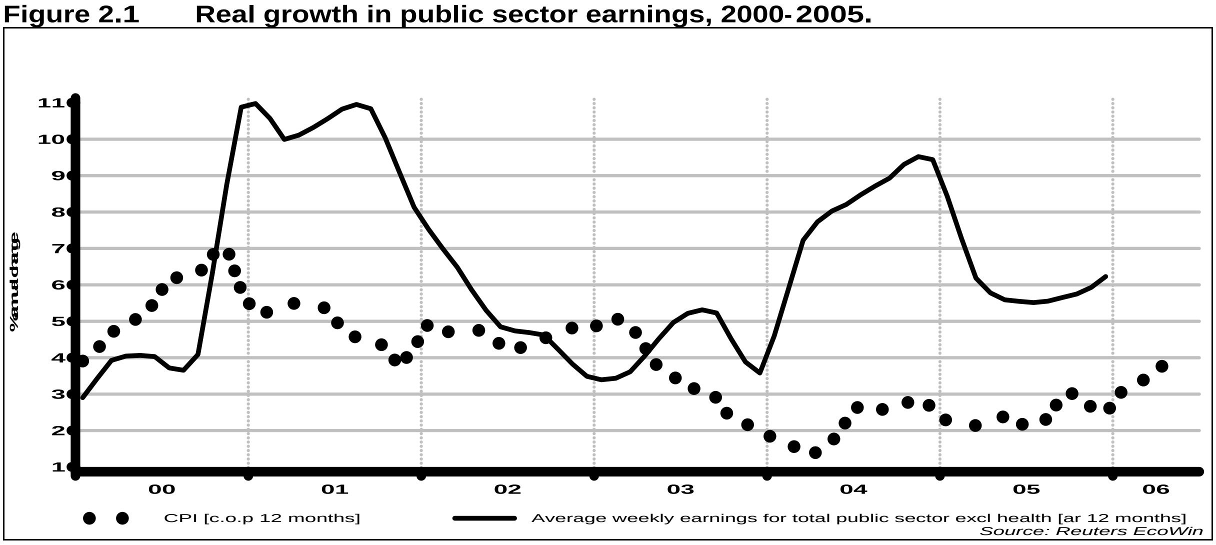
The most comprehensive and accurate data sources on earnings trends in Ireland are the CSO quarterly earnings surveys and the new National Employment Survey (NES). The NES was first conducted in 2003 and its results published in May 2006. Starting in 2006, the survey will be carried out on an annual basis with results becoming available 12 months after survey completion. By mid-2007, therefore, a comprehensive report on earnings comparisons between the public and private sector will be available for 2006.

2.2 Trends in Public and Private Sector Earnings, 2000-05.

Public sector earnings have accelerated much more rapidly than those in the private sector since the start of the millennium. This has led to an increase in the public sector pay premium, caused crowding-out in local and regional employment markets and substantially added to the State's pension liabilities.

Figure 2.1 shows the trend in public sector earnings since 2000. Average public sector earnings over this period grew by 49.4% while cumulative inflation was only 25.6%, giving public sector employees a real earnings increase of 23.8%.

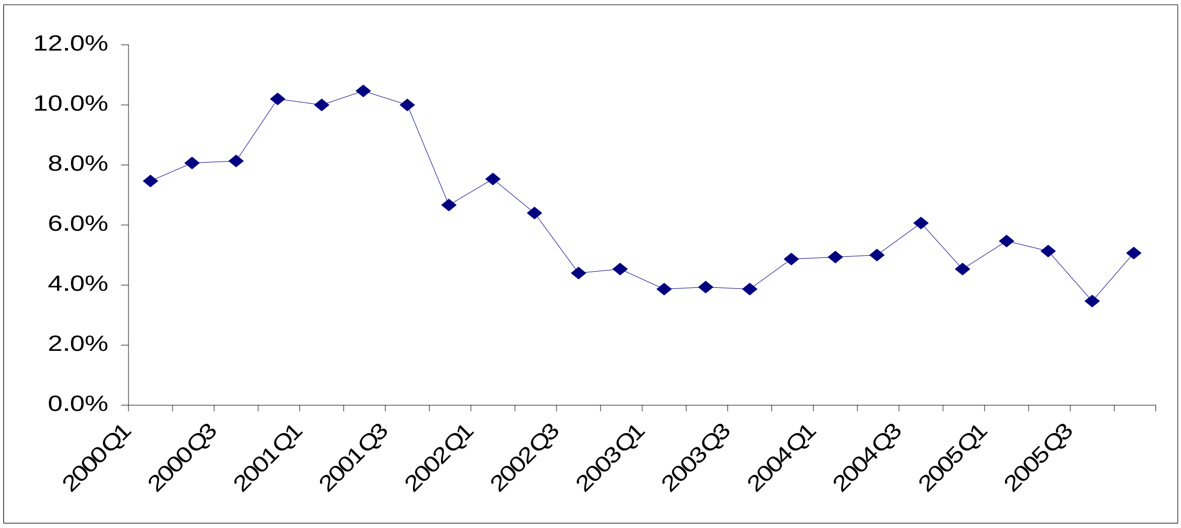
Figure 2.1 Real growth in public sector earnings, 2000-2005.



Wage inflation in the public sector peaked in 2001 at almost 11% before declining somewhat in 2002 and 2003 and rising again in 2004 largely as a result of benchmarking payments. Over the course of Sustaining Progress, which coincided with the full payment of benchmarking increases, average earnings in the public sector increased by 20.4% - well in excess of inflation of 8.4% and the terms of Sustaining Progress of 13.2%.

Figure 2.2 shows the increase in average private sector earnings over the same period. While private sector earnings growth has exceeded both inflation and the terms of national wage agreements it has been substantially below that recorded in the public sector. Between 2000 and 2005 average earnings in the private sector increased by 41.6% - some 7.8% below the increase recorded in the public sector. Over the period of Sustaining Progress the public-private sector pay gap widened even further as average private sector earnings increased by 15.2% compared to the increase of 20.4% in the public sector.

Figure 2.2 Growth in private sector earnings, 2000-05.



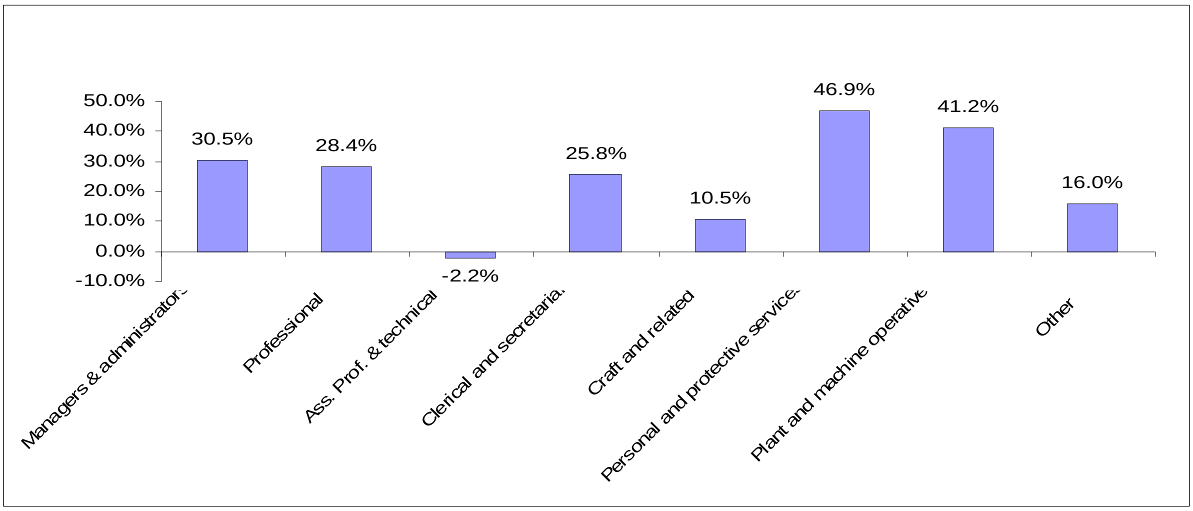
2.3 Public Sector Earnings Premium

Considerable evidence now exists to demonstrate that on a like-with-like basis public sector earnings in Ireland far exceed those in the private sector. Results from the 2003 NES show that on average public sector earnings exceed those in the private sector by 40%. The premium for female public sector workers was found to be 52% while that for male workers was 35%. The CSO report acknowledges that this headline comparison does not take account of the better education, older age profile and other attributes of public sector workers. The report therefore also makes a number of comparisons between public and private sector earnings for those of same education standards; age; length of service and occupation. This analysis shows that when earnings in both sectors are examined on a comparable basis, earnings in the public sector continue to exceed those in the private sector for almost all categories.

Public sector earnings premium by occupation – ranges from -2.2% to 46.9%

Figure 2.3 compares public and private sector earnings by occupation. It shows that with the exception of the 'associate professional and technical' occupation, public sector workers earn far in excess of those in the private sector working in similar occupations. The public sector premium was found to be particularly large for those engaged in 'personal and protective services' (47%); 'plant and machine operatives' (41%); 'managers and administrators' (31%); 'professional' staff (28%); and 'clerical and secretarial' staff (26%). While it may be difficult to compare the occupations for certain public sector workers with corresponding occupations in the private sector, other occupations in both sectors are very similar and provide clear evidence of a substantial public sector earnings premium. The 'clerical and secretarial' category is one such example – duties and responsibilities in both the public and private sectors are likely to be very similar. The 26% earnings premium provided to public sector clerical workers therefore clearly demonstrates that workers doing similar work earn more in the public sector.

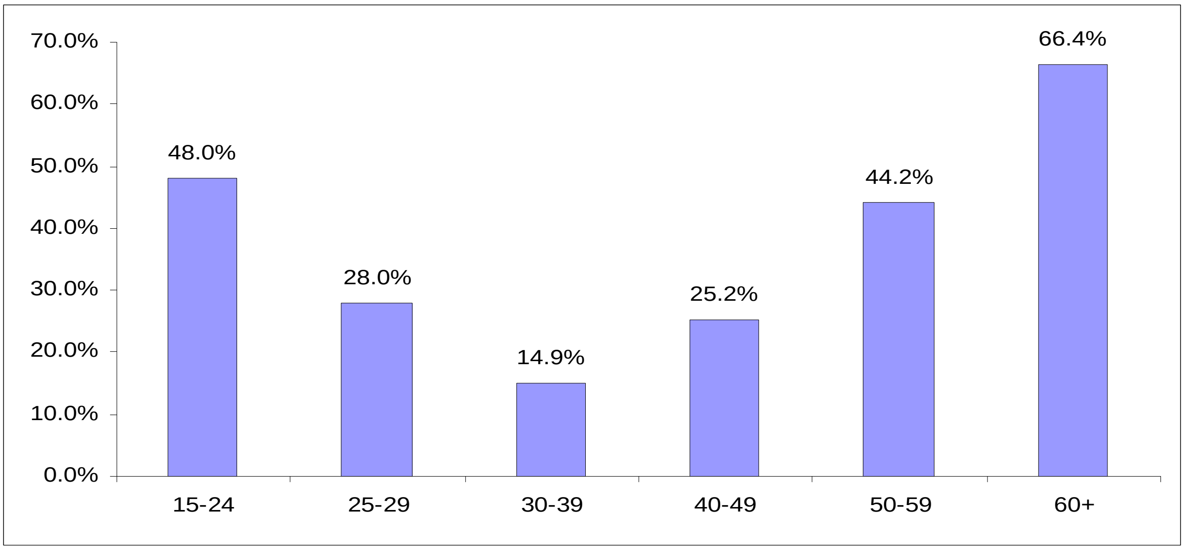
Figure 2.3 Public sector earnings premium by occupation, 2003.



Public sector earnings premium by age – ranges from 15% to 66%

It has often been argued that public sector workers are on average more experienced and older than private sector workers and should therefore have higher earnings. The NES analysis demonstrates that public sector workers earn substantially more than workers of the same age in the private sector. Figure 2.4 shows that this premium is greatest for those in the younger and older age groups. Public sector workers aged 60 and over earn on average 66% more than those in the private sector, while those aged 15-24 enjoy a 48% premium.

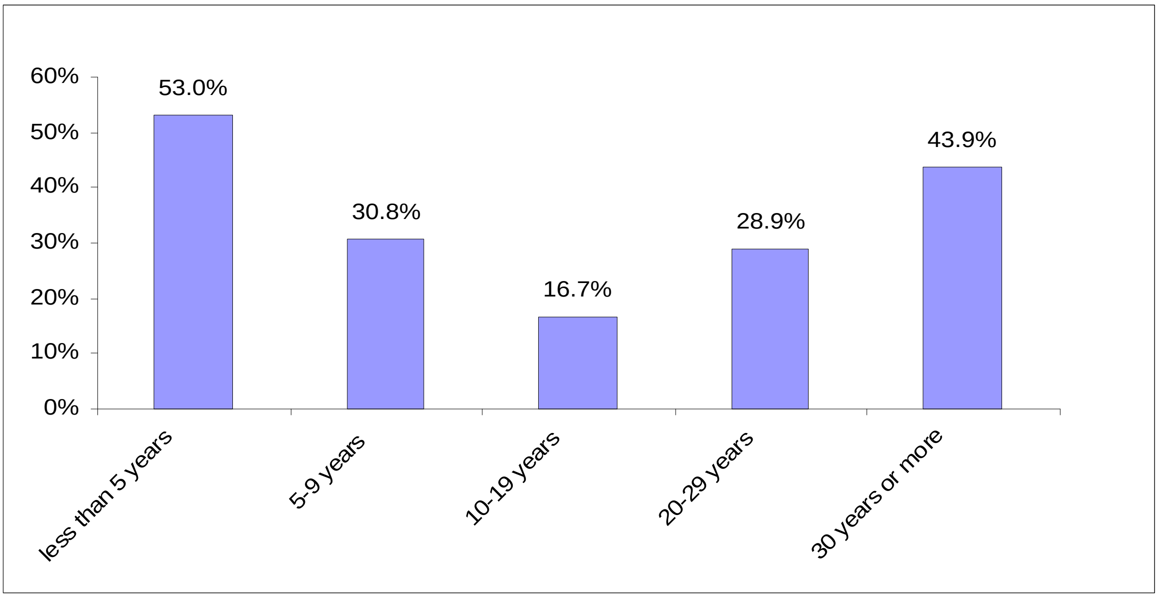
Figure 2.4 Public sector earnings premium by age, 2003.



Public sector earnings premium by length of service – 17% to 53%

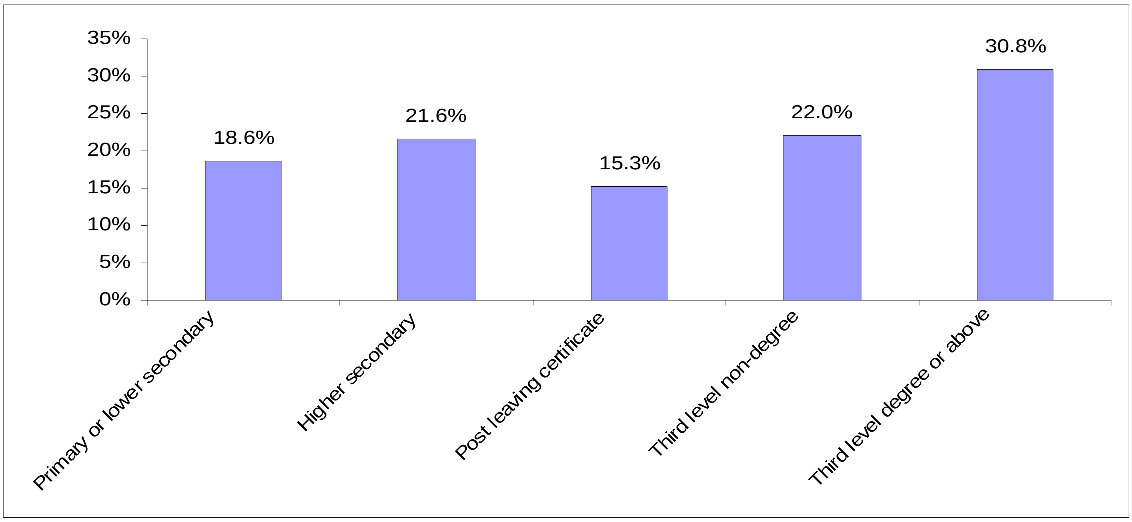
When earnings are compared for public and private sector workers with similar lengths of service, the premium pattern is similar to that for age i.e. those with very short and very long service lengths fare much better in the public sector than the private sector. Employees with less than five years service length earn 53% more in the public sector while public sector workers with 30 or more years service length enjoy a 44% premium. The public sector premium is at its lowest for workers with 10 to 19 years services who earn 17% more than workers with the same service length in the private sector.

Figure 2.5 Public sector earnings premium by length of service, 2003.



Public sector earnings premium by educational attainment – ranges from 19% to 31%
When earnings were compared for workers with the same level of educational attainment the public sector premium ranged from 19% to 31%. Generally workers with a higher level of educational attainment were found to earn relatively more in the public sector than the private sector. The public sector premium was therefore largest for those with a third level degree or above and lowest for those with primary or lower secondary education or post leaving certificates.

Figure 2.6 Public sector earnings premium by education attainment, 2003.



The results from the 2003 NES provide invaluable data for comparisons between public and private sector earnings levels. Its findings are based on a very substantial sample size (actual respondents) of about 50,000 employees and 4,400 employers. The sample size for the private sector was 35,000 employees and 4,200 enterprises – this compares very favourably to the sample size used in the 2002 Benchmarking Report of just 202 enterprises and 46,000 employees. The NES shows that on average public sector nominal earnings are about 40% greater than those in the private sector. It also compares earnings between the two sectors for employees with similar attributes, which again demonstrates a very substantial public sector premium. The NES analysis, however, is only based on single variable analysis i.e. it compares earnings for employees with a single common characteristic e.g. age or education.

A more comprehensive comparison of earnings using a multivariate analysis was published by Boyle et al in 2004. The study found a differential in nominal monthly earnings of 46%. When the results were adjusted for variables such as age, educational attainment and employment experience the public sector premium was found to be 13%. The analysis was based on 2001 earnings data and therefore did not take account of benchmarking awards. Given the impact of benchmarking and the respective trends in public and private sector earnings since 2001, the public sector premium has undoubtedly increased in the intervening years.

Since the NES was undertaken in March 2003 average earnings in the public sector have increased by 20.4% compared to an increase of 14.9% in the private sector. The gap in nominal earnings is therefore currently estimated at 45% while when the differences in employee attributes are taken into account the public sector premium is likely to be in the region of 18% to 20%.

Both the NES and the Boyle et al study while providing a comprehensive analysis of nominal earnings and earnings adjusted for employee attributes, have not addressed broader remuneration and benefit differences between the public and private sectors. The 2002 Benchmarking Report stated that factors such as pensions and job security were considered in the first benchmarking exercise but no analysis or quantification of these benefits were provided in the report.

3. Research Methodology

3.1 Survey of private sector pay

The first benchmarking exercise involved a survey of 202 companies in the private sector and covered 46,000 employees. The average number of employees in the surveyed firms was 230. This is substantially higher than the average firm size of just 13 according to data from the Revenue Commissioners or the average size of firm surveyed in the NES which was just eight.

The sample of private enterprise previously surveyed by the Benchmarking Body therefore does not appear to be fully representative of Irish business. The survey focused excessively on larger firms and this is likely to have provided an inflated view of private sector earnings and benefits. It has been well established that larger firms tend to pay their staff better and are generally more likely to provide employee benefits such as pensions and bonuses. An example of this can be seen from IBEC's Survey of Conditions of Employment in Manufacturing in 2005 which found that over 90% of large companies (more than 250 employees) had a pension scheme but less than 50% of small companies (less than 50 employees) provided such a benefit. The survey also shows that smaller companies are much less likely to provide staff with bonuses or incentive schemes.

The selection of a suitably representative sample of private sector employers in the current benchmarking process will therefore be a key determinant of the accuracy of its findings. While acknowledging that the constraints of detailed job evaluations demand a smaller sample size than a postal survey, the results from these evaluations should be cross-checked with a larger sample size survey such as the NES.

3.2 Valuing pension benefits

Pension developments in the private sector

The cost of funding occupational pensions has spiralled over the past five years or so. Stricter funding requirements for company pension funds, historically low long-term interest rates, poorly performing equity markets and longer life expectancy have all led to increased annual funding costs for pensions. This has resulted in a substantial increase in the value to employees of an occupational pension. The typical annual funding cost of a private sector defined benefit scheme now ranges from 25% to 35% and over 80% of private sector defined benefit pensions currently require employee contributions (Mercer 2006). The number of companies seeking an employee contribution to defined benefit schemes has increased significantly in recent years while the scale of the employee contribution has also grown. Another significant trend in private sector pensions has been the accelerating switch from defined benefit to less costly defined contribution schemes.

While businesses and workers in the private sector have been coming to terms with the turmoil in the pensions industry in recent years, public sector workers have remained totally insulated from these new realities. Not only do most public sector workers continue to benefit from non-contributory defined benefit pensions but their pensions are indexed to the salary scale of their former employment. In this way retired civil servants received increases in their pensions as a result of benchmarking and increases in national wage agreements which are subject to productivity requirements are automatically passed on in full to public sector pensioners. Public servants therefore benefit from three major advantages over the private sector when it comes to pensions – firstly, pensions coverage is substantially higher in the public sector; secondly, public sector pensions are mainly non-contributory defined benefit schemes compared to a mix of contributory defined benefit and defined contribution schemes in the private sector; and thirdly, public sector pensions are indexed to existing pay scales while private sector defined benefit pensions are generally only indexed to inflation.

An estimate of the difference in value between public and private sector pensions
In addition to calculating the superior value of public sector pensions vis-à-vis those in the private sector, the current benchmarking process must also take into account the difference in pension coverage between the two sectors. The most recent data from the CSO on pensions coverage show that 45% of employees had an occupational pension in Q1 2005. It is estimated that some 90% of public servants have a pension indicating that coverage in the private sector is about 35%. Industry estimates indicate that a typical public sector pension is equivalent to about 40% of gross earnings and a typical private sector pension is worth about 15% of earnings, giving an overall difference in pension benefit between the two sectors of 31% i.e. 40% value multiplied by 90% coverage = 36% and 15% value multiplied by 35% coverage = 5%.

This analysis shows that on average a typical public sector employee will benefit from a pension worth about 36% of his/her gross earnings, while on average a private sector worker will have an equivalent pension value of about 5%. While some of the data in this analysis are based on industry estimates and are subject to correction, it is clear that public sector workers benefit from superior pension provision. It is therefore essential that the current benchmarking exercise undertakes a substantive quantification of pension benefits in both the public and private sectors and presents its findings in a clear and transparent manner similar to the above analysis.

3.3 Job security

Public servants enjoy an unrivalled privilege in the Irish labour market in that they are guaranteed a job for life. Workers in the private sector are subject to the vagaries of global economic trends and often face long periods out of work in times of recession. Periods of unemployment can impact negatively on the lifetime earnings and pension benefits of private sector workers. Many workers who become redundant in the private sector, especially after a long period of employment, may find that in order to re-enter the workforce they must accept lower earnings. Indeed the 2003 NES survey found that the gap between public and private sector earnings is greatest for older workers.

Workers in the private sector place a considerable value on job security. The quantification of this value is often seen when they agree to accept a pay freeze or indeed a pay cut in order to safeguard their jobs in times of financial difficulty for their employers. Indeed with the increased globalisation of markets and growing competitive pressures from emerging economies, job security in the private sector is becoming more rare. While acknowledging that placing a monetary value on job security is a difficult exercise, previous research has extensively addressed this issue and detailed models are available for doing so[3]. Table 1 shows the determinants of the value of job security for employees. While the very low level of unemployment at present in Ireland is likely to lead to a lower than average value on job security compared to other countries, this position will inevitably change in the future.

[3] Gelinas, Patrice. *Redefining total compensation to include the value of job security*. Ivey Business Journal. December 2005.

TABLE 1 – Some determinants of the value of job security for an employee*

	Determinants	*Impact on value*
Market-wide conditions	Economic conditions:	
	Higher unemployment rate	+
	Higher compensation loss associated with job loss	+
	Lower cost of living in existing area of residence	+
	Faster pace of technological changes that can make existing skills obsolete	+
Individual circumstances	More years to retirement	+
	Higher demand for skills	-
	Higher financial commitments	+
	Relocation challenges:	
	Greater attachment to the area of residence	+
	Higher perceived importance of the existing social network	+
	Higher spouse's ability to find another occupation	-
	Higher cost of acquiring new skills following termination	+
	Higher anxiety towards uncertainty	+
	Longer life expectancy	+

Source: Gelinas (2005).

Table 2 shows the value of job security for a number of specified employment situations. While the details of the analysis may be subject to debate, the analysis provides a useful illustrative model to determine the value of job security. In this analysis the value of public sector job security over that in the private sector is estimated to range from 4% to 12% of salary, depending on the long-term viability of the private sector enterprise

TABLE 2 –Value of job security (as a percentage of salary, incentives, pension and other benefits and perquisites) if the job found following involuntary termination only pays 80% of the secured job[1]

		Termination Risks Assumptions		
		Imminent bankruptcy is the only possible cause for termination	Imminent bankruptcy + 1% annual involuntary turnover	Imminent bankruptcy + 5% annual involuntary turnover
Employer	Public sector*	20.0%	20.0%	20.0%
	Healthy corporation	16.3%	14.4%	9.1%
	Uncertain corporation	12.7%	11.3%	7.6%
Benchmark	Terminated Employee	0.0%	0.0%	0.0%

* Termination risks do not apply.

Source: Gelinas (2005).

3.4 Annual leave and working hours

As female labour force participation rates grow, commuting times rise and everyday life generally becomes more frantic, annual leave entitlements and working hour arrangements are of growing importance to employees. On average public servants have shorter working hours than private sector employees, receive longer annual leave benefits and are more likely to have flexitime benefits. The CSO NES shows that the number of weekly paid hours for public sector workers is 5.7% lower than for those in the private sector – 33.4 hours vis-à-vis 31.6 hours. Private sector workers are also much more likely to work unpaid overtime than those in the public sector.

Public sector workers also benefit from much greater annual leave entitlements than those working in the private sector. Leave entitlements for higher grade and long serving public servants are generally in excess of 30 days a year and much greater than leave for similar occupations in the private sector. A 2004 employment conditions survey undertaken by the Premier Group found that the average annual leave entitlement in the public sector was 28.2 days while that in the private sector was 23.6 days. This difference of 4.6 days can be costed at about €1,100 per employee and would equate to about 2% of annual earnings. Other non-pay benefits available in the public sector such as special leave and

3.5 PRSI

It not clear from the 2002 Benchmarking Report whether or not the favourable PRSI situation enjoyed by public servants was fully accounted for in earnings comparisons between public and private sectors. Most of the data available on earnings relate to gross rather than net pay. The majority of public servants, however, pay a much lower rate of PRSI than private sector employees. Most private sector workers pay 6% of their gross earnings in PRSI. Those on low pay are charged a reduced rate of PRSI while a reduced rate also applies over a ceiling of €46,600. PRSI for public servants, however, is only charged at a lower modified rate of about 2% for those who entered the public service before 1995 and at 6% for those who entered after this date. The higher PRSI rate for recently joined public servants represents their pension contributions but these employees are compensated for this in the form of higher salary scales.

On average, public servants clearly enjoy a more favourable position in relation to PRSI costs than those working in the private sector. Benchmarking must ensure that this benefit is clearly quantified and taken into account when comparing overall remuneration levels between the sectors.

4. Transparency of Process and Outputs

4.1 Quantification of benefits

It was agreed by the social partners in the context of the mid-term review of Sustaining Progress that the second benchmarking report *'should seek to ensure the optimum level of transparency consistent with the efficient and effective operation of the benchmarking process.'* It has been widely observed that the first benchmarking report failed in this regard and this resulted in a significant loss of credibility for its findings. The Department of Finance recently noted that the lack of detail provided was motivated by the concern that 'giving a lot of detail could serve to reopen the debate on various recommendations as issues were disputed by parties unhappy with the outcome'[4]. If the findings of the current benchmarking process are to be acceptable to all the social partners it is essential that the level of transparency is improved. All the pay and non-pay benefits available in both the public and private sector must therefore be clearly quantified before any recommendations are made in relation to pay adjustment.

In particular, the Body's report must provide a full and transparent quantification of the following benefits:

- value of pensions
- annual leave and special days leave
- working hours
- job security
- incidence and value of variable pay
- car parking

Quantification must involve a clear expression of the value of each of these benefits as a percentage of overall earnings.

4.2 Consultation with the social partners

IBEC wishes to engage as far as possible in the ongoing work of the Body. It hopes that this written submission is the first step in a wider consultation process and would welcome the opportunity to make an oral submission and subsequently meet with the Body to discuss in more detail individual aspects of its submission.

In particular IBEC would like to engage with the Body in relation to its proposed methodology to value non-pay benefits and the wider survey of private sector companies.

4.3 Publication of findings

The first benchmarking exercise led to the publication of only a very small proportion of the research work carried out or commissioned by the Body. The vast majority of the research work commissioned from over ten consultancy firms was never published in any form. Such lack of transparency must not be allowed to occur on this occasion. Allowing for confidentiality factors, all research should be published on the Body's website and where possible interim findings and

[4] Department of Finance. *Analysis of Exchequer Pay and Pensions Bill, 2001-2006.* June 2006.

working papers should also be published. In particular, consultancy reports on issues such as pension benefits should be published as stand-alone documents long before the finalisation of the benchmarking process. This will not only guarantee that the exercise is conducted in an open and transparent manner but will also ensure that the accuracy and quality of this work is of the highest possible standard.

5. Public Sector Modernisation and Industrial Relations

5.1 Public sector modernisation

A key aspect of the Body's 2002 recommendations was that the implementation of pay awards were conditional on agreement in relation to key modernisation and change issues. The Performance Verification Groups established as a result of this have overseen change in the public sector in the intervening years. In general IBEC understands that these groups have been reasonably successful in that they have overseen and verified certain aspects of change in the public sector. It remains unclear, however, whether this process and inputs based system of indicators has led to a substantive improvement in the delivery of public services. While some improvements have been achieved a number of failings remain in areas ranging from health to driving tests.

Any benefits that accrued to business from public service modernisation have been more than offset by the substantial increases in local authority charges. Charges to business for rates, water and waste have spiralled in recent years as local authorities have passed on the increased pay costs arising from benchmarking.

The programme of public sector modernisation must continue in the coming years and in particular greater emphasis must be placed on flexibility in the delivery of public services. The new partnership agreement *Towards 2016* provides the framework for such modernisation and explicitly states that pay increases provided for in the agreement are subject to co-operation in this area. It is therefore not necessary to award additional pay increases under another benchmarking process in order to achieve further public sector reform.

5.2 Industrial relations climate

One of the key factors that led to the initiation of the benchmarking process in 2000 was the perception by some public sector workers that their remuneration packages were not keeping pace with those in the private sector. This perception gained momentum at the height of the tech-stock boom which saw strong growth in private sector earnings and significant stock benefits accruing to a small proportion of private sector workers. This discontent manifested itself in a number of high profile industrial difficulties in the public sector.

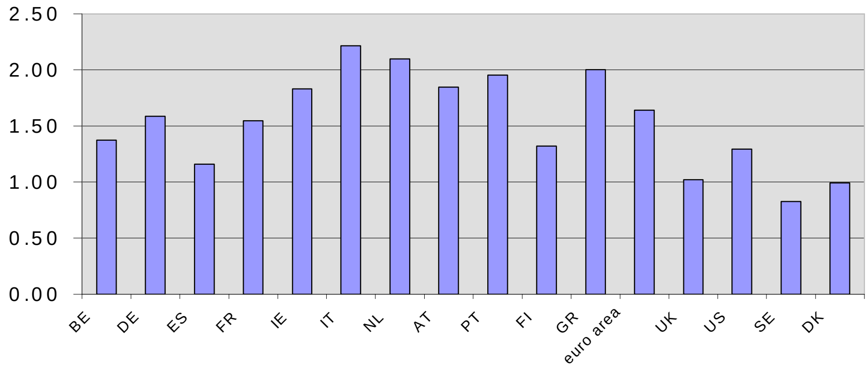
The industrial relations climate in the public sector following the first benchmarking exercise has been largely positive and this must be welcomed. Much of this is due to the resolution mechanisms put in place through successive social partnership agreements, however. An open and transparent benchmarking process that clearly demonstrates to all public sector workers the full value of their remuneration and benefits packages could greatly benefit the industrial relations climate for the coming years.

6. International Experience

6.1 International pay comparisons

Figure 6.1 shows the ratio of public to private sector pay in a number of EU and other countries in 2003. Ireland was found to have the fifth highest ratio after Italy, The Netherlands, Greece and Portugal. Given the increase recorded in the public sector pay premium since 2003 Ireland's ratio of 1.8 has obviously increased over this period. Public servants in Ireland therefore enjoy a much greater pay premium over the private sector than their counterparts in most other EU countries. The ratio of public to private sector pay in Ireland is in substantially greater than that in many of our main trading partners. It is almost double that in the UK and Denmark and is also well ahead of the ratio in the US. On average public sector workers in the Euro Area have an earnings ratio of about 1.6 over those in the private sector – Ireland's ratio of 1.8 is much higher than this and continues to rise.

Figure 6.1 Ratio of public to private sector pay in selected countries, 2003.



Source: European Central Bank.

6.2 Public sector pension reforms in the US and UK

In recent months both the UK and the US have initiated reform of their public sector pensions in an effort to curb the increasing unfunded liabilities in both countries. It is estimated that in the UK there is an unfunded public sector pensions liability of up to £700 bn. In June 2006, the Cabinet Office signalled its intention to cap employer contributions from the state at around 20%. The current average stands at 19.4% with contributions ranging from 17.1% to 26.5%. There are also controversial cost-sharing proposals to ensure that future contributions are split equally between civil servants and their employer. An agreement has already been reached with unions that will see the minimum retirement age extended to 65 and payouts reflecting average earnings over the duration of an employee's career rather than final salary but both deals will only affect new entrants.

In the US similar problems in relation to large unfunded public sector pension deficits exist. The pensions gap has been estimated by government sources to be in the region of $278 billion, while others have estimated that it could be nearing $366 billion (Wilshire Associates) and some even alleging up to $700 billion. The response to this has largely been to switch to defined-contribution schemes called 401(k) retirement plans, rather than stick with defined benefit plans. At least ten US states have changed to these 401(k) plans. Average public sector pension costs in the US are estimated at about 40% of salary.

Other countries are now clearly recognising the potential difficulties associated with financing very attractive public sector pensions in the future. In order to provide equity with the private sector and limit future public sector pension liabilities measures are now been taken to control public sector pension costs. The Irish public sector urgently needs to face up to the realities of current pension costs and either reduce the cost of public sector pensions (through pension reform) or reduce pay levels in order fund the future cost of these schemes. The current scenario of 'rolls royce' public sector pensions and higher than average earnings can not be allowed to continue, however.