PENSIONS POLICY INSTITUTE

PPI

PPI seminar: *Occupational pension provision in the public sector*

The Pensions Policy Institute (PPI) held a seminar on 16 October 2008 to launch its latest research: ***An assessment of the Government's reforms to public sector pensions.*** The report and seminar were funded by the Nuffield Foundation, and the Foundation also hosted the seminar.

The seminar was chaired by Matthew Annable, Chair of the PPI, and was attended by 52 people representing a range of interests across the pensions sector.

Niki Cleal (Director of PPI) and Adam Steventon (PPI Senior Policy Analyst) gave an overview of the potential impact of the Government's reforms on public sector pensions. Key findings from the research are that:

- The Government's reforms have reduced the average value of public sector pension schemes by around 3% of salary for new entrants, from 24% to 21%. The reforms are likely to have less impact for existing members who retain a normal pension age of 60.
- Spending on unfunded public sector pensions is projected to grow from 1.0% of GDP to 1.4% of GDP in 2027/8, after allowing for the savings from the recent reforms. The savings from the reforms are likely to be relatively modest. Over the next 50 years, the Government expects the reforms to save a total of £13 billion in the NHS, Civil Service and Teachers' schemes.
- Public sector employees are more than twice as likely to be a member of an employer-sponsored pension scheme as private sector employees. The value of the four main public sector pension schemes for new entrants will be similar to a medium private sector Defined Benefit scheme, but significantly higher than the value of an average private sector Defined Contribution scheme.
- Although a job-for-job comparison of pay is difficult to make between the sectors, the evidence suggests that pay in the public sector is not lower than pay in the private sector across the board.

Jenny Willott, MP (Liberal Democrat spokesperson on Work and Pensions) gave her party's perspective on the reforms. Ms. Willott spoke about the need for a new, independent commission to review public sector pensions. This commission might consider whether the Normal Pension Age (NPA) for existing members ought to be raised, whether the schemes are fair within the public sector for all scheme members, and whether it is advisable to continue to have unfunded pension schemes in the public sector.

She also talked about the need to raise the standard of private pension provision rather than damaging the quality of public sector pensions. Overall she urged the Government to provide more transparency regarding the true costs of public sector pensions and to ensure fairness for all public sector pension scheme members.

Neil Carberry (Head of Pensions and Employment Policy, Confederation of British Industry) discussed the relevance of the reforms to UK taxpayers. He argued that while it is understood that the cost of providing pensions is growing, the extent of the growth in the public sector is hidden because the Government currently uses a higher discount rate to calculate employer contributions to the schemes than it uses to calculate the liabilities of the schemes. He argued that more transparency is needed about the costs of providing public sector pensions, so that there can be an informed debate about what the right form of provision for the public sector is. He suggested that there was a need for the costs of public sector pension schemes to be carried by employers and employees in those schemes.

Kay Carberry CBE (Assistant General Secretary of the Trades Union Congress) argued that public sector pensions are a significant element of the reward package to people who provide public services and that they should be seen as part of the costs of providing public services. She argued that calculations of the costs of public sector pensions do not take into account the potential costs that could result from not providing them, including the potential costs to the state means-tested benefit and health systems.

Ms. Carberry urged people to remember that the public sector pension reforms are the result of lengthy negotiations and that the reforms bring sustainability and cost savings to the system. She argued that decent public sector pensions compensate for lower pay, particularly at the top end of pay scales and that the average public sector pension was very low. She said that, if there are differences in pensions between the private and public sectors then the solution is to improve pensions in the private sector rather than reduce them in the public sector.

Questions and discussion

The following points were raised by speakers or members of the audience in the discussion. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

- Whether public sector pension schemes are funded or unfunded they will always be supported by taxpayers' money. It is important, however, for the Government to provide transparency about the costs of the public sector pension schemes to taxpayers.

- There was some discussion regarding the correct discount rate to use when calculating the costs of pension schemes. The Government currently uses a higher discount rate to calculate employer contributions to the public sector pension schemes than it uses to calculate the liabilities of the schemes.

- There was an argument that, although the recent reforms have reduced the value of the public sector pension schemes, newer cohorts of scheme members might still receive more than older cohorts from public sector pensions because their pensions will be paid for longer. This led to some discussion regarding how best to manage rising costs caused by increases in longevity. There was a suggestion that in future NPA might need to be increased further than age 65.

- There was discussion around whether it would be ethical to change the rules of the public sector pension schemes for existing scheme members for future service. This would attempt to deal with increasing costs and is an approach sometimes adopted in the private sector. However, some people felt that this would be unfair to existing scheme members who may have based previous decisions and forgone salary increases based on expectations of what they will receive from their pension.

- Labour market trends show that many people spend only a little time in the public sector or join pension schemes relatively late in life. There was an argument that more needs to be done to ensure fairness for all the members of public sector pension schemes, since the traditional final salary pension scheme redistributes from people with modest salary progression and short careers to people with rapid salary progression and long careers.

- There was an argument that the gap between private and public sector pensions should be tackled by raising pensions in the private sector, rather than reducing pensions in the public sector.

- There was discussion around the likely reactions of public sector employees to the outcome of the cost capping and cost sharing agreements that have been made in the main public sector pension schemes. There was a comment that, if these agreements bite, the reaction of public sector employees to them would indicate how much they value their pension schemes.

- People in Continental Europe expect a greater rate of replacement from their pensions than people in the UK but are also willing to pay higher taxes to fund them. There was some sentiment that a more 'European' outlook on pensions should be encouraged within the UK.

- Although public sector pensions might become a 'political hot potato' in the run up to the next general election, there was a suggestion that elections are usually decided mainly on issues such as education, health and the economy.