

Public sector pensions aristocracy

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Outline

- The great divide
- Aristocracy
- Transparency
- Sustainability?

The great divide

- One fifth of workforce in public sector
- Most have generous taxpayer funded final salary pension
 - > 80% in public sector but < 15% in private sector
- Average pay higher
- National insurance contributions lower!
- Defined benefit schemes best for workers but private employers cannot take on high and uncertain cost
- Unions have done brilliant job

Superiority of pension deal

- Retirement age lower for most
- Contributions lower for most
- Inflation linking far superior
- Ill health early retirement better
- Employer 'covenant' guaranteed
- Immutable in law - safer than NI!

Fudging funding assumptions

- True costs been underestimated – hidden from public
- Discount rates – not realistic
- Life expectancy – consistently higher
- Salary increases – consistently higher
- Worker numbers – consistently higher

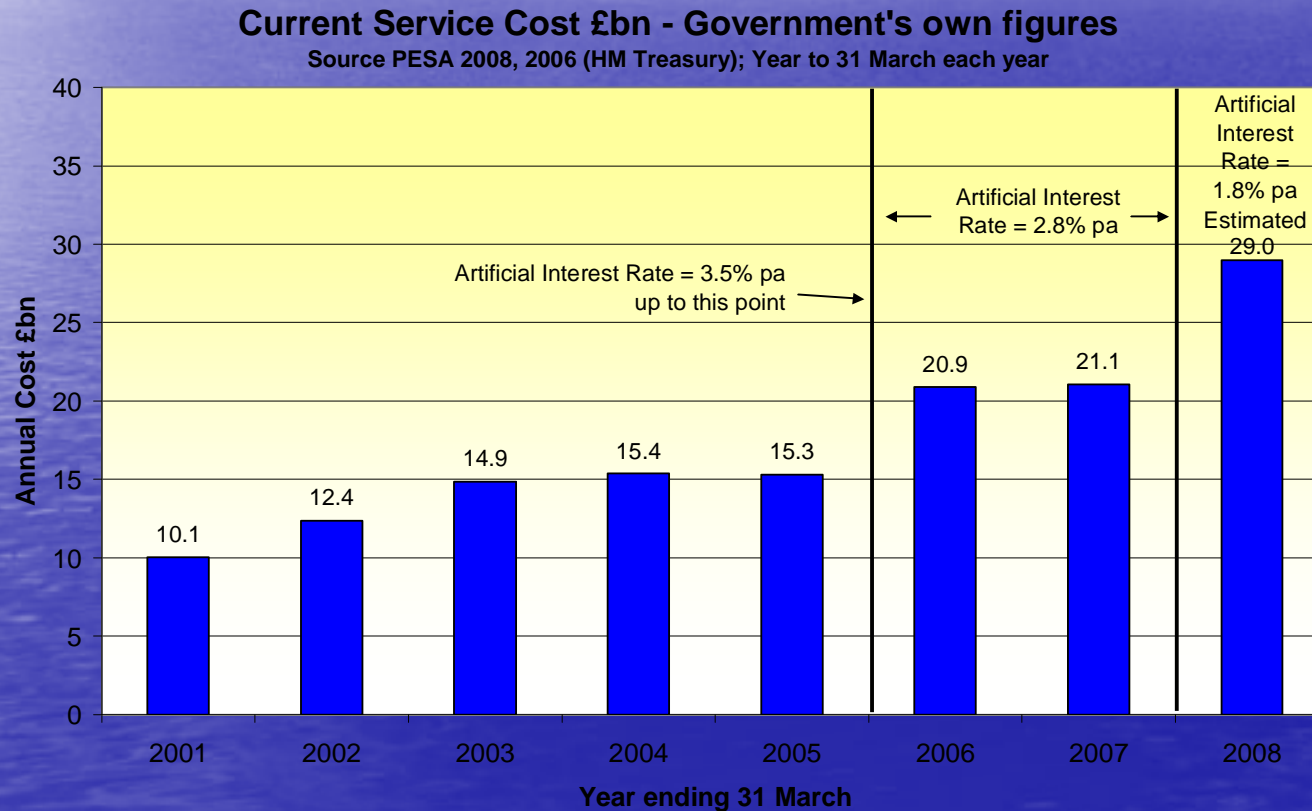
Artificial discount rates – not market rates

	current service cost	contributions
2005-06	3.5%	3.5%
2006-07	2.8%	3.5%
2007-08	1.8%	3.5%
2008-09	2.5%	3.5%

- Fall from 2.8% to 1.8% implies additional 34% cost BUT
- Did not pass this on to workers or employers
- Contribution calculation discount rate stayed at 3.5%

Using official figures £10bn shortfall

- 2008 contributions just £19bn vs. £29bn current cost



Contributions – adequacy?

- Total contributions around £19bn 2008
- On Government's own figures this should be £29bn
- On independent figures, should be £34bn = 35% of pay
- Public sector workers shielded from reality
- Future taxpayers on the hook
- They won't have these pensions

Transparency and honesty?

- I am not judging if pension deal is right or wrong
- But I am calling for proper disclosure and transparency
- Not included in fiscal rules or official net debt figures
- Employers and employees don't pay the real costs
- Hidden from future taxpayers but won't go away
- Ostrich approach to accounting

Justification?

- Fully affordable - only year by year spending counts
- 'Only' 1.5%-2% of GDP
- Can reduce future generosity, so not really liabilities at all!
- New deal: Cost sharing and capping, increase pension age
- Average public sector pension quite low e.g. local government average pension £4,000 pa

Are these justifications valid?

- Can't run a business without accounting for future costs
- Cost capping only applies to longevity not discount rate
- 1.5-2% of GDP is underestimate and still 4p on tax
- Pension age remains below national insurance age
- Inadequate reporting of total cost and per member cost
- Most low paid private sector workers have low pension – why should taxpayers favour just one group?

Recent studies try to help transparency

- Policy Exchange - Value of public sector pension over 35% of salary (Government says just 20%)
- CBI - Outsourcing public sector workers requires private firms to pay 25-50% of salary extra to cover pension!
- PwC – private sector retirees £11,000 post-tax income
 - - public sector retirees £27,000 post-tax income!

True costs being hidden away

- Unfunded schemes contracted out – what nonsense!
 - Workers pay 9.4% NI (should pay 11%)
 - Employers pay 9.1% NI (should pay 12.8%)
- Free SERPS/S2P - from younger age than the rest of us
- Public sector employment costs being subsidised
- Public sector workers do not know the real value
- Future taxpayers not being told real costs

Funded schemes – be very afraid!

- Royal Mail precedent caused little fuss
- Treasury takes in >£20billion earmarked for pensions
- Local Government schemes have around £100billion
- Treasury temptation to convert to unfunded schemes!
- More dangers for future taxpayers

Variables to consider

- Pensionable pay definition – basic, capping
- Contribution rates
- Accrual rate
- Pension age
- Ill health benefits
- Survivor benefits
- Final salary vs. average salary
- Inflation linking

Conclusions

- Independent Commission: transparency for taxpayers
- One fifth of workforce may receive disproportionate share of taxpayer funded pension spending
- State pension too low – that should be addressed
- Be honest with public sector workers – pay and pensions are a total package
- Divide between public and private socially divisive
- Pensions aristocracy!



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