

Public Sector Pensions Briefing Note

The much anticipated interim report from the Independent Public Service Pensions Commission, chaired by Lord Hutton was released on 7 October 2010.



In reaching its recommendations, the Commission is to have regard to:

- the growing disparity between public service and private sector pension provision, in the context of the overall reward package – including the impact on labour market mobility between public and private sectors and pensions as a barrier to greater plurality of provision of public services;
- the needs of public service employers in terms of recruitment and retention;
- the need to ensure that future provision is fair across the workforce;
- how risk should be shared between the taxpayer and employee;
- which organisations should have access to public service schemes;
- implementation and transitional arrangements for any recommendations; and
- wider Government policy to encourage adequate saving for retirement and longer working lives.

The final report is to be delivered by Spring 2011.

The Commission's brief was to conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.

The key messages from the 176 page interim report are:

Message	Barnett Waddingham's comment
the status quo is not tenable	<i>no surprises there</i>
there needs to be fairer balance between current taxpayers and public sector employees and current and future generations	<i>it should be remembered that public sector workers also pay tax</i>
there is a strong case for some increase in member contribution rates (except armed forces) and this should be targeted at high earners	<i>as expected – Local Government Pension Scheme already has such a structure</i>
public sector pensions are not gold plated	<i>this is bad news for the Daily Mail headline writers</i>
there is no race to the bottom and public service pensions should become the benchmark for the private sector to aim for	<i>this is perhaps the key message</i>
final salary pensions are no longer a robust and fair mechanism	<i>again the prospect of the final salary approach being retained looked a little unlikely</i>
an alternative scheme model that provides a fair sharing of risk between the employer and employee and adequate pensions for members is needed. DC is not the answer. The final report is to consider alternative structures such as career average, collective DC and hybrids	<i>it is good to see the concept of risk sharing as advocated by many including the Association of Consulting Actuaries getting some air time</i>
future pension ages need to reflect longevity changes	<i>again some sensible thoughts</i>
CPI changes, pay freeze and public sector workforce reductions will reduce public sector pension costs from 1.9% of GDP to 1.4% by 2060	<i>assumes economy will grow in real terms line with arguably optimistic Treasury forecasts</i>
to retain unfunded nature of existing schemes and no reason to de-fund existing funded schemes such as the LGPS	<i>good news for LGPS actuaries</i>

Conclusion

The report's recommendations are much in line with what was anticipated at this stage. The key message is that there is a need to retain decent pension provision for public service staff but also have to recognise that changes are required to make the whole system fairer. The reforms to public service pension schemes hopefully will reinvigorate the debate and provided the final solutions are sensible then hopefully once again the public sector can lead the way in providing workplace based pensions ensuring all our citizens can look forward to some certainty of adequate income in retirement.

Further information

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