Briefing No.228 March 2010

Policy & Information team

Briefing on...

Public Sector Pensions

Attacks on public sector pensions

Introduction

This briefing is in response to the ill-informed media and political attacks on public sector pension schemes. It highlights the reality of public sector pensions and looks at the potential costs to the economy if such pensions were cut back.

Contacts list:

Kenny MacLaren
k.maclaren@unison.co.uk

Dave Watson
d.watson@unison.co.uk

@ the P&I Team
14 West Campbell St
Glasgow G26RX
Tel 0845 355 0845
Fax 0141-331 1203

Background

Five million employees working in the public sector qualify for pensions, including 1.3m in NHS, 1.6m in local government, 600,000 teachers, 600,000 civil servants, 200,000 in the armed forces, 150,000 police officers and 50,000 fire-fighters. The value of the main schemes in the public sector for new entrants is similar to a medium private sector final salary, at around 21% to 24% of salary on average.

Attacks on Public Sector Pensions

UNISON Scotland condemns the continuing attacks from politicians and the media on public sector pensions. These attacks often use misleading statements referring to public sector pensions as 'gold-plated' or claim that there is 'pensions apartheid' between public and private sector workers.

However, the real pensions divide is not between public and private sector, but between rich and poor. Public sector pensions are not "gold plated" as often wrongly portrayed in the media - in fact the average council worker's pension is around £4,000 per year while the average occupational pension in the UK is around £8,100. The TUC's 2008 Pensions Watch study of 346 directors from 102 of the UK's top companies found that they were set to earn a yearly pension of £201,700. This is 25 times the average workplace pension that ordinary workers receive (£8,100).

UNISON Scotland believes that the UK Government should act to ensure that every worker – including those in the public sector - has a decent pension scheme.

Impact on the Economy

The Treasury produces estimates of the cost of paying public sector pensions as a proportion of GDP (not taking into account contributions). They show an increase from 1.5% of GDP to 2% by 2027-28. After this projections show a slight decline in the proportion of GDP taken up by public sector pensions. It is not surprising that there is some cost increase in the next few decades as we live in an ageing society. Either the cost of pensions will increase or many more pensioners will live in poverty. But public sector pensions take up a much smaller share of GDP than state pensions and long term care – also both set to increase in the face of longer lives.

Another way of looking at the cost of pensions is to examine the difference between benefits paid out to today's pensioners from unfunded schemes and current contributions paid by current staff. In the current financial year this is estimated to be £4.1 billion or about 0.3% of GDP.

Meanwhile, the value of public sector pensions to the economy as a source of investment capital is huge, as shown in recent research commissioned by UNISON from the Public Services International Research Unit at the University of Greenwich.

There are over 100 local government pension funds (LGPFs) in the UK, with a total aggregate value of about £145 billion in 2008, or about 13% of UK GDP. To put this in perspective, this is as large as the combined sovereign wealth funds of oil-rich states Kuwait, Qatar and Oman. The LGPFs are major investors in the largest private companies on the London Stock Exchange - in 2008 they had over £1 billion invested in each of the top 4 companies - Royal Dutch Shell, HSBC, BP and Vodafone; and owned at least 1.3% of 7 out of the top 9 companies. These funds are more vital, rather than less, in the face of a downturn in private investment.

Scottish LGPFs had £19.8 billion invested in 2008, which equates to over 21% of Scottish GDP (£93.3 billion). The Strathclyde fund with £9.3 billion invested is the largest in the UK.

Impact on State Benefits

If the quality of public sector pensions is substantially reduced, this will lead to many retired public employees becoming reliant on means tested benefits. This is because many public sector employees are low paid workers, already on quite low pensions.

This would result in more pensioners being eligible for benefits such as Pension Credit. According to the Department of Works and Pensions over 2.7million pensioners already receive Pension Credit, with an average payout of £52.69 per week. However, Pension Credit is often regarded as a ‘passport benefit’ – meaning that those who receive this benefit automatically receive a wider range of benefits including housing and council tax benefits.

UNISON Scotland is concerned that more people will have to rely on various forms of benefits if public sector pensions are reduced. There is already an issue with pensioners not applying for all the benefits to which they are entitled. One recent study estimated that in Scotland alone, pensioners were missing out on over £570 million of benefits. Delays in completing benefit application forms as well as errors in applications can result in delays in benefits being provided not just to pensioners themselves but also the councils who rely on this income to provide essential services.

UNISON Scotland

Summary

This briefing highlights that despite ill-informed media and political attacks, public sector pension schemes are certainly not gold standard. This description more accurately reflects the pensions that company directors award themselves, often 25 times the pension of their workforce. It is also clear that any perceived savings on public sector pension funds would result in increased spending on a range of means-tested benefits including pension credit, housing and council tax benefit. A reduction in public sector pension schemes would also impact heavily on the economy as such schemes provide billions of pounds of investment every year in the UK economy.

Action for Branches

This briefing paper is intended to update members and branches on the latest research on pensions and to allow them to respond to any local attacks on public sector pension schemes.

Further Information

UNISON Scotland
http://www.unison-scotland.org.uk

TUC Pensions page
http://www.tuc.org.uk/pensions/

PPI
http://www.pensionspolicyinstitute.org.uk/

NAPF
http://www.napf.co.uk/