

23 March 2010

Submission to the Public Sector Pensions Commission from Professor David Blake,
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1. Do you believe there is a “pensions apartheid” between the public and private sectors, and why? If so, do you think this is economically and socially sustainable?

There appears to be the beginning of a “pensions apartheid” between the public and private sectors. This is clearly because of the demise of defined benefit schemes in the private sector and the continuation (for many years to come) of gold-plated index-linked final salary pensions from age 60 in the public sector. There is nothing wrong in principle about having an index-linked final salary pension from 60, but it has to be paid for and given the reported size of the unfunded deficit in the public sector (£993bn according to a Towers Watson study reported in Professional Pensions on 22 March 2010), this is clearly not happening. Workers in the private sector without such gold-plated pensions are going to have to pay the taxes necessary to make good the promises to public sector workers. I’m not sure this is either economically or socially sustainable.

2. Do you think the reforms to public sector pensions that have been enacted over the last four years are sufficient to put them on a financially sustainable footing, and why?

I’m not sure that there has been sufficient information put into the public domain to independently assess the financial sustainability of these reforms

3. Do you have any views on whether some groups within the public sector benefit more from public sector pensions than others? Does it matter?

Newspaper reports suggest that senior Whitehall civil servants and senior NHS doctors are going to retire on a King’s ransom, but the public sector unions argue that the pensions received by the average public sector worker is quite modest. However, this still seems to be more than the average private sector worker’s pension

4. Are the current “contracted out” arrangements for public sector pensions fair?

Depends on whether or not the benefits forgone equal the cost saved

5. Do you believe it is reasonable for the taxpayer to continue to support DB in the public sector when the private sector has largely withdrawn from DB provision? If so, why?

No

6. What would be the most radical change to public sector pensions that you would suggest, and why?

Immediately increase the retirement age. This would be the least costly way of bring the system back into balance

7. What would be the most practical change to public sector pensions that you would suggest, and why?

Same answer as 6: Immediately increase the retirement age. This would be the least costly way of bring the system back into balance

8. Thinking about the place of public sector pensions within the wider pensions system, what is the best way forward, given the enormous fiscal deficits currently being run, and why?

I would not get rid of defined benefit pensions in the public sector for two reasons. First, the public sector has historically provided a role model for the design of private sector pensions. Keeping defined benefit pensions in the public sector could therefore provide a useful benchmark against which new private sector pension arrangements could be compared, and possibly even lead to the reintroduction of some form of DB or hybrid scheme in which the employer doesn't bear all the risk. Second, if the government did replace DB with DC in the public sector and the DC outcome was poor, it is only going to have to make up any shortfall in the form of means-tested benefits. Means-testing of benefits just takes away all the incentives for citizens to voluntarily save for their retirement. So we need to have a DB system that is sustainable and equitable in the public sector. This means considering things such as career average and conditional indexation on top of raising the retirement age

9. Do you see merit in a ceiling on the level of public sector pensions? Would this be better as a limit on pensionable salary or on the pension?

I think a career average DB pension system would go a long way to dealing with this. One could also put a cap on employer contributions, with the employee going for DC AVCs if they wanted to enhance their pension

10. How can we best find a consensual way to reform public sector pensions, that avoids industrial action, and why?

I think the best starting point is having full transparency of the costs of public sector pensions with an independent agency providing estimates of the costs. This could then be compared against the costs in a range of private sector schemes. At the moment, government ministers simply repeat the mantra 'public sector pensions are affordable' without providing any evidence. I realise it could soon get more complicated as job security is often traded off against the size of the pension. But transparency and comparability is the essential prerequisites to any consensual reform