Independent
Public Service
**Pensions Commission**

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**JOHN HUTTON PUBLISHES INTERIM PUBLIC SERVICES PENSION REPORT**

Lord Hutton of Furness today set out the case for change in public service pensions: longer lives, the unfairness of a system that rewards high-flyers disproportionately, the imbalance of risk between taxpayers and employees and contribution rates that do not reflect the value of benefits received all demonstrate the need for reform.

In publishing the Independent Public Service Pensions Commission's Interim Report, John Hutton said:

"The current public service pension system has been unable to respond flexibly to changes in life expectancy over the past few decades – someone retiring now can expect to spend 40% of their adult life in retirement. This has driven up costs – by a third in the past decade – and these extra costs have fallen almost entirely to taxpayers. The final salary link in public service pensions is inherently unfair and can lead to high flyers getting almost twice as much back in pensions than those on more modest earnings for the same amount of pension contributions. It is also acts as a barrier to free movement of employees from the public to private sector. The case for reform is clear.

"But it is wrong to say that public service pensions are gold-plated. The average pension paid to pensioner members is about £7,800 a year. About half of pensioners receive less than £5,600 a year. And 90% of pensioners receive less than £17,000 a year. Although these figures are partly accounted for by part-time or part-career working these pensions provide a modest – not an excessive - level of retirement income.

"I also reject the argument that the downward drift of pensions in the private sector is justification that pensions in the public sector must follow the same course. I have rejected a race for the bottom."

Speaking in Liverpool at the National Association of Pension Funds (NAPF) annual conference on the day of publication, John Hutton said:

"Long-term structural reform is needed, as the issues with the current system cannot be dealt with through traditional final salary defined benefit schemes. But neither can they be dealt with appropriately through a funded individual account defined contribution model given that this would place a major financing burden on taxpayers, ignore the ability of Government as a large employer to manage risk, and increase uncertainty of post-retirement income for scheme members, which is difficult in particular for the low paid to manage. We need an alternative scheme model that provides a fair sharing of risk between the employer and employee and adequate pensions to members."

The Commission's final report, looking at long term structural reform options, will be delivered in time for the 2011 Budget.

John Hutton continued:

"In my final report I will consider a range of alternative structures. This will include a career average alternative to the current final salary defined benefit schemes. Drawing upon international experience, alternatives such as Sweden's use of notional defined contribution schemes and the Netherlands' collective defined contribution schemes will be examined, as will risk sharing models, such as hybrid schemes that combine elements of defined benefit and defined contribution models."

In line with the Commission's Terms of Reference, the interim report also considers the case for delivering savings on public service pensions within the spending review period. It concludes that given the implementation time for any longer term reforms there is a case for short term changes, especially given that the Commission found that current Government assumptions may well underestimate the cost to the taxpayer and past increases in life expectancy have been paid for in the most part by taxpayers.

The Commission feels that, if the Government wishes to make short-term savings, then raising contribution rates would be the most effective way. But in doing so they should have regard to protecting the low paid and should not introduce contribution rates for the armed forces at this time.

**NOTES FOR EDITORS**

1.Lord Hutton of Furness was commissioned by the Chancellor, George Osborne, at the June 2010 budget to carry out a review of public service pensions. A further and final report will be published in time for Budget 2011.

2.It is for the Government to decide how or whether to action the Commission's Interim findings.

3.Press enquiries to Malcolm Graves at the Independent Public Services Pensions Commission on 07785 316773. Public enquiries to 020 7270 5186.

4. KEY FACTS

- About one in five UK citizens has some entitlement to a public service pension
- Public service schemes paid out £32 billion in 2008-09, about two thirds of the cost of the basic State Pension
- Pension payments from the leading 5 public service schemes (local government, NHS, teachers, civil service and armed forces) increased by 32 per cent from 1999-2000 to 2009-10.

- The average pension paid to pensioner members is around £7,800 per year
- Around half of pensioners receive less than £5,600 per year
- 90 per cent of pensioners receive less than £17,000 per year
- 1 in 10 public service pensions are £1,000 a year or less
- A female NHS worker who retired aged 60 in 1956 was expected to live for a further 20 years. By 2004, this had increased to 28 years, and by 2010 to 32 years
- Current pensioners can expect to spend about 40 to 45 per cent of their adult lives in retirement if they retire at 60, compared with about 30 per cent for pensioners in the 1950s
- Measured by standard contribution rates, the cost of a teacher's pension in 2004 was a third higher than it would have been if assumptions about life expectancy were the same as those in 1955
- Public service pension benefit expenditure from unfunded schemes is expected to reach 1.9 per cent of GDP in 2010-11 and remains close to this level for the next decade before decreasing to 1.4 per cent of GDP by 2060
- Net of employee contributions, benefit payments peak at 1.5 per cent of GDP in 2010-11, before falling to below 1.1 per cent by 2060
- In 1925 members of the Teachers' Pension Scheme paid 5 per cent employee contributions, which was matched by a 5 per cent contribution from the employers. Current members pay 6.4 per cent with the employer paying over twice as much at 14.1 per cent
- Around 85 per cent of public service employees have some form of employer-sponsored pension provision compared to around 35 per cent in the private sector