Public service pension reform – 1997 to 2010

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This note looks at reforms introduced under the Labour Government to the main public service pension schemes – those for the NHS, teachers, civil servants, local government, police and the armed services.

Reforms introduced under the Labour Government had the aim of improving financial sustainability and reflecting changes in life expectancy, working practices and the private sector. They included an increase in the pension age for new entrants and the introduction of "cap and share" mechanisms to limit the future liability of taxpayers. Opinion was divided on whether these reforms went far enough. The TUC, for example, argued that they put the schemes on a sustainable footing. Others, including employer representatives, saw them as inadequate and argued that more needed to be done.

Since the May 2010 general election, the Conservative-Liberal Democrat Coalition Government has set up the Independent Public Service Pensions Commission, chaired by former Labour Work and Pensions Secretary, Lord Hutton of Furness, to "undertake a fundamental, structural review of public service pension provision by Budget 2011". Its interim report, which makes recommendations for achieving savings in the short-term was published in October. This is discussed in more detail in Library Standard Note SN/BT 5768 *Public service pension reform - 2010 onwards*.

More detailed information about the reforms individual schemes can be found in Library Standard Notes on the individual schemes. Further details of the reforms can be found in SN/BT 5252, Public service pensions – cost capping and sharing SN/BT 2209, Public service pension age and SN/BT 4002 *Local Government Pension Scheme – rule of 85.*

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1 Background

Public sector pension schemes are occupational pension schemes for employees of central or local government, a nationalised industry or other statutory body. Public service schemes are established by statute or by Ministers exercising statutory powers.[1] This note concentrates on the six largest public service schemes – those for the Armed Forces, Civil Service, Local Government, NHS, Police and Teachers.[2]

There are two main types of occupational pension schemes:

- Defined benefit (DB) schemes, that typically promise to pay a pension linked to salary and length of service; and
- Defined contribution (DC) schemes, that typically pay out a sum based on the value of a member's fund on retirement. The level of pension depends on factors such as the level of contribution paid and investment returns.

Nearly all the public service schemes are DB schemes. In most cases, members accrue pension benefits based on a proportion (usually 1/60th or 1/80th) of final salary for each year of service.

There are differences in the way these schemes operate. The NHS, Civil Service, Teachers' and Armed Forces Schemes are administered at national level, with a number of different

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1 David Blake, *Pension schemes and pension funds in the United Kingdom*, Second Edition (2003), p686

2 PPI, *an assessment of the Government's reforms to public sector pensions*, October 2008

employers (for example, NHS Trusts or government departments) contributing. The Local Government and Police schemes are managed and administered at local level, although the rules are set nationally. In some cases, there are separate schemes for the different nations of the United Kingdom. The Armed Forces scheme is UK-wide. The Civil Service has separate schemes for Great Britain and Northern Ireland. NHS and Teachers have a scheme for England and Wales, and separate schemes for Scotland and Northern Ireland. Responsibility for pensions for police (and firefighters) is devolved to the four nations.

The biggest difference between public service schemes and private sector DB schemes lies in the funding arrangements. Most private sector DB schemes are funded, meaning that contributions from employees and employers are paid into a fund, which is invested, and from which the cost of pension benefits is met. A fund is necessary to ensure that sufficient resources are available to pay promised pension benefits in event of the employer becoming insolvent. Of the main public service schemes only one – the Local Government Pension Scheme - is funded.[3] Most are unfunded and operate on a pay-as-you-go (PAYG) basis. The fact that there are different funding arrangements within the public sector is to some extent the result of historical development.[4] Other countries also run PAYG schemes at central government level and funded schemes at local level.[5]

The interim report of the Independent Public Service Pensions Commission explains that:

> In total, about 12 million people are members of a public service pension scheme, or receive pensions as dependants of deceased members. So about one in five UK citizens has some entitlement to a public service pension. There are around three hundred public service pension schemes, but more than 95 per cent are members of the six largest categories of scheme – local government, NHS, teachers, civil service, armed forces and police.[6]

More detailed information on the numbers and costs of members of public service schemes are in Library Standard Note SN/BT 5768 *Public service pension reform – 2010 onwards*.

2 Reforms

2.1 Uniformed services

The first schemes to be reformed after the general election in 1997 were those for the uniformed services. The interim report of the Independent Public Service Pensions Commission, chaired by former Labour Work and Pensions Secretary, Lord Hutton of Furness, provides the following overview:

> 2.1 The previous Government recognised the need for major reform and began a modernisation programme for public service pensions when it took office in 1997. [...]
>
> 2.2 The uniformed services were among the first to have their pensions reformed. Changes were mainly for new entrants* and included a limited increase in pension ages; a reduction in accrual rates; improved management of ill-health retirement and the introduction of unmarried partners' pensions. For the police and firefighters'

[3] The pension scheme for Members of Parliament (the Parliamentary Contributory Pension Fund) is also funded but is much smaller, with just over 600 active members

[4] David Blake, *Pension schemes and pension funds in the United Kingdom,* 2003, page 384

[5] See, for example, British North-American Committee, *The need for transparency in public sector pensions. A comparative study of occupational public sector schemes in US, UK and Canada*, June 2009, p8

[6] Independent Public Service Pensions Commission: Interim Report, 7 October 2010, p21

> schemes, these changes were implemented together with a reduction in member contributions.[7]

These are discussed in more detail in Library standard notes SN/BT 700 *Police Pension Scheme*; SN/BT 1424, *Armed Forces Pension Scheme*; SN/BT 3260 *Firefighters Pension Scheme.*

2.2 Proposals to increase the pension age

In December 2002, the Labour Government announced its intention to increase the age at which all new members of public service pension schemes could retire on an unreduced pension from 60 to 65. This was to help financial sustainability and to reflect "improved longevity, modern working patterns and the practice in the majority of private sector pension schemes". Schemes for the armed forces, firefighters and police would continue to have a lower pension age, reflecting the physical demands of those occupations, although early leavers of those schemes would only be able to claim their deferred pension from age 65. A higher pension age would be introduced as part of a package of changes and could help to finance greater flexibility, particularly in the transition from work to retirement.[8]

It was envisaged that the new arrangements would apply to all new employees. For existing members, accrued pension rights from service before the change would be fully protected. The Government would consult on "how and to what timescale the higher pension age and any associated enhancement to benefits could be extended to existing employees, while protecting rights already accrued."[9]

The occupational pensions White Paper, published in June 2003, confirmed the Government's intention to proceed with its proposal through individual scheme reviews. It was envisaged that by the end of 2006, all new staff would join under the new conditions. A key task for the reviews would be to "to decide how the higher pension age will apply to the future service of existing staff and how to ensure that transitional arrangements are fair and balanced."[10]

Generally, members of the public service pension schemes strongly opposed the proposal to increase their pension age from 60 to 65. TUC General Secretary, Brendan Barber said, for example:

> Cuts in pension provision are the same as a pay cut. The Government's attempt to raise retirement ages across the seven million who work in the public sector must add up to the biggest ever pensions change. We are against 'work til you drop' policies. For those in heavy manual work or others with stressful and demanding jobs in fields such as air traffic control or north sea fishery protection, or for those whose work brings them into contact with members of the public in health and social services, it will simply be impossible or lead to ill health and even shorter lives.[11]

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[7] Independent Public Service Pensions Commission: Interim Report, 7 October 2010

[8] DWP, Simplicity, security and choice: Working and saving for retirement, December 2002, CM 5677, Chapter 6, para 65-69

[9] Ibid

[10] DWP, *Simplicity, security and choice: working and saving for retirement: action on occupational pensions*, June 2003, Cm 5835

[11] TUC Press Release, 'Thousands protest at biggest ever pensions change', February 18 2005

A number of unions balloted their members on strike action in the early part of the year and widespread industrial action was scheduled for 23 March 2005.[12] On 18 March 2005, Alan Johnson, the then Secretary of State for Work and Pensions, wrote to Brendan Barber, General Secretary of the TUC, proposing a "fresh start on discussions with Trade Unions." The strikes were called off and a "pensions summit" held on 31 March 2005. Following this summit, Alan Johnson and Brendan Barber issued a joint statement. Both sides recognised the effects that demographic changes were having on the sustainability of pension schemes:

> Everyone wanted to ensure that a proper process of discussion and negotiation now occurs on the Government's proposals through the continuation of "scheme specific" negotiations overseen by special sessions of the Public Services Forum, with both sides committed to finding negotiated solutions.[13]

Following three meetings of the Public Services Forum (PSF) an agreement was reached at a meeting on 18 October 2005, covering the Civil Service Pension Scheme, the Teachers Pension Scheme and the NHS Pension Scheme.[14] Existing employees would retain a normal pension age of 60. For new entrants, it would rise to 65. Individual scheme negotiations would agree how the reform would apply to existing employees and what other changes would be made. An agreed set of framework principles would provide a common means of moving forward with the individual scheme reviews. One principle was that existing scheme members would have the right to suffer no detriment in terms of their normal pension age.[15]

It was agreed that new schemes would be defined benefit, would be designed with the aim of increasing take-up amongst part-time and lower paid workers and would enable greater flexibility in the transition to retirement. The Government would make available approximately 1% of payroll to improve benefits in the new schemes (such as survivors' benefits) and for transitional protection for existing scheme members:

> New schemes should continue to guarantee defined benefit provision, linked to an individual's earnings. Schemes should also offer indexation to protect retired members against rises in the cost of living.
>
> All changes to schemes should be equality-proofed before implementation.
>
> New schemes should be designed with the objective of increasing appropriate take-up especially amongst part-time and lower paid workers and others who are eligible but where participation in the scheme may be lower currently.
>
> As people live longer, healthier lives, it is likely more will choose to continue working for longer. This makes it crucial that schemes give greater flexibility than in the past to those who wish to use part-time work as a stepping stone to retirement, and also greater recognition to service by those who chose to work beyond typical retirement ages.
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> For the purposes of calculating accrual of pensions, 65 will be the reference age (the "NPA") for new entrants to the new schemes entering employment after the

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[12] See, for example, "Public sector workers vote for strike in pension row", *Independent*, 12 March 2005

[13] TUC press release, 'Statement from Alan Johnson and Brendan Barber' 31 March 2005

[14] DTI press notice, "Agreement reached on public sector pensions", 18 October 2005; The Local Government Pension Scheme (which already has a normal pension age of 65) was being discussed separately with the Office of the Deputy Prime Minister

[15] 'Pensions Update – October 2005',

> implementation date. But not all new members will want to work longer, and all new scheme members will continue to have the right to retire at age 60. All new scheme members who under the new arrangements would retire on a lower pension than they would under existing rules will be offered the opportunity to increase contributions so members can continue to retire on a full pension at age 60. Those who wish to continue to work to the new normal pension age will be able to do so at the standard contribution rate.
>
> Government will make available approximately 1% of pay roll to improve benefits in the new schemes, such as improved survivor benefits, or to deal with transition arrangements/protection for existing scheme members.
>
> Scheme specific negotiations should take account of the special physical and mental demands of many public sector jobs, and the resultant continuing importance of early retirement provision for those with ill health.
>
> The PSF will review the operation of these principles early in the New Year.[16]

The Local Government Pension Scheme (LGPS) already had a normal pension age of 65. Rules under which people could retire under the age of 65 on a full pension are being phased out by 2010.[17] A process of reforming the Local Government Pension Scheme started with the publication of '*Facing the future: Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales*' in October 2008. A "new look" LGPS was introduced in April 2008. It remains a final salary scheme. Benefits now accrue at a rate of 1/60th of final salary for each year of service (previously, it was 1/80th and an automatic lump sum of 3/80^{ths}). Contribution rates are tiered according to earnings (from 5.5% to 7.5%) with the intention of a greater yield overall without imposing too great a burden on lower paid workers.[18]

2.3 Scheme specific negotiations

Detailed reform packages were negotiated separately for each of the individual schemes. The schemes for uniformed services (armed forces, police and firefighters) had lower normal pension ages justified by the need for a recognised physical capacity to do the job.[19] They were not covered by the PSF framework but have also been reformed in recent years.

The Pensions Policy Institute (PPI), which published an assessment of the reforms in October 2008, points out that the government departments sponsoring the individual schemes had other objectives than those in the Green Paper. These included the need to reduce costs for employers, to react to changes in the workforce (for example, an increase in part-time employees in the NHS and local government), to give employees the opportunity to work for longer and to comply with legislative changes (such as pension tax simplification, age discrimination and civil partnerships).[20]

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[16] Ibid.

[17] This is discussed in more detail in Library standard note SN/BT 4002 *Local Government Pension Scheme – rule of 85.*

[18] :*Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007* (SI 2007 No. 1166)

[19] See, for example, DWP, HM Treasury, Inland Revenue, *Simplicity, security and choice: working and saving for retirement*, December 2002, Cm 5677, para 66

[20] PPI, an assessment of the Government's reforms to public sector pensions, October 2008, page 10

PPI commented that, unsurprisingly, given the different starting points, aims and workforces, there were differences in the reforms negotiated in individual schemes. However, some broad similarities were evident:

- Member contribution rates have increased in most of the schemes. Some of the schemes have introduced tiered contribution rates, with the contribution rate depending on a member's salary.

- Accrual rates have increased for the main schemes for new entrants, from 80ths to 60ths of salary. The separate lump sum accrual, which used to provide a lump sum of 3/80ths of salary for each year of service, has been abolished for new entrants. New entrants to the schemes can now only receive a lump sum at retirement if they exchange (or 'commute') part of their pension. Special tiered accrual rates for the Armed Forces, Police and Fire schemes have been abolished.

- New tiers of ill-health pension have been introduced, as have new flexible retirement arrangements.

- Survivors' pensions are now payable to civil partners and to non-legal partners who have a financially interdependent and cohabiting relationship. Survivors' pensions now continue to be paid after a spouse or survivor remarries or forms another civil partnership.

- Cost sharing and cost capping agreements have been made for the NHS, Teachers', and Civil Service schemes, and Local Government is expected to follow. These agreements mean that any unanticipated future increases in costs will be borne by both public sector employers and the members of the schemes, or solely by the members, rather than automatically falling only on public sector employers as was the former situation.

A table summarising the main elements of the reforms in the different schemes can be found in the interim report of the Independent Public Service Pensions Commission.[21]

2.4 'Cap and share'

Following the PSF 2005 agreement, it was agreed that public service pensions would introduce mechanisms to ensure that the cost pressures from the rising cost of providing pension benefits (due to, for example, improving longevity) were shared between employers and employees, subject to a cap on employer contributions:

> Following the Public Service Forum 2005 agreement to deliver sustainable and affordable public service pensions, it was agreed that public service pension schemes would introduce the cap and share mechanism. The cap and share policy is designed to ensure that the cost pressures associated from the rising cost of providing pension scheme benefits (such as improving longevity) are shared between employers and employees up to an agreed employer contribution cap, beyond which all further increases will be the responsibility of employees. This sets a maximum limit to employer contributions thus protecting the public finances and taxpayer. The costs will be assessed through the periodic scheme valuations that take place every 3 or 4 years.[22]

The pension scheme for Members of Parliament – the Parliamentary Contributory Pension Fund – was the first to implement this policy with a combination of increased contributions

[21] *Independent Public Service Pensions Commission: Interim Report*, October 2010
[22] HM Treasury, *Long-term public finance report: an analysis of fiscal sustainability,* December 2009, Box 6A

and benefit changes. A "cap and share" mechanism has now been introduced in the Civil Service, Teachers' and NHS schemes and is being developed in the Local Government scheme.[23] The table below summarises the date from which the agreements take effect, the agreed employer cap and the current level of employer contributions. As this shows, in most cases the employer contribution is already near the level of the cap.

Scheme	Date of valuation from which agreement applies	Date expected to take effect	Agreed cap on employer contributions (% of pay)	Current employer contribution rate
NHS	1 April 2008	1 April 2012	14.2% (14% from 2016)	14.0%
Teachers	1 April 2008	1 April 2010	14%	14.1%
Civil Service	1 April 2010	1 April 2012	20%	19.4%
Local Government	1 April 2010	1 April 2012	To be agreed	15.7%

In the Pre-Budget Report in December 2009, the then Chancellor, Alistair Darling, said that where the cap was reached, higher earners would be expected to contribute a higher proportion of any increase in costs.[24]

It has not yet been resolved how to limit employer costs for the uniformed services and several other public service pension schemes by methods such as cap and share.[25] The Independent Public Service Pensions Commission noted that "cap and share" was as yet an "untried system" and had a number of limitations. In its view, this meant that:

> [...] cap and share on its own will not deliver the type of wide-ranging structural reforms that are needed or significant reductions in current costs for taxpayers. It would instead be necessary to apply a more coherent overall policy framework when determining future pension provision and how levels of employer cost and risk are assessed, managed and taken into account in overall remuneration.[26]

2.5 Cost savings

In 2006, the Labour Government estimated that the agreement should result in capitalised savings of around £13 billion over 50 years:

> The PSF agreement in October 2005 was about reforming normal pension ages in the schemes for civil servants, teachers and the NHS. Annualised savings figures to 2050-51 are not available but the capitalised savings over 50 years were estimated at around £13 billion and savings of at least this amount should be delivered through the scheme reforms once they have been finalised and implemented over the next couple of years.[27]

Savings of £13 billion over 50 years were described as "relatively modest" by the Pensions Policy Institute, given that employers contributed around £10 billion every year to these three

[23] Ibid; This is discussed in more detail in Library Standard Note SN/BT 5252, *Public service pensions: cost capping and sharing* and Library Standard Note SN/BT 1844, *Parliamentary Contributory Pension Fund*

[24] HC Deb, 9 December 2009, c369

[25] Independent Public Service Pensions Commission: Interim Report, 7 October 2010, page 39

[26] Independent Public Service Pensions Commission: Interim Report, 7 October 2010, page 47

[27] HC Deb, 2 November 2006, c596W

schemes. It expected that any savings from the cost capping and sharing agreements would be more substantial, although still relatively small in relation to total taxpayer costs.[28]

In 2009, the Government said the £13 billion figure was "obsolete":

> The subsequent packages that were actually introduced included further reforms, such as cost sharing and cost capping mechanisms, to limit employer costs. The £13 billion calculations are now obsolete and revised estimates of the capitalised savings and extensions of the estimates to other schemes on the assumptions used in 2005 could be provided only at disproportionate cost.[29]

In December 2009, it pointed to the importance of the "cap and share" mechanism in limiting future taxpayer liability. These reforms, it was estimated, would save some £1 billion a year from 2012-13, and at least twice that over the long term.[30]

The Independent Public Service Pensions Commission noted that costs savings to be expected from the reforms vary considerably between schemes and will take time to feed through:

> 2.8 The overall cost savings from these reforms, compared with the costs that might otherwise have arisen, vary considerably between schemes. Over the next 30 years, expected savings under the reforms of the uniformed service schemes range from under a tenth of overall cost for the armed forces to about a fifth for police and a third for firefighters. However, the savings will build up gradually, in line with the gradual increase in the proportion of members accruing benefits under the new pension terms. Consequently, because of protections for existing members' past and future service, overall costs for these schemes are predicted to remain at over a third of pensionable pay for much of the next decade.
>
> 2.9 Across the four largest categories of scheme (local government, civil service, NHS and teachers) cost savings from the reforms, compared with what costs might have been, may be equivalent to five per cent or more of overall scheme cost by the 2040s. This estimate excludes any allowance for the possible effects at future pension scheme valuations of new arrangements for risk transfer (cap and share).
>
> 2.10 However, as with the uniformed services, because of protections given to existing members in respect of future service, it will be some time before the full impact of the reforms appears in employer contribution rates. Also, some of those savings may be offset by future increases in employer costs rather than being reductions from the current levels of cost.
>
> 2.11 The 2009 Pre-Budget Report (PBR) and the long-term public finance report (LTPFR) included an allowance for further savings to those discussed above, if further longevity pressures were as then anticipated and if the 'second wave' cap and share reforms were rigorously implemented. It was assumed that two-thirds of the savings through cap and share would be met by benefit reductions, with the other third leading to contribution increases. The PBR assumed a saving of about £1 billion a year on account of increases in employee contributions resulting from cap and share from April 2012. The 2009 LTPFR indicated possible savings through reductions in benefits of £2

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[28] PPI, *an assessment of the Government's reforms to public sector pensions*, page 4 and 29

[29] HC Deb, 2 April 2009, c1387

[30] HM Treasury, *Pre-Budget Report 2009*, CM 7747, December 2009

billion or more a year in the very long-term across the NHS, teachers and civil service pension schemes in a 'central scenario'.[31]

2.6 Comment

Opinion on the reforms was divided. The TUC points to the resulting increase in the pension age for new entrants, increases in member contributions and the cost-sharing arrangements:

> Most public sector pension schemes have increased the normal pension age from 60 to 65 for new entrants, in line with most private sector schemes. Only the armed forces, police and fire schemes have kept theirs below 65, reflecting the physical demands of these jobs.
>
> Nurses, teachers and local government employees are now paying more on average towards their pensions than before the reforms. This agreement resulted in an initial increase in member contributions of 0.5% on average with possible further rises when valuations take place every 3 or 4 years.
>
> New cost-sharing arrangements were put in place that mean that if higher pension benefits are paid or if life expectancy continues to rise more quickly than expected, the resulting cost will fall mainly on public sector scheme members rather than on the taxpayer.[32]

The Institute of Directors (IoD), on the other hand, described them as "inadequate" and argued for further reforms, including further increases in the pension age.[33] The Confederation of British Industry (CBI) agreed:

> The position is not sustainable. Reform is needed – at some point government must take action. There is a choice, though: either action is taken now and managed fairly over a period of time, or it is delayed and will become even more painful for all sides at a later date.[34]

Former chair of the Pensions Commission, Lord Turner, said that measured against three criteria – cost, fairness relative to the private sector and fairness within the public sector – the reforms were inadequate and would need to be revisited:

> I speak as someone who believes that salary-related pensions are a sensible part of public sector pay packages and who accepts that there is nothing inherently wrong with some of these being unfunded and therefore paid out of future taxation. It is essential, however, that the total burden on future taxpayers is seen as reasonable, relative to other demands on tax revenues, that the retirement age terms of the pensions are seen as fair, relative to those facing the rest of society, and that the arrangements are internally fair between different employees within the public sector. On each of those three criteria—cost, fairness relative to the private sector and fairness within the public sector—the deal that the Government reached with the unions in 2005 is inadequate and will need to be revisited at some time. It will be best revisited if there is transparency about the facts.[35]

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[31] Independent Public Service Pensions Commission: Interim Report, 7 October 2010
[32] TUC, *Exploding Public Sector Pensions Myths: A Briefing for Trade Union Members*, July 2009
[33] Ibid, page 5
[34] CBI, *Clearing the pensions fog*, December 2008
[35] HL Deb, 11 June 2007, c1559

3 Debate on the need for further reform

As explained above, opinion was divided on whether the recent reforms went far enough. The Labour Government argued that the schemes were affordable going forward.[36] However, others did not agree and an argument about whether reform was needed continued in the run up to the 2010 general election. The debate around whether further reform was needed was polarised and tended to centre on questions of cost and the gap between pension provision in the public and private sectors.

Proponents of reform often point to a growing disparity between public and private sector. Public sector employees, they point out, are more likely to be covered by a DB scheme and their DB pensions are worth more as a share of their total remuneration. This makes it particularly unfair to impose increasing liability on taxpayers of the future. The CBI, for example, says:

> The steps taken so far to manage escalating costs in the public sector, while welcome, do not go far enough. It is taxpayers – businesses and individuals- who pick up the tab. They are entitled to question why, when the public sector has recognized the need to take steps to ensure affordability, comparable action has not been taken in the public sector. The widening divide on pension provision also poses a threat to the smooth operation of the labour market.[37]

The TUC, on the other hand, says such arguments amount to an attack on low-paid public sector workers, many of whom retire on modest pensions - an average of £4,000 in local government, for example.[38] It argues that "the real difference between public and private sectors is among the low and average paid". Whereas well-paid private sector employees were likely to get a decent pension on top of their pay, this was not the case for the lower paid, who are much more likely to be covered by an occupational pension if they work in the public sector.[39]

Both Pensions Policy Institute (PPI) and the Institute for Fiscal Studies have undertaken detailed work on the difference in pension scheme coverage and the value of pension benefits in public and private sectors.

Public sector employees are more likely than those in the private sector to be covered by an occupational pension. The difference is particularly marked for low paid employees. The PPI found that 20% of private sector employees earning between £100 and £200 a week were members of an occupational scheme, compared to 70% in the public sector.[40] Public sector employees are also more likely to be in a defined benefit (DB) scheme. The gap between the two sectors has grown recently, as increasing numbers of private sector employees have closed DB schemes. This trend look set to continue. The Pensions Commission said:

> There are now fewer than 2 million active members of open private sector DB schemes. In the First Report we suggested that the number would be unlikely to stabilise above 1.6-1.8 million: a much lower figure now looks likely. It is difficult to see

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[36] See, for example, HL Deb, 1 December 2009, c679 [Lord Mckenzie]; HC Deb, 9 December 2009, c369 [Alistair Darling]

[37] CBI, *Clearing the pensions fog*, December 2008

[38] TUC, *Exploding Public Sector Pensions Myths: A Briefing for Trade Union Members*, July 2009

[39] TUC, *Exploding Public Sector Pensions Myths: A Briefing for Trade Union Members*, July 2009

[40] Pensions Policy Institute, *An assessment of the Government's reforms to public sector pension,* p49

> private sector DB provision, certainly final salary in form, playing more than a minimal role in the future UK pension system.[41]

The IFS found the value of Defined Benefit (DB) pensions to be worth more as a share of the total remuneration package in the public sector compared to the private sector. Not only were public sector employees more likely to be covered by DB pensions, but their DB pensions were also worth more as a share of the total remuneration package. Overall, average public sector pension accruals were found to be 25 per cent of salary, compared to 18.9 per cent of salary for private sector workers. This was in part due to differences in the pension benefits offered (such as the age at which pensions can first be drawn). However, other factors were also important:

> For example, if public sector workers had shorter job tenures or the lifetime earnings profiles of private sector workers (for whom earnings peak earlier) final salary defined benefit plans would be far less attractive to public sector workers. [42]

PPI looked at whether the recent reforms to public sector pensions (see 2 above) had helped close the gap between public and private sector provision. It found that the reforms had "reduced the average value of the four main public sector pension schemes (for the NHS, Civil Service, Teachers and Local Government) by around 3% of salary for new entrants, from 23% to 20%." It found that post reform, the value of the NHS, teachers, civil servants and local government schemes was similar to a "medium private sector DB scheme". However, the average value of a private sector defined contribution (DC) scheme was significantly lower, at around seven per cent of salary. [43]

IFS looked at whether the comparative generosity of public sector pensions compensated for a "pay penalty" but found no clear evidence that the differences in pension rights were offset by differences in earnings levels.[44] PPI also looked at this question and noted that:

> Although a job-for-job type comparison of pay is difficult to make between the private and public sectors, women and low-skilled male workers seem to be paid relatively more on average in the public than the private sector. High-skilled male workers are paid more in the private than the public sector.[45]

In research published in 2010, the IFS said that:

> falling pension accrual among private sector workers between 2001 and 2005 and unchanged pension accrual among public sector workers over the same period meant that the remuneration of public sector workers in the form of pensions grew faster relative to that of private sector workers.[46]

An increase in the pension age for all members of public sector schemes would have made a difference to this disparity:

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[41] Pensions Commission, *The Second Report of the Pensions Commission*, November 2005, p48. The Pensions Commission's First Report was published on 12 October 2004.

[42] IFS Press Release, 'The pension advantage of public sector workers', 2 December 2009; Richard Disney, Carl Emmerson and Gemma Tetlow, 'What is a public sector pension worth?', The Economic Journal 119 , November 2009, F529

[43] PPI, *an assessment of the Government's reforms to public sector pensions*, October 2008, p3-4

[44] Richard Disney, Carl Emmerson and Gemma Tetlow, *What is a public sector pension worth?* Economic journal, 119, November 2009, p 522; See also, CBI, *Clearing the pensions fog*, December 2008; PPI, *an assessment of the Government's reforms to public sector pensions*, October 2008, p5

[45] Pensions Policy Institute, *An assessment of the Government's reforms to public sector pension,* p4-5

[46] Carl Emmerson and Gemma Tetlow, 'Pensions and Retirement Policy. 2010 Election Briefing Note No. 16'

> The research also assessed what would have happened to pension accrual had an immediate increase in the normal pension age from 60 to 65 been implemented for all members of public sector pension schemes between 2001 and 2005. This would have reduced the generosity of pension accrual for public sector workers to a sufficient extent that the average grown in total remuneration between 2001 and 2005 would have been almost the same as that in the private sector.[47]

However, to make a sensible comparison, it was important to look at the total remuneration package:

> Pensions make up only one part of workers' total remuneration packages – the others being current pay, bonuses and other benefits. To make a sensible comparison between remuneration in the public and private sectors, we need to consider all elements of remuneration together, rather than pensions in isolation.[48]

3.1 Possible reform objectives

A number of organisations have proposed objectives for the reform of public sector pensions. The Pensions Policy Institute (PPI), for example, proposes that essential objectives could be:

> To ensure that public sector pensions provide adequate pensions for public sector workers in their retirement
>
> To address concerns that public sector pension schemes are unaffordable and not financially sustainable
>
> To improve the transparency of the cost of the pensions being offered to public sector employees
>
> To address perceptions that public sector pension schemes offer higher levels of benefits than private sector pension schemes
>
> To address unfairness between members within the same public sector pension scheme, and
>
> To enable the Government to recruit and retain high quality staff.[49]

The Confederation of British Industry (CBI) argues that that an independent public sector pensions commission should set out the principles reform but suggests that fundamental aims could include:

> Protects benefits already built up, both for existing employees and pensioners
>
> Achieves short-term and long-term financial sustainability
>
> Ensures financial transparency and accountability
>
> Shares costs and risk appropriately between employers and employees, avoiding any taxpayer subsidy
>
> Recognises the value and role of pensions as part of the total reward package

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[47] I FS Press Release, 'Pensions boost public sector pay growth unlike private sector experience', 1 April 2010; IFS Working Paper, Occupational pension values in the private and public sectors,

[48] Carl Emmerson and Gemma Tetlow, 'Pensions and Retirement Policy. 2010 Election Briefing Note No. 16'

[49] PPI, *Public sector pension schemes: policy objectives and options for the future,* (March 2010), page 2

> Aligns public sector schemes with good private sector practice.[50]

Carl Emmerson of the IFS argues that the question should be whether this spending represents value for money to the taxpayer:

> The Government should focus on ensuring that the overall remuneration package offered to public sector workers attracts and retains suitable employees at the lowest cost to the taxpayer.[51]

3.2 Funding arrangements

The fact that most of the public service schemes operate on a PAYG basis is the subject of much press comment. Public service pensioners, it is argued, are accruing generous pension benefits that will have to be paid for by future taxpayers.[52] A number of commentators argue that reform of the funding arrangements is needed to improve scrutiny and control costs. For example:

> The problem with unfunded public sector schemes is not lack of security for members. It is instead that (i) commitments made by one generation have to be paid for by subsequent generations (rather than paid for at the time of commitment) and ii) the scale of commitments may not be subject to scrutiny of the same rigour as that which applies to the funded pensions sector.[53]

The Institute of Directors recommended a move to Defined Contribution pensions in the public sector, although there would need to be consideration of how to manage the transitional costs:

> Ultimately, the only way to manage longevity risk is to move away from pension arrangements where current contributions by employees pay for current pensions paid to retirees, to funded provision, where each scheme member's retirement pot grows throughout his working life. Businesses have had to bow to this reality, and in the long run, the only way of bridging the pensions apartheid and ensuring the sustainability of the public finances may be for the public sector to move to DC arrangements, In that context there will need to be a greater consideration of how to manage transition costs, which may be considerable.[54]

On the other hand, many commentators argue that it is perfectly reasonable for the Government to operate pensions on a PAYG basis.[55] The principal justification is said to lie in the permanence of central government and its powers of taxation. David Blake says:

> The principal justification for not funding in the central-government public services lies in the permanence of central government and in its virtually unlimited powers of taxation. The services provided by the public sector are likely to continue indefinitely. This means that there is not likely to be the problem encountered in declining industries where increasingly smaller numbers of current employees have an undue burden in financing the pensions of much larger numbers of employees. Also, the unlimited capacity of government to finance itself means that PAYG is in effect merely

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[50] CBI, *Getting a grip – The route to reform of public sector pensions*, April 2010

[51] Carl Emmerson, *'Further cuts to public sector pensions could be appropriate'*, *The Times,* 26 August 2009

[52] CBI, *Clearing the pensions fog*, December 2008

[53] Neil Record, *Sir Humphrey's Legacy*, 2006, Institute for Economic Affairs, page 22; See also, CBI, *Clearing the pensions fog*, December 2008

[54] Institute of Directors, *Pensions Apartheid,* January 2009

[55] See, for example, HL Deb, 11 June 2007, c1559 [Lord Turner]

> the current financing of current obligations, that is, a system of finance which is quite consistent with the cash basis of government accounting practice. This means that current employees need feel no concern that their own pensions will not be paid when they, in turn, come to retire. However, this is true so long as there is a reasonable balance between the current workforce and the current retired population; if as a result of population ageing, the dependency ratio increases, the viability of PAYG becomes questionable. In the private sector a fund may be necessary from the very beginning to provide such security.[56]

The question of whether unfunded public service schemes should move to a funded basis has been considered in the course of a number of official scheme reviews and rejected, largely on grounds of the transitional costs that would be involved. The Civil Service Joint Superannuation Review Committee examined the case for funding civil servants' pensions in 1972 but decided this would be "extremely expensive" and would not in itself do anything to improve security of pension benefits for members.[57] A move to a funded scheme for police pensions was rejected as inappropriate by Sir Patrick Sheehy's 1993 *'Inquiry into Policy Responsibilities and Rewards'*:

> 13.3 Given concerns expressed as to the costs of the present scheme, and the fact that private sector schemes are normally funded, the first matter we considered was whether it was right to continue with a "pay-as-you-go" approach to police pensions or whether a funded scheme was indicated.
>
> 13.4 We concluded that a funded scheme was not appropriate. This was on the following grounds:
>
> a) funding is appropriate is appropriate in private sector schemes so as to secure benefits against the risk that the employer's business may be discontinued. Pension rights which have accrued under the present police pension scheme are guaranteed by statute;
>
> b) it is questionable whether it would be appropriate to build up funds of invested assets to secure the benefits being accrued under pension arrangements backed by the government;
>
> c) it is doubtful whether it would be acceptable for the government to raise revenue to provide for prospective liabilities rather than to meet its current needs;
>
> d) to move to a funded arrangement for future service accruals under a new scheme whilst leaving the existing scheme on a pay-as-you-go basis would incur significantly higher pension costs in the medium term (i.e. for the next 20 to 30 years).
>
> 13.5 For these reasons the Inquiry does not recommend a move to a funded scheme.[58]

A working group set up to look at Teachers' Pension Scheme (TPS) in 1997 concluded that the cost of moving to a funded scheme "was likely to be very significantly higher than the cost of the TPS arrangements for a period of almost fifty years."[59]

The CBI considers a move to funded DC in the public sector to be "an unworkable option" because of the transitional costs:

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[56] David Blake, *Pension schemes and pension funds in the United Kingdom*, Second Edition, 2003, p 384

[57] Ibid

[58] "*Inquiry into Police Responsibilities and Rewards",* Cm 2280.I, June 1993, Chapter 13

[59] '*Report of the working group for the longer term examination of the Teachers' Pension Scheme',* July 1999; See Library Standard Note SN/BT 405 *Teachers' Pensions*

> A move to funded DC for all public sector schemes would require employer and employee contributions now used to pay pensions to be invested in personal accounts – but existing pensioners would still have to have their benefits paid. Funds would therefore have to be diverted from other spending commitments such as the NHS and education system to meet their cost for many years to come.[60]

However, it recommended consideration should be given to developing notional, or pay-as-you-go, DC arrangements for public sector pensions rights accrued in the future.

> As with other pension schemes, under a Notional DC (NDC) scheme members and their employers pay contributions calculated on pensionable earnings. The contributions are credited to personal accounts. Unlike a conventional DC scheme, though, money is not invested in financial markets – in other words, DC is not funded.
>
> Instead, while contributions are noted on individual accounts, the money is directed to independently-managed, ring-fenced funds, separate from general public funds and budgets. These funds are drawn on to provide benefits for current pensioners.
>
> The notional value of employees' personal accounts increases over time in line with selected economic benchmarks – such as average earnings or inflation – using an independently determined rate of return. At retirement, the accumulated value of the personal account is used to buy an annuity, either from the scheme itself or on the open market, purchased out of the ring-fenced funds.[61]

It argues that the benefits of such arrangements include "flexibility, portability and transparency". Such arrangements had been adopted in Sweden, Germany, Austria and Poland. [62]

The Pensions Policy Institute is looking at the possible impact of a moving to a notional DC arrangement for public sector schemes and is to publish a report later this year.[63]

It is also worth noting the recent experience of the main funded public service scheme - the Local Government Pension Scheme. In June 2009, the Department for Communities and Local Government (DCLG) wrote to stakeholders acknowledging concern about the possible impact of the valuations scheduled to take place in 2010. It argued that the current funding arrangements could place short-term pressures on employers during an economic downturn which were unnecessary given the constitutional permanence of local government.[64] It has been talking to stakeholders about whether more flexible funding arrangements might be adopted.[65]

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[60] CBI, *Getting a grip. The route to reform of public sector pensions*, April 2010

[61] Ibid

[62] For a discussion of the Swedish system, see Annika Sunden, 'The Swedish experience with pension reform', in Oxford Review of Economic Policy, Vol 22, No 1, Spring 2006

[63] Pensions Policy Institute, *Public sector pension scheme: policy objectives and options for the future,* p27

[64] DCLG letter to LGPS stakeholders, 25 June 2009

[65] This is discussed in more detail in Library standard note SN/BT 4115, *Local Government Pension Scheme, 2006 -*

3.3 Contribution rates

Some commentators argue that the way in which employee and employer contributions are calculated means they do not meet the full cost of benefits accruing.[66] The Institute for Fiscal Studies has argued that improving transparency could help to control costs:

> If public sector pension scheme members are not fully aware of the true value of their pension or public sector employers are not fully aware of the costs of the pension promises they make, it may be that pensions are currently being used inefficiently as a recruitment and retention tool. Even if the generosity of public sector pensions is not changed, it could be making their value more explicit to public sector workers, and their cost more explicit to their employers, would ensure that they are used more effectively. There are two relatively simple reforms that could help achieve this objective.
>
> Employer contributions to public sector pensions could be increased with a commensurate cut in the subsidy from general tax revenues. In the current financial year, the Treasury forecasts that the outstanding liabilities of these schemes will increase by £22.7 billion (as a result of new pension promises being made to public sector workers) but that contributions from employers and employees will total £20.7 billion, thereby implying a £2 billion subsidy from general tax revenues. This subsidy could be removed and the £2 billion instead passed straight to public sector employers to spend how they wanted (such a reform might best be implemented gradually over time in order to smooth out any transitional issues). At the same time the employer contribution to these schemes could be raised to make up the shortfall. This would be sensible as it would help to ensure that employers took account of the true cost of additional staff when making budget decisions.
>
> Even if employers made the same staffing decisions and continued to offer the same remuneration package, this reform could still help as it might encourage public sector employers to inform their employees of the true value (cost) of their pensions. A further reform that might help to communicate to public sector workers the true value (cost) of their pensions would be to increase public sector wages and, at the same time, to increase employee contributions to these schemes by the same amount. This would leave take-home pay, pensions accrued and the cost to the Exchequer unchanged but might help public sector workers value their pensions correctly, and thereby help the taxpayer achieve the maximum value for money from these commitments.[67]

3.4 Pension age

As discussed in section 2.2 above, the Government proposed increasing the pension age to 65 in the public service schemes in December 2002. Initially, it was proposed to increase it for new entrants. For existing employees, the Government would consult on “how and to what timescale”, to increase the pension age, while protecting accrued rights.[68] In the event, it decided to increase the pension age for new entrants only.[69] However, it also decided to introduce “cap and share” mechanisms to limit the liability of the taxpayer to cost pressures associated with the rising cost of providing pension benefits (such as improving longevity).[70]

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[66] See, for example, Neil Record, *Sir Humphrey’s Legacy – an update,* January 2008, page 12 ; See also, IFS Press Release, *The pension advantage of public sector workers*, 2 December 2009; CBI, *Clearing the pensions fog,* December 2008

[67] Carl Emmerson and Gemma Tetlow, ‘Pensions and Retirement Policy. 2010 Election Briefing Note No. 16’

[68] DWP, *‘Simplicity security and choice: Working and saving for retirement’*, Cm 5677, page 106-7

[69] DTI press notice, “Agreement reached on public sector pensions”, 18 October 2005; See also Public Service Forum – final principles, October 2005

[70] HM Treasury, Long-term public finance report, December 2009, Box 6A

However, a number of commentators argue that further increases are needed. Lord Turner has argued that a pension age of 60 for many public servants would be the cause of continual and growing resentment:

> On fairness between the public and private sectors, it is vital to recognise that in future the vast majority of private sector employees will be retiring with a defined contribution, rather than salary-related pensions. [...] Over 90 per cent of the private sector workforce will therefore be choosing their retirement age in the light of available annuity rates, which at any given age – the annuity rate at 65 or 85 – will fall as longevity rises. They will also be choosing their retirement in the light of a state pension age that will rise to 68 by 2045 and, I predict, still higher in subsequent decades.
>
> It is therefore likely that average retirement ages in the private sector will increase sharply towards 68 and that we will have significant proportions of people by the middle of the century working beyond 68. However, private sector employees working to 68 or even later will observe those civil servants who managed to join the scheme before 1 July 2007 retiring at 60, while even those who join after 2007 will still be retiring, in mid-century, at 65, an age likely by then to be several years below the average age of retirement in the private sector. That will not be perceived as fair, because it is not, and it will be the cause of continual and growing resentment.[71]

The Institute of Directors argues that the pension age "for new members and for the new accrual of existing members should be increased in line with the State Pension age." This was to reduce long term costs to the taxpayer and reduce the gap between pension provision in the public and private sectors.[72] It has also been pointed out that "offering some workers an unreduced pension at 60 may encourage early retirement among individuals whom the public sector might wish to retain."[73]

The CBI also argues for an increase in the public sector pension age, in line with pending increases in the state pension age. For those schemes with low normal pension ages (armed forces, firefighters and police), retirement should not automatically lead to an immediate full pension:

> Retirement from occupations requiring exceptional levels of physical fitness does not mean that people cannot take up other work during the period before their pensions become payable.[74]

3.5 Pensions accrued by higher earners

The pensions earned by higher earners in a public sector have generated a good deal of press comment, focusing on the "gold-plated pensions" payable to public sector "fat cats."[75]

In September 2009, chair of the Work and Pensions Select Committee, Terry Rooney, argued that the high pensions being accrued by some public servants would seem excessive and that some response would be needed:

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[71] HL Deb, 11 June 2007, c1559

[72] Institute of Directors, *Pensions Apartheid,* January 2009. IOD notes that for the armed forces, police and fire services, it is referring to the NPA for early leavers only

[73] Carl Emmerson, *'Further cuts to public sector pensions could be appropriate'*, *The Times,* 26 August 2009

[74] CBI, *Getting a grip. The route to reform of public sector pensions,* April 2010

[75] See, for example, Katherine Barney, 'Anger over massive pensions gulf between local authority bosses and ordinary workers' *Evening Standard*, 24 March 2009; Dorothy-Grace Elder, 'Time for a cull of the fat cats', 20 January 2010, *Daily Express;* Tony Hazell, 'Pensions Apartheid', Daily Mail, 6 January 2010

> "Some people who are earning £200,000-£250,000 a year can see a pension in the range of £150,000. I think most people would think that was excessive. Perhaps there should be a cap of, say, somewhere around £50,000."[76]

In his speech to the Party Conference in October, Shadow Chancellor George Osborne said:

> The tax relief on private sector pensions is capped, so the time has come to find ways to impose a £50,000 annual cap too on the size of public sector pension payouts.[77]

A Conservative Party press release gave more detail:

> The Government should find ways to cap the biggest government pensions, including those for any senior civil servants, local council executives and Quango managers. This cap should prevent any taxpayer-funded increase in senior government pensions already worth over £50,000 a year, and stop all taxpayer-funded pensions for these groups in future exceeding £50,000 a year. This would reduce the growth of public sector liabilities by hundreds of millions of pounds over the next decade.[78]

A proposal to "cap public sector pensions at £50,000 a year" was included in the Conservative Party election manifesto, 2010.[79]

Professional Pensions reported some initial reactions from pension specialists. One questioned the level of savings that would be made and commented that "capping the amount of pension paid out rather than the value of benefits earned each year would not in itself preclude very generous pensions for high earners who only work in the public sector for short time." Another commented that the tax system already placed limits on the value of pension a person could receive and said imposing "an additional cap on pensions would add another level of complexity to an already over-complex system."[80]

The union for senior public servants, the FDA, argued that:

> The current public sector pension provision is fully justified, and affordable in the long term. Most of the media criticism is economically ill-informed...The pension is also an integral part of the reward package for senior public servants and any attempt to remove or dilute it would inevitable create an inflationary pressure on the other elements of the pay package.[81]

Public Administration Select Committee questioned the savings that might be made from such a proposal:

> 61. In general, for a public servant to receive a pension of above £50,000, they would need to have a salary of around £100,000 and about 40 years' service. As a very small proportion of public servants fulfil these criteria, a cap set at this level would save relatively little money overall.[82]

The Committee said proposals for a cap deserved close attention but that a cap would "only be effective and worthwhile if it is fair on the people affected, if it is sustainable in terms of

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76 Andrew Woodcock, '*Cap on public pensions, MP urges', Scotland on Sunday,* 6 September 2009

77 Speech to the Conservative Party Conference, 6 October 2009

78 Conservative Party Press Release, Osborne: Specific measures to start tackling Labour's debt crisis, 6 October 2009

79 Conservative Party, An invitation to public sector workers, 2010, page 12

80 Jenna Towler, Tory pledge to reverse DB tax raid, *Professional Pensions,* 7 October 2009

81 Public Administration Select Committee, Top Pay in the Public Sector, Sixth Report of 2009-10, HC 192-I, para 60

82 Ibid, para 61

recruitment, retention and motivation, and if the savings that it produces are genuine and significant across the public paybill."[83]

The Institute for Fiscal Studies (IFS) was concerned that it could lead to a "cliff-edge" in remuneration:

> It would mean that highly paid public sector workers would suddenly see their remuneration drop once their pension entitlement reaches £50,000 a year. For example, if a public sector worker earning £100,000 a year receiving a pension contribution of £20,000 (i.e. 20% of salary) reaches the point where their pension is worth £50,000 per year they would lose their employer pension contribution which is equivalent to a one-sixth reduction in their remuneration package (£20,000 loss on a package previously worth £120,000). Assuming that this is not then compensated for by an increase in pay (and thereby negating any point of the reform) it would create a sharp cliff edge in remuneration at this point.
>
> While such highly paid individuals might not attract much sympathy from the public a more sensible – although still probably not sensible – reform would be to cut the pay of highly paid public sector workers across the board (rather than focus cuts to those who happen to have accrued significant pension entitlements: for example because they have spent longer working in the public sector). The risk with such a reform is that many valuable public sector employees who are affected by the reform might jump ship.[84]

Other ways to cut the benefits to higher earners could include introducing tiered contributions according to pay, as has been done in the NHS and Local Government schemes. Another could be to consider a move to a career average scheme. This is because final salary schemes particularly benefit those with high salary growth.[85] In his speech on the Pre-Budget Report in December 2009, the then Chancellor of the Exchequer, Alistair Darling said that in future, once the cap on employer contributions was reached (see section 2.4 above), higher earners would be expected to pay a higher proportion of the share of any increase in costs.[86]

3.6 Independent review

The Government established the Pensions Commission in December 2002 to "keep under review the regime for UK private pensions and long-term savings, and to make recommendations to the Secretary of State for Work and Pensions on whether there is a case for moving beyond the voluntarist approach." Members of the Pensions Commission were Lord Turner of Ecchinswell (chair), John Hills and Jeannie Drake. The Pensions Commission's First Report, published in December 2002, contained a detailed description of the existing position.[87] Its second report set out the objectives of its proposed reforms and recommended reforms to both private and state pension systems.[88] Many of the Pensions Commission's recommendations were adopted by the Labour Government, although with some modifications, and taken forward in the *Pensions Act 2007* and *Pensions Act 2008*. In

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[83] Ibid, para 62

[84] Carl Emmerson and Gemma Tetlow, 'Pensions and Retirement Policy. 2010 Election Briefing Note No. 16' (IFS) 2010

[85] Pensions Policy Institute, *An assessment of the Government's reforms to public sector pension,* p19; CBI, *Getting a grip. The route to reform of public sector pensions*, April 2010

[86] HC Deb, 9 December 2009, c369

[87] Pensions Commission, *Pensions challenges and choices. The first report of the Pensions Commission,* October 2004, pix

debate on the proposals and on the legislation, the Pensions Commission was widely praised for helping to forge consensus on pensions policy.[89]

A number of commentators proposed taking a similar approach to looking at the question of whether public service pensions should be reformed.[90] In June 2007, Lord Turner, argued that public sector pensions should be subject to rigorous analysis and open public debate if they are to be reformed in a sensible way:

> There are strong reasons for believing that the issues of public sector pensions – their fairness relative to the private sector, their internal fairness and their future affordability – have not been subject to the rigorous analysis and open public debate that these issues deserve and to which the state pension proposals have been subject. They should be subject to that analysis and debate; if they are not, my fear is that public sector defined benefit pensions will one day go the way of their private sector equivalents, towards abolition rather than sensible reform.[91]

In December 2009, the Institute of Economic Affairs, the Institute of Directors and others set up a commission to look at a number of issues including the disparity between pension provision in the public and private sectors, whether the recent reforms were sufficient to put public sector pensions on a sustainable footing and the most practical ways to reform them.[92]

Since the May 2010 general election, the Conservative-Liberal Democrat Coalition Government has set up the Independent Public Service Pensions Commission, chaired by former Labour Work and Pensions Secretary, Lord Hutton of Furness, to:

> ... undertake a fundamental, structural review of public service pension provision by Budget 2011 and consider the case for short-term savings in the Spending Review period, by September 2010.[93]

The Commission's interim report was published in October 2010.[94] The work of the Commission is discussed in more detail in Library Standard Note SN/BT 5768 *Public service pension reform - 2010 onwards.*

[88] Pensions Commission, Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission, November 2005, Executive Summary

[89] See, for example, HC Deb, 16 January 2007, c687 [David Laws],

[90] See, for example, Work and Pensions Committee, *Pension Reform*, Fourth Report of Session 2005-06, HC 1068-I, para 418

[91] HL Deb, 11 June 2007, 1561

[92]‘ Public sector pensions commission press release, ‘*Public sector pensions commission launched’* 19 December 2009

[93] HM Treasury, Budget 2010, HC 61, June 2010

[94] Ibid