UK: All political parties plan attacks on public sector pensions

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For months now, Britain's corporate bosses, right-wing think-tanks, the media and the political parties have been waging a ferocious attack on occupational pensions in the public sector, calling them "gold plated" and unfair when compared with the private sector.

The Institute of Economic Affairs, just such a right-wing think-tank, wrote a pamphlet whose title, *Sir Humphrey's legacy: an update. UK public sector unfunded occupational pensions*, implies that all public servants get the pension of a fictional top civil servant. The Taxpayers Alliance talks of £1 million pensions in the National Health Service.

Conservative leader David Cameron said, "We have got to end the [pensions] apartheid…. There is an issue of fairness between the private sector and the public sector". The Tory manifesto says it will cap public sector pensions of more than £50,000, adding that the party would be "working with the trade unions, businesses and others to address the growing disparity between public sector pensions and private sector pensions, while protecting accrued rights".

The Liberal Democrats' leader Nick Clegg said in a speech to the Confederation of British Industry (CBI) that "reforming public sector pensions" is one of the "big decisions which have to be made". Both parties have called for an urgent review of public sector pensions.

Alastair Darling, Labour's chancellor, followed this line, arguing, "Public pensions need to be broadly in line with those offered in the private sector", while others in the Labour party have called for pensions to be capped. The Labour manifesto has pledged to make all new state-funded annual salaries of more than £150,000 subject to Treasury approval, as part of Labour's plans to cut the cost of public sector pensions by £1 billion a year.

The anti-pensions crusade, focusing on the very highly paid, is in fact aimed at slashing the value of workers' retirement pensions and providing a new source of speculation for the City by converting the pension schemes into funded schemes that are "invested" in the stock markets. That numerous such schemes have failed, putting the government's own private pension insurance scheme at risk, is of no concern to the financial elite.

It is also part of a broader attempt to sow divisions among working people, this time between public and private sector workers, by presenting retired public sector workers as the "pensions' aristocracy". Such a task takes on ever greater urgency for the financial elite, which is calling for whichever party takes power after the election to do a "demolition job" on public services. United action by workers to oppose their demands is the last thing they can afford.

The campaign is being conducted without a shred of credible evidence. With the exception of the Local Government Scheme, which is the largest scheme with more than one million retirees, the pensions of teachers, NHS workers, civil servants, the armed forces, police and fire fighters are all "pay as you go" schemes paid for out of current income. All except the armed forces contribute to their pensions, which are based on length of service and final salary, a system known as defined benefits (DB).

Far from being "gold plated", the average annual payment is a pittance. It is about £4,000 for a current local government pensioner, £6,500 for an NHS worker, £9,200 for a teacher, £5,900 for a civil servant, £7,000 for the armed forces, £11,600 for the police and £12,930 for fire fighters. Not one of those lambasting public sector pensions would like to live on that figure, plus the state pension! Furthermore, these averages obscure the fact that women generally receive a lower pension, as they work for fewer working years due to family responsibilities.

The Labour government has already reduced its own costs and the value of these pensions by increasing the normal retirement age by five years for all except the armed services. It has also abolished the Local Government's "rule of 85" for new entrants, which allowed members to retire if their combined age and length of service was 85 years. This enabled workers aged 50 to 60 to retire at the discretion of their employer, and as a right for those over 60.

Labour has “capped” employers’ contributions from 2012. Should actuarial calculations require additional funding above the cap, then it must come from increased employee contributions. Should pensioner longevity increase beyond predictions, then the costs must be “shared” between employers and workers.

How do occupational pensions in the public sector stack up against their private sector counterparts? Cutler and Waine, in their report *Moral outrage and questionable polarities: the attack on public sector pensions,* show that change from defined benefits to defined contributions-based pensions for new entrants in the private sector and substantial variations within each sector make comparisons meaningless.

The percentage of DB schemes closed to new members rose from 44 percent in 2004 to 52 percent in 2008. Private sector schemes vary enormously according to retirement age, accrual rate, pensionable salary, member contribution rates, indexation and the lump sum if a member dies in service.

Cutler and Waine cite estimates by the Pensions Policy Institute (PPI) that an effective employee benefit rate may vary between 9 percent in the low benefit sector, 19 percent in the medium sector and 32 percent of salary in the high benefit private sector. The PPI estimates that the benefit rate for workers in local government, schools, colleges, the NHS and the civil service had an effective benefit rate of 19 percent of salary, the medium level in the private sector.

Headline allegations about millionaire pensioners give the impression, quite deliberately, that that this is the annual pension not the estimated capital value of the annual pension, which is nominal not real. In fact, the “£1million pensions” paid to just 8,500 NHS retirees in top positions equates to an annual pension of about £33,000.

Similarly, claims that the pensions of public sector managers are “too high” and are excessive relative to those of frontline workers are not borne out by the evidence. Pensions for top managers in the private sector are higher than in the public sector, which must mean that pension inequalities are greater.

Cutler and Waine found little evidence to support the view that public managers are more protected than their private sector counterparts who lose their jobs if they do not perform well. Both sectors are remarkably similar: outright dismissal for poor performance is very rare in both sectors, and while there is a penalty for poor performance, whether real or perceived, it rarely leads to a cull of senior managers in either sector.

There is constant scaremongering that public pensions are unaffordable, with think-tanks citing estimates of the present value of pension “liabilities” that range from £530 billion to £850 billion, with another putting the cost at 85 percent of GDP. Such figures are spurious and pale in comparison with the bankers’ bailout measures. They are estimates of the cost over 60 to 70 years and depend on assumptions about life expectancy and the discount rate used to convert future costs into present day monetary values.

More relevant is the annual cost. According to the Pensions Policy Institute, the annual cost of pension benefits less members’ contributions was one percent in 2007-08 and is expected to rise to a maximum of 1.4 percent of GDP in 2027-28 before declining.

Overall age related spending, which includes schools, health, long-term care, state pensions and entitlements for pensioners, and unfunded occupational pensions is set to increase. But the increase in spending on occupational pensions is much less than the projected increase in overall age related spending.

Many of the critics of occupational public sector pensions are calling for an end to the pay as you go system of defined benefits in favour of defined contributions, which will be invested in the stock market. A committee convened in 1993 by the then Conservative government to examine police officers’ benefits rejected this, because it “would incur significantly higher pension costs in the medium term (i.e., for the next 20 to 30 years)”.

That the Conservatives and others ignore this advice suggests that they intend to rip up DB agreements with existing members, as well as closing DB schemes to new entrants.

As it is, more than a third of pensioners live in poverty. This is set to increase as all the mechanisms to evade that fate have fallen apart.

The right to a decent standard of living in retirement while still in relatively good health depends on uniting working people and building a political movement of the working class on a socialist programme.