



Michael Johnson, Research Fellow for the Centre for Policy Studies, contributing to an ACA discussion paper says Government is on the verge of unconditional surrender to the trade unions on public sector pensions...whilst, Stuart Southall, ACA Chairman, another contributor calls for reforms to enable employers to 'level-up' private sector pensions...

Bridging the gap between private and public sector pensions

28 November 2011 – A discussion paper published today focuses on the highly topical issue of public sector pensions and the wider policy commitment in the Coalition manifesto to reinvigorate workplace pensions. It comes at a time when the trade unions seem set upon a major battle with the Government on what they see as a general levelling-down of public sector provision.

The discussion paper published by the **Association of Consulting Actuaries (ACA)** focuses on two themes. ACA Chairman, **Stuart Southall**, responds to CPS Research Fellow, **Michael Johnson's** call for the adoption of market-linked pensions for the entire public sector, by calling for 'middle way' approaches that close the pension gap between public and private sector employees, with a wider sharing of the risks involved in delivering pensions across-the-board.

Guest contributor, **Michael Johnson** (*pages 3-10*) is scathing in his criticism of the Government's latest offer in the public sector pension negotiations with the unions. He comments that the offer verges on 'an unconditional surrender to the unions, perhaps on a scale unprecedented in the history of public sector labour negotiations. The price will be paid by those who are not at the negotiating table – the private sector and the young.' He is particularly critical of the 'irresponsibility' of the latest offer where the Government has said there would be 'no more reform for at least 25 years' if it is accepted by the unions.

Johnson notes that taxpayers are meeting 80% of the cost of public sector pensions including a cash-flow gap that will hit £8 billion (and rising) by 2014-15. He seriously questions whether the cost of public sector pensions will fall as a percentage of GDP – which is 'key' to the unions' case. He expresses the hope that the strikes on 30 November will enable the Coalition to walk away from the negotiating table and reconsider its strategy.

In his article, Johnson calls for unfunded public sector schemes to be replaced by a notional defined contribution framework, after an interim period where public sector employees would be covered by career average defined benefit schemes. In addition, all public sector employees should be compelled to participate in NEST, not least to help catalyse a saving culture amongst 20% of the workforce. He adds, 'the State's limited capacity to absorb pensions-derived longevity risk would (then) be concentrated into an improved State Pension.'

He also notes that the Prime Minister, David Cameron, recently made it clear that the pensions being offered to the public sector are “*far, far better than pensions in the private sector*”. He wonders ‘why should they be?’

Picking up the theme of the undesirable gap between public and private sector pensions, **Stuart Southall**, in his article (*pages 11-16*) comments that ‘if it is possible for us to afford mildly watered down defined benefit pensions for the public sector, it cannot be beyond our ambition to find ways to deliver affordable, sustainable and more certain private sector pensions.’

Southall is sceptical that a total defined contribution solution across the public and private sectors would deliver either comparability or the greater pension certainty sought by the public. Instead, but accepting that reforms may well have to await economic recovery, he has five ‘key suggestions’ (see pages 14-15) for private (and public service) pension reforms – reforms that include enabling the costs falling on employers running defined benefit schemes/risk sharing schemes to be capped.

He calls for the reforms to encompass addressing the costs of elderly care, the need for new financial incentives to save and – to kick start progress – the outsourcing to the private sector of a reform initiative that would rationalise and simplify all current pension regulation and related taxation. This work would be completed over an 18 – 24 month period.

Southall concludes:

“The gradual uptake of more risk sharing schemes in the private sector will help to close the gap with employees engaged in the public sector, who seem likely to retain pensions of a much more generous nature than those generally applying in the private sector at present.”

Note: the views expressed in ‘Placard’ do not necessarily represent those of the Association and are those of the individual contributors.

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About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1,750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries’ Code. The ACA forms the largest national grouping of consulting actuaries in the world.

The ACA provides the technical and administrative secretariat to the All-Party Parliamentary Group on Occupational Pensions and has done so since 1992.