

TIMES

From The Times

July 31, 2009

Why would we aim for equality of misery?

Public sector pensions are affordable and set the standard for others. Cutting them makes no economic or moral sense

Brendan Barber

Public sector pensions are under sustained attack. Hardly a day goes by without a claim from an employer group, opposition politician or right-wing pressure group that they are unaffordable, out of control and unreformed. Worse, they often go on to suggest that quick and easy savings can be made by cutting or changing pensions in the public sector.

It is normally those of us who believe in a more equal society who are accused of the politics of envy. But there is a definite attempt to stir up jealousy among private sector workers of fat-cat pensions in the public sector. But these arguments are at best misleading and at worst scaremongering nonsense.

It is true that public sector workers get better pensions than most in the private sector. But that is no profound insight. Anyone with an employer-backed pension, wherever they work, gets a better deal than the average private sector employee, as nowadays most are not building up an employer pension.

But the solution to our looming pensions crisis is hardly to cut the pensions of those who can look forward to a modest post-retirement income.

So why don't the opponents' arguments stack up? First is what I call the "final reminder fallacy". The game here is simple. Calculate some estimate of future public sector pension liabilities and then express it as if it were a final reminder bill that will have calamitous consequences if it is not paid with 28 days.

But pensions are not paid in advance. The figures used by the critics include pensions being built up by public sector employees now in their twenties. Any attempt to work out continuing public expenditure under any budget heading for more than three decades into the future, and express it as a sum that has to be paid today, will produce a big scary number.

The second fallacy is the out-of-control charge. Normally, the critics glibly ignore the contributions made by public sector employees and employers — even though they cover most of the cost of the pensions in payment each year. But the difference between any two relatively equal big numbers can jump around sharply from year to year. The cost of pensions is linked to increases in price inflation while contributions are linked to the public sector wage bill. Over time these both move in the same direction. But from year to year they are often out of sync.

Perversely a government that holds down public sector pay one year may save a substantial amount, but it makes the cost of pensions bigger that year as a pay freeze is also a contributions freeze. The amount that governments have to find to pay public sector pensions, however, does not leap around and is affordable. At present the cost of pensions in payment is about 1.5 per cent of GDP. Not surprisingly in an ageing society this will go up slowly — rising to 2 per cent over the next 20 years but then, according to Treasury forecasts, it holds steady. But this is part of a wider pattern of changing public spending.

Health and long-term care costs will also increase — and are greater than public sector pensions.

Next come the fat-cat claims. Of course a few well-paid public servants with long service records will retire in some comfort, if not to the standard expected by Sir Fred Goodwin. But unlike the special schemes common in top boardrooms, top public servants (other than special cases such as MPs and judges) are in the same scheme as their staff. The chief constable is in the same scheme as the constable. And average pensions are modest. Most public sector pensions in payment are less than £5,000. In the biggest scheme, local government, the average is £4,000 and for women £2,000.

What about the easy savings? Of course, schemes can change. Indeed, almost every public sector scheme has been renegotiated in recent years to reduce costs and take into account longer lives. But pensions in payment cannot be cut without breaking promises made to staff in return for joining their schemes (and

breaking the law too). Changes to schemes inevitably take some time to deliver savings.

Particularly strange is the call to replace unfunded pay-as-you-go public sector schemes with defined contribution (DC) schemes. This would be immensely expensive for decades. At the moment contributions made by public sector employees and employers all go to paying pensions of those who have already retired. Introduce DC and the taxpayer has to start to fund the whole of current pensions in payment while contributions are diverted to building up a fund to pay future pensions.

This would give us the absurdity of the State paying a fund manager to take these contributions and lend at least part of them back to the Government. Not only would the Government have to pay interest on this, but it would need to borrow other money to make up the sudden big hole in public finances caused by the diversion of pension contributions into a DC fund.

Public services provide the glue that holds a civilised society together. They are inevitably labour intensive, and paying their staff properly (which includes a pension) will not be cheap. But this does not mean that they are unaffordable. Nor is the solution to the private sector pensions gap an equality of misery, where every retreat from a decent private sector pension is matched by an equivalent public sector cut. Instead, we should be levelling up, with decent pensions for all.

Brendan Barber is General Secretary of the Trades Union Congress

Contact our advertising team for advertising and sponsorship in Times Online, The Times and The Sunday Times, or place your advertisement.

Times Online Services: Dating | Jobs | Property Search | Used Cars | Holidays | Births | Marriages | Deaths | Subscriptions | E-paper

News International associated websites: Globrix Property Search | Property Finder | Milkround

Copyright 2009 Times Newspapers Ltd.

This service is provided on Times Newspapers' standard Terms and Conditions. Please read our Privacy Policy. To inquire about a licence to reproduce material from Times Online, The Times or The Sunday Times, click here. This website is published by a member of the News International Group. News International Limited, 1 Virginia St, London E98 1XY, is the holding company for the News International group and is registered in England No 81701. VAT number GB 243 8054 69.

ACAF **ENABLED**