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MORAL OUTRAGE AND QUESTIONABLE POLARITIES: THE ATTACK ON PUBLIC SECTOR PENSIONS

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ABSTRACT

The paper presents an analysis of the contemporary critique of public sector occupational pensions. It is argued that this critique presents a 'narrative' contrasting two 'pensions worlds': a privileged public sector and a disadvantaged private sector. However, the paper demonstrates a series of important discrepancies between this narrative and the relevant key numbers' on patterns of pension provision in the United Kingdom.

INTRODUCTION

This paper gives a critical analysis of the contemporary attack on pensions provided through membership of occupational schemes in the public sector or 'public sector pensions'. The analytic framework adopted is the 'narrative and numbers' approach utilised by Froud *et al*., (2006) in their book *Financialization and Strategy* which showed how numbers were used by firm Chief Executive Officers (CEOs) to justify corporate strategy and could be used critically by outsiders to interrogate strategy. They point out that CEOs in major corporations regularly deploy 'a story of purpose and achievement' (Ibid. 9) when defending and justifying their corporate strategies in the hope that stock market analysts will endorse such stories. As this paper explains, the political classes also tell a story when explaining the need for pensions reform, the difference being that their story is one of abuse and inequity which justifies reform. Here the purveyors of the narrative are four distinct groups: politicians (principally Conservative and Liberal Democrat); business lobby groups such as the Confederation of British Industry (CBI) and the Institute of Directors (IoD); right wing think tanks such as the Institute of Economic Affairs; and a range of journalists. The narrative on public sector pensions like that on corporate strategy also has a 'performative' aspect i.e. there are proposed actions which are suggested to rectify the perceived 'problem' posed by public sector pensions. Finally 'numbers' represent the other central analytic pole of the argument. In a corporate context the ideal outcome for the strategic narrative is where the proposed 'strategic purpose' is 'corroborated by financial results' (Ibid: 122). The public sector pensions 'story' also includes use of or reference to 'numbers' on pension trends and costs. However, as in the corporate sector (Ibid. 133), while such data is deployed as a means of confirming the narrative it can also serve as a mechanism of providing a critical perspective on the limitations and weaknesses of the narrative.

The paper is divided into seven parts. The first analyses the 'story' told by the critics of public sector pensions. The second examines the character of occupational pension provision in the public sector. The third considers changes in private sector provision and critically appraises the conception that defined benefit pension provision (the term is explained in the next section) has effectively ceased to have any relevance in the private sector. The fourth section examines a sub section of the debate on pension provision, namely, that for senior officials and managers in the public sector. The fifth analyses how debates regarding the UK public sector financial deficit relate to the attack on public service pensions. This section is deliberately situated later in the argument since this reflects the structure of the critics' approach. The critics *do* think that 'reform' of public sector pension provision has a positive role to play in deficit reduction. However they do not regard it as an unfortunate necessity since occupational provision in the public sector is perceived as inequitable. The sixth section considers the policy responses elaborated by the political critics of current occupational provision in the public sector; and a conclusion brings together the various strands in the argument.

1. THE NARRATIVE OF POLARITY

Narratives, of course, come in a number of different forms and the narrative of the critics of public sector pensions is very much a 'morality' tale. David Cameron (2008) emphasised the putative moral dimension of the issue when he stated 'We have got to end the [pensions] apartheid…There is an issue of fairness between the private sector and the public sector'. Other political participants agree, Vince Cable (2009a: 42) tells us that, in occupational pensions, 'there is an issue of equity between the public and private sector'. Business lobby groups have also perceived the relationship between occupational pension provision in the public and private sectors in a similar way. The CBI states that 'private sector employers and their employees have shared the full cost of their pension benefits. They have not looked to the taxpayer to pick up the tab' (CBI, 2008:5). While the IoD, in a 2009 pamphlet, claim that, with respect to occupational pension provision, while private sector 'employers have… had to face up to reality' there has been 'no such realism in the public sector' (Taylor 2009: 10). It would, of course, be surprising for Labour, to endorse such attacks but, the Chancellor of the Exchequer, in his 2009 Pre Budget Report (H.M. Treasury 2009a), appears to concede to at least some of the claims of critics affirming that 'public pensions need to be broadly in line with those offered in the private sector' and, as will be discussed below, there has also been some Labour support for a ceiling on maximum pension levels in the public sector.

The element of moral outrage is also reflected in the extravagant language used by the critics. Far from Cameron's characterisation of inter-sectoral pensions contrasts as 'apartheid' being repudiated it has been taken up by fellow critics. Thus the IoD pamphlet referred to above is entitled *The Pensions Apartheid* (see also Economist, 2009). Furthermore the notion that public service pensions are a mark of privilege per se and thus extend to *all* scheme members is a feature of this discourse. An article in the *MailOnline* states '*Two million town hall staff* could lose their *gold plated* pensions' (our emphasis, though 'gold plated' is put in inverted commas in the title of the article) (Daily Mail Reporter 2009). An article in the (Glasgow) *Daily Record* of September 2009 states that Phillip Hammond, the Conservative Treasury spokesperson 'said he 'would not allow *Britain's public sector workers* to carry on getting *gold plated pensions*' (our emphasis, it is not clear from the text whether Hammond himself used the 'gold plated' term) (Roberts 2009). The conception that being a public sector occupational scheme member is a key (or even perhaps *the* key badge of) privilege in pension provision is reflected in an article by Alex Brummer in the *New Statesman* of January 2010 where he states 'it used to be said that the baby-boomer generation was the 'pensions aristocracy'…That may have been the case, *but the most fortunate are now in the public sector*' (our emphasis). The right wing think tanks have also promoted such a picture. An Institute of Economic Affairs pamphlet (Record 2008) is entitled *Sir Humphrey's Legacy: An Update. UK Public Sector Unfunded Occupational Pensions*. Thus, without any apparent attempt at irony, this publication identifies the pension entitlement of a (fictional) Permanent Secretary in the UK Civil Service with the whole of occupational pension provision in the sector (with the exception, see below, of the Local Government Scheme which is funded).

Not surprisingly moral outrage has engendered a need to deal with the perceived inequities, the 'performative' dimension. David Cameron (2008) refers to the imperative to 'end' the 'pensions apartheid'. George Osborne (2009a) looks forward to a situation 'when I reform public sector pensions'. Phillip Hammond says that 'we have to reform the way public sector pensions are delivered' (Roberts 2009). Nick Clegg believes that 'reforming public sector pensions' is one of the 'big decisions which have to be made' (speech to the CBI, 2009). Vince Cable (2009a: 42) says that 'radical reforms in the way public pensions are operated' are required. The CBI (2008: 6) concurs that 'reform is needed' in 'public sector provision'.

The second key element in the narrative is the role of the public/private sector polar opposition. As the argument so far has shown, the whole attack revolves around an inter-sectoral polarity. The key issue is not, for example, between the pension entitlements of senior managers and front line workers *across* sectors. It is posed as a polarity between putatively privileged members of public sector occupational pension schemes and their putatively disadvantage counterparts in the private sector. A central feature, therefore, of the critical argument presented here is whether the relevant 'numbers' on pension provision in the UK sustain the narrative of polarity and the next section begins such a critical analysis by considering the character of contemporary public sector pensions in the UK.

2. PUBLIC SECTOR PENSION SCHEMES

The aim of this section is to present an introduction to the principal public sector occupational pension schemes. The section has two parts: the first examines the broad characteristics of the schemes and explains the conceptual distinctions required to understand their character; the second gives an account of the changes to the schemes and the rationale for such changes under post 1997 Labour administrations.

All the principal public sector occupational schemes operate on a *defined benefit* (DB) basis. As the term suggests, this means that DB scheme members will receive an occupational pension which is a percentage of earnings usually at the end of the member's working life. This feature has led to the use of the term 'final salary' in referring to such schemes. The fraction of earnings will be governed by the length of pensionable service of the member and the 'accrual rate' of the scheme which gives the proportion of pensionable earnings for each year of service. The other principal type of occupational pension scheme operates on a *defined contribution* (DC) basis. Again the term indicates a key characteristic. In such schemes what is predictable is the contribution level (employer, employee or combined). Unlike DB schemes there is no predictable pension level (as a fraction of income in employment). The eventual pension level is governed by four features: the contribution level; administrative costs which effectively reduce the share of contributions which can be invested; investment returns; and annuity rates which govern the size of the pension income stream which can be derived from a given volume of accumulated pension saving.

A further key distinction is between 'funded' and 'pay as you go' schemes. Funded schemes seek to accumulate assets (via investing contributions) in order to meet the liability of paying pensions. In contrast 'pay as you go' schemes meet the current liability of having to pay pensions out of current income. Amongst the principal public sector occupational pension schemes only one, the Local Government Pension Scheme is funded. All the schemes but one (the Armed Forces Pension Scheme) are contributory i.e. it is a condition of scheme membership that the membership contribute a percentage of pay. Membership and average pensions in payment for the principal public sector occupational pension schemes are shown in Tables 1 and 1a.

Table 1: Public sector occupational scheme membership

Scheme	Date for membership figures Date	Active Members No.	Deferred Members No.	Pensions currently paid No.
Local Government*	2008/09	1,685,000	1,149,000	1,088,000
National Health Service**	March 2008	1,336,576	411,458	583,705
Teachers**	March 2007	628,370	416,748	544,055
Civil Service**	March 2008	577,000	322,000	569,000
Armed Forces***	March 2009	199,535	384,770	396,511
Police**	March 2009	140,000	20,000	120,000
Firefighters*	March 2007	33,533	2,048	29,024

Table 1a: Public Sector average payment to current pensioners

Scheme	Date used for average pensions in payment Year	Average payment to a current pensioner £
Local Government*	2008-9	Circa £4,000
National Health Service**	2007/8	£6,500
Teachers**	2007/8	£9,200
Civil Service**	2007/8	£5,900
Armed Forces***	2007/8	£7,000
Police**	2007/8	£11,600
Firefighters*	2007	£12,930

Sources: Department for Communities and Local Government (2009); Thurley (2009a); Thurley (2009 b); Thurley (2009c) Armed Forces Pension Scheme Resource Accounts (2009); Thurley (2009d); Government Actuary's Department (2009a) Government Actuary's Department (2009b).*Figures for England ** Figures for England and Wales ***Figures for the UK.

'Active' members refer to scheme members who are accruing benefits in the scheme notably current employees who are contributing a fraction of salary and have employer contributions made on their behalf. 'Deferred' members refer to individuals who have accrued entitlements in the scheme, are no longer in the relevant employment covered by the scheme but have not retired. Finally pensions in payment refer to payments made to members who have retired. As with all the occupational pension scheme membership discussed in this paper the figures refer to 'members' not 'individuals' since, for example, individuals can be simultaneously active members of one scheme and deferred members of another (Office for National Statistics 2009:8).

These distinctions reflect a crucial feature of occupational pension schemes, their long-term or 'legacy' effects. In turn such effects involve two key mechanisms. The first is that UK occupational pension schemes are designed to protect the accrued rights of members from retrospective changes. Thus, for example, 'deferred' members, if they have not transferred their pension to another scheme, retain entitlements in a scheme. The second key mechanism refers to the way in which occupational pension schemes tend to be 'closed'. This is significant to the pensions 'polarity' since critics of public sector pensions have focused on the inequity which they perceive as stemming from 'closure' of private sector DB schemes and their retention in the public sector. Scheme 'closure' takes two principal forms. The first is closure to *all future accruals*. In this form existing members cannot increase their pension benefits in the scheme and closure excludes the possibility of new entrants. The second mechanism is to close the scheme to *new entrants* thus individuals who become employees after the relevant closure date are either not offered occupational scheme membership or, if they are, it is in a form other than DB.

As will be discussed below, the dominant form of DB closure in the UK private sector has been to *new entrants*. Naturally this emphasises the legacy effects of DB provision. It means, for example, that scheme 'closure' has no effect on the *type of scheme* coverage for existing members who can continue to increase their DB benefits and receive a DB pension when they retire.

The 2007/8 average pensions in payment figures cited in the Table 1a for the NHS, teachers', civil service and police schemes, are derived from the Government Actuary Department's cashflow projections for the principal unfunded public sector occupational pension schemes. The Firefighters' figure is derived from the same department's actuarial valuation of this scheme published in October 2009. The 'circa £4,000' figure for the Local Government Scheme is derived from three sources. It is cited in a Unite (2010) discussion of local government pension schemes; and by Mike

Woodall (2008), the public sector strategist of the law firm Wragge and Co. Neither of these sources indicate where they derived their figures. However, they are broadly consistent with data published by the Department of Communities and Local Government. The latter records scheme expenditure of £4,388 million on pensions and annuities in 2008/9 which, given the number of pensions in payment cited in the same source would give an average pension of £4,033.

The data on pensions in payment in the Table are indicative of the hyperbolic character of the picture of public sector pensions discussed in the introduction. As the trade unions have frequently observed (GMB 2009; Trade Union Congress 2009a) it is difficult to reconcile the modest levels of pensions in payment with adjectives such as 'gold plated' or indeed the notion that 'Sir Humphrey' is representative of public sector workers. Equally this is by no means exclusively a trade union view. Thus Mike Woodall (2008) observes 'estimates from certain quarters that the average public sector worker is entitled to a pension worth around £17,000 a year are at odds with my own experience of the [Local Government Pension Scheme] which indicates that the average payment is around £4.000'. There also important gender differences thus, in the Teachers' Pension Scheme, (2006/7) while pensions in payment for male teachers averaged £11,429, the average for women was £7,992 (Thurley 2009b: 3); and Unite (2010) cite an average pension in payment for women in the Local Government Pension Scheme of £2,600 a year (for other data on the distribution of pensions in payment in the largest public sector schemes see National Audit 0ffice, 2010).

In the second part of this section the aim is to review the principal changes to public sector occupational pension schemes under post 1997 Labour administrations. A feature which has played a salient role in contemporary pensions debates in the developed capitalist world has been the impact of increased life expectancy on the cost of pension provision. Concerns over pension cost increases stemming from higher pensioner longevity have also informed New Labour proposals on public sector pension provision. In a Green Paper (Department for Work and Pensions (DWP) 2002: 106; Thurley 2009e: 8) the Government stated that it would 'welcome views on the proposal that the rules of public-service pensions should be changed and applied to all new members during the next few years to make an unreduced pension payable from age 65 rather than 60'.

The reference to an 'unreduced' pension refers to the concept of a 'normal retirement age' (NRA) i.e. the age at which a scheme member can retire without any actuarial reduction in pension entitlement. In 2003 (DWP 2003: 36; see also Thurley 2009e: 8), the Government indicated that it intended to 'proceed' with the proposal to increase the NRA 'through reviews of public service pension schemes'.

As Table 2 shows, the Local Government Pension Scheme operated (generally) with an NRA of 65. The three other largest schemes, the NHS, Teachers' and Civil Service schemes brought in an NRA of 65 for new members following the Public Service Forum (PSF) agreement of November 2005 (Thurley 2009e: 8). The original Green Paper proposals had exempted the armed forces, firefighters and police from the norm of an NRA at 65 on the grounds that 'need for recognised physical capacity justifies the award of a normal pension at a lower age' (DWP 2002: 106-7) and the PSF agreement did not apply to these groups (Thurley 2009e: 8). Nevertheless, as Table 2 shows, the Firefighters and Police schemes for new members have operated with higher NRAs for new members post scheme revision.

Table 2: Changes to Normal Retirement Age in the Principal Public Service Pension Schemes

Scheme	Date of Introduction of New Entrant Scheme Date	Normal Retirement Age for Existing Members Age	Normal Retirement Age for New Entrants Age
Local Government		65	65 ('Rule of 85 abolished)*
National Health Service	April 2008	60	65
Teachers	January 2007	60	65
Civil Service	July 2007	60	65
Armed Forces		55	55
Police	April 2006	50 (with 25 years service)	55 (with 30 years service)
Firefighters	April 2006	55 (or 50 with 25 years service)	60

Source: Thurley (2009f)* The 'rule of 85' allowed members to retire without an actuarial reduction in their pension if the combination of their age and length of service was 85 years, this was a right for members over 60 and at the discretion of the employer between 50 and 60.

Increases in the NRA are designed to control future pension costs, in the context of anticipated higher life expectancy, by cutting the period over which an unreduced pension is payable. However, the Government has pursued another mechanism of cost control via what has been termed a 'cost capping and sharing' approach (Thurley, 2009e: 8). The basic concept is that if, for example, pensioner longevity increases to an extent not anticipated in actuarial predictions, then costs will be 'shared' between employers and scheme members. The 'capping' aspect refers to a ceiling on employer contributions (Labour unsuccessfully sought to interest private sector employers in cost sharing and capping, see DWP, 2008). Thus, if following periodic review of the actuarial assumptions, increased scheme costs are identified then the employer liability is linked to an agreed cap. The relevant capping levels are shown in Table 3. Identified increases above the cap would thus have to be met by increased *employee* contributions, revisions to scheme benefits or a combination of both.

Table 3: Employer Contribution 'Caps' Public Service Pension Schemes

Scheme	Date from valuation from which agreement applies Date	Date expected to take effect Date	Agreed cap on employer contribution %	Current employer contribution rate %
NHS	April 2008	April 2012	14.2% (14% from 2016)	14%
Teachers'	April 2008	April 2010	14%	14.1%
Civil Service	April 2010	April 2012	20%	19.4%
Local Government	April 2010	April 2012	Under negotiation	15.7%

Source: Thurley (2009e)

While the three 'uniformed' schemes have not been subject to 'capping and sharing' they all have introduced schemes for new members. An attempt to assess the impact of the complex set of scheme changes has been made by the Pensions Policy Institute (PPI) which has estimated an 'average effective employee benefit rate' or the percentage of pay which would 'buy' the equivalent pension benefits if the scheme were funded. This suggests that the average effective employee benefit rate for the 'uniformed' schemes was 37 per cent for existing scheme members and 33 per cent for new members. The corresponding estimates for the four largest schemes were 23 per cent and 20 per cent (Steventon 2008:22). The National Audit Office (2010) has stated that it will provide an updated assessment, later this year, of cost reductions following from changes to public sector pensions organised on a pay-as-you-go basis.

Thus this section has raised two important issues respecting the critique of public sector pensions. It has shown the disjuncture between the language referring to a privileged status for public sector pensions on one hand and the modest average pensions in payment in such schemes. It has also raised the issue of the impact of 'legacy' effects on occupational pension provision and discussion of this aspect is developed in the next section.

3. A PERSISTENT COMPLEXITY: PENSION DUALISM AND THE DECLINE OF PRIVATE SECTOR DEFINED BENEFIT SCHEMES

The aspect of the pension dualism argument considered in this section concerns the implications of the trend of closure of private sector DB schemes while coverage in terms of membership of public sector defined benefit schemes has increased. In dualist arguments this has been presented as involving two 'pension worlds'; a secure public sector dominated by DB provision; and a less secure private sector where DB is a form of the past. The object of this section is to question this opposition. It is divided into three parts: the first considers the breakdown of occupational pension scheme membership and the inter-sectoral pattern of pensions in payment; the second looks at the mechanisms of DB closure in the private sector and its implications; and the final part considers the implications of an attempt to estimate the value of relative benefit levels in public and private sector DB schemes for the 'dualist' conception.

A useful starting point is the breakdown of UK occupational pension scheme membership in the Office of National Statistics (ONS) survey of occupational pensions (2009), and Table 4 is adapted from this source.

Table 4: Number of members of occupational pension schemes by membership type and sector, selected years (millions)

		1991 Mill.	2006 Mill.	2007 Mill.	2008 Mill.
Active members of each type of scheme	Private Sector	6.5	4.0	3.6	3.6
	Public Sector	4.2	5.1	5.2	5.4
Payments to pensioners	Private Sector	3.8	4.6	4.8	5.0
	Public Sector	3.2	3.5	3.7	3.9
Preserved pensions	Private Sector	3.3	6.5	6.3	6.7
	Public Sector	1.2	2.9	3.1	3.2
Total pension scheme members	Private Sector	13.6	15.2	14.7	15.3
	Public Sector	8.6	11.5	12.0	12.4

Source: ONS (2009)

An important caveat has to be stated with respect, in particular, to the private sector active membership figures in the above table. There is a cogent argument that it understates *overall* active membership in private sector schemes. This is because the figures for DC occupational coverage does not include schemes where, while the employer organises access to the scheme (and may make a contribution on the employee's behalf), the *individual* member is in a contractual relationship with the pension provider (for a discussion of the limitations of the Office of National Statistics data in this respect see Stanley 2009). (The distinctions between different types of DC scheme are discussed in the section devoted to the policy responses of political critics of public sector pensions.) This discussion, in section 6, below, uses an alternative source for active membership of occupational pension schemes, that provided in the Annual Survey of Hours and Earnings (ASHE). What both sources show is the falling level of active membership of private sector DB schemes. ONS (2009: 9) estimates a fall from 3.6 million to 2.6 million over the period 2004-8; while the ASHE figure for the same period are 3,656,000 and 2,352,000 (see Table 11 below).

However, as the data in Table 4 indicates, this is by no means equivalent to the de facto disappearance of the significance of DB schemes. As the table shows, there were 5 million pensions in payment from private sector schemes as against 3.9 million from public sector schemes. Furthermore the ONS survey (2009: 13) points out that only around 1 per cent of private sector pensions in payment came from DC schemes. In part this is because 'many' DC schemes purchase annuities for pensioners and such individuals are not classed as scheme members receiving a pension in payment (Ibid. 8 and 13). However, this pattern also reflects the historic dominance of DB schemes in the private sector and the large number of pensions in payment from such schemes.

The second key mechanism refers to the methods of closure of private sector DB schemes. In the 2008 ONS survey 1.1 million of the 2.6 million active members of private sector DB schemes were in 'open' schemes i.e. schemes that accepted new members as well as accruing rights for existing members. The other 1.5 million were in 'closed' schemes (ONS 2009: 10). The ONS (Ibid.: 4) uses the following definition of a 'closed' scheme as one which 'does not admit new members but may continue to receive contributions from or on behalf of existing members who continue to accrue rights'. The large numbers of active members in closed DB schemes reflects the trend for closure to take the first form i.e. to new members not to existing members. This is also shown in Table 5, drawn from the *Purple Book*, produced by the Pensions Regulator and the Pension Protection Fund, and covering an estimated 85 per cent of the membership of private sector defined benefit schemes (Pension Regulator, 2010: 9). It is also worth noting that the pensions duality narrative often focuses on the impact of *scheme* closure (see for example, Cable, 2009a: 42). However, this exaggerates the impact on the coverage of open defined benefit schemes since there has been a trend towards closure of *smaller* schemes. Thus the Purple Book (Pensions Regulator, 2010: 27) shows that while 27 per cent of defined benefit schemes were open, these covered 37 per cent of *members* (for academic research showing similar cross national trends see Turner and Hughes, 2008: 24).

Table 5: Distribution of Private Sector Defined Benefit Schemes by status (including hybrid schemes 2006-2009, percentage of schemes

	2006 %	2007 %	2008 %	2009 %
Open (plus part open in 2006)	41%	36%	31%	27%
Closed to new members	44%	45%	49%	52%
Closed to future accruals	14%	16%	18%	19%
Winding Up	1%	2%	2%	2%

Source: Pensions Regulator 2010

The final issue to be addressed relates to the appropriateness of the dualist emphasis on *inter* as against *intra* sectoral differences. The extent of intra sectoral differences is raised in the Pension Policy Institute's attempt to compare the relative benefits of private and public sector DB schemes. They point out (Steventon 2008: 36) that there is 'significant diversity of provision within the private sector'. Pension scheme benefits can vary along a number of dimensions. The PPI comparison examines the normal retirement age, the accrual rate, pensionable salary, member contribution rates, indexation and the lump sum if the member dies in service. The normal retirement age (NRA) was discussed in the last section and refers to the age at which the member can retire without any actuarial penalty; thus a lower NRA is indicative of a more generous scheme. The accrual rate is the rate linking years of pensionable service with the pension entitlement, a 1/60th accrual rate would mean that 20 years pensionable service translates into a pension of a third of final pensionable salary, a 1/80th accrual rate to a quarter. Pensionable earnings refer to the proportion of earnings which are taken into account in calculating the pension, obviously any exclusions indicate less favourable scheme terms. Member contribution rates are relevant because the lower they are for a given benefit level the less the individual member is contributing to the eventual benefit received. Pension increases or indexation are relevant since the operation of a cap and the level of that cap means that the member may not be compensated for price rises when the pension is in payment. Finally the size of the lump sum payable if the member dies while in service is a measure of the extent of de facto cover provided to dependants.

The PPI approach is to contrast three stylised private sector DB schemes which are shown in Table 6. The figures in brackets refer to the percentage of active members in 2007 who fell into the relevant category using the ONS survey of occupational pensions for that year.

Table 6: Design of private sector DB schemes (brackets show percentage of active members in each category, 2007)*

	Low Benefits	Medium Benefits	High Benefits
Normal Retirement Age	65 (67%)	65 (67%)	60 (30%)
Accrual Rate	Lower than 1/60ths (12%)	1/60ths (73%)	Higher than 1/60ths (15%)
Pensionable Salary*	Earnings below the Lower Earnings Limit Excluded (23%)	All Earnings up to the earnings cap included (70%)	All earnings up to the earnings cap included (70%)
Member contribution rate	Over 7% (23%)	5-7% (44%)	Under 5% or non-contributory (33%)
Pension Increase	Statutory minimum RPI subject to a cap of 2.5% (21%)	RPI subject to a cap greater than 2.5% (54%)	Full uncapped RPI (14%)
Death in Service Lump Sum	Less than 3 times salary (4%)	Between 3 and 4 times salary (46%)	4 times salary or greater (50%)

Source: Steventon (2008)
Note *: Rows do not necessarily sum to 100% since, for example, 'low' and 'medium' benefit schemes are shown with normal retirement ages of 65 as few private sector DB schemes have an NRA over 65

The PPI takes these stylised variants of private sector DB provision to calculate an 'effective employee benefit rate' for each type and then to compare this with a corresponding calculation of the benefit from different public sector DB schemes. The effective employee benefit rate is an attempt to assess the average benefit as a percentage of salary for an individual in each scheme type. Both the table above and the calculations of effective employee benefits show the striking extent of *intra* sectoral variation. Thus the PPI estimates (Steventon 2008: 37) an effective employee rate for a 40 year old man of 9 per cent of salary in the low benefit, 19 per cent in the medium benefit and 32 per cent in the high benefit private sector DB scheme. Such intra sectoral variation is also reflected in the public sector schemes. The PPI estimate that (post reform) the four largest public sector schemes (Local Government, NHS, Teachers' and Civil Service) have an effective employee rate of 19 per cent of salary, at a comparable level to 'medium' private sector DB benefits but the post reform Armed Forces scheme (non contributory, with a normal pension age of 55) has an effective employee benefit rate of 38 per cent (Steventon 2008: 38). Pension dualism presupposes a comparison of two internally homogeneous sectors which is inconsistent with such large *intra* sector variation in public and private sectors.

Thus the legacy effects of DB provision in the UK private sector and substantial intra- sector variations problematise the pensions polarity. In the next section, the critics' account of what they perceive as excessive pension entitlements for senior public sector managers and officials is discussed.

4. PENSIONS AT THE TOP: SENIOR MANAGERS IN THE PUBLIC AND PRIVATE SECTORS

An important theme in the attack on public sector service pensions has been the pension provision for senior managers and officials in the sector. In this section the aim is to produce a critical analysis of this aspect of the attack on public sector pensions. The section is divided into three parts: the first considers the criteria used to criticise current occupational pension provision for senior managers and officials in the public sector; the second seeks to situate such criteria in the context of occupational pension provision for senior private sector executives; and the last part considers how far better provision for senior private sector managers can be justified on the grounds that their jobs are subject to 'risks' not applicable to senior managers in the public sector.

As with other themes discussed in this paper the issue has been treated in a sensationalist way. Thus there have been headlines referring to 'public sector pension millionaires' (Graham 2009), '£1million NHS pensions' (TaxPayers' Alliance 2008) and that '1in 3 top civil servants has a £1million pension' (Barrow 2010). A distinct impression is given to the reader that the *annual pension* received by this group of employees is £1 million. However, the '£1 million' referred to is an estimated capital value of an annual pension or a 'pension pot' and, with the exception of the funded Local Government Scheme, such pots are nominal. The search for dramatic effects discussed earlier are also present in here since, though the substance of the articles which accompany the headlines, do distinguish the pension pot from the annual pension derived from this pot, this is less eye-catching for the reader. Such 'pension pots' translate into substantial but more modest annual pensions. For example, the '£1 million pensions' being paid to approximately 8,500 retired NHS employees equates to an annual pension of around £33,000 (Taxpayers' Alliance 2008).

This discussion raises the issue of the critical criteria being applied. One possibility is that such pensions are considered 'too high' either absolutely or in relative terms. One variant of such an argument comes from Taxpayers' Alliance (2009: Ev. 103) who claim that such generous arrangements 'are incredibly rare in the private sector where most executives do not enjoy anything like the benefits enjoyed by retired public sector workers'. Another variant puts the emphasis on inequalities between senior manager and officials and front line workers. Thus Hope (2006) refers to the 'unfairness of (sic) hard-working families who are struggling to guarantee themselves a decent pension, having their taxes used to fund incredibly generous schemes for top civil servants'.

To discuss such arguments requires two dimensions of a benchmark: what level of public sector pension should be taken to exemplify a standard for 'excess'; and, insofar as an inter-sectoral comparison is invoked what should be the private sector comparator group. A starting point with respect to the benchmark pension level could be to look at the most senior grade in the UK civil service, the Permanent Secretary. The accrued pension benefits as of 31 March 2009 of a selection of Permanent Secretaries ranged from £50,000-£55,000 (Sir Nicholas Macpherson Treasury; David Bell Department for Children, Schools and Families) through £70,000-£75,000(Hugh Taylor Department of Health) to £95,000-£100,000 for Sir Gus O'Donnell, Cabinet Secretary and Head of the Home Civil Service (H.M. Treasury 2009b: 161; Department for Children, Schools and Families 2009: 25; Department of Health 2009: 30; Cabinet Office 2009: 162). Accordingly, taking a benchmark which is arguably 'generous' to the critics we use £100,000, roughly the accrued benefit level of the Head of the Home Civil Service as a standard. Equally, as our public sector benchmark standard is a very senior official an appropriate comparator group would be senior managers at the corporate apex and we use FTSE 100 executive directors as our private sector comparator group.

In making this comparison we draw on three sources, the survey of executive pensions by Lane Clark and Peacock (2009); the Trade Union Congress survey (2009a) *Pensions Watch*; and our own research on relevant company accounts. The focus of the account is on levels of pension entitlement or employer contribution levels for senior corporate executives but, before discussing this issue, it is worth considering what the data on senior private sector executives shows on some issues already considered: the legacy effects of pensions and comparisons of normal retirement ages in the private and public sectors.

In the second section it was demonstrated that closure of DB schemes in the private sector did not equate to the private sector as a 'DB free' sector. This conclusion also applies to the types of scheme covering senior corporate executives. The Lane

Clark and Peacock survey, which covered 341 FTSE 100 (companies in the index as of 30th June 2009) executive directors, analysing company accounts for 2008, found that 52 per cent of executives had a pension provision either exclusively via a DB scheme or a combination of DB provision with a cash pension contribution (Lane Clark and Peacock 2009: 3-4). The TUC study was also drawn from the FTSE 100 and 'and a number of the other biggest employers in the country' (TUC, 2009b: 4). This covered 373 executive directors and found that 56 per cent were members of DB schemes (ibid.: 5). The Lane Clark and Peacock study (2009: 6) also demonstrated the impact of legacy effects as the survey found that only one of fourteen executive directors recruited externally were covered by DB provision but seven out of twenty four executive directors recruited internally had such cover and this was likely to reflect DB pension membership 'already…in place' before the individuals became executive directors (Ibid.).

On inter-sectoral differences in normal retirement ages the CBI (2008: 5) comments that '…public sector workers benefit from a range of benefits simply unaffordable in the private sector' and these include 'retirement at 60 for existing employees compared to a norm of 65 in the private sector'. In line with the simplifications so characteristic of pensions 'polarity' this involves some important errors. As was indicated in the first section, the Local Government Scheme has consistently operated with an NRA of 65. Furthermore the DWP's Employers' Pension Provision Survey shows that normal pension age in 2007 for 25 per cent of men and 44 per cent of women in private sector DB schemes was 60 (Forth and Stokes 2008: 96). However, when it comes to the case of executive directors the notion that a normal retirement age of 60 is 'unaffordable' in the private sector is utterly implausible. The TUC study (2009b: 12) found data on NRAs for executive directors in 25 companies, of these 60 was the NRA in 19, 62 in 2 and 65 in 4. It would thus appear that the norm of an NRA of 60 appears to be 'affordable' to the bulk of executive directors.

The argument now turns to inter-sectoral comparison of pension provision and, as public sector senior managers and officials are covered by DB schemes the analysis begins by looking at corporate executive directors who are DB scheme members. The data in Table 7 refers to the FTSE 100 Companies who offer Defined Benefit pensions to *all* their executive directors. There is one exception, this is Home Retail, and executive directors of this company are excluded as the company does not give their ages in the annual report. Naturally full comparability with retired senior public sector managers and officials is problematic because these executive directors have not retired and are thus generally considerably younger than the public sector (pension) 'millionaires' discussed above. A cut-off point used in Table 7 is to exclude executive directors under the age of 50 and the data shows the accrued pension for the executive directors covered i.e. the *annual* pension entitlement they have currently accumulated. The data is from 2008 and the accrued entitlements vary between different months in 2008 according to the reporting period used by the company.

Table 7: Executive Directors in FTSE 100 Companies Offering Defined Benefit Pensions to Executive Board Members: Ranges of Accrued Pension Benefits

Range of Accrued Pension Benefits	Number of Executive Directors in the Range No.	Ages of Executive Directors in the Range Age
Over £1 million	2	71-74
£500,000-£999,999	8	51-60
£400,000-499,999	1	52
£300,000-£399,999	4	50-56
£200,000-£299,999	11	50-63
£100,000-£199,999	5	51-59
Under £100,000	1	56

Source: Annual Company Report and Accounts: companies listed in Appendix A; Lane, Clark and Peacock (2009).

As the table indicates, 26 of the 32 (81%) executive directors had accumulated accrued pension benefits of over double the level of our £100,000 benchmark. Nearly a third of the executive directors had accrued pension benefits of over five times this ‘excessive’ level. It is also worth bearing in mind the column on director ages. As can be seen these substantial accrued pensions have been accumulated at relatively young ages leaving scope for final pensions substantially in excess of those shown here. For example no less than five of the executive directors with accumulated pension benefits in the £500,000-£999,999 range were 55 or under in 2008. Furthermore there were 8 cases of directors under the age of 50 who had accumulated accrued pension benefits of at least £200,000; two of these executive directors had benefits in excess of £300,000.

As was indicated above the issue of inequality between senior managers and front line staff was also raised as an issue in the case of public sector provision for senior managers and officials. There is relevant data on this issue relating to two other forms of pension provision for private sector senior managers, defined contribution pensions schemes; and cash payments in lieu of pension provision. Like all DC provision, of course, there is a risk transfer from employer to employee because of the absence of a guaranteed pension level and this affects senior executives as much as any other DC scheme member. Pensions inequality issues in this area can, however, be explored by examining patterns of employer contribution levels.

The 'benchmark' for the front line private sector worker taken here is the average level of employer contribution to private sector defined benefit schemes which was 6 per cent of salary in 2008 (Office of National Statistics 2009: 20).

Table 8 shows data for the sixteen FTSE 100 companies identified in the Lane Clark and Peacock survey as offering DC occupational provision to *all* executive directors. The Table shows the employer contribution rates as a percentage of base salary for executive directors who took full membership of the company DC scheme. These are shown in bands indicating the multiples of the overall DC average contribution referred to above.

Table 8: Executive Directors in FTSE 100 Companies offering Membership of Defined Contribution Schemes to All Executive Directors, 2008

Multiple of Overall Employer Defined Contribution Rate	Number of Executive Directors in Band	Range of Employer Contribution Rates
Multiple	No.	%
Over 10;1	1	73%
5-6:1	2	38-40%
4-5:1	14	25-30%
3-4:1	2	Both 22.5%
2-3:1	7	12.5-15%
1-2:1	6	8-10%
Less than the Overall DC Average	5	3-5%

Source: Annual Company Reports and Accounts, companies listed in Appendix B; Lane Clark and Peacock (2009)

As the table indicates, 46 per cent of the corporate executives in these DC schemes were beneficiaries of employer contributions *at least* four times the overall employer DC average contribution. Even though these contribution rates are a proportion of base salary rather than a broader remuneration figure including bonuses the high level of base salaries still meant that there were some extremely large annual contribution rates. Thus five of these corporate executives had annual pension contributions in 2008 in excess of £250,000, which is the annual *salary* of Sir Gus O'Donnell (Cabinet Office, 2009: 158).

In the case of cash payments, as the term suggests, no strict pension contribution is made but the executive is awarded a percentage of salary in lieu of such a contribution. The Lane, Clark and Peacock survey indicates five FTSE 100 companies where such awards are made to *all* executive directors (listed in Appendix C). We exclude data for one of these companies (Petrofac) because the figures covering such payments also cover allowances other than pensions so a precise figure for the 'pension allowance' cannot be determined from the annual report. In these companies the smallest percentage of salary taken in lieu was 25 per cent and eight directors received such a payment in lieu; one other director received 30 per cent of salary; and four others 35 per cent. Again given high base salaries there were some very large annual payments under this heading with three executive directors having payments in lieu of pension contributions in excess of £250,000 in 2008.

So far the argument has shown that claims that the pension entitlements of public sector managers are 'too high' or that inequality between such entitlement and the pensions of front line workers in the public sector are excessive are problematic. As was indicated pension levels for private sector senior managers are substantially higher than for their public sector counterparts and it is also likely that pension inequalities are also correspondingly higher. However, an alternative approach is to suggest that such variations are justified by inter-sectoral differences.

Vince Cable (2009b) takes this view, in an article in the *MailOnline* of the 29th June 2009. He suggested that 'behind the fat-cat culture in the public sector is a wish to enjoy the rewards available in the private sector without the risks'. The discussion above has already shown that part of Cable's argument is spurious since public sector senior managers and officials do not 'enjoy the rewards available in the private sector'. However, discussions of the related issue of the pay of public sector senior managers have also focused on putative risk differences. In their written evidence to the Public Administration Select Committee inquiry into *Top Pay in the Public Sector*, the Institute of Directors (2009: Ev.79) claims, a propos of comparability of rewards between public and private sectors senior managers, that 'there has to be a risk factor included…the risk of dismissal for poor performance is much greater in the private sector and so remuneration should be correspondingly higher in the private sector'. In a similar vein the TaxPayers' Alliance (2009b: Ev.102) suggest, in their evidence to the Committee, that 'one obvious' inter-sectoral difference 'is job security: the risk to one's job is higher in the private sector as poor performance is far more likely to lead to dismissal'.

An interesting common feature to all these sources is the absence of supporting evidence. This is notwithstanding the appearance of precision conveyed in the formulations. Thus the Institute of Directors is confident that the risk of dismissal for senior managers in the private sector is 'much greater'; and the TaxPayers' Alliance claims it is 'far more likely' yet neither they nor Vince Cable produce any data on these issues. The evidence which is available is fragmentary but it does raise issues regarding the way in which inter-sectoral differences are portrayed in the above arguments.

It is clear, for example, that public sector senior management positions are not synonymous with long job tenures. Table 9 is derived from a survey by the recruitment consultancy Hoggettbowers and published in June 2009 of NHS chief executives and Finance Directors. A questionnaire was sent to 360 NHS organisations, including mental health, acute and ambulance trusts and strategic health authorities and 204 responses were received.

Table 9: Range of Periods in Post: NHS Chief Executives, 2009

Period in Post Years Years	Numbers of Chief Executives No.	Percentage of Total %
1-2	103	51.0
3-5	43	21.3
6-9	45	22.3
10 years of more	11	4.3

Source: Hoggettbowers (2009)

As the table indicates, just over 4 per cent of Chief Executives in these organisations had been in post for ten years or more. The figure for Finance Directors was higher at 8.2 per cent but the overall pattern of the dominance of short tenures with over half of Finance Directors in post for no more than 2 years was similar.

This study found that 'few' of these senior managers were 'sacked'. However, while this might seem to confirm the view that risk of dismissal is low for senior public sector managers there is an important caveat. As will be demonstrated below, outright 'dismissal' is also very rare amongst private sector senior managers. In effect in both sectors exit for 'genuine' or 'perceived' poor performance are sugared by an arranged procedure. The survey examined the destinations of the senior managers who had left their posts. It found that 25 per cent exited with a 'leaving package'. It may be that a proportion of this group left because of ‘performance’ problems but the data presented does not allow an estimate of the number of senior managers who fell into this group.

The Audit Commission (2008) undertook a study of Chief Executives in Single Tier and County Councils (STCCs) over the period 1998-2007. The data was derived from the Commission’s own database and covered 146 of 150 STCCs. The study examined risk of dismissal by looking at how Chief Executive exit due to retirement or having their employment terminated varied with the local authority. The Comprehensive Performance Assessment (CPA), introduced in 2002 for STCCs, ranks local authority performance into five categories, between 0 and 4 stars (Audit Commission, 2006: 1, 4). The study found that 14.3 per cent of Chief Executives in local authorities with a CPA score of 0-1 retired or had their contracts terminated between 2002 and 2007. The corresponding figures for other CPA scores were 7.9 per cent, CPA 2; 5.7 per cent CPA 3: and 6.4 per cent, CPA 4. However as 0-1 scores account for ‘around 10 per cent’ of all CPA scores the absolute numbers involved were small and the Audit Commission estimated that ‘CPA scores’ were responsible for ten chief executives retiring or leaving their jobs over the period 2002-2007.

Turning to the private sector, a study by Gregory-Smith *et al*. (2009) analysed patterns of Chief Executive Officer exits in all the companies which had been in the FTSE 350 over the period from January 1996 to December 2005. It was argued above that strict dismissal is rare for senior managers in both public and private sectors and this study found only ten cases of dismissals over the period or one per year (ibid.: 468). In line with the argument that de facto dismissal is more common than outright dismissal the authors used press data to give an estimate of numbers of CEOs ‘ousted’. Estimated numbers ‘ousted’ and ‘dismissed’ were 135 over the whole ten year period (ibid).

A sceptical view on the rigour of vulnerability of private sector senior managers to dismissal due to ‘poor performance’ is given in a study by the Booz Allen consultancy. They publish a regular survey of CEO succession cover the 2,500 largest international companies ranked by market capitalization in a financial database. The 2007 report is entitled ‘The Performance Paradox’ and analysed data on CEO ‘termination’ over ten years of the survey. This found that there was a performance related element so that 5.7 per cent of CEOs of companies in the lowest decile in terms of total shareholder return were ‘terminated’ as against 1.6 per cent above the bottom decile (Karlsson *et al*., 2008: 7. The data is not disaggregated by country but the overall bottom decile chance of ‘termination’ was the same in Europe as for the global figure (ibid.). Thus over this period on average only one in seventeen of the ‘worst’ senior corporate CEOs was likely to face ‘termination’.

Thus, on the basis of available evidence it seems difficult to sustain a conception that variations in 'risk' can be used to justify inter-sectoral differences. Where there is a direct basis of comparison, in DB schemes accumulated pension entitlements even for executives well short of NRA are demonstrably superior to comparators at the managerial apex in the public sector. However, on the basis of what evidence is available what is perhaps striking is the extent to which the sectors are similar. In both sectors outright dismissal appears to be extremely rare; and while there is a penalty for genuine or perceived poor performance it does not appear to lead to culls of senior managers in either sector.

5. THE POLITICAL ECONOMY OF THE LONG TERM COSTS OF PUBLIC PENSIONS

The next important manifestation of the public/private polarity literature discussed in this report refers to the long-term financial implications of unfunded public sector pensions. The comparison between a virtuous private and an irresponsible public sector with respect to this issue is articulated in the Confederation of British Industry (CBI) publication, *Clearing the pensions fog: Achieving transparency on public sector costs* (2008). For the CBI, in the private sector, 'employers have responded to the pressure on funding by pumping extra contributions into their final salary pension schemes. They have also taken tough decisions to control future costs' (CBI, 2008: 1). In contrast 'the public sector has taken no such decisive steps' (ibid.). The critical analysis of such claims in this section is divided into two parts: the first discusses estimates of the long term costs of unfunded public sector pensions; and the second considers discussions of the adequacy of changes, initiated under the last two Labour administrations.

One form of estimate of the long run cost of unfunded public sector pensions which has received considerable attention is the present value of the liabilities of such schemes. This is frequently expressed as a percentage of national income. Thus the Treasury's (HM Treasury 2008: 38) *Long-Term Public Finance Report* gives a figure of £650 billion for such liabilities at 31st March 2006 or around 50 per cent of gross domestic product (GDP). This figure itself was substantially higher than the corresponding estimate for 31st March 2005 of £530 billion (Ibid.). A more recent estimate by the British North American Committee (2008: 6) put the figure at the equivalent of 85 per cent of GDP.

There are two salient issues with respect to such estimates. The first concerns why the figures vary so dramatically. It is clear, for example, that such variations cannot be explained by changes in projected life expectancy. There *is* a projected long term trend to increased life expectancy which (with unchanged pension scheme terms) would be expected to lead to higher costs as the pension would be expected to be drawn for a longer period. However, the Government Actuary's Department estimate of the long term costs of unfunded public sector pension schemes (2007:9) projects only a slow increase in life expectancy. The estimate projects an increase in male life expectancy at 65 in the NHS, Teachers', Civil Service and Armed Forces schemes from 20.5 years (2005) to 24.9 years (2055); the corresponding figures for women are 23.0 and 27.0 years (Ibid.). This is an annual average increase of 0.4 per cent a year for men and 0.3 per cent for women. This contrasts with an increase in the 2006 Treasury estimate of 23 per cent over its 2005 estimate. The key determinant of these differences is the discount rate used to convert future liabilities to a 'current cost' figure. Thus falling interest rates have led to downward revisions in the discount rate used which has the effect of pushing up the current cost of pension liabilities. Thus, as the Treasury Long-Term Public Finance Report (2008: 38) shows changes in 'actuarial assumptions', principally related to projections of higher life expectancy accounted for only around 7 per cent of the difference between the 2005 and 2006 figures; while 'accounting effects' accounted for over 80 per cent of the increase (calculated from Ibid.).

The second key issue is that these liabilities operate over a very long time period. Thus the Treasury (2008: 38) points out that such estimates 'represent the value of accrued pension payments…due over the next 60 or 70 years' (see also Steventon 2008: 24; Trade Union Congress 2009a). Thus a further estimate of the long term cost of unfunded public sector pensions is their expected annual cost as a percentage of national income. The Pensions Policy Institute estimate (Steventon 2008: 25) of this cost is shown in Table 10.

This is derived by taking the expected cost of scheme benefits minus contributions by scheme members as a proportion of GDP.

Table 10: Projected Future Annual Cost of Unfunded Public Sector Pensions as a Proportion of Gross Domestic Product

	2007/8 %	2017/8 %	2027/8 %	2037/8 %	2047/8 %	2057/8 %
Projected cost of unfunded public sector pension as a share of GDP	1.0	1.2	1.4	1.3	1.2	1.2

Source: Steventon (2008)

The CBI appears to accept a key element of the basis of the above projection as it cites the Treasury's Long Term Public Finance Report figure for spending on unfunded public sector pensions (without as in the PPI estimate quoted in the Table deducting contributions) of an increase from 1.5 per cent of GDP (2007/8) to 2 per cent (2027/8) (CBI 2008: 2; HM Treasury 2008: 36). However, as the PPI (and the Treasury) series indicates, the 2027/8 figure is a projected peak with costs subsequently falling. This cost estimate is included, by the Treasury, in an overall projection of 'age related' public expenditure including education, 'state' pensions (basic, state second pension, pension credit, winter fuel, over 75 TV licence and Christmas bonus), health, long-term care as well as unfunded public sector pensions. Overall age-related spending is projected to increase from 20.1 per cent of GDP (2007/8) to 26.6 per cent (2057/8) (Treasury 2008: 36), an increase of 32 per cent with the cost of unfunded public sector pensions projected to rise by 20 per cent over the same period. The costs of unfunded public sector pensions do differ from other 'age related' expenditure because they represent a commitment by the state while the other expenditure categories are 'discretionary' (Steventon, 2008: 26). Nevertheless the projected increase in the cost of unfunded public sector pensions is well below the average projected increase in overall 'age related expenditure'.

The second main issue, discussed in this section, concerns critical responses to changes to public sector pension schemes agreed between the Labour government and the principal public sector trade unions. As was indicated at the start of this section, these changes are viewed by the CBI (2008:1) as not involving the required 'decisive steps'. There are some puzzling aspects in the CBI critique. The CBI (Ibid. 4) points to 'moves to increase the retirement age for future employees' in public sector pension schemes. However, a subsequent discussion of 'options for reform' includes 'increasing the pension age to 65 over time' (Ibid.: 6). Yet, as was shown in the second section, in the three largest schemes where the NRA was 60 (NHS, Teachers and Civil Service) such changes have already taken place (for another example of apparent 'amnesia' regarding 'reforms' to public sector schemes from a critic of public sector pensions see Cable, 2009a: 41).

A second 'option' for reform proposed by the CBI is 'bringing indexation [in public sector pension schemes] into line with private sector practice (CBI, 2008: 6). In its discussion of differences in practice between the public and private sectors the CBI suggests that the public sector operates with 'indexation of benefits fully in line with inflation' whereas indexation in the private sector is subject to a '2.5% cap' (Ibid.). However, this opposition reflects a basic misunderstanding. The '2.5% cap' refers to the *minimum* required indexation for private sector pensions accruing after 2005 (ONS, 2009: 35). A statutory minimum level of indexation was introduced in the Pensions Act 1995 which required that, for pensions accruing after 1997, the increase should be in line with the Retail Price Index up to a maximum of 5 per cent. The 2004 Pensions Act reduced this required indexation level to 2.5 per cent (for the Labour government's rationale for this change see Waine 2009: 757). However, as this is a statutory minimum, there is no *requirement* than particular private sector occupational schemes cannot exceed this level if they so choose. The ONS survey of occupational pension schemes (2009: 35) shows that only 24 per cent of active members in private sector occupational schemes were subject to the statutory indexation minimum. Fifty six per cent of active members of a defined benefit schemes were offered a capped level of indexation but one higher than the minimum; a further twelve per cent were in schemes with 'full uncapped indexation' (ibid.).

Thus, again there are problems with hyperbole. The cost of public sector pensions is projected (in estimates accepted by some critics) to rise but, the increases peaking in 2027/8, amount to 0.4 per cent of national income with anticipated reductions to 2057/8. Proposals such as those of the CBI (2008: 6) either suggest changes which have already been implemented or, in the case of their discussion of inflation proofing again over simplify a complex pattern of inter-sectoral similarity and difference.

6. WHAT IS TO BE DONE? THE POLITICIANS AND THEIR POLICY PROPOSALS

In this section the aim is to discuss the policy responses suggested by critics of public sector occupational pension provision in the main UK political parties. The section is divided into three parts: the first discusses what can be termed 'apparent policy process responses' i.e. the combination of an appeal to a putatively neutral or reasonable policy process which has a (thinly) hidden agenda.; the second looks at proposals for limiting or capping pension entitlements of senior managers and officials in the public sector; and the third, and longest, part discusses the closest formulation we have from mainstream politicians to a framework for what critics of public sector occupational provision call the 'reform' of public sector pensions.

'Apparent policy processes' uneasily combine a substantive view that significant change to public sector occupational pension provision is required with an attempt to convey the view that such changes would be undertaken via a fair or neutral policy process. The Liberal Democrat version of this position favours a 'review' of public sector occupational provision as the preferred policy mechanism. Thus, in his response to the 2009 pre budget report, Vince Cable referred to the need for an 'independent' commission to review public sector pensions (Pow 2008). In a similar vein Steve Webb, Liberal Democrat spokesman for Work and Pensions, claims that 'an urgent review of public sector pensions' is required (Local Government Chronicle 2009). However, combined with such calls is the substantive assumption that major *changes* in public sector occupational provision are necessary. For example, in his pamphlet, *Tackling the Fiscal Crisis*, Vince Cable (2009a: 42) informs us that 'there has to be a review [of public sector occupational pensions] *leading to radical reforms*' (our emphasis).

The Conservatives have their own version of this approach but here the neutrality buzzword is 'consultation'. Before any 'reforms to public sector pensions' are introduced, Phillip Hammond tells us, there has to be 'full consultation with everyone involved' (Roberts 2009). George Osborne (2009a) states that 'when I reform public sector pensions I will want to do it in cooperation-I hope- with the public sector'. The apparent policy process mechanism thus has similarities to the analysis of 'closure' in the Bischoff and Wigley reports provided in the Centre for Research on Socio-Cultural Change *Alternative Banking Report*. Thus the Conservative and Liberal Democrat approaches are designed to create a policy process which excludes certain 'narratives' (Centre for Research on Socio-Cultural Change 2009: 18). The process will be concerned with *how* 'reform' will operate. The necessity of the latter is a given thus excluding voices defending current provision.

The second policy response considered relates to the part of the debate on public occupational pensions discussed in the last section, pension entitlements of senior managers and officials. Here the favoured policy response is a cap on such entitlements.

George Osborne (2009b) proposed a cap of £50,000 a year on the pensions of public sector workers. Terry Rooney, the Labour chair of the Commons Work and Pensions Committee (Gosling, 2009), has also supported a cap at the same level. This issue is also exercising the Liberal Democrats and Steve Webb asked the Secretary of

State for Health, in a parliamentary question in 2009 'whether he had plans to amend the NHS pension scheme entitlement of NHS employees on high salaries' (Webb 2009).

A number of observations are relevant to this policy. Part of George Osborne's rationale for the policy was as a deficit reduction measure which would save 'hundreds of millions of pounds in pension liabilities' (Inman 2009). However, this is trivial in the context of a deficit of £175 billion. In addition there are a very small number of public sector managers with entitlements over the proposed cap. Thus the imposition of a cap would affect very few and, as a consequence, yield minor savings.

The policy as articulated so far is also very thin on detail, e.g. no rationale is offered for setting the cap at £50,000: neither is it clear whether lump sums would be included. A rather bizarre rationale suggested by George Osborne (2009b) is one of fairness. Thus it is argued that as the tax relief on private pension contributions is capped then this somehow renders the £50,000 public sector cap reasonable. However, there are two problems here. Firstly, the lifetime allowance puts the ceiling on tax relief on a pension pot of £1.8 million but this translates into an annual pension of £90,000 (Timmins 2009). Secondly, since the 1989 Finance Act it has been possible to have membership of approved pension schemes (which have a tax-exempt status) and unapproved schemes (which do not) (both now called Employer Funded Retirement Benefit Schemes). This means that the companies can and increasingly do provide membership of unapproved schemes for senior executives in order to meet pension targets such as two thirds of base pay which would be impossible for such executives to achieve via approved scheme membership because they have 'exhausted' the lifetime allowance. The Lane Clark and Peacock survey (2009: 5) identified 31 FTSE 100 companies which made such 'unapproved' provision for their executive directors. Thus the pension cap policy is problematic in a number of ways; with respect to the object of deficit reduction it is virtually irrelevant; but it is also difficult to see how it can be justified on equity grounds since it replicates the problems indicated in the last section; namely that both the level of private sector occupational entitlement for senior managers and the extent of inequality between them and front line workers is higher in the private sector. This obviously raises the question as to why a cap should apply solely in the *public* sector.

The final policy response to be considered is the most important because it has important implications for the overall nature of occupational pension provision in the public sector. In a response to a question, following a speech in November 2008, David Cameron stated 'my vision over time is to move [public sector pensions] increasingly towards defined contribution rather than final salary schemes' (reported in Bounds *et al*., 2008). This statement is in some respects consistent with a position on public sector occupational pensions taken by David Davis, a former shadow cabinet minister and former chair of the House of Commons Public Accounts Committee. In an article, devoted to proposals to cut public spending and the public sector financial deficit, Davis suggested that 'We are going to have to close all public sector pension schemes to new entrants' (Davis 2009). Both statements leave a number of questions unanswered. In the case of Davis, for example, it is not clear what, if any, occupational pension provision is to be made for new entrants. In Cameron's case it is not clear what form (see below) of DC provision is envisaged and what anticipated employer and employee contribution rates would be. Cameron's office also described his remarks as 'outlining the direction of travel' and that the Conservative Party had not 'ruled any option out' (Bounds *et al*., 2008).

However, notwithstanding these caveats it is worth considering Cameron's 'vision' if only because it does represent a significant substantive policy option for public sector occupational pensions. Furthermore there is at a degree of consistency between Cameron and Davis's positions; thus Cameron's reference to a shift to DC 'over time' would be consistent with a policy of closure of DB schemes to new entrants who could then join a public sector DC scheme. Further it is worth noting, given the proclivity of mainstream British politicians, not just Conservatives, to worship the private sector, that the CBI has also given an endorsement to occupational DC provision as a desirable trajectory for the private sector. Thus the CBI has argued (2008: 5) that, part of what they view as an appropriate response to pensions policy in the private sector, is that 'for many private sector workers a defined contribution plan – often of high quality…is on offer'.

The first problem with this 'direction of travel' relates to the relationship to deficit reduction, as was indicated a central theme of Davis's article. As was pointed out in the section on public sector occupational schemes they are predominantly 'pay as you go', namely current employee contributions effectively serve to reduce the net cost to public funds of paying current public sector occupational pensions. A progressive shift to DC provision would, however, necessarily reduce the share of public sector pension contributions which could be used for this purpose. This is simply because contributions of new DC entrants would be invested to accumulate their individual pensions saving. Thus this shift would, at least for some time, operate to increase public spending and ceteris paribus the public sector financial deficit. It is also perhaps an index of the capacity of contemporary leading British politicians to be unaware of earlier investigations of these issues that Cameron showed no knowledge of the fact that the question of moving a public sector pension scheme from an unfunded to a funded basis had been addressed (under a Conservative government) by a committee investigating benefits for police officers chaired by Sir Patrick Sheehy, which reported in 1993. The Committee's report stated that concerns over the cost of the existing police pension scheme 'and the fact that private sector schemes are normally funded' led them to consider 'whether it was right to continue with a "pay as you go" approach…or whether a funded scheme was indicated' (Sheehy 1993: 137). Amongst the reasons the Committee gave for rejecting this course was that 'to move to a funded arrangement…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 or 30 years*' (our emphasis).

There is also a more serious issue regarding the question of the adequacy of such provision. In discussing the questions which would need to be resolved to turn the Cameron 'vision' into a public sector pensions policy the issue of the type of DC scheme was raised. Broadly DC schemes fall into two categories; 'trust based' schemes where the scheme is provided by the employer via a trust fund; and 'contract based' schemes where, although the employer organises access to the scheme there is a contractual relationship between each scheme *member* and the pension provider (Dobson and Horsfield 2009: 13).

While the performance of DC schemes is crucially influenced by investment returns contributions levels are also a relevant indicator of 'quality'. In this respect the data in Tables 11 and 12 provide a contrasting picture to the sanguine view of the CBI discussed above. DC provision refers to trust based schemes; while Group Personal Pensions and Stakeholder pensions (introduced by the Labour government in 2001) are variants of a contract based approach.

Table 11: Membership of Private Sector Occupational Schemes 1999-2008, 000

	Defined Benefit (000)	Defined Contribution (000)	Group Personal Pension (000)	Stakeholder Pension (000)	Share of the working population without Pension Coverage %
2008	2,352	1,475	1,409	880	62.6
2007	2,601	1,499	1,380	864	60.6
2006	2,745	1,534	1,357	773	59.0
2005	3,109	1,389	1,226	718	59.0
2004	3,656	1,685	1,223	501	56.8
2003	4,066	1,894	1,276	481	53.9
2002	4,423	1,768	1,331	444	52.7
2001	4,676	1,798	1,314	n.a.	54.4
2000	4,796	1,762	1,060	n.a.	54.6
1999	4,956	1,739	794	n.a.	54.7

Source: Series constructed from Annual Survey of Hours and Earnings, Pensions Analysis by Industry 1999-2008.

Table 12: Trends in Contribution Rates (Employer and Employee Average Contributions as a percentage of total earnings) to Private Sector Defined Contribution Schemes 2002-2009

	2002 %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %
Defined Contribution	8.5	8.7	9.8	10.0	10.1	10.3	10.7	11.0
Group Personal Pension	9.2	9.4	9.4	9.9	9.8	9.9	9.6	9.9
Stakeholder	8.3	8.7	8..0	8.3	8.1	8.2	8.5	8.9

Source: Association of Consulting Actuaries (2009)

As the tables indicate coverage of DC schemes where there has been a more substantial growth in overall contribution rates has been declining both in absolute terms and as a percentage of overall private sector DC coverage. Furthermore the overall growth in DC provision has been combined with a continuous increase in the percentage of employees without any pension coverage which has increased virtually ten percentage points between 2002 and 2008, this seems hardly consistent with a conception of a trend to 'high quality' DC provision in the private sector.

In addition DC schemes have structural characteristics which constitute risks to a secure income in retirement. These fall into three categories: in accumulating pensions savings at retirement; at the point at which an annuity is purchased with accumulated pension savings; and risks when pensions are in payment (Davies and Waine 2009). The risk involved in accumulation relates to variations in investment returns. Thus it has been estimated that the value of UK DC assets fell by one third between September 2007 and February 2009 (Dobson and Horsfield 2009: 85; for longer term trends see Davies and Waine 2009).

UK legal requirements mean that around three quarters of accumulated pension savings must be used to purchase an annuity (Dobson and Horsfield 2009: 92). Variations in interest rates at the point of purchase crucially affect the income from an annuity. Thus, for example, in September 2008 a 65 year old man retiring with an accumulated pension savings of £200,000 could have purchased an annuity yielding an income of £15, 840 but one month later the corresponding income would have fallen to £13,480 (Davies and Waine, 2009). As accumulated pension saving can be used to purchase an annuity up until the age of 75 it is possible to seek to avoid unfavourable financial conditions for annuity purchase. However, 67 per cent of annuities are purchased when the annuitant is under 65 (Dobson and Horsfield 2009: 99). Further delay in purchase is gendered with 40 per cent of men but only 16 per cent of women purchasing annuities after the age of 65 (ibid.).

The final area of risk is the erosion of the value of the pension in payment in real terms due to price rises. It is possible to purchase index-linked annuities but currently 80 per cent of the annuity market is in flat-rate annuities which give pensioners a higher initial income but leaves open the risk that the value of pensions may subsequently decline (Davis and Waine 2009).

Thus the policy responses of the critics are problematic. 'Review' or 'consultation' represents an uneasy combination of an appeal to neutrality with the de facto exclusion of voices supporting current public sector occupational pension provision. A shift to DC provision in the public sector for new entrants would increase public spending in the medium term; and would involve embracing a form of provision which replaces predictable if modest benefits with a much higher level of risk.

7. CONCLUSION

The argument advanced in this paper has sought to show that the contemporary critique of UK public sector occupational pensions has consisted of a narrative combining a tone of moral outrage with a posited polarity between a privileged public sector and an under-privileged private sector. Central to the polarity and hence to public sector occupational pensions as an object of attack has been a combination of an empirical trend and a false inference. The empirical trend is towards the 'closure' of private sector DB schemes; the false inference is that this has created a 'pensions apartheid', two sectors which constitute distinct 'pension worlds'.

The false inference derives from a failure to grasp two mechanisms which generate powerful legacy effects. Occupational pensions operate by scheme members accruing entitlements over long periods. The first mechanism is that such rights cannot be retrospectively removed. The second is that, in the UK, DB 'closure' has meant closure to new members. Existing members thus continue to accrue rights.

The results of the false inference were outlined in the paper and they can be exemplified by some rhetorical questions. If the private sector is a 'DB free zone' how is it that there are more DB pensions in payment in the private sector than in the public sector (see Table 4)? If DB has disappeared from the private sector how is it that the majority of FTSE 100 executive directors are members of DB schemes?

There is a further irony in the postulated polarity. Attempts to 'reform' provision in the private *and* public sectors have made the concept of inter-sectoral dualism more inappropriate in an important way. As the paper demonstrated in *both* sectors 'reform' has meant a complex pattern of differential entitlement between existing and new members. Furthermore this adds a further layer of complexity to a pre-existing pattern of diversity in *both* sectors.

A further index of the dubious character of the concept of pensions polarity is the peculiar set of double standards which pervade the arguments of the critics. Pensions in payment for women in the Local Government Pension Scheme at an average of £2,600 per year are part of a 'gold plated' scheme; but corporate executives with accrued pension entitlements of £500,000 a years do not enjoy 'gold plated' provision. Senior public sector managers and officials have excessive pension entitlements with pensions of £50-100,000 per year; but private sector senior corporate managers with pension entitlements of five to ten times this level are not subject to such criticisms.

Finally the problematic character of the critique is revealed in the thin diet of policy prescriptions from key political actors. The most distinctive policy proposal is to progressively move public sector schemes to a DC basis by closing DB provision to new members. However, as the Sheehy report (to a Conservative government) observed nearly twenty years ago such measures would have the medium term effect of *increasing* public spending, hardly consistent with 'reducing the deficit'. Equally the policy fails to confront the structural problems of the risks of DC schemes which has been amply demonstrated in the pensions literature.

Pensions polarity has the characteristics of a congenial political narrative. It is simple and allows the contemporary politician scope for a 'performative' stance of making 'tough' choices. It is, however, inconsistent with relevant key 'numbers' and a poor guide to shaping pensions policy.

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APPENDIX A: FTSE 100 Companies Analysed offering Defined Benefit Pensions to all Executive Directors
Associated British Foods
BAE Systems
BG Group
British American Tobacco
Diageo
Fresnillo
Hammerson
InterContinental Hotels
National Grid
Next
Reed Elsevier
Royal Dutch Shell
Scottish and Southern Energy
Serco
Tesco

APPENDIX B: FTSE 100 Companies Analysed offering Defined Contributions Pensions to all Executive Directors
Anglo American
Autonomy
BHP Billiton
BSkyB
Cairn Energy
ENRC
F + C
ICAP
Inmarsat
LSE
Reckitt Benckiser
SAB Miller
Shire
Tullow Oil
United Utilities
WPP

APPENDIX C: FTSE 100 Companies Analysed offering Cash in Lieu of Pensions to all Executive Directors

Cable and Wireless
Compass Group
Invensys
Marks and Spencer

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