



Amarendra Swarup **Personal view**

Are public sector pension schemes a car crash waiting to happen?

Mortgage debt in Britain passed £1trn for the first time in June 2006 – a year after total personal debt had broken through the same barrier. But that wasn't the only record broken that year.

Though the fanfare was more muted, it was also the year the UK government's estimated net public sector pension liabilities surpassed £1trn. The problem is that while mortgage debt is supported by £3.6trn in property, public sector pension liabilities are backed by a somewhat lesser amount – zero in most cases, to be precise.

A lucky few, such as the Local Government Pension Scheme and the Universities Superannuation Scheme, are actually funded. But well over 3 million public sector workers today are dependent on a tenuous promise for their retirement income.

The government's predicament mirrors that of those suffering from the credit crunch. There are few savings. Little has been invested. Today's pensions are mostly paid as they arise through current resources and annual salary contributions from public sector employees and their employers – most of whom are likely to be unaware their contributions are not being saved for the future. Consequently, the £19.3bn contributed is insufficient to meet the current cost of pensions and has to be supplemented by a £9.6bn annual subsidy from the taxpayer.

The numbers are only set to grow further. Unlike the private defined benefit (DB) sector, which has been decimated by its own relatively trifling black

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hole of £200bn, public sector DB schemes remain open to new members, recently surpassing the private sector membership, despite employing only one-fifth of the workforce.

Reasonable measures to bring the public sector in line with private sector schemes, such as raising the retirement age from 60 to 65 for existing members and capping the index-linking of pensions, could help reduce the haemorrhaging for now. However, a fear of alienating increasingly vocal unions has meant that generous increases in public sector pay have remained the preferred policy. On average, public sector employees now receive benefits over four times' more generous than those of their private sector cousins.

The result is an ever-increasing bill for taxpayers, which could cost every household £40,000 over the next few decades, according to the TaxPayers' Alliance. It's a politically unacceptable solution and is already financially challenging, with estimations it could add £40bn to the government deficit.

Political will and firm action are necessary if these issues are to be addressed. Most importantly, the government needs to increase transparency in public sector pensions. It is only then that we can truly understand the scale of the challenge and begin debating how to get public sector pensions on a more sustainable footing.

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