

**A SUBMISSION TO THE
INDEPENDENT PUBLIC SERVICE PENSION
COMMISSION**

NEW POLICY INSTITUTE

JULY 2010



306 Coppergate House
16 Brune Street
London E1 7NJ

020 7721 8421
peter.kenway@npi.org.uk

CONTENTS

Introduction and Summary	1
LGPS membership	1
LGPS pensions	1
Conclusions for the Commission	2
Who belongs to the LGPS?	3
Size of the LGPS	3
Membership of the LGPS	3
Pay within the LGPS	5
Summary	6
The pensions of LGPS members	7
Pensioners receiving an occupational pension	7
<i>Figure 1: the proportion of pensioners in each household income quintile and whether they benefit from an occupational pension</i>	8
Working-age contributing to an occupational pension	8
<i>Figure 2: the proportion of working-age (25+) in each household income quintile and whether they 'contribute' to an occupational pension</i>	9
LGPS contributing members compared with others	10
<i>Figure 3: LGPS members' pay compared with pay of members contributing to occupational pensions schemes in general</i>	10
The value of the pensions of LGPS active members	11
<i>Figure 4: the estimated values of annual pensions accrued to date by active LGPS members</i>	11
How much does an LGPS pension save the government?	12
<i>Figure 5: the proportion of an occupational pension accruing to the taxpayer via reduced benefits and higher income tax</i>	14
Summary	14
Two issues for the Commission	15
The importance of occupational pensions to government finances	15
The need to look at the range of salaries and pensions	16

INTRODUCTION AND SUMMARY

1. Using evidence on the membership of the Local Government Pension Scheme and the pension entitlements of its members, the purpose of this submission is to counter the impression that reform of public sector pensions is mainly about ending the privileges of a small, well-heeled minority.
2. The submission is based on research carried out by the New Policy Institute for the trade union Unison. Unison is the largest public service trade union, with 1.4 million members employed across the sectors and occupations covered by the LGPS.

LGPS MEMBERSHIP

3. Nearly four million people belong to the LGPS: 1 in 12 of the adult population. 40% are 'active' members. 30% are pensioners. 30% are former employees with deferred benefits. Measured by its active membership, the LGPS is the largest public sector scheme, much larger than both the teachers' and the civil servants'. Some three quarters of active members are women.
4. Membership extends beyond local government proper to include, for example, support staff in schools and the police. Many are engaged in occupations providing services directly to the public. One in every six active members is a teaching assistant with a further one in six being either care workers and assistants, nursery nurses or caretakers. Associate professional and technical occupations make up a further fifth. Together, with administrative and secretarial and professional occupations, these four occupational groups make up five sixths of all LGPS members.
5. Men in the LGPS are less well-paid than UK male employees in general with 80% earning less than the UK male median of £26,000 a year. Women in the LGPS are considerably less well paid than men in the LGPS. Even so, among those on average and below-average earnings, women in the LGPS are slightly better paid than UK female employees in general. Overall, a quarter of LGPS members earn less than £11,000; half earn less than £17,500; three quarters earn less than £25,000.

LGPS PENSIONS

6. Among current UK pensioners, three fifths belong to households that receive an occupational pension. While the majority of those benefiting from such a pension are in the better-off half of the pensioner population, a substantial minority (four in ten) are still in the worse off half.
7. Most active members of the LGPS have acquired only modest pension entitlements. 30% are entitled to less than £1,000 a year. More than half are entitled to less than £2,500 a year. Just a quarter are entitled to more than £5,000 a year. Although the estimates are more uncertain at the top end, only 6% of members have entitlements exceeding £10,000 a year.

8. A substantial part of a low occupational pension in effect returns to the government via resulting reductions in Pension Credit, Council Tax Benefit and (if the pensioner rents his/her home) Housing Benefit. Out of most LGPS pensions, the government ends up with between 45% and 50%. For LGPS members with a less than full entitlement to the State Retirement Pension, the government's share can be much higher still. In 2008-09, the LGPS paid out benefits worth some £5.6bn, implying a government saving of some £2½bn.

SOME ISSUES FOR THE COMMISSION

9. The long term interest of government finances lies in ensuring that people have adequate occupational and/or other private pensions. It is worth government's while to put money in to encourage this to happen, above and beyond what might be deemed reasonable as an employer contribution. In its final report, the Commission is urged to present the cost to the public finances of different options on a *net* basis (that is, including the consequent impacts on social security spending). In addition, it should also take an open view of evidence of disparities or unfairness between public and private sectors, recognising that inadequate provision carries costs for the public finances too.
10. Fairness and disparities are as much an issue within each sector (or even within a particular scheme) as between sectors. Any argument that is based on reducing the public sector as a whole either to one extreme, or the other, or even to some arithmetical average, will be deeply misleading. If the Commission's conclusions are to be just, they must both take account of, and convey, a sense of the range of salaries and pension entitlements within the public sector.

THE MEMBERSHIP OF THE LGPS

The political and media narrative surrounding the review of public sector pensions has contrived to give the impression that the nub of the issue is the reform of ‘gold-plated’ pensions for civil servant ‘fat cats’. In this opening section, we set out evidence about the biggest public sector scheme in order to correct this impression.

SIZE OF THE LGPS

Nearly four million people – one in every 12 UK adults – belong to the LGPS. Some 1.7 million of them – just over 40% – are ‘active’ members, that is, they are employed and contributing to the scheme. A further 1.1 million (30%) are pensioners. Another 1.1 million (30%) are former employees who have deferred benefits arising from the contributions they made to the scheme when they were employed.¹

Its active membership of 1.7m makes the LGPS comfortably the largest of the public sector schemes. The only other scheme of comparable size is the NHS with 1.3m members. The third and fourth largest schemes, for teachers and the civil service, with 0.6m members each, are dwarfed by the LGPS. As a result, the LGPS accounts for 40% of the total active membership of the ‘big four’ schemes.² By contrast, the civil service scheme accounts for just 14%.

WHO BELONGS TO THE LGPS

Membership of the LGPS is not restricted to people employed by local authorities but is instead open to a wide range of people in the local government sector. This includes schools and the police service (although teachers and police officers themselves have their own separate schemes). Membership also extends to some people who work for national bodies (e.g. the Environment Agency) but it does not cover people who work for the NHS. It also includes some people in the private sector who retained their membership of the LGPS when their jobs were privatised.

According to the official *Labour Force Survey (LFS)*, there were some 3.5 million jobs in 2009 within what it refers to as ‘local government or council (including police)’. Excluding those groups with their own schemes, an estimated 2.4 million people in the local government sector were eligible to belong to the LGPS.³

¹ Source: Communities and Local Government, Table 3:
<http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/pensionscheme/summarydata/summarydata200809/>

² Source: Adam, John, 2010, *Public sector pension schemes: policy objectives and options for the future*, chart 1: Pensions Policy Institute.

³ The excluded groups are: senior officials in national government and special interest organisations; police officers; senior fire, ambulance and prison officers; hospital and health service managers; higher, further, secondary, primary, nursery and special needs education teaching professionals; registrars and senior administrative educational establishment; other fire service and prison service officers; civil service executive and administrative officers and assistants; officers in non-governmental organisations.

Of this 2.4 million people, slightly more than two thirds are women, divided almost equally between those in full-time employment and those employed part-time. Some three quarters belong to just four of the nine main ‘occupational groups’ used to classify employment. These are: personal service occupations (690,000); associate professional and technical occupations (410,000) administrative and secretarial occupations (380,000); and elementary occupations (340,000). Almost all the rest are either professionals (230,000) or managers and senior officials (200,000).

Just 12 occupations, totalling some 1.3 million employees, account for half of the LGPS-eligible employment in the local government sector. 90% of the people in these occupations are women, with again about half working on a part-time basis. The occupation with the largest number of all is educational (or classroom teaching) assistant, accounting for one in every six of all those eligible for the LGPS. The next two largest groups are care assistants and home carers and clerical officers and assistants in local government. They are followed by cleaners and domestics, school mid-day assistants, social workers, kitchen and catering assistants, housing and welfare officers, youth and community workers, general office assistants or clerks, nursery nurses and school secretaries. Many of these employees are evidently providing services directly to members of the public, often children.⁴

Information on the actual membership of the LGPS (as opposed to those who are eligible to join) is contained in a *Unison* survey of more than 3,000 of its members in local government which was last carried out in 2008. As well as occupation, this contains data on pay and length of service which allows estimates to be made of pension entitlement.

⁴ The top twelve occupations eligible to belong to the LGPS (measured by the employment) are:

<i>Occupation</i>	<i>Occupation Group</i>	<i>Total (000s)</i>	<i>Female</i>	<i>Part time</i>
Educational assistants	Personal service	399	94%	47%
Care assistants and home carers	Personal service	126	91%	48%
Clerical officers & assistants	Admin and secretarial	114	78%	69%
Cleaners, domestics	Elementary	92	88%	12%
School mid-day assistants	Elementary	77	99%	1%
Social workers	Professional	74	84%	78%
Kitchen and catering assistants	Elementary	73	96%	12%
Housing and welfare officers	Associate prof/ technical	69	81%	78%
Youth and community workers	Associate prof/ technical	62	61%	71%
General office assistants or clerks	Admin and secretarial	61	80%	51%
Nursery nurses	Personal service	43	100%	49%
School secretaries	Admin and secretarial	43	98%	47%
Total		1,230	89%	47%

In broad terms, the picture of the actual (active) membership is very similar to that of the eligible membership. So according to the *Unison* survey, some three quarters of the active members of the LGPS are women. One in six is a teaching assistant with a further one in six being either care workers and assistants, nursery nurses or caretakers. Associate professional and technical occupations make up a further fifth. Together, with administrative and secretarial and professional occupations, these four occupational groups make up five sixths of all LGPS members.

Where there are differences between the two surveys, actual membership is slightly high (compared with eligible membership) in the personal service, professional and associate professional occupations, whereas it is low among senior managers and very low among those in elementary occupations. This suggests that the *Unison* survey may be slightly overweight in middle jobs and slightly underweight in jobs at both ends. In looking at the other information contained in this survey, this proviso should be borne in mind. Common to both surveys, however, is the broad picture of a majority female membership, many of whom are engaged in occupations that provide services directly to the public.

PAY WITHIN THE LGPS

The *Unison* survey also provides information about the rates of pay of active members of the LGPS which can then be compared with the distribution of pay rates across the economy as a whole.

Men in the LGPS are less well-paid than UK male employees on average. A quarter have gross annual earnings below £16,000 while a half earn less than £22,500. For male employees across the UK as a whole, the comparable figures are some £2,500 and £3,500 higher respectively. The best paid quarter of UK male employees earn £37,500 or above. By contrast, the best paid quarter of LGPS men earn only £30,000 or more.⁵

⁵ The first, second (median) and third quartiles of the spread of gross annual pay for men and women in the LGPS and across the UK as a whole in 2008 are as follows:

	<i>LGPS</i>	<i>All UK employment</i>
1 st quartile: 25% of men earn less than	£15,500	£18,000
Median: 50% of men earn less/more than	£22,500	£26,000
3 rd quartile: 25% of men earn more than:	£30,000	£37,500
1 st quartile: 25% of women earn less than	£11,000	£9,000
Median: 50% of women earn less/more than	£16,500	£15,500
3 rd quartile: 25% of women earn more than:	£23,500	£25,000
Sources: Unison, <i>Local Government Survey 2008</i> ; ONS, <i>Annual Survey of Hours and Earnings 2008</i>		

Women in the LGPS are less well paid than men in the LGPS with a quarter earning less than £11,000 and a half earning less than £16,500. However, women in the LGPS tend to be slightly better paid – at least among those on lower earnings – than women in general among whom a quarter earn less than £9,000 and half earn less than £15,500. This pattern, to the advantage of LGPS women, does not apply at the upper end where the best paid quarter of UK female employees earn £25,000 or above compared with £23,500 for the best paid quarter of LGPS.⁶

SUMMARY

The purpose of this section has been to counter and correct the image of the public servants who benefit from the pensions under review by the Commission. Rather than Sir Humphrey, or bowler-hatted civil servants, the vast majority of those in the LGPS are women and men on rates of pay that correspond to the pattern across UK employment as a whole (although with fewer at the top), doing ordinary jobs of self-evident value, not least to those who benefit from their work directly in schools, places of care, youth and community projects/centres etc. While the details will be different, much the same can be said for the members of other public sector schemes, in particular, in the NHS scheme which, like the LGPS, is not restricted to a particular professional group.

⁶ Although the first and second pay quartiles for women are slightly above average for the LGPS, this is not the case for female employment in local government generally. The better position of women within the LGPS is likely to reflect the fact that those on low pay and/or doing part-time work are less likely than other women in the sector to belong to the LGPS. So the *Unison* survey shows that the first and second pay quartiles for all women taking part were about £500 a year less than for those in the LGPS. According to an analysis of the survey, 35% of those not in the LGPS gave as the reason that it cost too much: Income Data Services, 2009, *Time for a Change*, p38: Unison.

THE PENSIONS OF LGPS MEMBERS

If the first section of this paper has disposed of the ‘fat cat’ image of the typical member of the largest public sector scheme, that still leaves the question of whether the pensions these members will receive can reasonably be described as ‘gold-plated’. This section of the paper deals with this by presenting evidence about the active LGPS members’ pension entitlements.

To set this in context, the section first presents more general evidence about where occupational pension schemes and their members, both active and already in receipt of a pension, fit into the overall income distribution. Are pension schemes mainly the preserve, if not of the rich, then at least of those who can fairly be described as better off? If so, how many people lower down the income distribution belong to such schemes? And is there any marked difference between pensioners now benefiting from such schemes, and those of working-age who are contributing to them?

PENSIONERS RECEIVING AN OCCUPATIONAL PENSION

Figure 1 shows where the household incomes of pensioners fit into the overall household income distribution. The distribution is divided into fifths (or quintiles), each containing some 12 million people, ranging from the bottom fifth (Q1) to the top (Q5).⁷ In each quintile, the pensioners are shown separately according to whether they and/or their partner (if they have one) gets an occupational pension.

Several statistics here show that it can reasonably be said that occupational pensions are for the many and not just the few. First, a clear majority of pensioners (61%) benefit from them. Second, while this proportion rises to three quarters for pensioners on above average incomes (20% out of 27%), it still as high as a half for those on below average incomes (27% out of 52%). Moreover, there are actually more below-average income beneficiaries than above-average ones (27% compared with 20%).

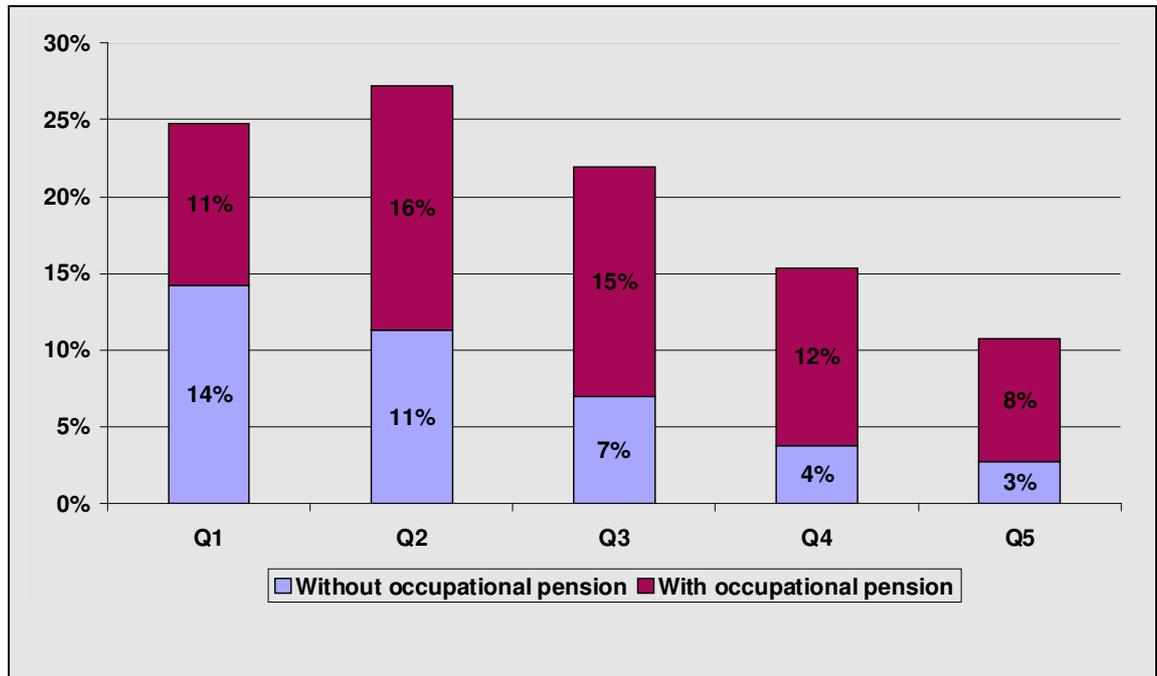
⁷ Quintiles of the household income distribution for example family types are as follows:

<i>Monthly post-tax income (2008-09)</i>	<i>Bottom fifth (Q1)</i>	<i>Middle fifth (Q3)</i>	<i>Top fifth (Q5)</i>
<i>Single adult</i>	Under £750	£1,050 to £1,350	Above £1,900
<i>Couple</i>	Under £1,100	£1,550 to £2,050	Above £2,850
<i>Lone parent, 10 year old child</i>	Under £950	£1,350 to £1,800	Above £2,500
<i>Two parents, 10 and 14 year children</i>	Under £1,700	£2,350 to £3,150	Above £4,400

Source: DWP, Households Below Average Income 2008-09. ‘Income’ includes all sources of income including Housing Benefit and is calculated before housing costs have been deducted. ‘Post tax’ income is net of income tax, national insurance and council tax.

A person’s position in the income distribution depends on both their household income and the number of people in the household. The idea here is that a couple requires more money than a single person to maintain a particular standard of living while a couple with children requires more still. Factors to ‘equalise’ household incomes in this way are part of the official data.

Figure 1: the proportion of pensioners in each household income quintile and whether they benefit from an occupational pension⁸



Against this last point, pensioners tend to have lower incomes than the population as a whole.⁹ As a result, a majority of pensioners benefiting from an occupational pension are in the better-off half of the *pensioner* population (35% out of 61%). But that still leaves four in ten beneficiaries in the worse-off half – a substantial minority.

It is of course also the case that the amount of occupational pension received is far less in the lower quintiles than the upper ones. In particular, the top fifth of pensioners are estimated to receive about half the total incomes from occupational pensions while the top two fifths receive between two third and three quarters.¹⁰

WORKING-AGE CONTRIBUTING TO AN OCCUPATIONAL PENSION

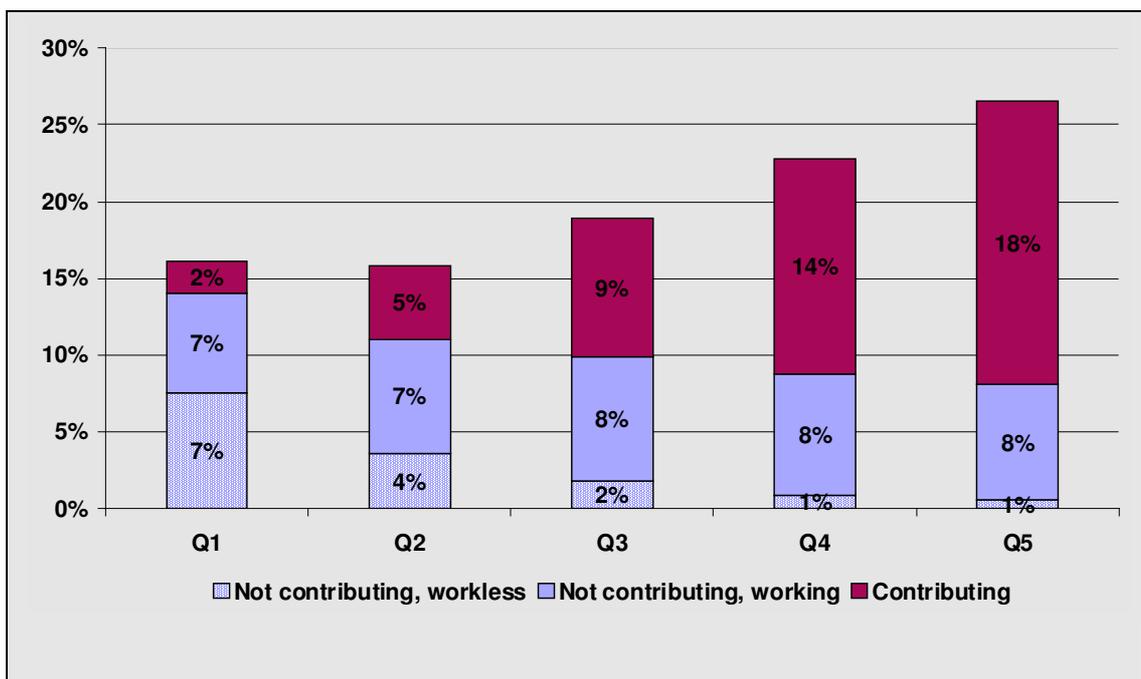
Figure 2 shows the distribution of working-age adults who are either contributing to an occupational pension scheme themselves or whose partner is. Only those who are aged 25 or above (or whose partner is) are included here: very few of those under age 25 contribute at all.

⁸ Source: ONS Family Resources Survey 2007-08 and DWP, Households Below Average Income 2007-08, NPI analysis. A pensioner is counted as ‘benefiting’ from an occupational pension if either they or their partner (or both) is getting such a pension. The statistics refer to pensioners (and not people in pensioner benefit units). The DWP Pensioner Income Series reports a figure of 59% of pensioner units benefiting from an occupational pension. The difference between that 59% and the 61% shown here arises from the fact that a count of pensioner units treats couples as one whereas a count of individual pensioners (as here) treats them as two.

⁹ This can be seen in figure 1 in the 52% of pensioners who are in the bottom two quintiles, implying that among pensioners, all in the top three quintiles count as ‘better-off’.

¹⁰ Source: DWP, Pension Income Series 2008-09, table 4.3: NPI analysis.

Figure 2: the proportion of working-age (25+) in each household income quintile and whether they 'contribute' to an occupational pension¹¹



On the face of it, the picture here is different from that for pensioner beneficiaries. First, only 48% of working-age aged 25+ are contributing (compared with 61% of pensioners who are benefiting). Although very few indeed of those aged under 25 contribute, there is no perceptible difference as between those aged 25 to 44 and those aged 45+.

Second, while two thirds of contributors have above average incomes (32% in the top two quintiles out of a total of 48%), only one third of pensioner beneficiaries (20% out of 61%) are in those two quintiles.

But just as the pensioner population is skewed towards the lower half of the income distribution, so the working-age population is skewed towards the upper half: 50% in the top two quintiles.¹² As a result, the main message from figure 2 is that while the majority of those contributing to occupational pensions are in the better-off half of the working-age population, one third (16% out of 48%) are in the worse-off half. Though lower than the comparable figure for pensioners (above 40%), this proportion of one-third means that the basic message here is the same as it was there, namely, that significant minorities of those contributing to, and benefiting from, occupational schemes have incomes below the average for their age group.

¹¹ Source: ONS *Family Resources Survey 2007-08* and DWP, *Households Below Average Income 2007-08*, NPI analysis. A person is counted as 'contributing' to a pension if either they or their partner (or both) is making such a contribution.

¹² Implying that any working-age person in the lowest three quintiles can be regarded as in the worse-off half of the working population.

LGPS CONTRIBUTING MEMBERS COMPARED WITH OTHERS

Since data on LGPS members' household incomes is not available, data on the rates of pay is used instead: see figure 3.

The key point here is that LGPS members are less well paid than pension scheme members in general. A quarter of LGPS members earn less than £12,000 compared with a sixth of members across schemes in general. Those earning between £12,000 and £18,000 are similarly over-represented in the LGPS. By contrast, at the upper end, less than one sixth of those in the LGPS earn more than £30,000 compared with one third for schemes in general. As a result, whereas half of members of occupational schemes in general earn more than £24,000, the halfway point for LGPS is more like £18,000.

Figure 3: LGPS members' pay compared with pay of members contributing to occupational pensions schemes in general¹³

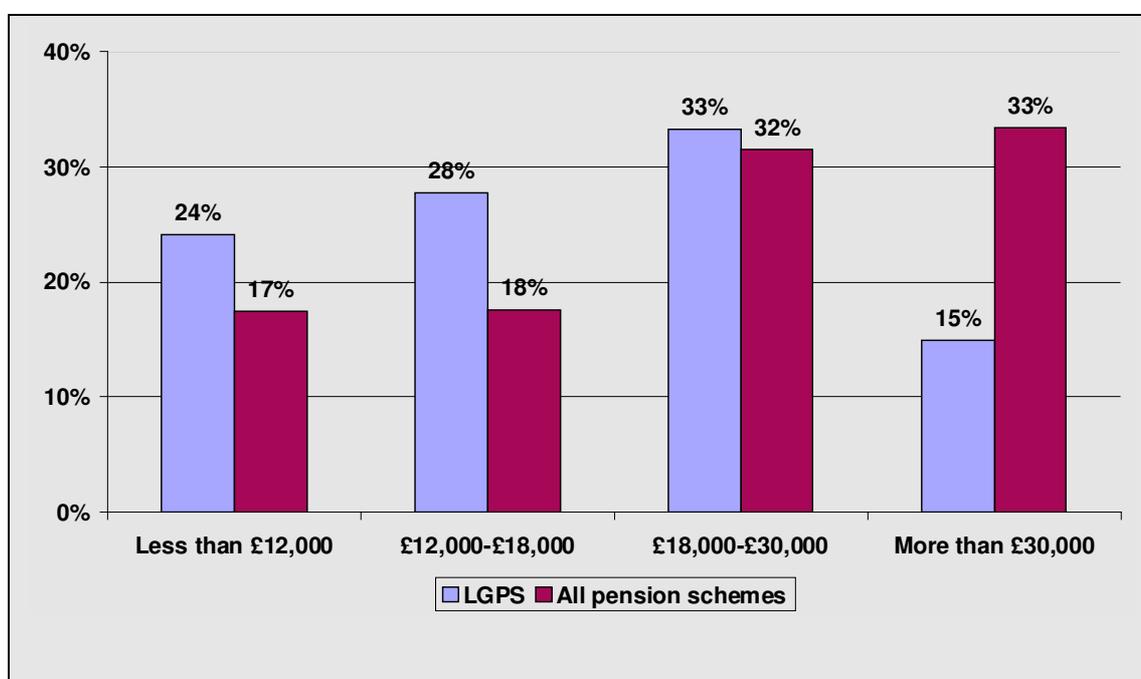


Figure 2 showed that one third of the contributing members of occupational schemes in general have household incomes that are below the working-age average. On the basis of the earnings data shown here, we estimate that a half of the active membership of the LGPS have household incomes below the working-age average.

¹³ Sources. ONS Family Resources Survey 2007-08 and DWP, *Households Below Average Income 2007-08* (for occupational pensions schemes in general – NPI analysis) and Unison, *Local Government Survey 2008: Time for a Change, 2008* (for LGPS – NPI analysis). Across the working population as a whole, (not just those in occupational schemes), the four groups are roughly equal in size (containing 27%, 21%, 28% and 24% respectively of those in employment).

THE VALUE OF THE PENSIONS OF LGPS ACTIVE MEMBERS

Being dependent on assumptions about future years of service and salary, any attempt to forecast the pensions that LGPS members will receive on retirement needs to be left to the actuaries. By contrast, an estimate of the pensions that active members would receive on the basis of the entitlements earned so far is fairly straightforward: see figure 4.

The clear message here is that most active members of the LGPS have modest pension entitlements only. A fifth are entitled to less than £500 a year (about £10 a week). 30% are entitled to less than £1,000 a year (£20 a week). More than half are entitled to less than £2,500 a year (£50 a week). Just a quarter are entitled to more than £5,000 a year (£100 a week). Although the estimates are more uncertain at the top end, only 6% of members have entitlements exceeding £10,000 a year.

Figure 4: the estimated values of annual pensions accrued to date by active LGPS members¹⁴



¹⁴ Source: NPI estimates based on Unison, *Local Government Survey 2008: Time for a Change*, 2008. Pensions are annual pensions (gross of tax). Pension based on 64ths of current salary for given years of service. This reflects the lump sum element as well as the basic pension entitlement of 80ths in the pre 2008 arrangements. It should be noted that the form in which the data is available means that there is more uncertainty about the upper values shown here (since the data does not include upper limits for the highest range of either salaries or years of service).

Among the different occupational groups, the average entitlement in the largest group (personal service occupations) is £1,800 while that in the second largest (associate professional and technical) is £2,600. The average for most other groups is around £2,200 although those in the elementary occupations have only £1,400. Among managers and professionals, the average is around £3,500.

Besides the fairly low earnings of LGPS members, the preponderance of low pensions also reflects the short length of service of many members. A quarter of members are estimated as having three years service or less while a half have eight years or less.

Any idea that these short lengths of service reflect the youthfulness of the membership is wrong, the average age of members (according to the *Unison* survey) being 48, some eight years more than the average for the UK workforce as a whole. 40% of LGPS members are aged between 45 and 54 while 28% are between 55 and 64. Fewer than one in ten are under 34.

HOW MUCH DOES AN LGPS PENSION SAVE THE GOVERNMENT?

The significance of the range of pensions shown here is not just their usually modest size. It is also that a substantial part of a low pension accrues to the government via reductions in the amounts paid out in the form of Pension Credit, Council Tax Benefit and (if applicable) Housing Benefit. The size of the government's share varies according to the level of entitlement to State Retirement Pension (SRP) based on the national insurance record as well as the size of the LGPS pension.

To keep things as simple as possible, it is assumed that the pensioner owns his/her home (thereby avoiding the complications of Housing Benefit). It should be noted that this simplification reduces the share of the LGPS pension accruing to the government (that is, if the pensioner is a tenant, the government gets a bigger share than shown below). The six examples are all for single pensioners; results for couple pensioners are similar although the precise details are different. The examples are arranged as two groups of three according to the level of the SRP. All figures are weekly.¹⁵

¹⁵ Details behind the examples are as follows. The 'better off' and 'share' calculations are compared with a case in which the pensioner has the given SRP but zero LGPS.:

	<i>Case 1A</i>	<i>Case 1B</i>	<i>Case 1C</i>	<i>Case 2A</i>	<i>Case 2B</i>	<i>Case 2C</i>
State Pension	£75	£75	£75	£98	£98	£98
LGPS pension	£25	£50	£100	£25	£50	£100
Pension Credit	£34	£24	£4	£24	£14	£0
Income Tax						−£3
Council Tax			−£5		−£2	−£8
Net income	£134	£149	£173	£148	£161	£187
Better off from LGPS: pensioner	£1	£16	£41	£15	£28	£54
Government share of LGPS	96%	68%	59%	40%	44%	46%

- Case 1A: SRP of £75, LGPS pension of £25: the pensioner is better off by £1 as a result of the LGPS pension, 96% of the value of which accrues to the government.
- Case 1B: SRP £75, LGPS pension £50: pensioner is better off by £16 as a result of the LGPS pension, 68% of which accrues to the government.
- Case 1C: SRP £75, LGPS pension £100: pensioner is better off by £41 as a result of the LGPS pension, 59% of which accrues to the government.
- Case 2A: SRP £98, LGPS pension £25: pensioner is better off by £15 as a result of the LGPS pension, 40% of which accrues to the government.
- Case 2B: SRP £98, LGPS pension £50: pensioner is better off by £28 as a result of the LGPS pension, 44% of which accrues to the government.
- Case 2C: SRP £98, LGPS pension £100: pensioner is better off by £54 as a result of the LGPS pension, 46% of which accrues to the government.

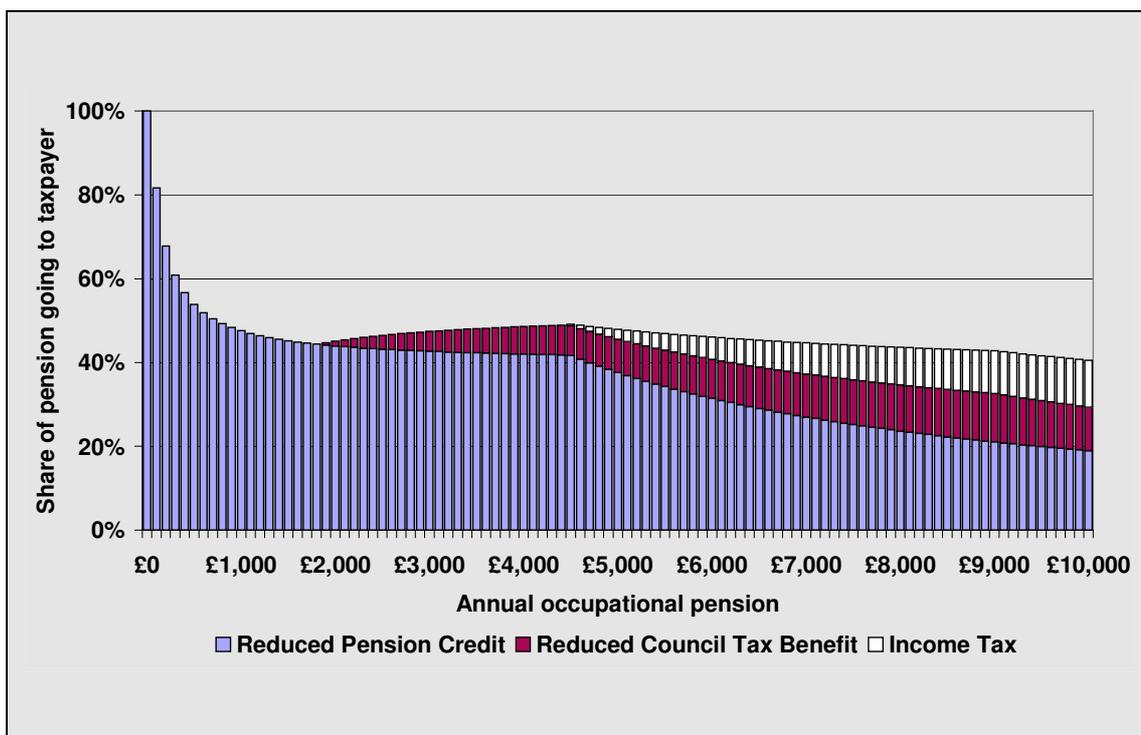
The importance of these examples cannot be overstated. For anyone who has not earned the full SRP, a small LGPS pension is worth next nothing. The example (case 1A) is drawn for an annual pension of £1,300. Figure 4 shows that at present, one third of LGPS active members are entitled to less than that. Even with a larger LGPS pension, some two-thirds of it typically ends up with government. While we do not have statistics on the national insurance contribution records of the LGPS membership, part-timers in particular and women generally are more likely to have shorter records. The examples shown here may therefore be far from exceptional.

Even where the pensioner is entitled to full SRP, the government share remains substantial, as figure 5 shows.¹⁶ For anyone with an annual pensions of £500 or less, the share going to the government is never less than 50%. For pensions above this level, and indeed all the way up to about £6,000 a year, the government's share lies in the range 46% to 48%. Only at £10,000, when income tax has become payable, does the government's total share fall as low as 40%.

The final point here is how much this is worth to government in the aggregate. With 95% of active LGPS members having pension entitlements of less than £10,000 (and 75% less than £5,000), a reasonable assumption is that the government ends up with somewhere between 45% and 50% across the scheme as a whole. In 2008-09, the LGPS paid out benefits worth some £5.6bn. On that basis, the LGPS is currently saving the government around £2½bn a year.

¹⁶ In effect, figure 5 is a generalisation of the last row in the previous table for the situation depicted in case 2 where the SRP entitlement is at £98 per week.

Figure 5: the proportion of an occupational pension accruing to the taxpayer via reduced benefits and higher income tax¹⁷



SUMMARY

Contrary to the suggestion that public sector workers enjoy gold-plated pensions, the evidence for the LGPS is that most can look forward to modest entitlements only. Among an ageing membership, around a third are entitled to less than £20 a week, more than half are entitled to less than £50 a week and around just 1 in 20 are entitled to more than £200 a week.

The net cost to the government of low pensions is far below the total cost once the resulting savings in Pension Credit, Council Tax Benefit and Housing Benefit are taken into account. Across the range of most LGPS pensions, a conservative estimate of the share accruing to the government is 45% to 50%. For LGPS members with a less than full entitlement to the State Retirement Pension, the government's share can be much higher still, to the point where an LGPS pension can add next to nothing to the pensioner's net income.

¹⁷ Source: NPI calculations (for April 2010). The graph assumes that the individual has a full state retirement pension and then shows how much of the occupational pension reverts to government in the form of reduced Pension Credit and Council Tax Benefit and increased income tax. It should be noted that this graph applies to single pensioners since the amounts of Pension Credit and Council Tax Benefit are different if the pensioner is part of a couple. If the pensioner were a tenant, Housing Benefit would also have to be taken into account, in which case the savings to the government would be higher than those shown here. It should also be noted that this graph shows the total share going back to the government and not just the share on the marginal pound.

TWO ISSUES FOR THE COMMISSION

The final part of this paper considers the implications of the evidence presented here for the deliberations of the Independent Public Service Pension Commission. We have picked out two which are crucial to the success of the Commission's work. The first is the importance of private pensions to government finances. The second is the need to look at the range of pension entitlement within the public sector, rather than making policy on the basis of a few eye-catching and unrepresentative examples.

In relation to the Commission's terms of reference, these questions impact particularly upon three of them, namely:

- the growing disparity between public service and private sector pension provision, in the context of the overall reward package;
- the need to ensure that future provision is fair across the workforce; and
- wider Government policy to encourage adequate saving for retirement and longer working lives.

THE IMPORTANCE OF OCCUPATIONAL PENSIONS TO GOVERNMENT FINANCES

The trouble with the references to both the growing disparity between public and private sectors and the need for fairness across the workforce is that 'disparity' and 'fairness' are relative terms only. After all, if there is a gap between the sectors, why shouldn't it imply that private sector provision needs to be upgraded, rather than the opposite? Similarly, it would presumably be 'fair' if all occupational schemes were to be abolished forthwith – but would it be wise?

The key point here from our evidence concerns the implications for government finances arising from the reforms to social security benefits for pensioners undertaken by the last government, in particular Pension Credit but also the generous rules (for pensioners) for Council Tax Benefit.¹⁸ As a result of these reforms, approaching 50% the value of any annual occupational pension up to around £10,000 a year accrues to the government. If the pensioner does not have a full State Retirement Pension, or if they rent their home and therefore may be entitled to Housing Benefit, the proportion accruing to government could be much higher still.

In these circumstances, the long term interest of government finances lies in ensuring that people have adequate occupational and/or other private pensions – and that up to a point, it is worth government's while to put money to encourage this to happen, above and beyond what might be deemed reasonable as an employer contribution. Two specific points follow from this.

¹⁸ The considerable success of these reforms is to be seen in the sharp falls in pensioner poverty conventionally defined, down by a half among single pensioners over the 10 years to 2008-09 and down by a third among pensioner couples over the same period.

- First, in its final report, the Commission should present the cost to the public finances of different options on a net basis (that is, including the consequent impacts on social security spending).
- Second, the Commission should take an open view of evidence of disparities or unfairness between public and private sectors, recognising that inadequate provision carries costs for the public finances too.

THE NEED TO LOOK AT THE RANGE OF SALARIES AND PENSIONS

Although our evidence does not cover this, at the top end of the LGPS, there will be some who can look forward to a pension worth tens of thousands of pounds a year. The question with such beneficiaries is whether the contributions into the scheme on their behalf have been sufficient to fund such an entitlement. But as we have shown here, there will also be people who are contributing to the LGPS who will be no better off financially at all as a result of their thrift. Between these two extremes lie hundreds of thousands of members on average and below average earnings who can look forward to only modest pensions.

As a result, fairness and disparities are as much issues within each sector (or even within a particular scheme) as between sectors. Any argument that is based on reducing the public sector as a whole either to one extreme, or the other, or even to some arithmetical average, will be deeply misleading. If the Commission's conclusions are to be reasoned and just, they must both take account of, and convey, a sense of the range of salaries and pension entitlements within the public sector.