

Press Release

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Pensions boost public sector pay growth unlike private sector experience

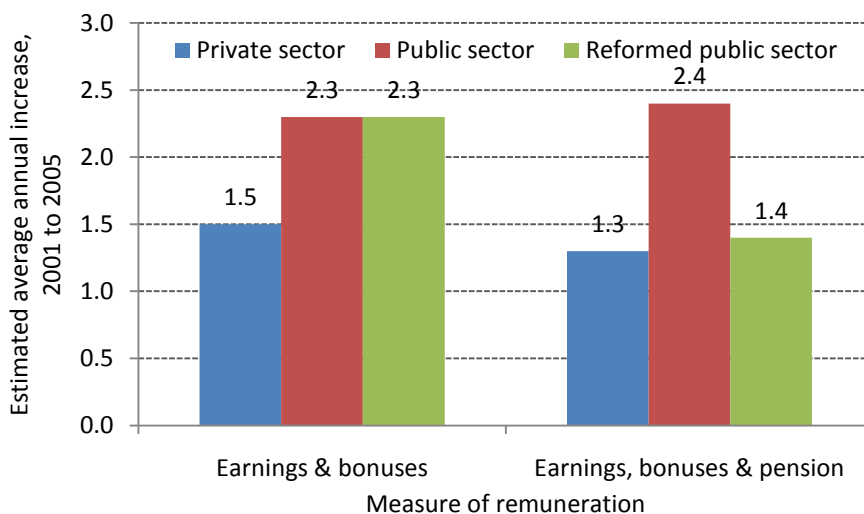
Public sector pay grew more rapidly than private sector pay between 2001 and 2005, but the gap was even larger if we take into account the rising value pension accrual among public sector workers and the falling value among private sector workers, according to new research published today by the Institute for Fiscal Studies (IFS) and funded by the IFS Retirement Savings Consortium.¹

On average the earnings of public sector workers grew by 2.3% a year from 2001 to 2005, 0.8 percentage points a year faster than that of their private sector counterparts. However, including the changing value of employer-provided pensions widens this gap by one-third to 1.1 percentage points (with the total value of pay and pensions growing 2.4% a year on average for public sector workers, compared to 1.3% a year for private sector workers).

While there was little change in either membership rates or accrual within public-service pensions, the differential with the private sector grew as increased accrual in private sector employers' defined contribution schemes was not sufficiently large to offset the long-running decline in membership of private sector defined benefit schemes.

The research also assessed what would have happened to pension accrual had an immediate increase in the normal pension age from 60 to 65 been implemented for all members of public sector pension schemes between 2001 and 2005. This would have reduced the generosity of pension accrual for public sector workers to a sufficient extent that the average growth in total remuneration between 2001 and 2005 would have been almost the same as that in the private sector. This is shown in the Figure below.

Private and public sector remuneration growth, 2001 to 2005, including under an illustrative public sector pension reform scenario.



Gemma Tetlow, a senior research economist at the IFS and one of the authors of the paper, said "Faster pay growth for public sector workers than private sector workers over the period from 2001 to 2005 was supplemented by the

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changing relative generosity of employer-provided pensions in the two sectors. More recently the Government has increased the age at which an unreduced public-service pension can be drawn from 60 to 65 for most new entrants. Had this increase been implemented between 2001 and 2005 for all members of these schemes, this would have significantly reduced the average value of these schemes and almost entirely offset the faster growth in public sector earnings relative to private sector earnings seen over this period.”

Rowena Crawford, a research economist at the IFS and another author of the paper, added “Were employer-provided private sector pensions to continue to become less generous over time relative to public sector pensions, this might lead to further reductions in the generosity of public sector schemes or, alternatively, to less generous pay awards in the public sector than those offered in the private sector. If so, the appropriate choice should depend on which of these options delivers relatively better value for the taxpayer in terms of the impact on recruitment and retention of public sector workers of suitable quality.”

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Notes to Editors:

1. The Consortium comprises the Association of British Insurers, Bank of England, Barclays, Chartered Institute of Personnel and Development, Department for Work and Pensions, Financial Services Authority, HM Revenue and Customs, HM Treasury, Investment Management Association, Pensions Regulator, Personal Accounts Delivery Authority, Scottish Widows and The Actuarial Profession. Co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS (grant number RES-544-28-5001) is also gratefully acknowledged.
2. The paper “Occupational pension value in the public and private sectors” by Rowena Crawford, Carl Emmerson and Gemma Tetlow will be published tomorrow as IFS Working Paper No. W10/03 and is available under embargo before then from the IFS Press Office.