Public sector pensions and pay
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Public service pensions

• Spending on public service pensions forecast to fall as a share of national income
• Due to significant cuts already announced
  – last Government’s increase in the Normal Pension Age for most new entrants
  – current Government’s change in indexation from RPI to CPI
• Employee contributions also increased
• More recent reforms do much to improve structure of pensions
  – but for some schemes changes do little to reduce the average generosity in the long-run
  – losses for high flyers but gains, on average, for those with lower earnings growth
• Public service pensions remain much more generous than those provided in the private sector
Spending on public service pensions forecast to fall as a share of national income

Notes and sources: see Figure 5.1 of *The IFS Green Budget: February 2012*. 
Latest reforms do much to improve structure of pensions

- Defined benefit schemes retained
  - state particularly well placed to offer these schemes

- Career average rather than a final salary basis
  - more logical measure of earnings to use

- Normal Pension Age aligned with State Pension Age (except for uniformed services)
  - a coherent response to rising longevity at older ages

- Changes apply to future accrual (apart from those less than 10 years from current NPA)
  - reduces extent to which individuals doing the same job for the same pay accrue different pensions

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Valuing public-service pensions

• Difficult to do
  – doesn’t just depend on scheme rules
  – also depends on longevity of individual and their partner, discount rate, earnings trajectories and pension tenure

• Clear that the latest reforms do reduce the generosity for some
  – those protected from Labour’s reform could see their NPA increase from 60 to 68 for new accrual
  – civil service scheme made less generous

• But for others not clear there is an overall reduction in generosity
  – high flyers with long tenures did very well under final salary schemes and lose from the shift to career average
  – but those with lower earnings growth, on average, gain
Public service pensions remain much more generous than those provided in the private sector

• Very large differences in membership of DB schemes
  – in 2010 in the public sector 79.0% of employees were a member of a DB scheme, compared to just 11.0% in the private sector
  – private sector figure down from 12.4% in 2009, 13.6% in 2008 and 33.9% in 1997

• Large differences in membership of any workplace scheme
  – 83.9% of public sector workers and 34.4% of private sector workers are in a workplace scheme

• Workplace DC schemes typically less generous than DB schemes
  – private sector employers moving from DB schemes to less generous DC schemes in order to reduce expected future costs
Public sector pay

• Estimated public sector pay premium increased since financial crisis
  – Government’s pay squeeze to return it to pre-crisis levels
• Distribution of public sector pay more compressed than that of private sector pay
• Estimated public sector pay premium varies considerably across the country
  – but tentative evidence suggests the premium across regions varies by occupation
  – regional variation in public sector pay awards would need to be carefully designed
Estimated public sector pay premium

Estimated average public–private hourly wage differentials (2009Q2–2011Q1)

<table>
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<tr>
<th>Raw differential</th>
<th>Male</th>
<th>Female</th>
<th>All</th>
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<tbody>
<tr>
<td></td>
<td>+20.2</td>
<td>+27.5</td>
<td>+24.3</td>
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Notes and sources: see Table 5.4 of The IFS Green Budget: February 2012.
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<td>Controlling for education, age and qualifications and region</td>
<td>+5.5</td>
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</tbody>
</table>

Notes and sources: see Table 5.4 of *The IFS Green Budget: February 2012*. 

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Estimated public sector pay premium increased since financial crisis

Estimated average public–private hourly wage differentials, controlling for age and education, over time

Notes and sources: see Figure 5.6 of *The IFS Green Budget: February 2012*.
Distribution of public sector pay more compressed than that of private sector pay

Estimated average public–private hourly wage differentials, controlling for age and education, by percentile

Notes and sources: see Figure 5.7 of *The IFS Green Budget: February 2012*.
Regional pay

- Chancellor has asked four pay review bodies to consider case for regionally varying public sector pay
  - teachers, NHS workers (but not doctors or dentists), senior civil servants and prison officers
  - only a minority of public sector workers potentially affected
- Large variation in estimated public sector pay premium provides a strong case for centrally set regionally varying pay
Estimated public sector pay premium varies considerably across the country

Estimated average public–private hourly wage differentials, controlling for age and education, by region

- South East: -1.4%
- North West: 4.1%
- East Midlands: 7.1%
- West Midlands: 7.1%
- Scotland: 5.6%
- London: 4.7%
- North: 4.6%
- North West: 4.6%
- Yorkshire and the Humber: 10.5%
- South West: 7.5%
- East: 12.2%
- Northern Ireland: 15.5%
- Wales: 18.0%
- United Kingdom: 5.5%

Notes and sources: see Table 5.4 of *The IFS Green Budget: February 2012*. 
Regional pay

• Chancellor has asked four pay review bodies to consider case for regionally varying public sector pay
  – only a minority of public sector workers potentially affected
• Large variation in estimated public sector pay premium provides a strong case for centrally set regionally varying pay
• But tentative evidence suggests the premium across regions varies by occupation
  – relative pay among male police officers highest in Wales and for male secondary school teachers highest in the East Midlands
  – relative pay among female primary school teachers highest in the North West and for female midwives highest in the West Midlands
• Any regional variation in public sector pay awards would need to be carefully designed
Conclusions

• Significant cuts to public service pensions already announced
• Latest public service pension reforms do much to improve structure of pensions
  – in some schemes reductions in the long-run generosity for high flyers offset by gains, on average, for those with lower earnings growth
• Public service pensions remain much more generous than those provided in the private sector
• Estimated public sector pay premium
  – increased since financial crisis, but to be reversed by Government
  – greater for lower earners
  – varies considerably by region
• Strong case for regionally varying, centrally set, pay awards
  – but apparent differences by occupation, so should be implemented with care