

PPI Policy Round-Table for the Independent Public Service Pensions Commission

What do we mean by adequacy in the context of the public sector pensions?

In June 2010 the Coalition Government asked Lord Hutton of Furness to Chair an Independent Public Service Pensions Commission to undertake a fundamental structural review of the public sector pensions and to report to the Government, with final recommendations, ahead of the Budget in 2011.

In October 2010, the Commission published its interim report setting out the evidence on the current status of public sector pensions and considering the case for reform. The Commission issued a second call for evidence in November 2010 ahead of the final report which asked a range of questions in relation to the future of the public sector pension schemes.¹ The second call for evidence included questions on the appropriate scheme design for the public sector pensions, risk-sharing, employee understanding and choice and the adequacy of public sector pensions, among other issues.

The Pensions Policy Institute (PPI) held a round-table discussion on 27th January 2011 hosted by the Nuffield Foundation, to facilitate a discussion on the questions in the Commission's second call for evidence on the issues of the adequacy of public sector pensions. The discussion was held under Chatham House rules.

The Commission noted in its call for evidence that a key outcome for public service pensions is that they offer an adequate level of income in retirement, particularly where people have devoted the majority of their working life to public service.

The questions posed by the Commission on adequacy and discussed at the round-table included:-

- 1) How should the Commission think about measuring adequate levels of resources in retirement?
- 2) What should be considered an adequate level of resources in retirement?
- 3) Should a full state pension and a full public service pension ensure people have adequate resources in retirement? Or should room be left for individuals to make their own arrangements?
- 4) How should this change where people work part careers in the public service?

¹ See http://www.hm-treasury.gov.uk/d/huttonpensions_finalcallforevidence011109.pdf

Neither the PPI, nor the Nuffield Foundation is either calling for, or arguing against, further reforms of the public sector pensions. The discussion was intended as a contribution to the ongoing public policy debate about the future of the public sector pension schemes.

The round-table was chaired by Niki Cleal, (Director of the Pensions Policy Institute) and was attended by eight people representing a range of interests across the pensions and the public sector in addition to members of the PPI and IPSPC teams.

Lord Hutton of Furness (Chair of the Independent Public Service Commission) thanked attendees for coming to the seminar to discuss these important issues and said that he would be keen to hear the views of attendees on the questions that the Commission had posed on the adequacy of the public sector pensions.

Professor John Hills (Former Pensions Commissioner and Professor of Social Policy and Director of the Centre for Analysis of Social Exclusion (CASE), London School of Economics) gave a presentation on how the Pensions Commission had addressed the issues of adequacy in the course of the Pensions Commission's review of private sector pensions. Professor Hills explained the thinking and rationale behind the Pensions Commission's replacement rate benchmarks.

Dr Leandro Carrera, (Policy Researcher at the PPI) gave a presentation on how adequacy could be measured in the context of the public sector pensions.

Policy Discussion:

The attendees discussed each of the Commission's questions relating to the adequacy of the public sector pensions. The following general conclusions were drawn, although it should be recognised that not every attendee will necessarily agree with all of the points raised.

1) Adequacy Measure

- There was general agreement among the attendees at the round-table that the Pensions Commission's benchmark replacement rates were an appropriate way for the IPSPC to assess the adequacy of public sector pensions.
- There was a feeling that minimum income standards and relative poverty lines may also be appropriate as a way of ensuring that the pension income of the lowest earners does not fall below an unacceptable minimum level.

2) Adequacy Target

- There was general agreement that Pensions Commission benchmark replacement rates provided an appropriate adequacy target for the IPSPC to use in assessing the adequacy of public sector pensions.
- There was some discussion as to whether the tax-free lump sum should be included or excluded in calculating the adequacy of public sector pensions. There were mixed views on this point. It was acknowledged that the tax free lump sum may be used by pensioners to pay down debt or for other purposes than providing a pension income. However, it was also felt that the tax free lump sum was a resource that could be used to provide a pension income and could count towards the adequacy target.

3) Balance between provision from the public sector pension scheme and voluntary contributions

- There was a consensus that, ideally, state pension income plus income from the public sector pension should enable public sector workers to meet target adequacy levels as defined by the Pensions Commission's benchmark replacement rates.
- However, it was acknowledged that the Government would have to consider the affordability of any proposals. It was noted that the public policy case for the Government providing very generous pensions to the very highest earners might be less compelling than for lower earners. As a result, there was recognition that there might be a role for voluntary contributions.

4) Part-timers/Career breaks

- There was agreement that the adequacy of any reform options should be judged on the assumption of a full working career in the public sector but with an understanding that it was important that any reform proposals did not unfairly penalise those who took career breaks or worked part-time.

The Chair thanked the attendees and the speakers for giving up their time to contribute their thoughts on these issues to Lord Hutton and his team and noted that attendees would look forward to reading the final report of the Commission in due course.