

An assessment of the Government's reforms to public sector pensions

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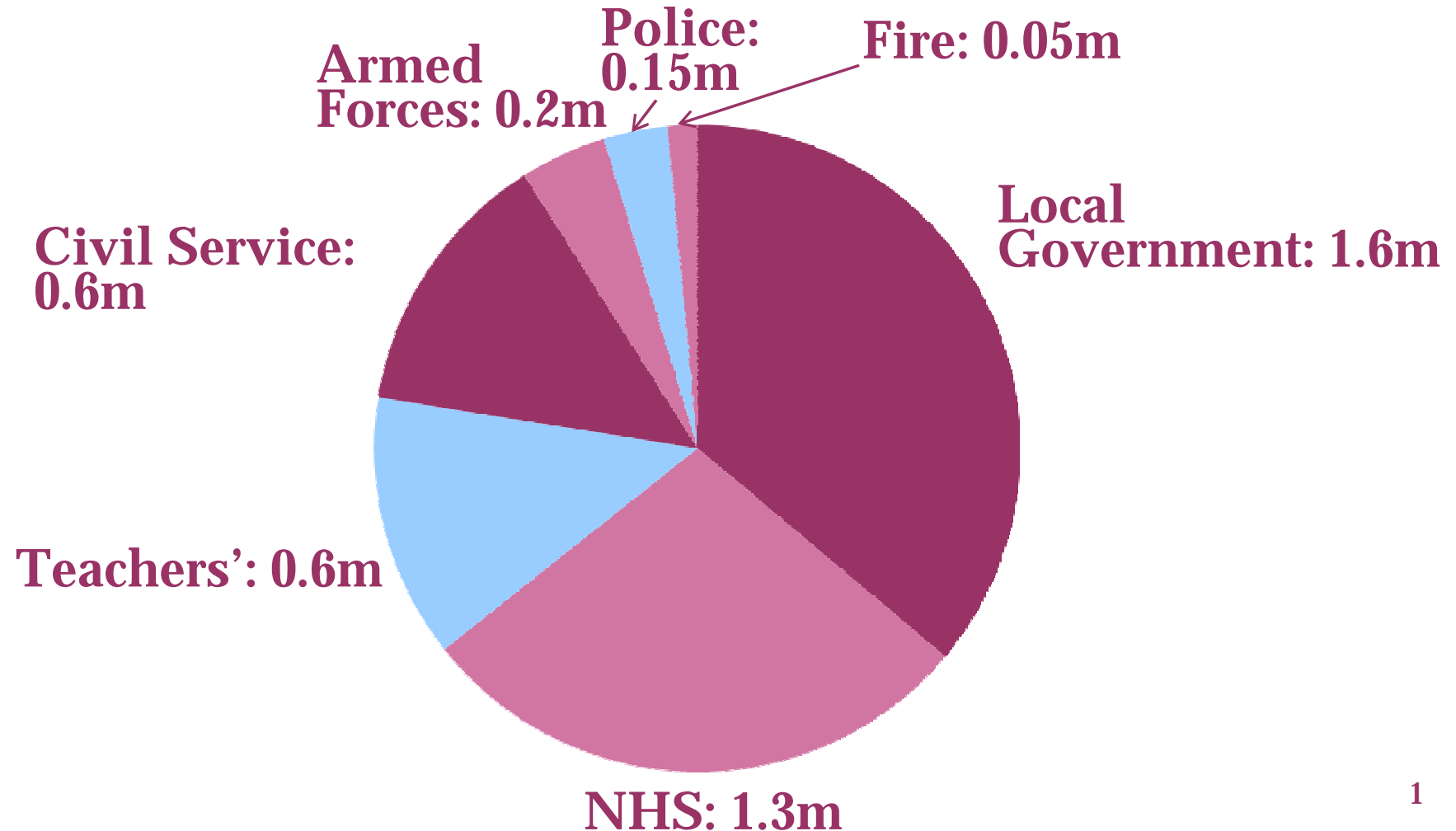
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The seven main schemes have almost 5 million members

Number of active members at 31 March 2006



What will be the impact of the reforms on:

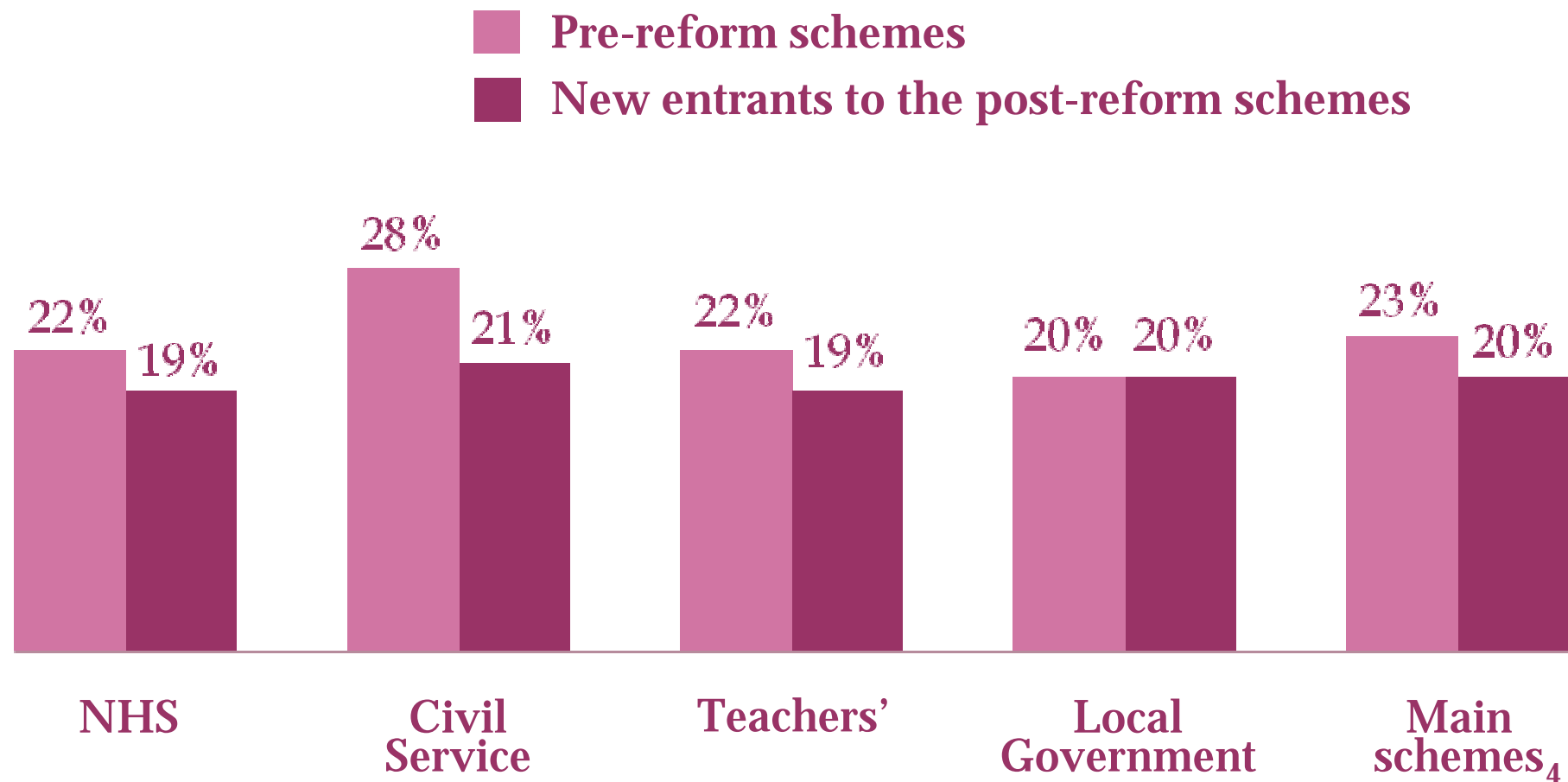
- **On public sector employees?**
- On financial sustainability?
- On the gap with private pensions?

The main four public sector pension schemes

| | NHS and Teachers' (for new entrants) | Civil Service (for new entrants) | Local Government (for future service) |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------------------------------------|
| Normal pension age | 60 to 65 | 60 to 65 | Remains 65, Rule of 85 abolished |
| Basic design | Remains final salary | Final salary to career average | Remains final salary |
| Accrual rate | 80ths to 60ths, separate lump sum abolished | 60ths to 2.3% | 80ths to 60ths, separate lump sum abolished |
| Member contributions (future service) | 6% to: 5-8.5% (NHS) 6.4% (Teachers') | No change from 3.5% | 6% to 5.5–7% |
| Cost sharing and cost capping | Certain unanticipated future increases in costs to be shared 50:50 members and employers, subject to employer cap | | |

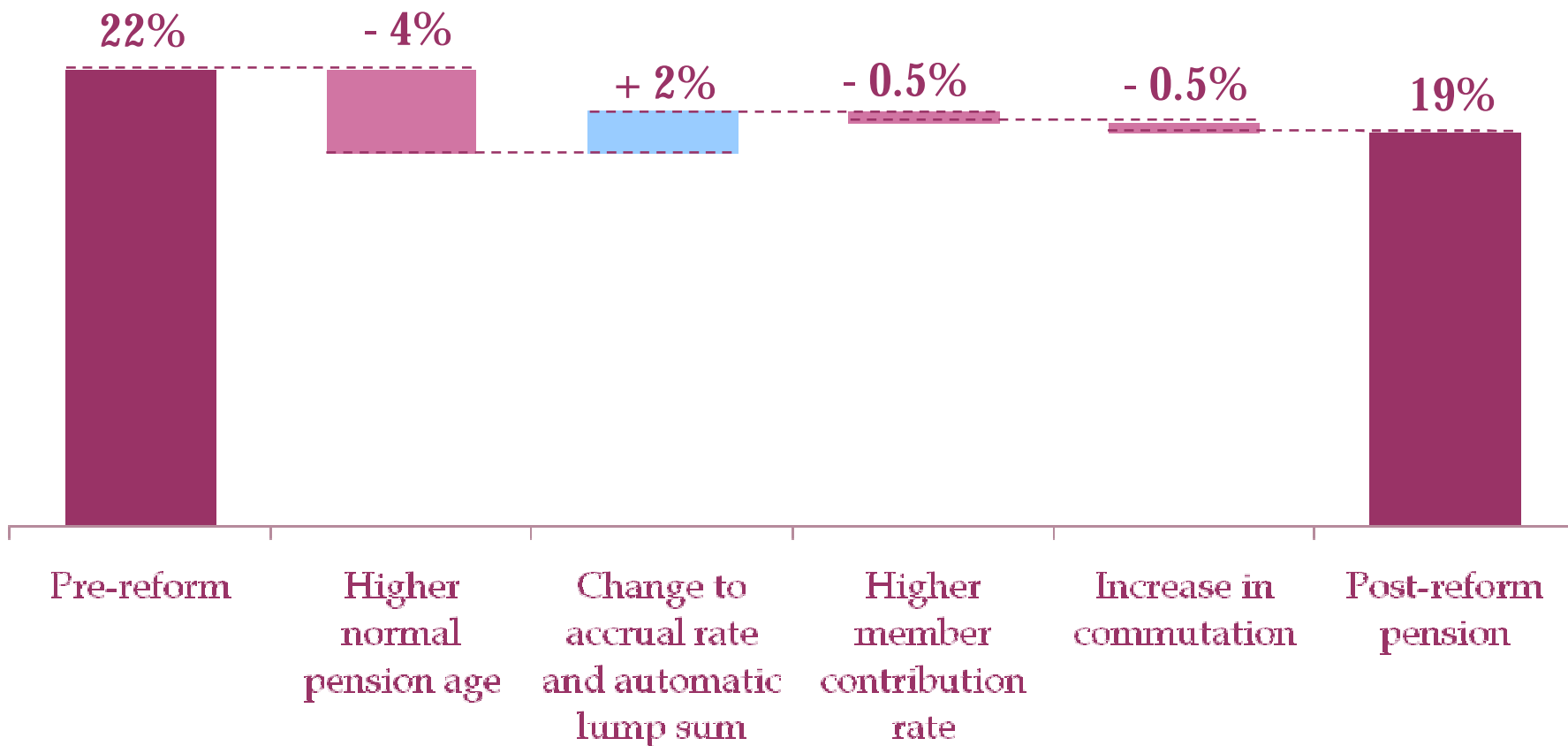
The reforms have reduced the value of the main public sector pension schemes

Average effective employee benefit rates



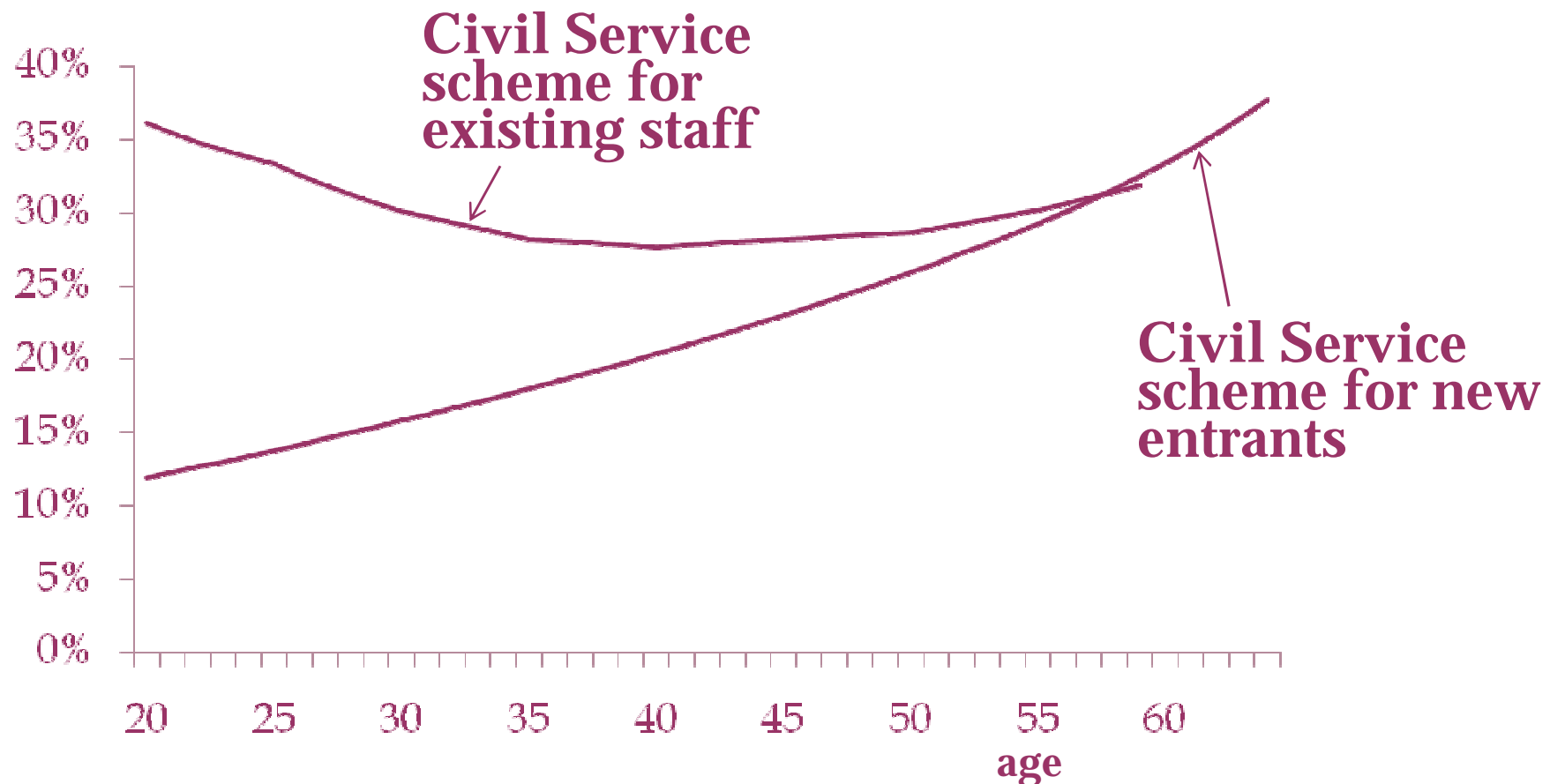
The reforms reduce the value of the NHS scheme by 3% of salary

Effective employee benefit rates for a 40-year old male new entrant to the NHS scheme



The Civil Service reforms reduce the value of pensions for younger workers

Effective employee benefit rates for male new entrants,
as a percentage of salary, by age

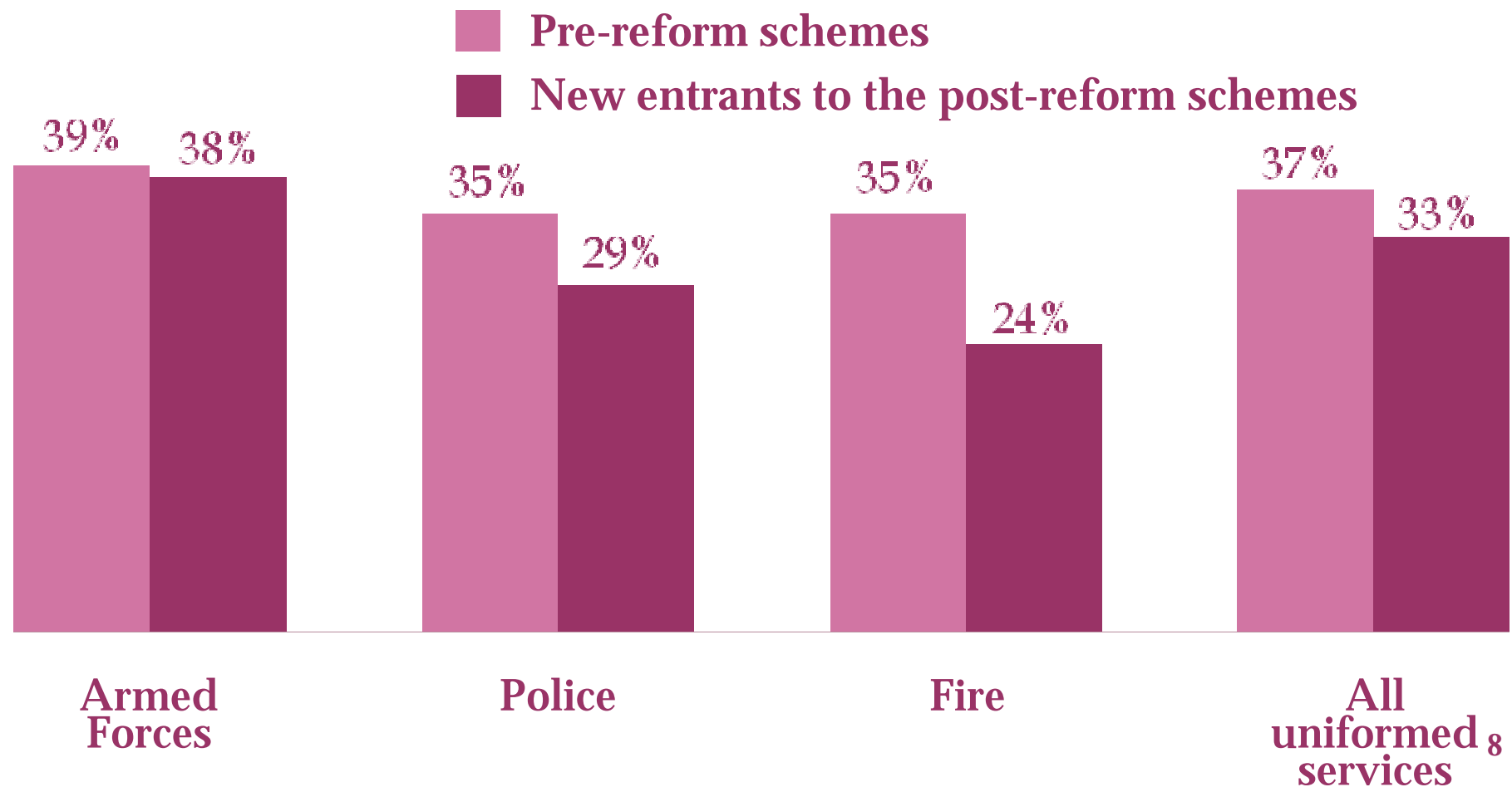


The uniformed services schemes

| | Armed Forces | Police/Fire |
|---------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Normal pension age | Remains at 55 | Remains at 55 for Police, increased to 60 for Fire Earlier NPAs (50 or earlier) for long-serving members abolished |
| Normal pension age – early leavers | Increased from 60 to 65 | |
| Accrual rate | Slower accrual rates abolished for long-serving members | Doubling of accrual rates for long-serving members abolished |
| Member contributions (future service) | Remains non-contributory | Reduced from 11% to 9.5%/8.5% |

The reforms have reduced the value of the uniformed services schemes

Average effective employee benefit rates



The reformed Police scheme is less valuable for long-serving members of staff

Effective employee benefit rates for men, as a percentage of salary, by age

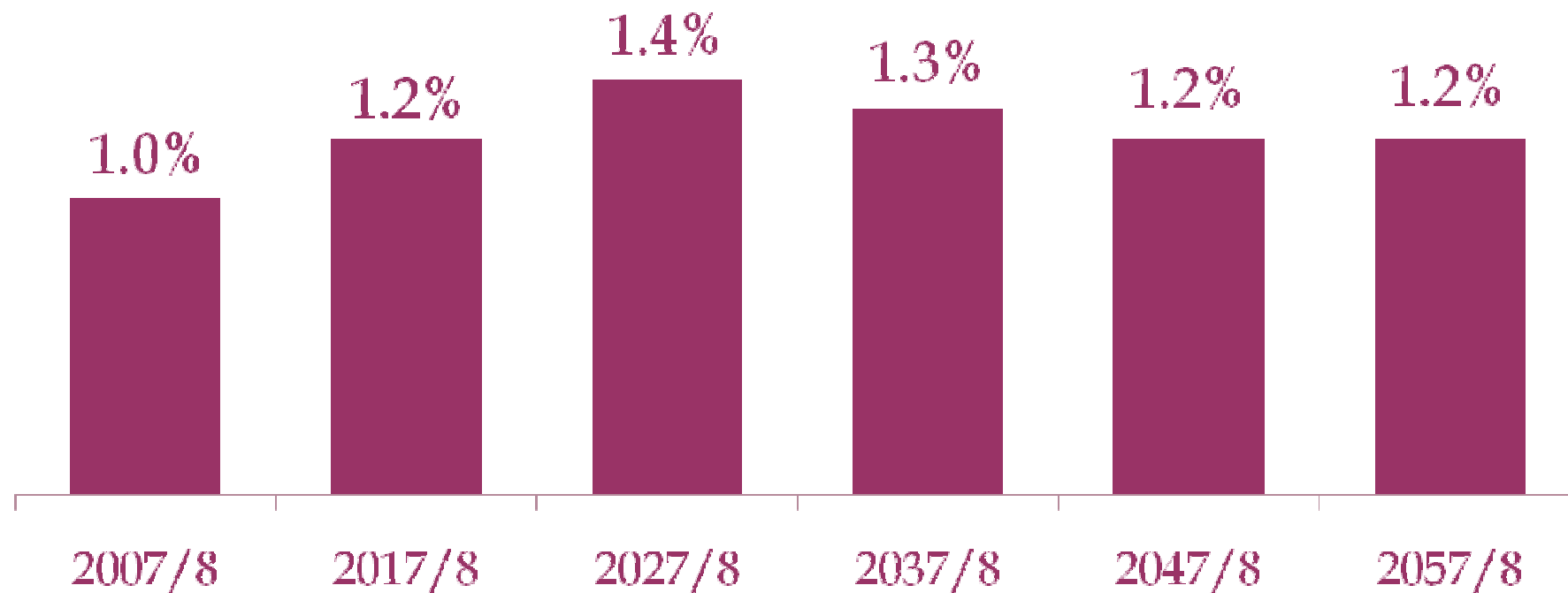


What will be the impact of the reforms on:

- On public sector employees?
- **On financial sustainability?**
- On the gap with private pensions?

Spending on public sector pensions will still increase after the reforms

Projected future annual cost to the taxpayer of the unfunded public sector schemes, after deducting member contributions, as a % of GDP



How much will the reforms save the taxpayer?

- No projections of taxpayer savings
- But Government expects that employers in the NHS, Civil Service and Teachers' schemes will save £13 billion over 50 years
- Compares to around £10 billion spend annually by employers in these schemes
- Local Government employers expected to save 7% of pre-reform costs (£340 million)

Cost sharing and cost capping could limit future increases in employer contributions

Illustrative impact of an unanticipated 1 year increase in life expectancy in the NHS, Civil Service and Teachers' schemes

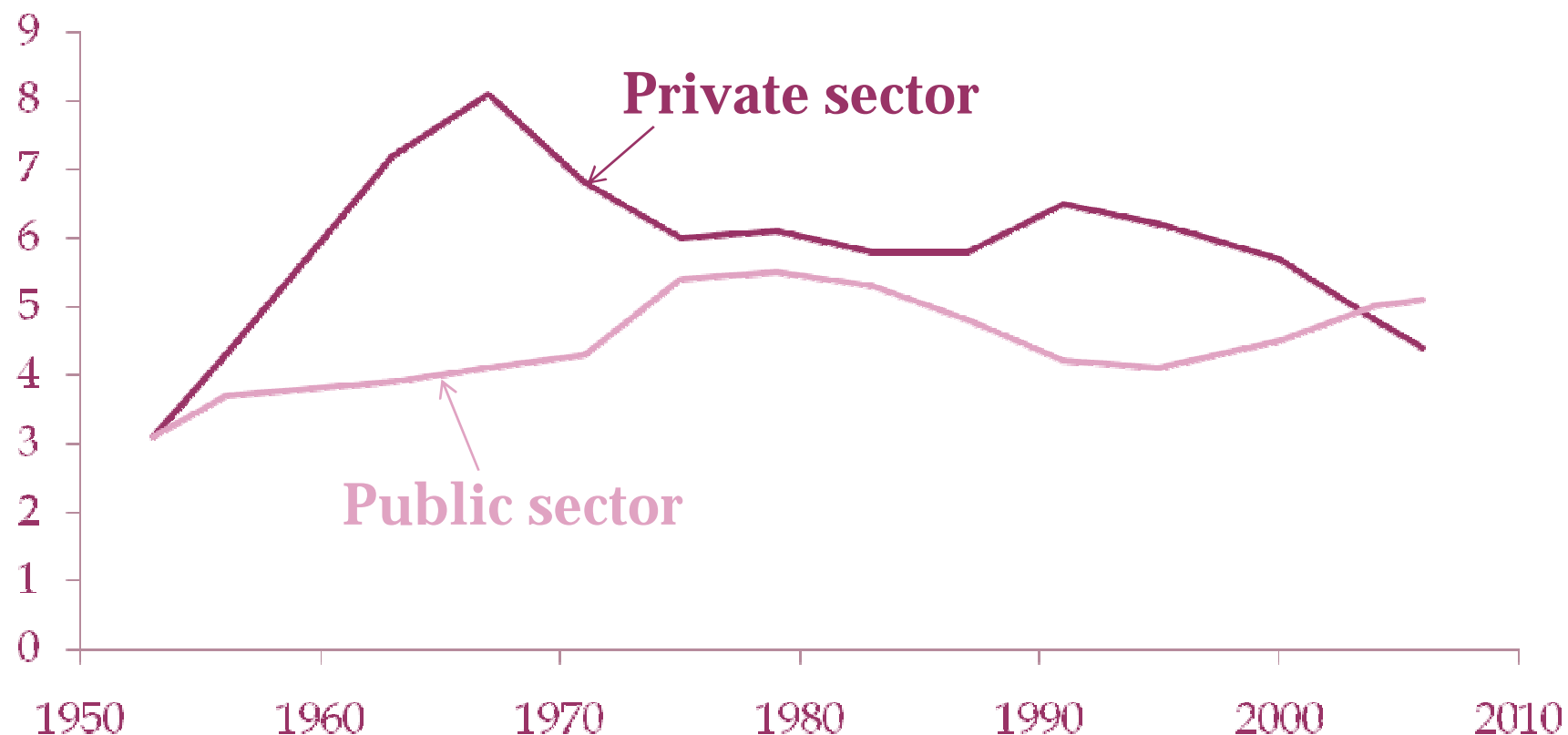
| | Extra employer contributions across the 3 schemes | Extra employee contributions as a percentage of salary |
|---------------------------------------|---------------------------------------------------|--------------------------------------------------------|
| Without cost sharing and cost capping | £200 m | 0% |
| If extra costs are shared 50:50 | £100 m | 0.15% |
| If employer cap applies | 0 | 0.30% |

What will be the impact of the reforms on:

- On public sector employees?
- On financial sustainability?
- **On the gap with private pensions?**

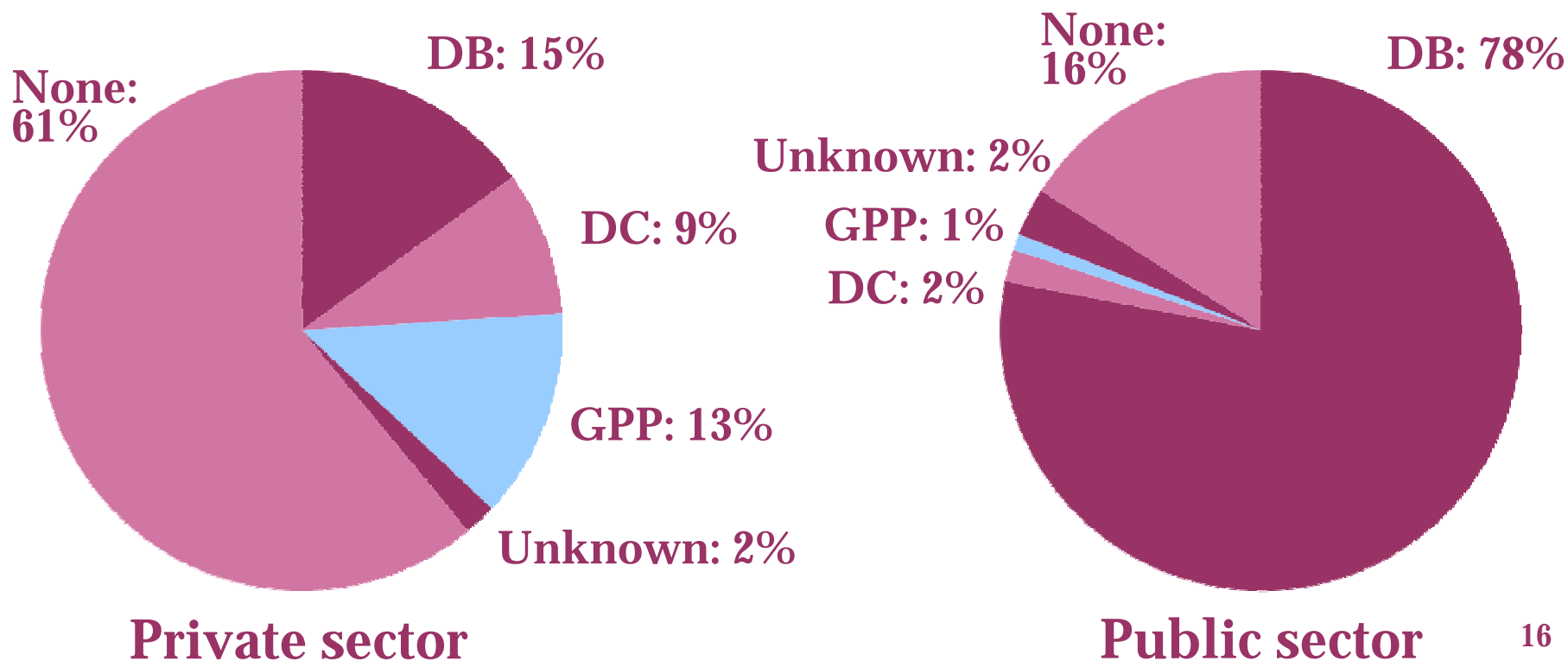
There are now more scheme members in the public than the private sector

Number of active members of occupational pension schemes (millions)



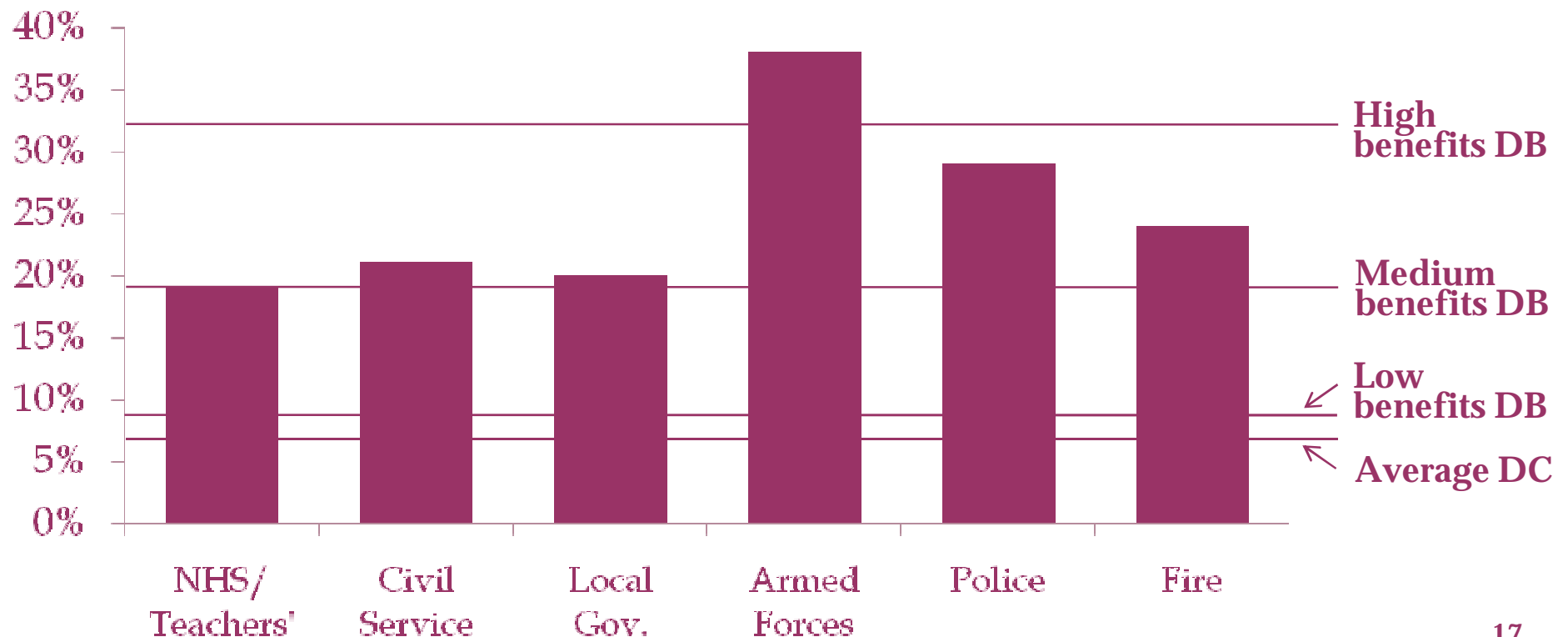
Public sector employees are more than twice as likely to be in a pension scheme

Employee membership of an employer-sponsored pension scheme, 2007 (Note: DC = Defined Contribution, DB = Defined Benefit, GPP = Group Personal Pension)



The public sector schemes are much more generous than the average DC scheme

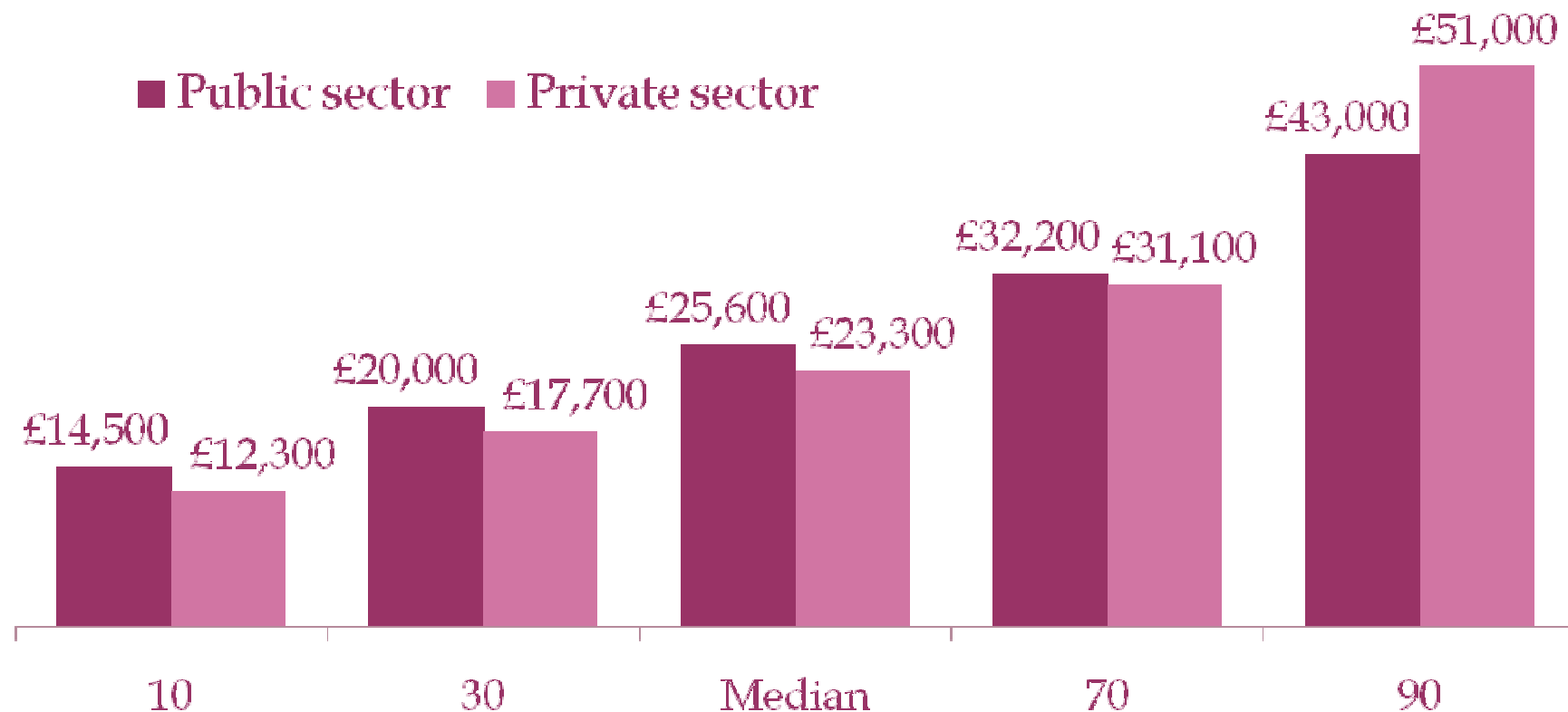
Average effective employee benefit rates for the reformed public sector schemes for new entrants and for the private sector DB and DC schemes



Do public sector pensions make up for lower pay?

Pay is higher in the public sector than the private sector at all but the highest pay levels

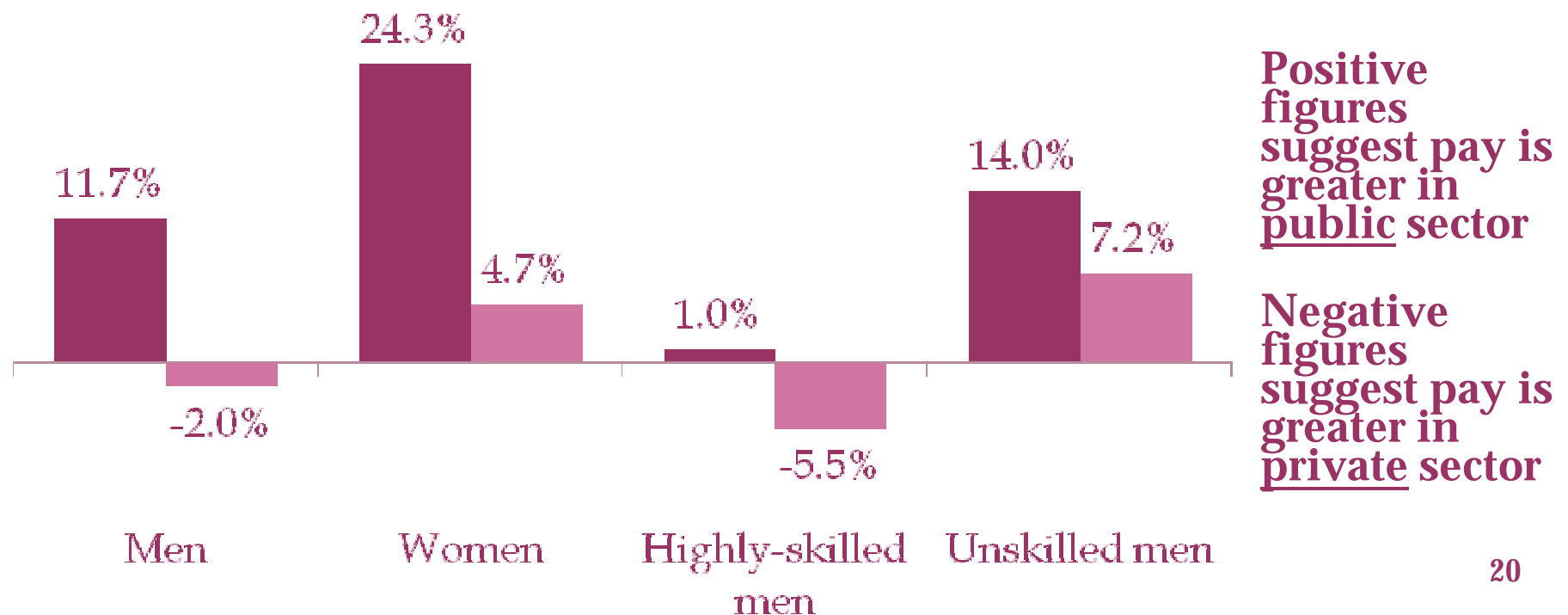
Observed annual gross pay for full-time employee jobs by sector and percentile, not controlling for occupation and individual characteristics, 2007



Pay is higher in the public sector for some groups; lower for others

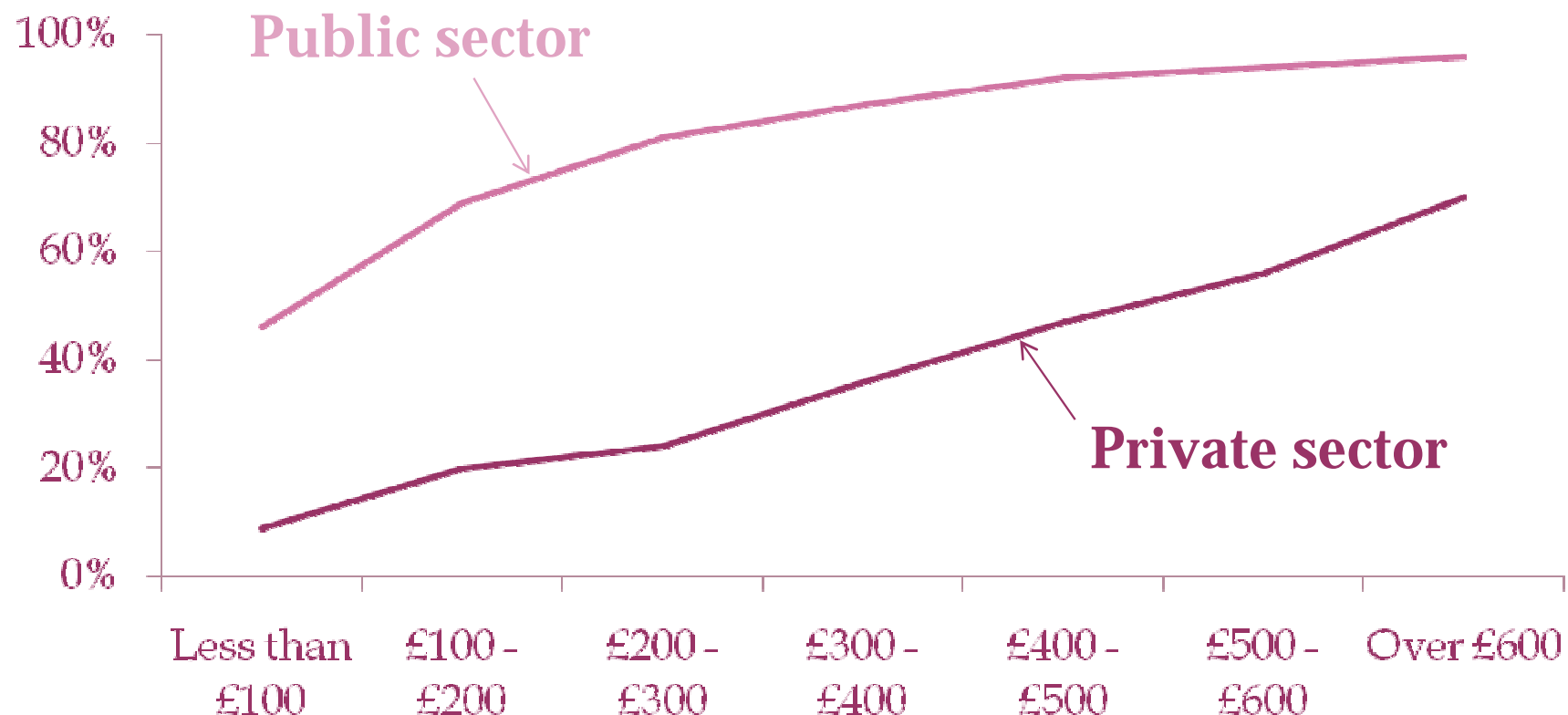
Difference between the public and private sectors in gross hourly pay for full-time employees, 2004

- Raw pay gap
- Pay gap allowing for occupation, individual and workplace characteristics



Low-paid employees in the private sector are unlikely to be in a pension scheme

Proportion of employees who are members of an employer-sponsored pension scheme, by weekly earnings, 2007



Conclusions

- The average value of public sector pensions will reduce from 24% to 21% of salary for new entrants
- Cost sharing/capping will limit some future increases in public sector pension costs, but costs may continue to grow
- Average value of the public sector pensions is similar to a medium private sector DB scheme, but higher than private sector DC
- No clear evidence that pensions compensate for lower pay in the public sector across the board