

Response to HMT consultation on public service pensions

Comments from the Association of Consulting Actuaries



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA proposes new way of flexing the rate of public service pension increases to reflect economic growth

23 August 2021 - The Association of Consulting Actuaries (ACA) in [its response to the HMT consultation on the Public Service Pensions discount rate methodology](#) has proposed a new way to flex public service pensions increases linked to growth in the economy.

Commenting on the response, Bart Huby, Chair of the ACA Pensions in Public Services Committee said:

“HMT is consulting on the method for determining the financial assumptions used to set the levels of employers’ contributions to pay for pensions being built up in the unfunded public service pension schemes, including those for the NHS and Teachers.

“Whatever method is used, however, the resulting assumptions will almost inevitably either over-estimate or under-estimate the true cost of paying these pensions for future generations of taxpayers. The underlying reason is that the pensions are linked with inflation and not to future economic growth, which is the driving force of our economy’s ability to pay these pensions.

“The ACA proposes a fairer way of dealing with this issue would be to change the way unfunded public service pensions are increased from inflation to economic growth. This would meet the key objectives of the exercise, in particular inter-generational fairness and risk control. If the economy grows faster than anticipated, the pensions for public servants would increase faster than inflation. Conversely, if the economy grows slower than expected then pension increases would be lower than inflation.

“Importantly, public servants would still receive a defined benefit pension based on their service and earnings, something which is now very rare in the private sector. Changing the way their pensions increase to be linked to economic growth would make the cost of these pensions more sustainable. Tackling the underlying pensions would be more effective than looking to the technical model used to set discount rates.”

For further comment:

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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