Government
Actuary's
Department

Public Service Pensions

ACA Sessional Meeting

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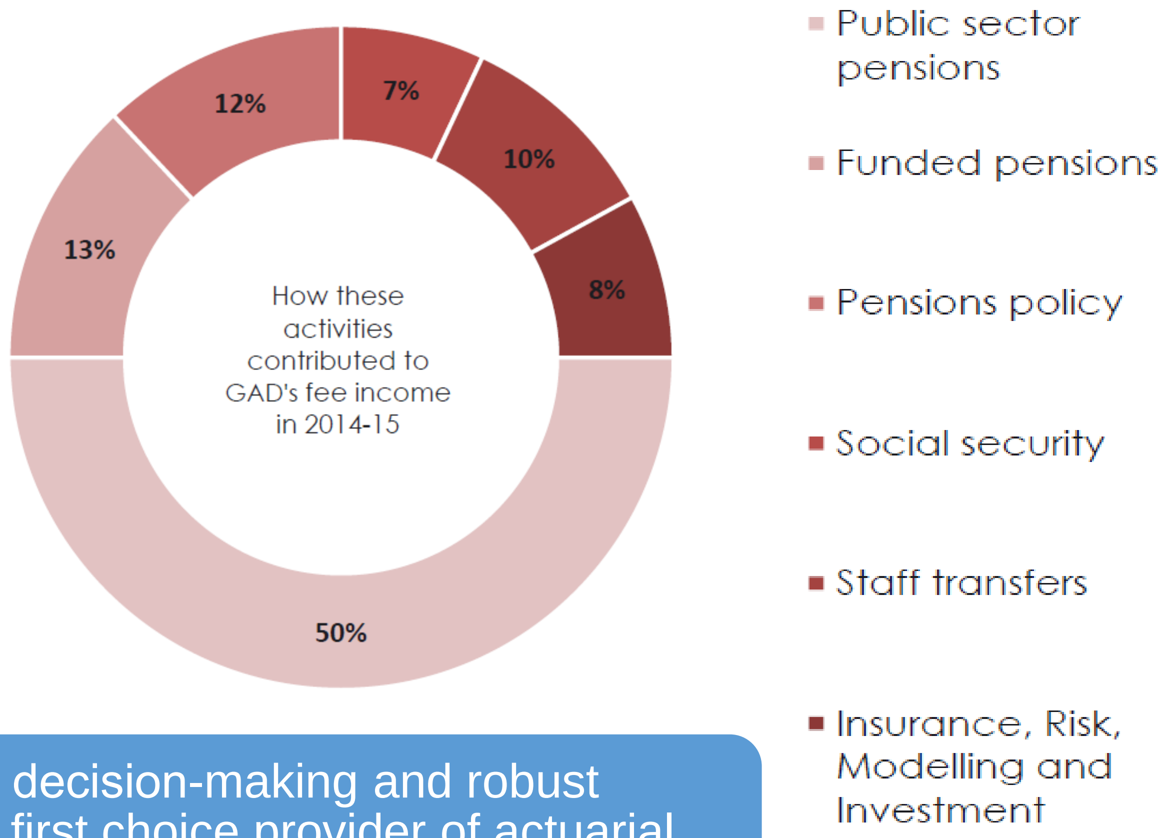
GAD advises across the whole of Government

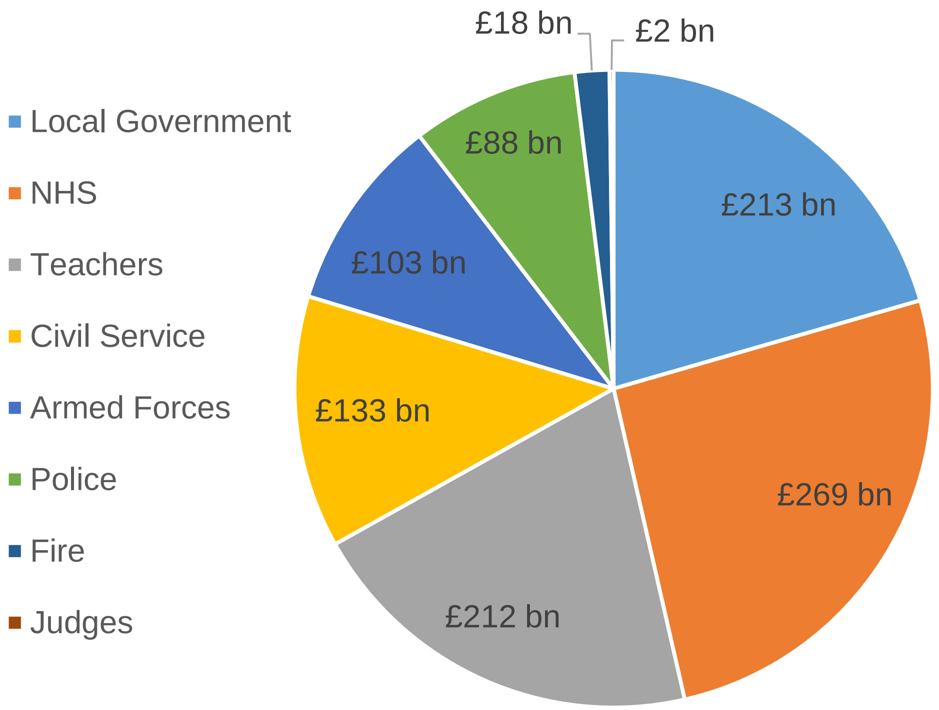
GAD's role



"Our mission is to support effective decision-making and robust reporting within government as the first choice provider of actuarial and specialist analysis, advice and assurance"

Public Service pension schemes are in aggregate comparable in size to the whole of private sector DB

Public Service Pension Schemes



Membership: 14 million

Liabilities: Over £1 trillion

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Benefits of the schemes post 2015

	NHS	Teachers	Civil service	Police	Armed forces	Fire	Local Govt *
NPA	SPA	SPA	SPA	60	60	60	SPA
Accrual	1/54	1/57	1/43.1	1/55.3	1/47	1/59.7	1/49
Reval	CPI+1.5%	CPI+1.6%	CPI	CPI+1.25%	Avg earnings index	Avg earnings index	CPI

*scheme came into force in 2014

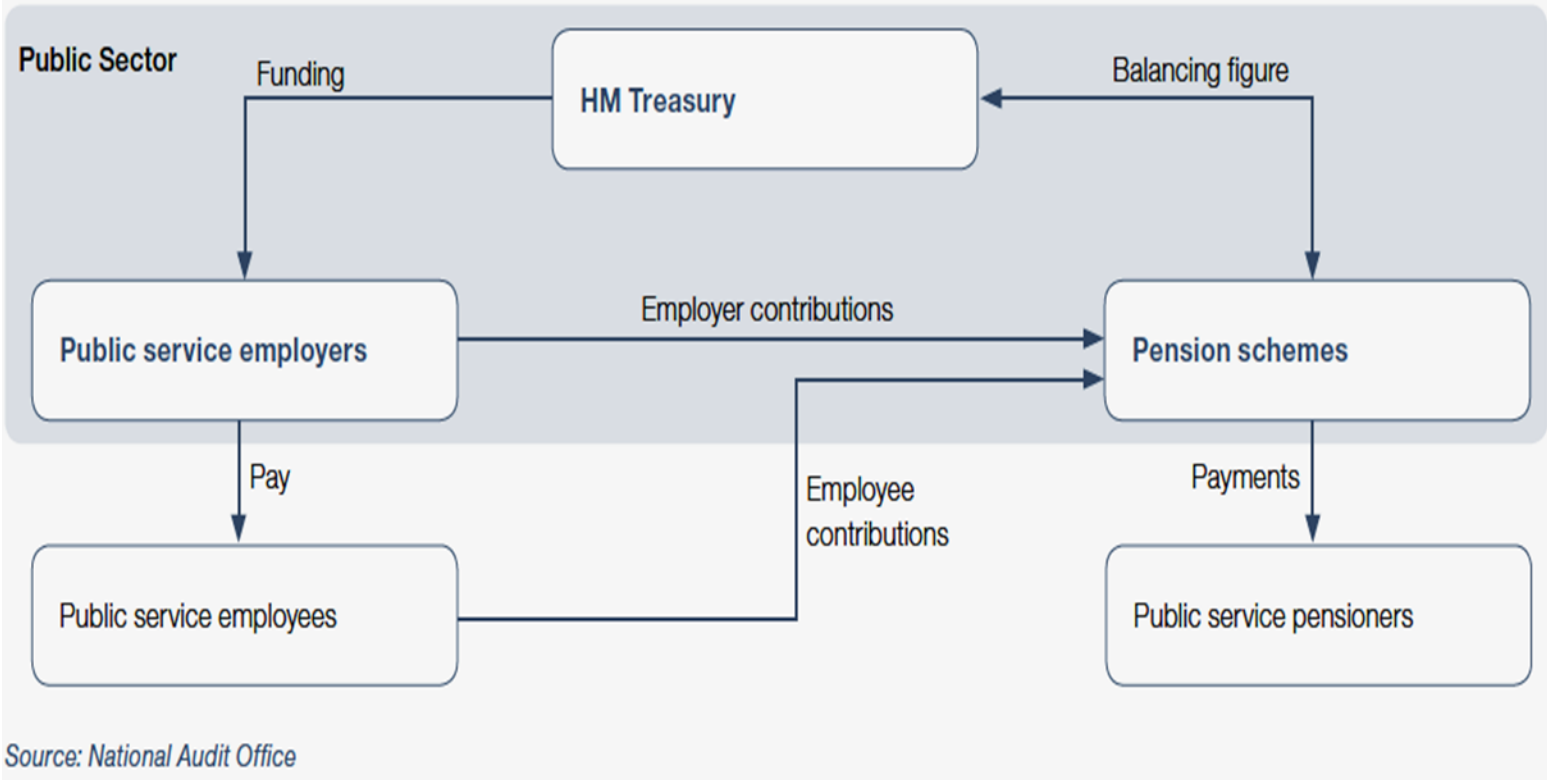
Individuals close to retirement protected from reforms

Higher member contributions

Cost cap mechanism to control employer cost

25 year guarantee

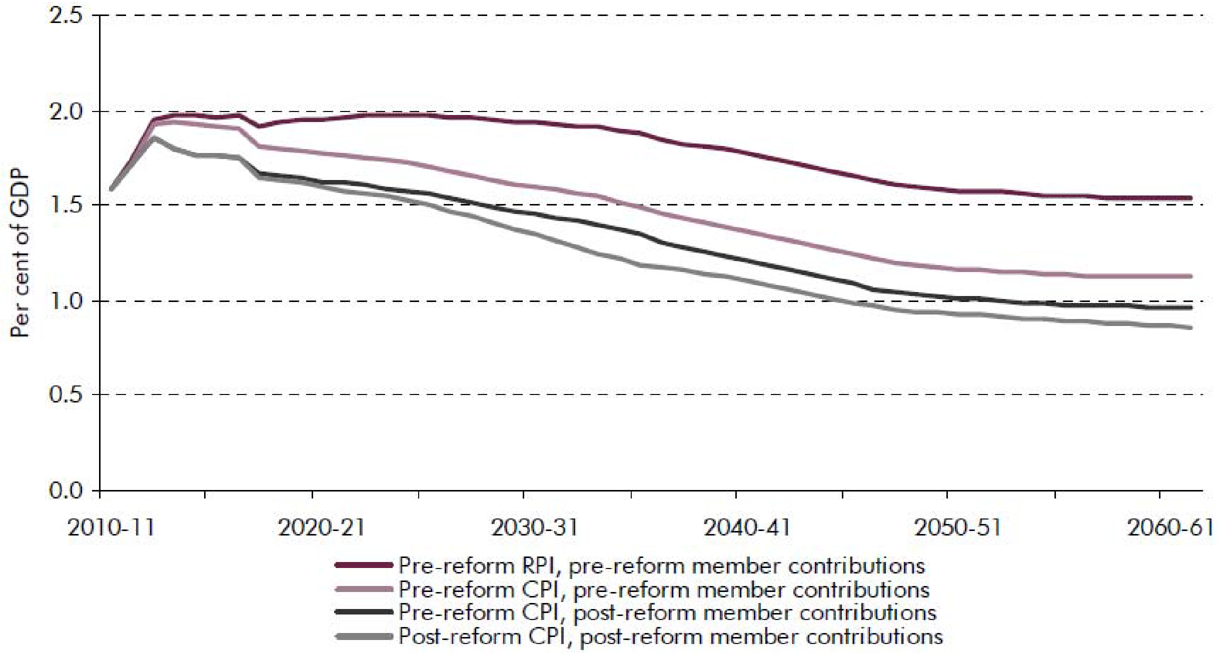
Payments and contributions



Benefits set out in statute

Long-term affordability of pensions more likely to be considered as a cash flow projection of GDP

Chart A.5: Effect of reforms on net expenditure



Source: OBR, GAD

Switch to CPI indexation generates increasing savings until CPI cohort stabilises

Increased employee contributions give a step change in savings

Hutton benefit reforms save a little more but transitional protection limits "short term" savings

Long-term affordability of pensions has to be seen as part of a much bigger picture

Table 3.6: Non-interest spending projections

	Per cent of GDP						
	Estimate[1]		FSR projection				
	2014-15	2019-20	2024-25	2034-35	2044-45	2054-55	2064-65
Health	7.3	6.2	6.5	7.1	7.6	7.9	8.0
Long-term care	1.1	1.2	1.4	1.7	1.9	2.1	2.2
Education	4.9	4.1	4.2	4.2	4.0	4.1	4.0
State pensions[2]	5.5	5.1	5.4	6.2	6.8	7.0	7.3
Pensioner benefits	0.9	0.7	0.7	0.8	0.8	0.8	0.7
Public service pensions	2.1	2.0	2.0	1.7	1.5	1.2	1.1
Total age-related spending	**21.9**	**19.4**	**20.2**	**21.7**	**22.7**	**23.2**	**23.3**
Other welfare benefits	5.5	4.8	4.8	4.8	4.8	4.8	4.8
Other spending	11.5	9.4	9.4	9.5	9.5	9.6	9.6
Spending[3]	**38.8**	**33.6**	**34.4**	**36.0**	**36.9**	**37.6**	**37.8**

[1] Spending consistent with the March 2015 *Economic and fiscal outlook*.
[2] Includes many items in addition to the basic state pension and single-tier pension, such as pension credit, winter fuel payments, free TV licences and the Christmas bonus.
[3] Excludes interest and dividends.

Public service pensions much smaller item than Health, Education or State pensions.

Health, Care and State pensions increase from 13.9% to 17.5% of GDP in 50 years' time.

Public service pensions reduce from 2.1% to 1.1% over the same period.

Source: OBR Fiscal Sustainability Report 2015

Public Service pension reform has cost control mechanisms, but the residual risks are still significant

- Linking NPA to SPA which in turn is linked to longevity provides some protection against mortality risks in PSPS
- The cost cap mechanism provides (some) protection against "adverse" scheme experience
- Employer contribution rates ensure staff costs are reflected in budgets

- But failure to grow the economy in line with GDP forecasts over a long period would result in burdensome future costs
- And underestimation of care/health and State pension costs will have a similar effect

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Challenges to defined benefit pensions?

- Combined with new state pension – high replacement ratios
- No reduction in benefits due to end of contracting out
- Less flexibility – both in terms of benefit design and access

- Heavy tax burden on high earners – future changes may lead to redesign of benefits
- Disparity with private sector – public sector too generous or private sector insufficient?
- Is DC preferable? – a funded DC arrangement has an impact on cash flows

How pressures might be felt

- Cost deemed ‘too high’ – benefit design costs, scale of public sector employment or GDP growth can frame costs

- Employment market – not a perfect labour market between public and private sector
- Political pressures – various stakeholders on an emotive issue

Any questions?