



The Burden of Public Sector Pensions – And A Government in Denial....

The Government Strategic Plan states that it is committed to a “fair society”.... but it is in a state of denial as regards public sector pensions and the liability they represent for future generations, let alone the highly unfair situation facing the 70% of the private sector who have no provision for a pension, other than the state Retirement Pension.

The UK Government has had a report into Pensions prepared by a committee of experts under Lord Hutton – it concluded that public sector pensions were “unaffordable, unsustainable and an unfair burden on future generations”. Whilst anxious not to be seen as a “dumbing down” exercise, and preserving any existing entitlements to final salary pensions, it concluded that major reform was essential. That reform included a significant increase in employee contributions, and the ending of final salary schemes, which are to be replaced with “career averaging” schemes – but at the end of the day, will ensure a fair pension for those in the public sector, without being too unfair to those in the private sector who – if lucky enough to have a pension (only 30% do !) – will very probably be a “money purchase” pension, and unlikely to be anywhere near as generous.

By contrast, the Manx Government is intent on continuing its final salary schemes, now enshrined from the Hymans Robertson Report (NOT an independent report, but a “put up job”, carefully briefed to protect the self-interest of the beneficiaries) – as a result of which, the manx public sector pension liability goes from a current £2 Billion+ to some £3.6 Billion in 20 years time. The Treasury Minister is on record as saying this is sustainable – but it sounded as if she was repeating the instructions from her civil servants. In Mandy Rice-Davies’s immortal words, “they would say that, wouldn’t they!”

The reality – the public sector final salary pension can be compared to a ponzi scheme, which if practised by the private sector would be embezzlement and subject to legal action, but done by government, is merely politics. It depends on more and more money being put in at the back end (some time in the indefinite future) to support those receiving pension income at the front end (today or in the near future)– an increasing debt which is being run up at the expense of

Government "in denial" on Public Sector Pensions

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young people and which, if they realised the extent of it, would be horrified. That £3.6 Billion represents £45,000 for every man, woman and child on the island – and whilst it is true this does not come all at the same time, but drawn out over many years, would still be considered by most fair-minded people as being “an unfair burden on future generations”

It should be a priority for the new government in September to review the whole area of pensions – both public and private sector - and to ensure early action to address the manifestly unfair situation now building up.

The action which should be on the agenda ?

- All private sector employers should be signed up to introducing a mandatory contributory pension scheme for all employees – with employers matching employee contributions, and with a progressive increase over (say) five-to-ten years to ensure that everyone has a retirement pension for their old age.

- The public sector scheme should be more self-financing, with significantly increased employee contributions and a “cap” on the employer’s contribution, ensuring that tax revenue is not required to “top up” the pension liabilities. And “final salary” schemes should be replaced with “career average” schemes – which could be advantageous to those on low or middle incomes, and disadvantageous only to those on high incomes (but who would still get a good pension).

There is an avalanche of “oldies” born in the post-war baby boom, who are imminently about to hit retirement age. Given their loss to the productive economy, and the increased costs they will inevitably incur for government through pensions, social security benefits and their use of the health service, the new government from September will face enormous pressure on budgets. They will not take long to understand that increased taxation and a cut-back in our bloated public sector is essential if the books are to balance, as they are legally required to do. But ensuring that every retiree has an occupational pension would at least ensure that the need for many of our social security benefits would eventually not be necessary..... and be a key element in the search for a “fairer society”.