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Total financial reward higher in the public than private sector?
It is scandalous but not for the obvious reasons…

(Dr Frank Eich)

- **Median weekly pay for full-time employees in the public sector was around 15 per cent higher in 2009 than in the private sector. Median total financial reward, which also captures employer pension contributions, was nearly 30 per cent higher.**
- **The wider gap for total financial reward does not necessarily reflect higher public sector pension contributions but is due to fact that 60 per cent of private sector employees receive zero employer contributions compared with 10 per cent in public sector.**
- **A comparison of employees with pension contributions shows that total financial reward is actually higher in the private sector than in the public sector. That gap is particularly marked at the higher end of the income distribution.**

It is as predictable as the changes of the seasons. Another year, another ONS press release and another outcry by the media that public sector workers are much better off nowadays than their private sector peers.

This time the media's reaction has been motivated by the article *Total reward: pay and pension contributions in the private and public sectors*, which the ONS published earlier this week but which itself is based on data (the Annual Survey of Hours and Earnings) published ten months ago. The paper's headline finding is that the median total pay reward – that is the sum of pay and employer pension contributions – is higher in the public sector than in the private sector. If the Government needed any further motivation ahead of the Comprehensive Spending Review in October to have a go at public sector pensions, this surely must be it.

As always though, it is worth delving a little bit deeper into the analysis to find out what is really going on. Let us start with gross pay. In 2009 median gross weekly pay for a full-time employee was £539 in the public sector and £465 in the private sector, a difference of 16 per cent. The difference increased from 14 per cent in 2008, which can be explained by the fact that between 2008 and 2009 all those working for Lloyds Banking Group, The Royal Bank of Scotland Group and HBOS PLC were reclassified from the private to the public sector.

That median gross weekly pay is higher in the public than in the private sector is nothing new though and as we have argued in the past,[1] not too much should be read into this. This is because people in the public sector are on average more highly educated and perform more highly skilled jobs than those in the private sector. Think about all the university educated females who find their career homes in the education or health sectors. By contrast, almost all females working in low paid jobs are in the private sector. Think retail or hospitality. A like-for-like comparison is likely to show a more nuanced picture.

This difference widens to nearly 30 per cent once employer pension contributions are taken into account. So where is the scandal? Is it that public sector pensions are too generous? Or is it that the substantial difference in the total reward package is due to nearly 60 per cent of private sector employees receiving *zero* employer pension contribution (compared with 10 per cent in the public sector)? As the ONS acknowledges, when comparing employees with pension contributions across the two sectors, median total reward is actually higher in the private sector than in the public sector. This is because those on better pay in the private sector are also likely to benefit from a pension. Going beyond a simple analysis of median pay shows that those with a pension in the

[1] *Evaluating public and private sector pensions: The importance of sectoral pay differentials*, Frank Eich, May 2009. Available at http://www.pensionomics.com/website/evaluating-public-and-private-sector-pensions-importance-sectoral-pay-differentials

private sector pull away from their public sector contemporaries the further up the pay scale, which suggests that high-flying public sector workers or civil servants might not get such a great deal after all.[2]

There are numerous reasons why (lower paid) private sector employees might not benefit from employer pension contributions including lack of access to an appropriate scheme due to the small size of the employer[3] or not having taken up what is actually on offer. Will this silent majority of the labour force accept their fate of having to live off the Basic State Pension come retirement? For all its weaknesses, NEST is meant to address some of these shortcomings but the jury is out whether the Government will actually deliver on this. As it stands, it is likely that much of the burden of providing more generous pensions in the future will fall on the state. What it does suggest is that the British pension system urgently needs to return to the drawing board.

[2] See our previous commentary *Can a senior civil servant be worth £150,000 a year?* Frank Eich, June 2010 at http://www.pensionomics.com/commentary/can-senior-civil-servant-be-worth-150000-year

[3] See last week's pensionomics.com commentary *The pension challenge for small businesses and their employees: too big to ignore* by Daniel Bescoby, which deals with the particular pension challenges facing small businesses. See http://www.pensionomics.com/commentary/pension-challenge-small-businesses-and-their-employees-too-big-ignore