

A measured approach to public sector pension reform is the right way forward

(Dr Frank Eich)

- **Lord Hutton's interim report into the state of public sector pensions in the UK seems *measured*. This contrasts with the emotionally-charged debate that came before it.**
- **There is much to commend, from the principles with which to assess reform options to rejecting a "race to the bottom" in which the public sector follows the private sector.**
- **Getting this reform right will be crucial not only for public but also for private sector workers. This is because the public sector could provide a benchmark for future reforms in the private sector. The challenges might be substantial in the public sector; they are greater still in the private sector.**

After a heated public debate about the unfairness of public sector pensions, Lord Hutton's interim report comes as a breath of fresh air. Its tone and suggested approach to addressing the issues is *measured*, which must surely be a good thing in such an emotionally-charged environment.

A quick read of the report reveals little to complain about and many things to commend. For example, the principles chosen to assess the public sector pensions landscape and reform options – affordability and sustainability, adequacy and fairness, supporting productivity (e.g. labour market efficiency), and transparency and simplicity – make good sense. Indeed, the first three are identical to those proposed by us previously.^a This instils confidence that the correct guiding principles will be used in the search for appropriate reform proposals.

It is also good to see that Lord Hutton dismisses the general public's perception that public sector pensions are "gold plated", rejects a "race to the bottom" in which the public sector would follow the private sector in dismantling occupational pensions and cannot find the economic rationale to move from unfunded to funded provision. Suggesting that the value of contributions should reflect the value of benefits accrued or that final salary defined-benefit schemes are internally unfair also sounds like common sense.

There will be many who will not like his initial policy recommendations, indeed some trade union leaders are already predicting French-style street fights, but if an increase in employee contribution rates can help to salvage public sector DB occupational pensions from being scrapped, then surely this ought to be a price worth paying. Equally, public sector workers ought to accept that their retirement age will have to go up as longevity increases, and probably not only for new joiners.

Getting this reform right will be crucial, not only for those in the public sector but also for those in the private sector. As Lord Hutton argues: "...[I] hope that reformed public service pensions can be seen as once again providing a benchmark for the private sector to aim towards."^b Hopefully Lord Hutton's final report will get the balance right as this is an opportunity not to be missed. It might then provide the impetus for a similar investigation into the even bigger challenge arising from the (dire) state of occupational pensions in the private sector.^c Perhaps Lord Hutton would even like to conduct such an investigation himself? After all, what will be adequate in his view for the public sector should also be adequate for the private sector – how otherwise could it ever be perceived to be fair?

^a *Pensions – A complex landscape* by Frank Eich and Bob Swarup, at www.pensionomics.com/research-papers/pensions-complex-landscape.

^b *Independent Public Sector Pensions Commission: Interim Report - 7 October 2010*, page 4.

^c *Total financial reward higher in the public than private sector? It is scandalous but not for the obvious reasons...*, at www.pensionomics.com/commentary/total-financial-reward-higher-public-private-sector-it-scandalous-not-obvious-reasons