

PENSION COSTS FOR LOCAL AUTHORITIES – THE REALITY BEHIND THE HYPE

Briefing Note

January 2006

- On Friday 27 January 2006, Channel 4 will show a “30 minutes” documentary “Whose Pension Are You Paying?”.
- Headlines from the programme appeared in last week’s Sunday Telegraph. Inevitably, those headlines were framed to grab maximum attention.
- If you watch the programme on Friday, or find yourself in discussion about it, you may find the following helpful. It represents Hymans Robertson’s views on pensions in the local government sector.
- Yes, pension costs can be portrayed as “being equivalent to a quarter of Council Tax” **BUT** Council Tax is only a minority of Councils’ income (most comes from central government). Expressed as a portion of Councils’ total spend the figure is a more modest (but less headline-grabbing) 7%.
- These costs are not just “town hall staff”. They include teachers, firemen and policemen.
- Indeed even the 7% figure exaggerates the impact of pension costs on Council Tax. From April 2006 only the “town hall staff” pension costs cause variation in Council Tax. The costs for the other three categories are supposed to be offset by corresponding income from central government. For the most part therefore, local authorities are simply the collecting and paying agents.
- In the private sector UK companies have increased their contributions to their pension schemes three-fold between 1998 and 2004¹. Local government pension costs may be increasing but nowhere near as quickly.
- Public sector workers are indeed fortunate still to be able to join final salary schemes – but the average pension for town hall staff is still under £5,000 p.a., a long way from “gold plated”.
- It is **Central** Government not **Local** Government which sets the rules for and determines the majority of the cost of local government pensions.
- For the most part, local authorities have been pressing for changes to make the schemes more affordable to the public purse in the long run. It is **Central** Government not **Local** Government that has its head in the sand on the question of retirement ages.

¹ Source: Office for National Statistics, Economic Trends September 2005 Employer Contributions to Self Administered Schemes rose from £7.6bn in 1998 to £25.7bn in 2004.

- Pensions for town hall staff are funded as they build up - protecting future generations. Pensions for teachers, civil servants, NHS workers, police and firemen are not funded but are paid from tax and National Insurance on a 'pay as you go' basis by central government.
- Longevity and a shrinking number of people of working age are big social issues, not just pensions issues (by some measures longevity affects local authorities' care for the elderly costs more than it affects pension costs).
- Pensions are a long term business. Changing them takes a long time to have any effect. Therefore, if government is to achieve a sensible balance between affordability and intergenerational equity it needs to think carefully, make some tough decisions and do it soon.
- Otherwise, in 20 years time the public purse may find itself meeting not only the cost of the means-tested benefit for a generation of pension-less private sector workers but also the cost of unaffordable public sector pensions.
- But the key decisions lie with **central** not **local** government. That is where the pressure needs to be applied.

If you need to discuss any of these points, please contact:

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