# TUC DAY OF ACTION


## 30 NOVEMBER

TUC

# THE CASE FOR PENSIONS JUSTICE

**Public sector pensions are under attack.**

**The government wants to make people pay more and work longer for a lot less.**

**Despite hours of talks, ministers won't negotiate. Instead they impose unfair changes.**

**Few understand the detail of pensions, but the issue is simple.**

**Most public sector workers are modestly paid, and their pay is frozen when the price of basics is shooting up.**

**Public sector workers are being asked to pay an extra £3bn a year. This government cancelled the banker's bonus tax that raised almost the same amount.**

**It's wrong to make them pay an unfair contribution to reducing a deficit they did nothing to cause.**

**Unions want proper negotiations. We have done fair deals before.**

**That is why the TUC has called a day of action for pensions justice on November 30.**

**It's a chance to stand up for decent pensions and tell ministers to start negotiating.**

# THE GOVERNMENT'S TRIPLE SQUEEZE

**The government is putting a three-way squeeze on public sector pensions.**

# SQUEEZE ONE

## RPI TO CPI

Once you get a public sector pension, it goes up each year in line with prices.

But the government wants to change the way it measures prices, and use the CPI measure of inflation instead of RPI.

- That sounds technical, but what's important is that CPI is nearly always lower than RPI.
- This is because CPI leaves out some prices – such as housing and council tax costs that often go up faster than other prices.

CPI is also worked out in a different way to RPI. Even if RPI and CPI measured the prices of the same things, CPI would come out lower.

Moving to CPI means pensioners will have a bit sliced off their pension each year.

This is what the Royal Statistics Society says about the CPI measure:

*"We do not feel it currently serves the purpose of being a sufficiently good measure of price inflation as experienced by households to be used in uprating pensions and benefits."*

The switch to CPI is a stealthy way of cutting pensions. The Independent Public Service Pensions Commission led by Lord Hutton said it cuts the value of public sector pensions by 15 per cent.

Before the election both coalition parties said they would protect 'accrued rights'.

This is pensions jargon, but it means that any pension that you have already built up is meant to be safe. But the switch to CPI even hits current pensioners who thought they had paid for a pension that would keep up with RPI.

**THE CPI SWITCH WAS ANNOUNCED WITH NO NEGOTIATION.**

# SQUEEZE TWO —
## HIGHER CONTRIBUTIONS

**The government is increasing public sector pension contributions by 3.2 per cent of pay by 2015 – roughly the same effect as a 3 per cent wage cut.**

**This was announced without negotiation.**

**Yet wages are frozen across the public sector, at a time when prices are going up fast.**

**This is no more than a special tax that will only be paid by public sector staff.**

**Pension contributions are normally set through negotiations. They are based on an independent assessment of what contributions need to be paid for future pensions. This is called a valuation, and looks at factors such as how long people are living.**

**But this latest increase has nothing to do with this process. It is just a levy on public sector workers – a stealth tax.**

**The government say they are protecting the low paid – they say that those earning less than £15,000 will not have to pay extra.**

**That is not true.**

**Most people in the public sector earning less than £15,000 work part-time. But the government only counts you as low paid if you would earn less than £15,000 if you did your job full-time. So if you earn £12,500 a year for a half-time job, you are counted as earning £25,000 a year. More than four out of five of those earning less than £15,000 but work part-time and don't count as low paid are women.**

**And of course if the low paid are protected, everyone else will have to pay more than three per cent.**

**The government wants to take more than £3bn a year from this tax on public sector staff.**

**The same government cancelled a tax on banker's bonuses that raised £2bn, and may well now raise more.**

# SQUEEZE THREE

## WORKING LONGER FOR A SMALLER PENSION

The government wants almost everyone in the public sector to work longer before they can get their full pension. Most people would need to work through to the state pension age, which ministers want to go up to 66 for men and women by 2020 and 68 by 2046.

This takes no account of the stresses and strains of different jobs.

The police, armed services and fire fighters also face increases in their lower pension ages.

This tears up the agreement made with the previous government. That deal increased pension ages in most schemes for new starters. But it recognised that it is unfair to impose a new pension age on staff who have already worked many years. In the local government scheme, everyone already has a pension age of 65.

**THE TRIPLE SQUEEZE ADDS UP TO PAYING MORE, WORKING LONGER AND GETTING A PENSION THAT NO LONGER PROPERLY KEEPS UP WITH PRICES.**

# ANSWERING THE MYTHS

**Shadowy right-wing pressure groups, ministers and parts of the media have waged a long campaign against public sector pensions.**

## THEY SAY

- Public sector pensions are gold-plated, unreformed and unaffordable.
- It's unfair to expect public sector pensions to be better than those in the private sector.
- Unions should not take action but negotiate.

**NONE OF THESE STAND UP.**

## GOLD-PLATED?

Most public sector pensions in payment are less than £5,600 a year. (£3,000 in local government). Half of women public service pensioners get less than £4,000 a year.

This is what John Hutton said in his Commission's report:

"The Commission firmly rejected the claim that current public service pensions are gold-plated."

A YouGov poll asked people what they thought the average public sector pension ought to be.

The average answer was £17,088. Nearly half (44 per cent) said it should be more than £15,000.

Almost half (49 per cent) of respondents believed the average public sector pension is more than £10,000, and only 23 per cent think that it is less than £10,000.

## UNREFORMED?

Tough negotiations with the last government resulted in an agreed deal to reform public sector pensions. The National Audit Office say that it would reduce the future cost of pensions by 14 per cent.

Changes included higher pension ages for new starters and higher contributions in some schemes – including bigger percentage contributions for the highest paid. Other negotiated changes included a move to a career average scheme in the civil service.

It also dealt with what everyone agrees is a difficult pensions issue: trying to predict how long people will live. If people live longer than expected, pensions will cost more than predicted.

Under the deal, the extra costs of unexpected increases in longevity would first be shared by employer and employees together. But the employer cost was capped, meaning that meeting the higher costs of any further extra increase in lifespan would fall entirely to members.

## UNAFFORDABLE?

The critics talk of a pensions time-bomb and say that the costs of public sector pensions are out of control.

Pensions commitments go many years into the future. So working out what it would cost if every pension payment for decades to come had to be paid tomorrow morning produces a big, scary number.

But it is also a meaningless number.
That is not how pensions are paid.

Both the National Audit Office and the Hutton Commission say the best way to measure whether public sector pensions are sustainable is to work out the likely cost of future payments as a share of the wealth the country will produce (GDP, as economists call this.)

This was been done twice in recent years. First after the changes negotiated with the last government, and again to also take account of the switch to CPI indexation.

So what did these show? The deal negotiated with the last government in 2007 made costs stable. This is how the National Audit Office described it:

*"The 2007–08 changes are likely to reduce costs to taxpayers of the pension schemes by £67bn over 50 years, with costs stabilising at around 1 per cent of Gross Domestic Product (GDP) or 2 per cent of public expenditure. This would be a significant achievement."*

So, before this government made any changes at all, public sector pensions had both been reformed and made affordable.

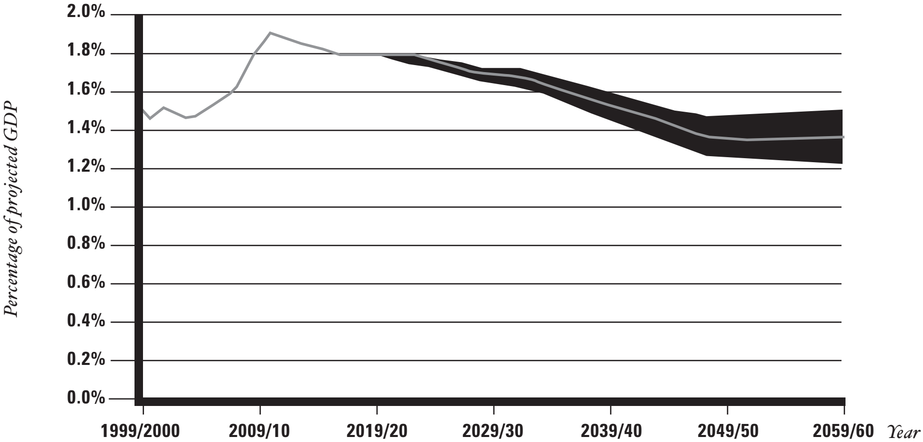
Experts agree that these negotiated changes reduced the value of public sector pensions by 10 per cent.

An even more sophisticated exercise was done for the Hutton Commission. This was based on the switch to CPI indexation as well as the 2007–8 changes.

Predicting the future can never be exact, so this exercise looked not just at the most likely cost, but looked at best and worst cases as well. This is why the graph line below gets thicker as it moves into the future.

As can be seen the costs of public sector pensions as a proportion of GDP falls, even in the worst case. This is without any further changes that the government is trying to impose.

PROJECTED BENEFIT PAYMENTS AS A PERCENTAGE OF GDP – SENSITIVITY ANALYSIS




*Source: GAD projections for IPSPC and IPSPC analysis.*

## IT'S UNFAIR ON PRIVATE SECTOR WORKERS IF PUBLIC SECTOR WORKERS GET BETTER PENSIONS

Public sector workers undoubtedly get better pensions than private sector workers. This is because only one in three private sector workers is in an employer-backed pension scheme.

To make public sector pensions like those in the private sector we would have to strip pensions away from two in three public sector workers. This would be a race to the bottom.

The public sector can deliver pensions more cheaply than the private sector. The average employee contribution in the Local Government Scheme is now 6.4 per cent – higher than the UK average of 4.9 per cent. The employer contribution rate in the local government scheme is 13.6 per cent. In the private sector for similar pensions the average is 15.6 per cent.

Private sector workers pay taxes that pay for public services such as the NHS. (So do public sector workers). But providing decent pay and a proper pension is what most people think every employer ought to do.

Cutting a public sector pension will not make anyone's pension in the private sector any better.

Indeed the switch to CPI indexation is now being followed by many private sector employers. Attacks on public sector pensions are making private sector pensions worse too. What should make private sector workers angry is the big gap between most private sector workers who have no pension, and those at the top with pensions that are not so much gold-plated as diamond encrusted solid gold.

What's worse is that private sector workers are paying a subsidy to fat-cat pensions through pensions tax relief.

When people put money into a pension, they do not have to pay income tax on their contribution. If you earn £200 a week and put £15 into a pension you only pay income tax on pay of £185 a week.

As standard rate income tax is 20 per cent, this tax relief means that it costs 80p to save a pound in a pension. You pay a pound, but also pay 20p less tax.

But because the better off pay 40 per cent tax, with those earning more than £150,000 now on the new 50p rate, the better-off get much more benefit from tax relief.

It costs a higher rate tax payer 60p to put a pound in their pension, as they get 40p back from their tax. And as the richest – those earning more than £150,000 a year – get 50p back, it only costs them 50p to save a pension pound.

Tax relief on pension contributions costs £20bn a year. Two-thirds of that goes to higher-rate taxpayers, more than four times what the government wants as higher contributions from public sector workers.

Low paid private sector workers with no pension should be angry that they are helping subsidise half the cost of the pensions of those on the highest pay.

Private sector workers should also be angry at the gold-plated pensions of company directors. The average pension pot for a top FTSE 100 company director is over £220,000 per year – 23 times as high as the average occupational pension. And these directors are often in separate, better pension schemes than their staff, unlike in the public sector where bosses and employees are in the same schemes.

## UNIONS SHOULD NEGOTIATE NOT TAKE ACTION

This is perhaps the cheekiest attack of all.

The government announced both CPI indexation and the amount to be raised through contribution increases with absolutely no negotiation.

Unions have spent hours in talks over the spring and summer with ministers and their officials, but there has yet to be any real negotiation. It takes two to negotiate. Unions want a negotiating partner.

Unions are taking action as the only way to start to get ministers to negotiate properly.

iwantdesign.co.uk

# PAY MORE WORK LONGER SMALLER PENSION

**TUC DAY OF ACTION 30 NOVEMBER**