Policy & Information team

Briefing on …

Pensions Research Update

Pensions Research Update

Introduction

This briefing provides an update on the issue of pensions. It provides a short background on the issue before looking at the results of various research papers that have been published from late 2008 before highlighting the real pension divide that exists between company directors and their workers.

Contacts list:

Kenny MacLaren
k.maclaren@unison.co.uk

Dave Watson
d.watson@unison.co.uk

@ the P&I Team
14 West Campbell St
Glasgow G26RX
Tel 0845 355 0845
Fax 0141-331 1203

Background

Recently there have been a number of articles in the press attacking public sector pension schemes. Many commentators are now using the current economic crisis as an excuse to continue their long running campaign against these pensions. These attacks tend to portray public sector pensions as 'gold plated' etc and create a false image of high pensions and early retirement. What is usually quoted is the figure for a high flying, highly paid civil servant which does not reflect the reality of retirement for the vast majority of public sector workers.

Recent Research

The current economic crisis is affecting every sector of the economy so it is no surprise that this also includes pension schemes. Recent research (January 2009) by the National Association of Pension Funds (NAPF) has highlighted the impact this is predicted to have on private sector final salary pension schemes, including:

- Significant closures of final salary schemes to new employees – in the next five years 52% of final salary schemes which currently remain open to new members expect to close this option;
- Closures of final salary schemes to existing members – 24% of schemes which remain open to new members and 27% which are closed intend to switch existing members to some form of defined contribution or hybrid/career average scheme;
- Economic crisis predicted to have a severe impact on schemes open to new members – 96% of schemes surveyed believe that the economic crisis has made the closure of defined benefit schemes more likely.

The Pensions Policy Institute (PPI) also looked at the reforms currently taking place within public sector pension schemes and how these schemes compared to private sector pension schemes. These included the change in the normal retirement age from 60 to 65 for new entrants, as well as cost sharing in some of the schemes.

It noted that although public sector workers are more likely to be in a pension scheme than private sector workers, the value of the four main public sector schemes (for the NHS, Civil Service, Teachers and Local Government) for new entrants will be similar to a medium private sector final salary scheme, at around 20% of salary on average. It also highlights that public sector workers tend to pay higher contributions into their pension schemes than their private sector counterparts.

The Real Pension Divide

The PPI report highlighted that when comparing similar final salary schemes there is little difference between public sector and private sector pensions. However the annual Pension Watch report from the TUC highlighted that there are significant differences between the pensions of company directors and the workers they employ.

The Pensions Watch report is compiled by examining the annual reports of top UK companies, drawn from the FTSE100 and a number of the other biggest employers in the country. The report for 2008 looked at 102 companies, gathering information on the pensions of 346 directors.

The key findings of the report were:

- The majority of directors were able to retire on a full pension at age 60. The normal retirement age for workers is 65.
- Directors have bucked the trend towards riskier and less generous pensions for ordinary workers, with three quarters of the directors surveyed (76 per cent) on final salary schemes.
- The average accrued pension for the directors in the sample was £201,655 p.a. Among those directors with the highest accrued pension in each company, the average was £333,664 p.a. This is an increase of over 4 per cent on 2007's figures.
- In comparison, the average occupational pension in the UK is £8,112 per year (the average pension from the local government pension scheme is £3,800). The average director's pension is therefore around 25 times higher than the national average.
- The most common accrual rate for directors was 1/30th, in comparison the most common accrual rate for all members of private sector final salary schemes is 1/60th.

Summary

Recent pensions research has highlighted that when comparing similar final salary schemes, both public and private sector schemes provide similar levels of benefit. However it is worth noting that while the average occupational pension in the UK is around £8,100 per year, the average payout from the local government pension scheme is less than half of this at £3,800.

As highlighted above the real pension divide is not between public sector versus private sector employees but in the pensions between company directors and their workers.

The issue about pensions should be about ensuring every worker has access to a decent pension scheme. It should be about levelling up not down. If the directors of companies think a final salary scheme is good enough for them, then it should be good enough for their workers.

UNISON Scotland

Action for Branches

This briefing paper is intended to update members and branches on the latest research on pensions and to allow them to respond to any local attacks on public sector pension schemes.

Further Information

UNISON Scotland
http://www.unison-scotland.org.uk

TUC Pension Watch 2008
http://www.tuc.org.uk/pensions/tuc-15259-f0.cfm

PPI
http://www.pensionspolicyinstitute.org.uk/

NAPF
http://www.napf.co.uk/