

## Public Sector Pensions - A Step Forward, But The Flaws Remain.....

Written by Chris Blyth

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The latest revisions to the proposals for Public Sector Pension reform can be broadly seen as a step in the right direction, but are too timid, and fail to acknowledge fundamental flaws in both the set-up, and the long-term sustainability of the scheme. The major change from the initial Hymans Robertson proposals is the imposition of a single tier employee contribution, which (it is proposed) will increase from 1.5% of basic salary, to a 5% contribution rate - a positive step, and a move towards the PAG proposal of a minimum 10% employee contribution rate....

However, the "devil is in the detail", where the latest Hymans proposals include reference to the need to monitor the viability of the scheme (which covers their professional liability as scheme architects), and for the suggested Statutory Authority to consider further contributions as necessary. So maybe, just maybe, the Hymans Robertson proposals recognise a short-term need (and expediency !) to make proposals which will be acceptable to the public sector workforce, but are also pointing the route to the medium term need to raise contributions to more realistic contribution levels (as proposed by PAG) - let us hope so...

Meanwhile, however, fundamental flaws continue :

- The underlying assumption of a 7.5% annual growth in the Manx economy is continued - this is unchanged from the original proposals, and demonstrates the continuing "head in the sand" approach by government, which is in denial as to the true state of the real world in which many manx businesses have to operate - e.g. in retail business, the hospitality trade, and in construction etc - and of the difficulties resulting from the "credit crunch". In addition, there is a widespread expectation amongst respected economic bodies (e.g. CBI, NIESR, accountancy firms, and major retailers such as M&S and John Lewis) that 2010 / 2011 will be "difficult" years, with tax increases and further redundancies in both the private and public sectors.

- The revisions make no reference to the errors in calculation of the comparisons of public and private sector "benefit packages" - where the private sector input comprised of just three companies, all with major "extras" in pensions and fringe benefits - and which, in consequence, appeared to show broadly "comparable" overall packages between private and public sector. But very clearly an instance of "lies, damned lies, and statistics", and not a true reflection of many of the smaller private employers on the island, whose employees do not enjoy significant benefits, and often no pension provision whatsoever.

- The proposals make no concessions as regards the fatal flaw of the governance of the public sector pension scheme - a Statutory Authority composed entirely of government employees and appointees. This gives no public oversight of the administration of the scheme,

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and means there is no impartial and independent members in the management of the Authority. In effect, it puts the foxes in charge of the hen house - and given it is the public who are funding the great majority of the pensions cost, and it is the electorate who (in the end) are the shareholders and employers of those in public sector employment, how can that be right ? And, one must conclude, a clear breach of the government commitment to openness and transparency.....

- The existing public sector pension schemes are scheduled for their triennial re-valuation in March 2010. The last valuation, in 2007, revealed a Pension Reserve of £200million, and a liability of £1.35 billion - a shortfall of £1.15 billion ! Whilst not knowing at this stage what the revaluation figures will be, the odds must be very high that the liability will have increased dramatically - interest rates on deposits and government bonds are now much lower than in 2006/7, whilst dividends on any equity investments are much reduced as a result of lower corporate profitability. Hence, most private sector pension schemes have been forced to reveal and concede massive increases in their liabilities. A situation almost certainly repeated for the manx government's pension liabilities.... but not mentioned in the revised proposals, and an almost incredible omission given the current state of the government finances.....

- Whilst PAG recommended the closure of the final salary pension scheme to new entrants (in order to put a limit on the continued excessive generosity and long-term liability of public sector pensions), the revised proposals from Hymans Robertson re-confirm the continuation of the final salary pension for all employees, both existing and new entrants. The argument in the original proposals was that closing the final salary scheme to new entrants would be highly divisive for employees, with effectively two schemes in operation. When asked the question in the consultation exercise, however, this did not seem to be a major issue, and was more a concern for trade union policy than for the actual workforce - which means it remains a "missed opportunity" for government, and a continuing liability for future generations.

- Also a missed opportunity is the "capping" of the employer contributions to public sector pensions. The UK Government has confirmed the intent to cap its contributions - and since the current manx programmes are largely inherited from equivalent UK Government schemes, it would seem a golden opportunity to do the same with the manx schemes, before we commit to rationalising them to purely manx control.

- Nowhere in the proposals (or elsewhere in government documents) is there mention of pensions policy for the rest of society - a major element of PAG's criticism of the original Hymans proposals. The role of government must include the provision of a fair society for all, and for equity to be a priority. Given that it is society as a whole which pays for public sector pensions through taxation policy, and given that the statutory "old age pension" remains so low (and forces many of our elderly into "benefits", and poverty), the criticism that the Hymans Robertson proposals are serving the self-interests of our public sector remains unchanged - and the charge that they are inequitable on wider society also remains.

The proposals must be seen in the context of the "new economic reality" facing everyone as the result of the impact of the "credit crunch" of late 2008, and of the UK's enforced "re-negotiation" of the VAT Sharing Agreement with the Manx Government. This has resulted in the UK facing a £180 billion budget deficit in 2009/10, a public sector borrowing requirement of £220 billion, the prospect of not returning to a fiscally responsible situation for 20 years, and on the Manx side, a

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major reduction in its expected VAT receipts. The economic forecasts are (at best) for a very slow recovery over the next 5 years - only returning to the levels of 2007/8 in 2014/5. How can our government forecast growth rates of 7.5% at the same time ? And what is to stop the UK government returning for a further re-negotiation of the VAT Sharing Agreement if we are seen to be successful in surviving the current financial storms ?

It is absolutely vital to the future good governance of the manx economy that when the decisions on public sector pensions are made, they should be affordable, sustainable, and in the best interests of ALL of our society. The revisions are a step forward from the original proposals, but remain an indictment of a narrow, divisive, and inequitable process, and of a weak and indecisive government. Our earlier critique of the Hymans Robertson report foresaw a "pensions apartheid" resulting from the proposals, with a major split in society - between those enjoying a public sector final salary pension, and the rest of society with either a much smaller, private sector pension, or more frequently, no pension at all. The current revisions do nothing to improve that apocalyptic vision.