FAIR PENSIONS FOR ALL

“There is a crisis of pensions in the UK but it’s not that we’re living too long or that pensions are unaffordable, it’s a crisis of fairness”

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“Action is needed to secure decent state pensions as the foundation for pensioner income and decent employer-sponsored pension provision for all workers in all employment sectors”

Introduction: a crisis of fairness

There is an economic crisis in the UK, but it was not caused by excessive public spending or the 'gold-plated' pensions and pay of public sector workers. It was caused by a recession triggered by the banking collapse of 2007. Now there is another crisis: a crisis of fairness in which those who caused the economic mess are forcing everyone else in society to pay for it. It is clear whose side Cameron's cabinet of millionaires is on.

Trade unions represent people in the public, private and voluntary sectors. Our members will often experience each through their working lives – as will their partners, friends and family. Good occupational pension schemes are important wherever you work.

Most pensioners are reliant on the basic state pension for the majority of their income in retirement, but it pays below the government's own poverty line.

Disgracefully today there are 2.5 million pensioners living in poverty in the UK. Only one in three private sector workers is now a member of an employer-sponsored pension scheme, public sector pensions are under threat, and the state pension is now worth just 15% of average male earnings.

On the other hand a quarter of all tax relief on pensions, amounting to more than £10bn annually, goes to the richest 1% in the country. We hear about gold-plated public sector pensions, yet the real gilded pensions are to be found in the boardrooms of private companies that have abandoned provision for their workforces.

There is a crisis of pensions in the UK but it's not that we're living too long or that pensions are unaffordable; it's a crisis of fairness. In retirement, as in working life, we are highly unequal. UK pensioner poverty is among the worst in Europe – only Cyprus, Latvia and Estonia abandon their pensioners to a greater degree.

Action is needed to secure decent state pensions as the foundation for pensioner income and decent employer-sponsored pension provision for all workers in all employment sectors. Please join our campaign for 'Fair pensions for all'.

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Public sector pensions: affordable and sustainable

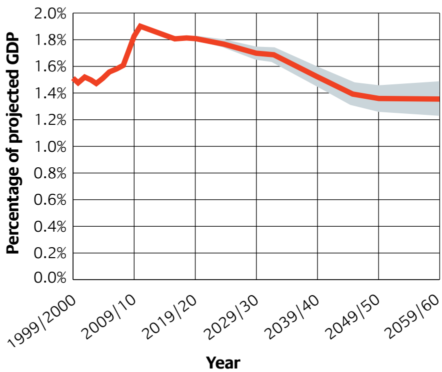
The pensions of public sector workers have come under intense scrutiny in recent months, with ministers and the media describing them as 'gold-plated' and 'unaffordable'. Currently public sector workers are being told they must pay more and work longer for a lower pension – but is this necessary?

Last year the government asked Lord Hutton to lead an independent commission into public sector pensions. His report showed that their cost is falling over the long-term as the graph above demonstrates: falling from 1.9% of GDP today to a little under 1.4% by 2060.

The graph above does assume the government's change to pensions' indexation from the RPI inflation measure to the lower CPI measure. This could reduce the value of pensions by 20% over the course of an average retirement.

However, a report into public sector pensions by the National Audit Office, published in December 2010, does not take into account the indexation change, nor does it make any

Projected public sector pension costs as a percentage of GDP



Source: The Hutton Report

Note: The fan chart shows how the projections would be affected by altering assumptions about productivity growth, public service workforce growth and life expectancy.

assumptions about the size of the workforce. It shows reforms agreed between the unions and the government in 2007–08 "reduces costs to taxpayers by 14%" and "long-term costs are projected to stabilise around their current levels as a proportion of GDP". So even without these assumptions the costs are still not rising, but stable.

"Currently public sector workers are being told they must pay more and work longer for a lower pension – but is this necessary?"


SALARY
30
50
65
18
Age
70
ENTER
EXIT

The Hutton report also “firmly rejected the claim that current public service pensions are ‘gold plated’ …the median payment is around £5,600”. This equates to just over £100 per week in retirement. For a woman worker in local government the average pension is just £2,600.

Despite these facts taken from the government’s own commissioned report, ministers have continued to misrepresent public sector pensions and are simultaneously attacking the age at which they retire, how much they pay, and how much they get at the end.

This attack on public sector workers’ pension rights coincides with a pay freeze and, for many, their job being under threat too. A significant minority of workers have said they will opt-out of schemes if they are forced to pay more for a smaller pension. Opting-out will mean a larger burden on the taxpayer in extra means-tested benefits.

It is only four years since public sector pensions were significantly re-negotiated with the previous government in a deal that meant for new starters the retirement age rose to 65, and future costs capped. This pensions deal in 2007 was assessed in December 2010 by the National Audit Office, which found it “on course to deliver savings and stabilise pension costs”, and will save £67bn for taxpayers.

The strike on 30 June gave the issue of public sector pensions increased profile in the media and exposed the government spin about affordability. The government now says it’s about fairness, but its proposals will lead to an equality of misery: unfair to all.

In effect the coalition is imposing a tax on public sector workers to pay for the mess made by the banks: George Osborne said as much in Parliament, “from the perspective of filling the hole in the public finances, we will seek changes that deliver an additional £1.8bn of savings per year in the cost of public service pensions”.

There is also an ulterior motive in cutting pensions, as it will make public services more attractive for privatisation. The CBI boss John Cridland has said public sector pensions are “a brake on competition and make it harder for those in the private sector to bid for public service contracts”.

As the next chapter demonstrates, private companies have withdrawn from providing fair pensions to their employees, and they do not want to pay fair pensions to public sector workers transferred to them.

Trade unions representing millions of workers are fighting this attack through legal action, political campaigning and industrial action.

“This attack on public sector workers’ pension rights coincides with a pay freeze and, for many, their job being under threat too”

The scandal of private sector pensions

The collapse of private sector pensions is one of the greatest outrages of our time. Just over a decade ago nearly half of all private sector workers were in a workplace pension scheme; today it is only a third. The cost of that decline will be borne by the taxpayer through increased eligibility for means-tested benefits such as pension credit, housing benefit and council tax benefit; greater health and social care costs; and an increase in our already shocking levels of pensioner poverty.

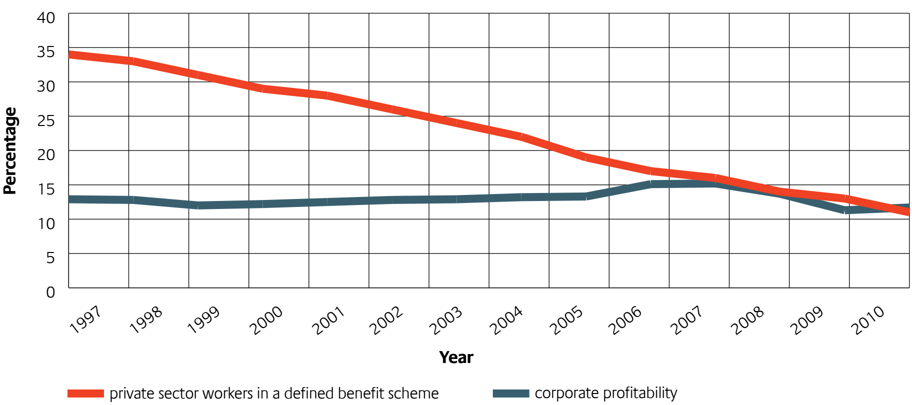
However, while pensions have been ripped away from ordinary workers, the directors of large companies continue to net very generous pensions averaging £175,000 per year in retirement. These generous fat cat schemes at the top lapped up the bulk of the £37.6bn in tax relief that private sector pensions get every year.

The only reason why companies have dumped pension schemes is to give more money to senior management and more profits for shareholders. Corporate profits have expanded from 13% of GDP in the mid-1970s to 21% today, and executive pay has risen several times the rate of the average worker.

In the 1990s, according to Inland Revenue figures, corporate Britain saved itself £18bn through pension holidays, while employees continued to contribute. As the stock market declined many pension funds went into deficit – employers cut pensions rather than repay the monies they avoided.

This graph shows the proportion of

The decline of private sector pensions



private sector workers in defined benefit pension schemes (red line) compared with corporate profit margins (grey line). What the graph shows is that in the last 13 years the level of corporate profits has remained relatively constant, yet companies have closed defined benefit schemes at an alarming rate.

The number of private sector employees in defined benefit schemes has fallen from 34% in 1997 to 11% last year. At the same time the proportion of private sector workers in any occupational scheme has fallen from 46% to 34%. Despite all the talk of corporate social responsibility, fewer and fewer companies show any responsibility to their own staff.

For the 11% of private sector workers still in a defined benefit scheme the average pension is £5,860 – about the same as the £5,600 average public sector pension, which demonstrates that is not a 'gold-plated' amount. In fact it is less than half the income of a full-time worker on the national minimum wage.

It has been estimated that changing pension indexation from RPI to CPI in the private sector would save employers £100 billion over the lifetime of existing schemes. This would be a direct transfer of wealth from employees to shareholders.

Women in the private sector are likely to be in a far worse state than men – not just because of the earnings gap – but because many of the jobs done by women in the private sector (especially retail, catering and cleaning roles) come with no pension provision at all.

The media is full of scare stories about the escalating and unaffordable costs of pensions, and that people are living too long. The reality is that employers are failing to pay their share – and that is unfair.

In 2012 the National Employee Savings Trust (NEST) will be established for workers with no occupational scheme. However, NEST will take more from employees than employers and will not provide a decent pension. The main beneficiaries will be the private pension industry.

Attempts to pit private sector workers against public sector workers are divide and rule. The responsibility for the removal of pensions for private sector workers lies with employers and shareholders.

Private sector pensions are also heavily subsidised by the taxpayer. Research by Richard Murphy shows that private sector pension schemes received £37.6bn in tax reliefs in 2007/08 – that same year they paid out pensions worth only £35bn. As Murphy states, "Pension fund performance over the last decade has been a history of almost perpetual loss-making despite the enormous subsidies." A quarter of that pensions tax relief goes to the richest 1%.

FACT

The number of private sector employees in defined benefit schemes has fallen from 34% in 1997 to 11% last year

The state pension: below the poverty line

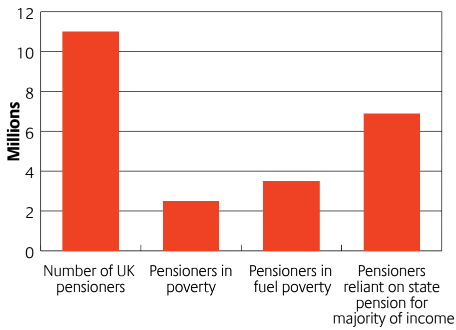
UK pensioner poverty is among the worst in Europe – only Cyprus, Latvia and Estonia abandon their pensioners to a greater degree. France spends over twice as much on pensions as the UK, Germany two-thirds more.

It is simply not true to say that the UK cannot afford better pensions when nearly every other European country does better by their pensioners. The truth is that the value of the state pension has been in decline for 30 years. In that time the pension has gone from being worth 25% of average male earnings to just 15%.

The basic state pension is currently £102 a week, worth only 57% of the government's official weekly pensioner poverty level of £178. Two and a half million pensioners in the UK live below that level. Even before the above inflation energy price rises this year, 3.5 million pensioners lived in fuel poverty.

Many pensioners therefore rely on means-tested benefits like the pension credit, council tax benefit and housing benefit. However, because of the stigma attached to claiming, over a million pensioners entitled to pension credit do not claim it.

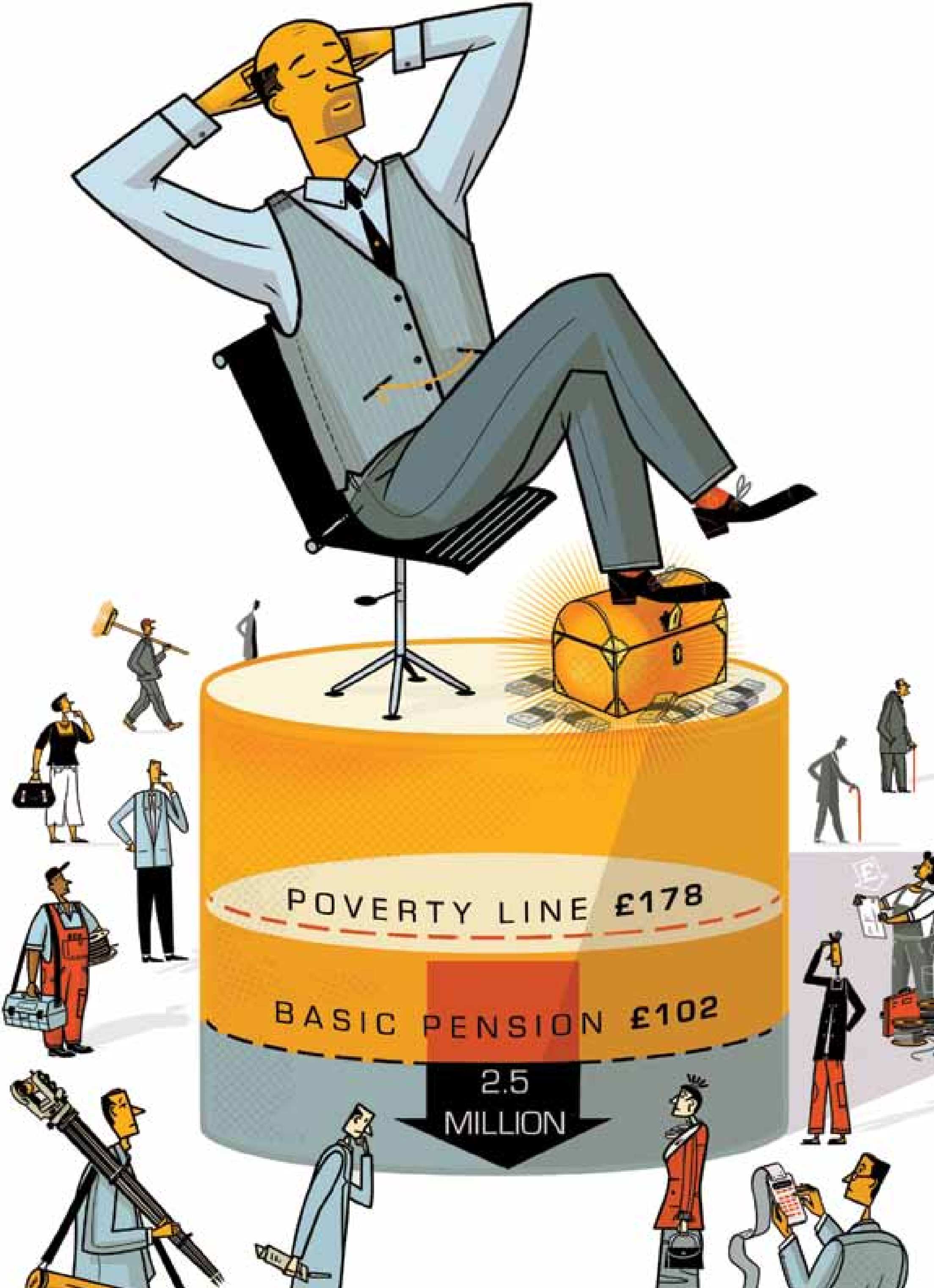
Pensioners reliant on benefits



Research by the Left Economics Advisory Panel estimates that the cost of means-tested benefits is currently £13bn per year. This state spending would not be necessary if private sector employers provided for their staff in the same way as the public sector. However, the proposed cuts to public sector pensions would mean that more and more public sector workers will be eligible for these benefits too.

The state pension age is currently proposed to rise from 65 to 66 by 2020, 67 in 2034 and to 68 by 2044.

"The basic state pension is currently £102 a week, worth only 57% of the government's official weekly pensioner poverty level of £178"



POVERTY LINE £178
BASIC PENSION £102
2.5 MILLION

We believe this is deeply regressive and will have a disproportionate impact on the poorest people.

Although the average person is living longer, there are massive inequalities in life expectancy: men and women in the wealthiest areas live 10 years longer, on average, than those from the poorest areas. The wealthiest can often afford to take early retirement too, whereas the poorest often already have to continue working beyond the state retirement age. Just because we are living longer, it does not necessarily mean we are fit to work for longer: 40% of people aged 65–74 have a disability or illness that limits their quality of life.

Pensioner poverty also intensifies the prejudices that exist over people's working lives. Women, disabled and ethnic minority pensioners are far more likely to be in poverty because they are discriminated against by employers.

Over several years, governments have allowed companies to abandon their pension duties to their staff, allowed the state pension to fall further and further behind living standards, and today's government is now attacking public sector pensions too.

We don't want an equality of misery, but fair pensions for all: public, private and state pensions.

"We don't want an equality of misery, but fair pensions for all: public, private and state pensions"

Conclusion: fair pensions for all

Nearly one in five of us, living in the UK, is over the state retirement age. A fair pension for all is affordable in the sixth largest economy in the world, if we choose it to be.

A pension is income deferred. Whether it is through national insurance or contributions to an occupational scheme, we have set aside income today to pay for our pensions tomorrow.

We like to think of retirement as a time of relaxation and leisure, but for very many people it is a time of hardship and stress – with a growing proportion literally having to choose between heating and eating. Every winter tens of thousands of retired people die from cold-related illnesses.

We are all living longer and should welcome that life expectancy continues to improve, but those improvements have been very uneven, meaning that there is a huge life expectancy gap between the richest and the poorest. We must also consider the impact of working longer on unemployment – the impact that has on young workers starting off. Youth unemployment is at the highest level on record. Finally, we ought to acknowledge that longer retirements are not necessarily unaffordable, but are a question of priorities and balance.

The government is proposing little to tackle the scandal of private sector occupational pensions, or the poverty-level of the basic state pension. The government's current attempts to cut public sector pensions will create more misery and more poverty in retirement.

We hope that you, whether you're in the public sector or private sector, whether you're working, unemployed or already retired, will join our campaign for 'Fair pensions for all' because the injustice of pensioner poverty requires us to work together so that everyone has a decent standard of living in retirement.

- Sign the 'Fair pensions for all' petition: http://bit.ly/nMX21S
- Order more copies of this pamphlet: andrewf@pcs.org.uk

"A fair pension for all is affordable in the sixth largest economy in the world, if we choose it to be"

Find out more…

For more information about pensions, see these sites:

- **TUC Pensions Justice** pensionsjustice.org.uk
- **National Pensioners Convention** npcuk.org
- **PCS** pcs.org.uk/pensions
- **Unite** unitetheunion.org/resources/pensions/protecting_pensions_for_our_pu.aspx
- **NUT** teachers.org.uk/pensions/pension-contribution
- **UCU** ucu.org.uk/index.cfm?articleid=1320

“Pensions offer security for older people, and we all have an obligation to provide a fair pension for all.”
Tony Benn

“This pamphlet is a vital resource for trade union members fighting to defend their pensions. It arms us all with the facts to challenge the myths being peddled by the government. Fair pensions for all are not only affordable, but necessary.”
Janice Godrich, PCS President

“The pension crisis is a human crisis. A crisis of caring. A crisis of sharing. A crisis that is soluble. A crisis that unites the 99%. A crisis of today that we must solve for tomorrow. A crisis that this pamphlet tackles. Read it.”
Richard Murphy, Tax Research UK

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