Britain: Government proposes cuts in public sector pensions

Paul Bond
9 September 2009

While the government hands out billions in bail-outs to major banks, Communities Secretary John Denham is drafting proposals to cut the pensions of council workers in order to deal with soaring local government deficits. The proposals would slash the pensions of millions of public sector workers. Nevertheless, some financial commentators have insisted that the plans do not go far enough.

The proposals to end council workers' "gold-standard" final salary pensions were revealed to the *Times* by a senior local government official, who had been briefed on some of the proposals. Denham is drawing up proposals to cover short, medium, and long-term pension arrangements of around two million council workers, some of them among the lowest-paid workers.

According to the *Times*, the proposals include moving to a "career-average" pension scheme, which has already been adopted for new recruits to the Civil Service. The implications for poorly-paid public sector workers are even more devastating. Unison, the biggest union in local government, pointed out the average pension in local government is only £3,800 a year.

The *Times* wrote that a social worker on a final salary of £20,000 would lose "thousands" in pension payments. Their source remarked that doctors, nurses, and teachers were likely to face similar changes, as public sector debt worsens. Some experts have suggested the shortfall of pension funds is likely to be at least £60 billion next year. Local government pensions, which are guaranteed by the taxpayer, are funded by investments. Most others are paid directly from public funds.

The government has said the leaks were based on "ill-informed speculation," and stated in response that it would continue to make the Local Government Pension Scheme "fair, solvent, protected against risk, and affordable to the taxpayer."

The government has already proposed that local authorities force better-paid staff to make greater contributions to balance pension funds. Local authorities have resisted this. This is the layer for which the *Times* feels most concern. Its report focused on the "tens of thousands" that would be lost under the new proposals by a chief executive on a final salary of £200,000. But this is part of far widespread attacks on public sector workers, especially the poorer paid.

Just as the pension proposals were being revealed, it was reported that Denham was looking at restricting the re-employment of council leaders who leave their posts with large severance packages and then move to a new authority. Vince Cable, Liberal Democrat treasury spokesman, has used "concerns about the longer-term affordability of public sector pensions, particularly for top paid public sector workers" to raise demands for a thorough overhaul of all arrangements.

Public sector workers are already under sustained attack. According to a recent report from the Local Government Association (LGA), which represents over 350 councils in England, local councils have axed nearly 7,000 jobs in the last six months. Job losses are expected to continue for the next year. The LGA has reported a deficit in council income of £4 billion over the last two years. This is equivalent to £11 million a day.

This has had a devastating impact on pension deficits. Councils across the Yorkshire region face a £4.5 billion deficit. Leeds City Council has a deficit of £715 million. Kirklees Metropolitan Council is facing a deficit of £380.1 million. Across Cumbria there is a total pension fund deficit of £800 million, caused in part by the stock market crash. More than half of the

Cumbria fund's assets are invested in stocks. The county's pension funding level has dropped from 81 percent in March 2007 to 56 percent in March this year. In Leicester, which has around 85 percent of its pension fund value in investments, the shortfall has risen to around £500 million.

According to the LGA report, council income from capital projects, such as the sale of land and buildings, has fallen by almost £3 billion since 2007/8. Public sector workers are expected to foot the bill for the crisis of an economic system.

There are strident demands for greater attacks on public sector pensions, and for them to be brought in line with the private sector where many final-salary schemes have already been axed. Stewart Young, deputy leader of Cumbria County Council, called the government's schemes "unsustainable," saying, "I don't think they can carry on when so many private sector schemes are closing."

The government proposals were released just as the Royal Bank of Scotland was capping increases in pensionable pay at two percent or the inflation rate, whichever is the lower. This will affect some 62,500 longer-serving staff of the bank. Shell and BP are now the only FTSE100 companies still offering a final salary pension scheme to new recruits. BP is closing its scheme to new members next April.

Sections of the right-wing media have begun cynically using the phrase "pensions apartheid" to attack public-sector workers who have not lost their pension schemes as privileged. The *Telegraph* cites a report from accountants PricewaterhouseCoopers (PwC). According to their findings, private sector workers in Defined Contribution schemes receive employer contributions of around 6 percent of salary, while the "implied employer contribution rate" for civil servants could be as high as 35.5 percent of salary.

The gap is being seized upon by all parties to justify public sector cuts. Tory leader David Cameron has pledged to end the MPs' final salary scheme if elected to power, and has hinted at scrapping existing public sector agreements. Vince Cable has insisted, "The rising cost of public sector pensions is an area which will need to be tackled."

The author recommends:

Why are retirement pensions under attack?
[17 November 2003]

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact