

Consultation Response: “Reforms to public sector exit payments”

To: HM Treasury

By: The Intergenerational Foundation

Date: 3 May 2016

The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:

The Intergenerational Foundation (IF) welcomes the opportunity to comment on government policy towards public sector exit payments. IF is especially concerned about the impact which exit payments currently have on the future cost of public service pension obligations, which represent an enormous economic burden that future generations will have to pay off. We would like to indicate our support for one of the policy options in the government’s consultation document:

IF is concerned that employer-funded pension top-ups may be used under the present system as a way of incentivising older public sector employees to accept redundancy packages without their full cost to future generations being appreciated. In IF’s view, pay-as-you-go public service pensions are unfair on future generations because they lock-in a commitment for them to pay the full value of pension liabilities which they played no role in negotiating, and this unfairness is exacerbated when the size of these pension commitments is boosted artificially by top-ups which do not reflect how much an individual has paid-in to the system through their own contributions. Therefore, **IF supports the government’s policy proposal to prohibit employer funded pension top ups entirely, while giving the option for the individual to decide whether to use any lump sum exit payment to increase their pension entitlement.**

Given the costs of higher longevity, it does not seem unfair in IF’s view that public sector workers should have their pensions actuarially reduced if they are given redundancy shortly before the age at which they would have retired anyway. Furthermore, such arrangements create a disincentive for people to continue working at older ages, when that is a shift which government policy ought to be encouraging as the population ages. In IF’s view the policy proposal which we have endorsed would save the public sector money in the short-term, which could be used to improve public services, while maintaining flexibility for individuals and to some extent ameliorating intergenerational unfairness by lowering the burden of unfunded public service pension obligations on future generations.

Conclusion

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise further, please contact:

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