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PRESS RELEASE: “UK Pensions Will Not Be Paid in Full”

The UK’s £1.2 trillionⁱ public sector pension liabilities will not be paid in full, according to three quarters (75%) of economists polled by the Intergenerational Foundation (www.if.org.uk). Nearly half of the respondents (46%) also believe that the basic state pension (£3.84 trillionⁱⁱ) will have to be means-tested by 2040.

Angus Hanton, Co-founder of the Intergenerational Foundation, comments, “These expert views demonstrate that our current pension promises are simply unaffordable. We must protect younger generations from our own profligacy by taking less for longer, regardless of what our generation has promised itself.”

IF asked 50 of the UK’s leading thinkers on economics to gauge whether the UK will be able to maintain the current status quo when it comes to paying its pension liabilities in the future. Respondents included Carl Emmerson, Deputy Director of IFS, Jim O’Neill, Retiring Chairman of Goldman Sachs Asset Management and Charles Goodhart, Emeritus Professor, Financial Markets Group at the LSE.

George Magnus, Senior Economics Advisor at UBS and author of [*The Age of Ageing: How Demographics are Changing the Global Economy and Our World*](#), comments, “The likelihood that these liabilities will be paid in full is as close to zero as statistics allow.”

The UK public sector pension scheme is run like an enormous “Ponzi” scheme, a phrase coined to describe suspect pyramid-selling schemes in the US that rely on new members coming into the scheme to pay those further up. There is no “pot of money” being saved in the UK; instead, each member’s contributions are used to pay a current retiree’s pension. Any shortfall has to be made up by the State.

The typical private sector worker is only able to save an average pension pot of £24,330 by the time they retire, according to the Pensions Policy Institute (PPI), which, because of historically low annuity rates, means they receive only £3,700 per year in retirement. In comparison [78,000 public sector workers are on annual pensions of more than £25,900](#) (more than the average annual wage)ⁱⁱⁱ.

IF points out that the government could move to a sustainable system if the political leadership is there: a funded scheme, a move away from final salary schemes or a reduction in entitlements are all possibilities, but recent governments have preferred to pretend that the liabilities are payable as promised. Most economists are saying they are not.

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Note to Editors:

- The Hutton Report anticipated that the typical person retiring in 2011 from a professional occupation can now expect to live for 28-30 years.
- The average public sector pension of £7,000 is equivalent in cost to a private sector worker having accumulated a personal pension fund worth £140,000 by the time he or she retires. To achieve an annual pension close to the national minimum wage of £12,646 they would need £250,000 saved, and for the average annual salary of £25,900 they would need a pension pot of £518,000.
- Average UK earnings of £25,900 taken from 2010 Annual Survey of Hours and Earnings, ONS, 2010.
- IF used a combination of Freedom of Information (FOI) requests to government departments and a Parliamentary Question in the House of Commons to find the following figures.
- Number of public sector retirees collecting in excess of £25k annual pension: 78,186
- Number of public sector retirees collecting in excess of £50k annual pension: 12,263
- Number of public sector retirees collecting in excess of £100k annual pension: 148
- Of those collecting over £50k, doctors dominate with 8,714 (72%) irrespective of private practice work undertaken
- NHS official liabilities: £257.7 billion Official funds available: None
- Civil Service pension liabilities: £153 billion Official funds available: None
- Teachers pension liabilities: £192.4 billion Official funds available: None
- Armed Forces pension liabilities: £120.7 billion Official funds available: None

Angus Hanton, Co-founder, is available for interview.

Please contact Liz Emerson on liz@if.org.uk Mob: 07971 228823 to arrange.

ⁱ ONS, 2012 Public Sector Finances, November 2012

ⁱⁱ ONS, 2012, *A broader picture of the public sector balance sheet: State pension and other pension obligations – An update at April 2012*

ⁱⁱⁱ IF, 2012, [http://www.if.org.uk/wp-](http://www.if.org.uk/wp-content/uploads/2012/05/Are_Government_Pensions_Unfair_On_Younger_Generations.pdf)

[content/uploads/2012/05/Are_Government_Pensions_Unfair_On_Younger_Generations.pdf](http://www.if.org.uk/wp-content/uploads/2012/05/Are_Government_Pensions_Unfair_On_Younger_Generations.pdf)