

Public Service Pensions: Consultation on the discount rate methodology

To: HM Treasury

By: The Intergenerational Foundation

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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

As a non-party-political organisation which exists to advocate for the rights of younger and future generations in British policy-making, IF has consistently argued that the generosity of public service pensions ought to be retrenched in the interests of intergenerational fairness.

1. The decision to stick with using the SCAPE rate is misguided

Using the SCAPE rate has failed in the recent past to contain the growth in the real burden of public service pensions' unfunded pension promises. The proposals give no reason to think that estimates of GDP growth will not fail again. The consultation paper is fundamentally flawed in taking the hoped-for rate of growth of the economy as a discount rate, rather than a realistic discount rate which measures the size of these huge pension commitments being made each year. The Intergenerational Foundation would argue that the reckless use of these high "SCAPE" discount rates is abandoning the precautionary principle which should pervade policymakers' thinking - even if the government uses this misguided approach, it should not be overly optimistic about the future but should instead assume a very low GDP growth rate.

2. The proposals begin to recognise the generosity of the pension promises for those working in public sector

However, discount rates should also be used to adjust employee pension contributions which are much too low in relation to the pension benefits being promised. As it is, a significant unearned additional transfer is being made to public sector employees for no apparent reason, the cost of which will have to be borne by younger and future generations of taxpayers.

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3. Create an independent body as civil servants and MPs are impossibly conflicted

An independent body should be set up to determine what discount rate to use for public sector pensions and related issues. Such a body would probably act conservatively and choose to adopt, as a discount rate, either the AAA corporate bond rate or the Government's gilt yield - either of which would be far lower than the proposals based on using the SCAPE rate. The reason an independent body is needed is that Civil Servants and MPs are fundamentally and impossibly conflicted because they are making crucial decisions in which they have a large personal interest which has no doubt contributed over recent years to schemes which is remarkably generous to older civil servants at the expense of younger and future generations.

The result of creating such a body to independently establish a discount rate would be that it would be non-party-political, and therefore more able to make transparent both the full extent of the pension liabilities as well as annual increases in these liabilities. Furthermore, upward adjustments could more easily be made to the contributions by employer and employees if they were decided by an independent body.

4. Build-up of hidden liabilities for future taxpayers

The failure to challenge the misguided adoption of the SCAPE rate and the failure to adjust for chronic over-optimism about the growth in GDP has resulted in a huge build-up of hidden liabilities for future taxpayers to bear. The proposals fail to address this and are, in effect, allowing continuing intergenerational theft at scale.

5. The Intergenerational Foundation requests that all the responses to this consultation be published online

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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