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Decades of generous final salary ...

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Rob White
07 September 2024 6:00am BST

The cost of Britain's gold-plated public sector pensions has hit £173,000 for every household, analysis reveals.

The value of pensions already guranteed to workers including doctors, soldiers, civil servants and teachers has reached close to £5 trillion, projections suggest.

This leaves every household with a bill of £173,000 to fulfil promises made during decades of generous final salary schemes.

One young people's charity said the "eye watering" figures could no longer be brushed under the carpet, while a former pensions minister said politicians needed to be honest about the true cost of the "most generous pensions in the land".

It comes as contributions from public sector employers and employees continued to fall billions of pounds short of what is already being paid out to retirees, with a £2.4bn bill picked up by the taxpayer this year alone.

Taxpayers forced to foot £2.4bn public sector pensions bill

Year	Pensions in payment	Contributions received	Net cost to taxpayer
2019-20	£40bn	£36.6bn	£3.4bn
2020-21	£40.9bn	£38.9bn	£2bn
2021-22	£42.1bn	£40.7bn	£1.4bn
2022-23	£45bn	£44bn	£1bn
2023-24	£49.6bn	£47.2bn	£2.4bn

Source: PESA

Public sector pensions are "defined benefit" schemes, meaning they pay workers a proportion of their salary for life when they retire.

They also increase annually with inflation and are enjoyed by more than three quarters of public sector employees, compared to just 7pc of private sector workers.

The UK's total bill for these pensions hit £2.6 trillion earlier this year, larger than the size of the economy, according to official figures.

However, when adding factors like inflation and wage growth, economist Neil Record estimates the true figure is £4.9 trillion, leaving a £173,000 bill for each of the UK's 28.4 million households.

Mr Record said the system was "unsustainable and needs urgent reform".

He said: "The Government has for years hidden from view its largest debt – what it owes to public sector pensioners. It will have to pay the enormous sum of around £4.9 trillion over the next 80 years to fulfil all its legally enforceable pension promises even if it closes its pension schemes today.

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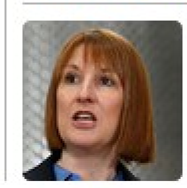
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"This year it is going to pay over £54bn to its own ex-employees, and all of the cost will come from today's and tomorrow's taxpayers because unlike in the private sector, previous contributions were spent instead of being invested to fund future pensions."

Potential taxpayer burden from public pensions
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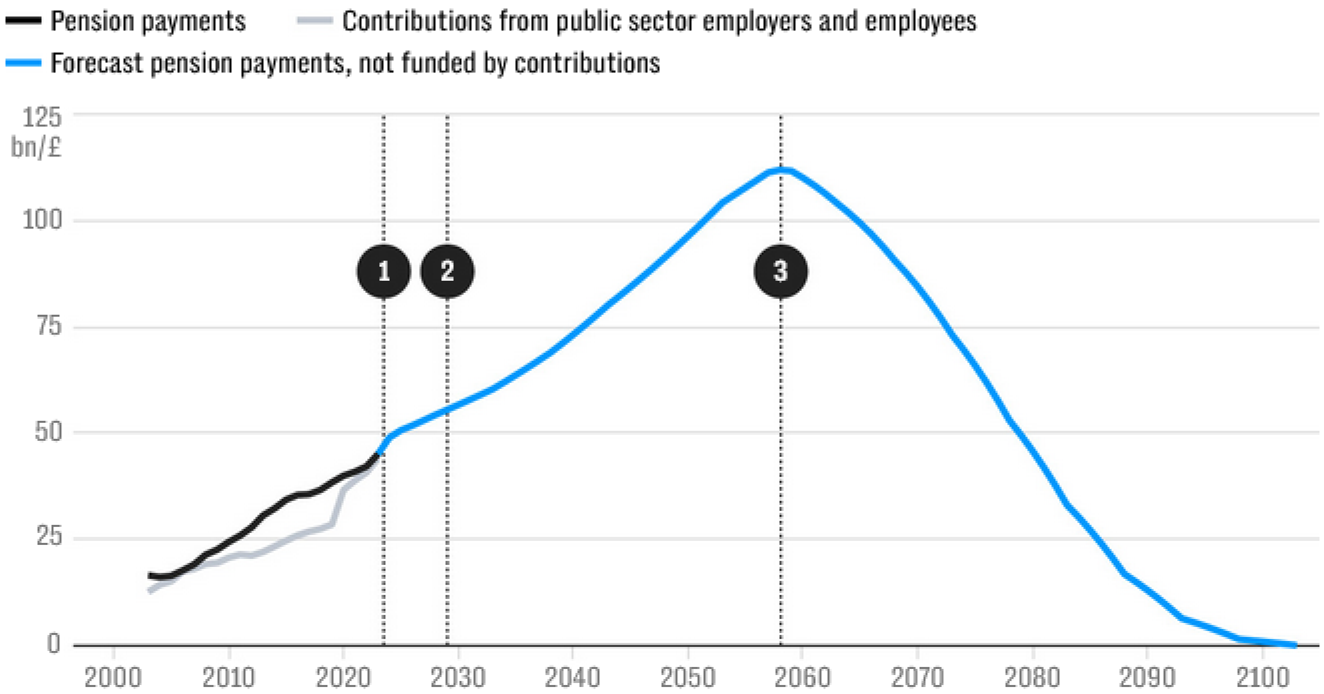

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Former pensions minister Baroness Ros Altmann said public sector workers deserved good pensions, but "it seems not everyone realises how valuable they are or what the true cost is for future taxpayers".

She said: "Their benefits are fully inflation-protected and you may be able to change and reduce the state pension, but you can never reduce accrued public sector pensions promises, by law, so [they] are the safest, most protected and among the most generous pensions in the land.

"Millions of people are getting public sector pensions or building them up, but it's only around 20pc of the workforce typically and all taxpayers will be contributing to these pensions over the coming decades. And one of the problems is that this type of Rolls Royce pension arrangement is no longer available to almost all the private sector."

She added: "The most important thing is transparency. Be honest about what they are costing now and into the future and how much value they are giving to these valuable public sector workers, who are not only getting paid today, but are building up huge sums to help them also be paid in later life."

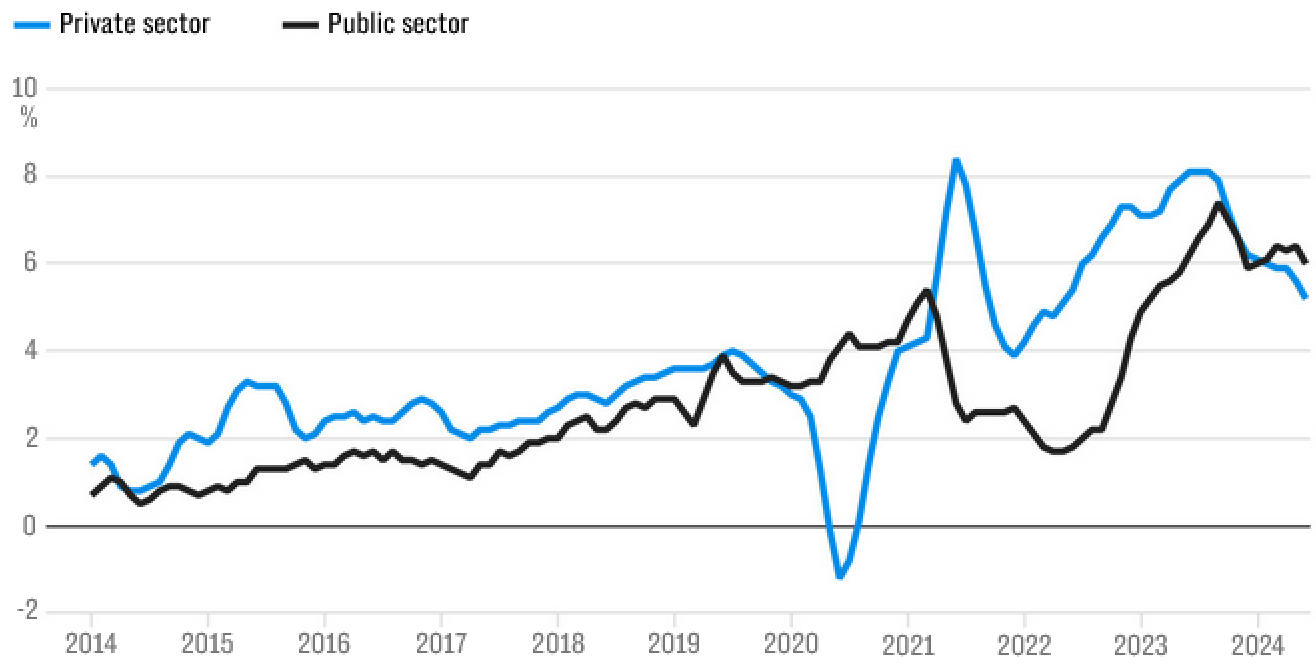
Liz Emerson, of charity Intergenerational Foundation, said: "These eye watering figures can no longer be brushed under the carpet.

"There is a huge intergenerational unfairness at work whereby over-generous pension promises made in the past have ended up being paid for by younger generations of taxpayers today, many of whom will have to work for longer, contribute more and take less when they retire.

"It is simply unfair to saddle future generations with the cost of paying for contribution rates that have been too low, employer contributions that have been too high, as well as the cost of welcome but rapid increases in longevity."

Public sector payday

Average weekly earnings, annual growth



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The bill will continue to swell after a slew of public sector inflation-busting pay rises for public sector workers like prison service workers, police and NHS staff, all of which include pension entitlements.

The amount paid out to public sector retirees has already soared from £40bn in 2018-19 to £49.6bn in 2023-24.

During that time, contributions made by employers and employees did not keep up with the expenditure, leaving a shortfall of over £10bn for taxpayers to fund.

In the 2010s, the shortfall regularly exceeded £9bn and hit a peak of £9.9bn in 2018-19. One of the steps the Government took to bridge the gap was regularly increasing the required levels of contributions, which has sparked fears that some employees and employers will leave their scheme because it's become unaffordable.

This would mean less is received in contributions, leaving the taxpayer to fund an even larger deficit.

United Learning, the UK's biggest schools group, has already started offering staff extra cash to withdraw from the costly Teacher Pension Scheme after the required employer contributions rose five percentage points this year to 28.68pc of salaries. More than half of private schools have already withdrawn.

Nicholas Barr, professor of public economics at the London School of Economics, said that public sector pensions should be monitored, like private schemes are, to make sure they're affordable.

He said: “It’s a mistake to think £4.9 trillion means that the world is coming to an end, but it’s also a mistake to think that because there isn’t much of a problem now, we can forget about it. £4.9 trillion is a huge chunk, but is largely matched by future contributions.

“However, life expectancy has been increasing for 150 years, so you need to ask ‘if we keep the current contribution rates, will that show a deficit if life expectancy keeps increasing?’ The question matters because, though current contributions are feasible because people are prepared to pay them, they’re on the high side, so the scope for further increases is limited.

“If the answer is that there is likely to be a deficit, you have to make adjustments using one or more of three instruments. You could increase contribution rates slightly, reduce the monthly pension, increase the age at which the pension starts, or any combination.”

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