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The £1.7 trillion invisible debt mountain: public sector pensions liabilities

The Coalition judges itself partly on its progress on reducing the annual deficit to stop the total accumulated debt from spiralling out of control. But the official National Debt is not the only liability the Government is storing up for future taxpayers. Unfunded pension promises for public sector employees are not included in the National Debt statistics but their scale is enormous, larger even than the official National Debt. Unlike private sector pension plans, no funds are saved to meet the expected pension payments when they become due. The bill is simply left for future taxpayers to pay.

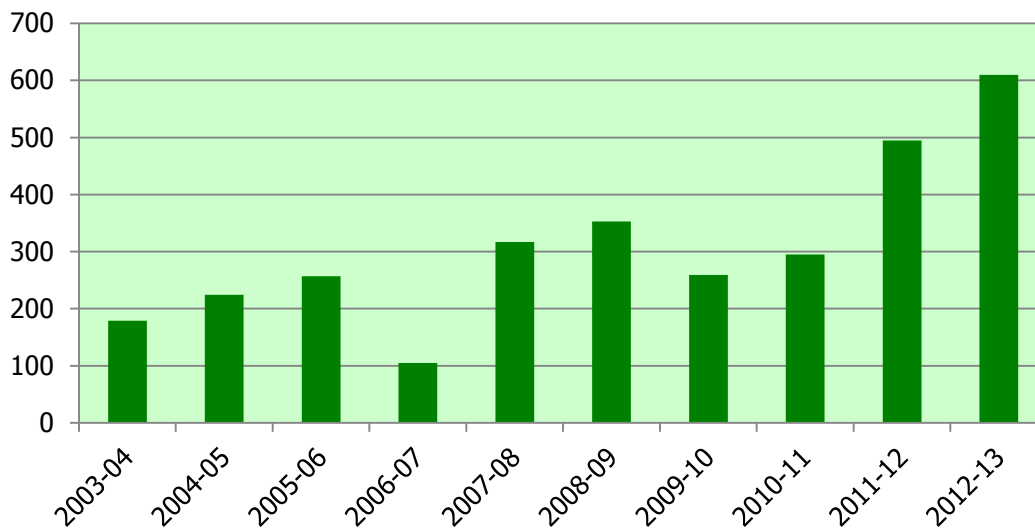
The Government's estimate of the size of this shortfall is also not calculated in the same way as the private sector must calculate their liabilities. Both the Government and the private sector reduce the expected payments in future years by a 'discount rate', to account for the fact that money held now to pay for a commitment in the future should grow. But these discount rates are not the same. Instead of using the market 'discount rates', the Government uses a more generous rate determined by a committee.

Pensions liabilities and finance expert Neil Record has calculated what the liabilities would be if market rates were used instead. His calculations are:

- Unfunded public sector **pension liabilities are £610 billion larger** than the Government admits.

	Official estimate, £ billion	TPA estimates, £ billion	Difference, £ billion
2003-04	460	639	179
2004-05	533	758	225
2005-06	650	907	257
2006-07	810	915	105
2007-08	770	1,087	317
2008-09	735	1,088	353
2009-10	1,016	1,275	259
2010-11	894	1,189	295
2011-12	919	1,414	495
2012-13	1,069	1,679	610

Difference between official and TPA estimates of unfunded pensions liabilities, £ billion



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Sources and methods of calculation

- Official estimates for unfunded public sector pension liabilities relating to the years 2003-04 to 2011-12 are taken from HM Treasury's Whole of Government Accounts.
- The Whole of Government Accounts for 2012-13 have not been published so we estimated what the official estimate will be based on the official estimates for the Civil Service, Teachers', NHS and Armed Forces schemes, which have already been published and together account for three quarters of the total. Last year, these schemes accounted for 76 per cent of the total. We assumed that liabilities in the other schemes have increased in line with the four listed. The liabilities for the Royal Mail Group were then added to this.
- Royal Mail Group pension scheme liabilities were added in 2012-13 to account for the transfer of liabilities to the Treasury in advance of privatisation as they had previously been in the group's scheme which was not run on an unfunded basis, despite carrying a substantial deficit.
- Estimates for pension liabilities were created by modelling the likely demographic composition of the schemes' membership and applying a market discount rate the expected payments. The model was created by applying Office for National Statistics longevity data to the official estimates of the liabilities using the official discount rate.
- The market discount rate used is the 20 year index-linked Gilt yield in 2003-04 to 2009-10. In 2010-11 to 2012-13, the average difference between CPI and RPI was added to the market rate to account for the fact that CPI replaced RPI as the index used to uprate pension payments.

Unfunded public sector pension scheme liabilities

	NHS	Teachers	Civil Service	Armed Forces	Subtotal (four schemes)	Subtotal of four, % of total	Other schemes	Total, excluding Royal Mail	Royal Mail pensions liabilities	Total unfunded pension liabilities
	£ billion	£ billion	£ billion	£ billion	£ billion	%	£ billion	£ billion	£ billion	£ billion
2003-04	104.2	113.0	78.6	63.8	359.6	78	100.4	460	-	460
2004-05	131.3	119.7	84.1	66.5	401.6	75	131.8	533	-	533
2005-06	165.4	143.0	101.3	76.4	486.1	75	163.9	650	-	650
2006-07	218.0	181.3	128.8	100.5	628.6	78	181.4	810	-	810
2007-08	212.5	176.5	119.0	97.2	605.2	79	164.8	770	-	770
2008-09	199.5	168.6	115.7	91.8	575.6	78	159.4	735	-	735
2009-10	287.6	223.9	153.0	120.7	785.2	77	230.4	1,016	-	1,016
2010-11	257.7	192.4	135.9	100.6	686.6	77	207.6	894	-	894
2011-12	247.0	200.7	143.8	105.6	697.1	76	222.2	919	-	919
2012-13	284.2	225.0	160.0	118.0	787.2	76	248.6	1,036	33.4	1,069