

# **Extending comparison of Public versus Private sector pay to include pension contributions**

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# Simple questions, difficult answers

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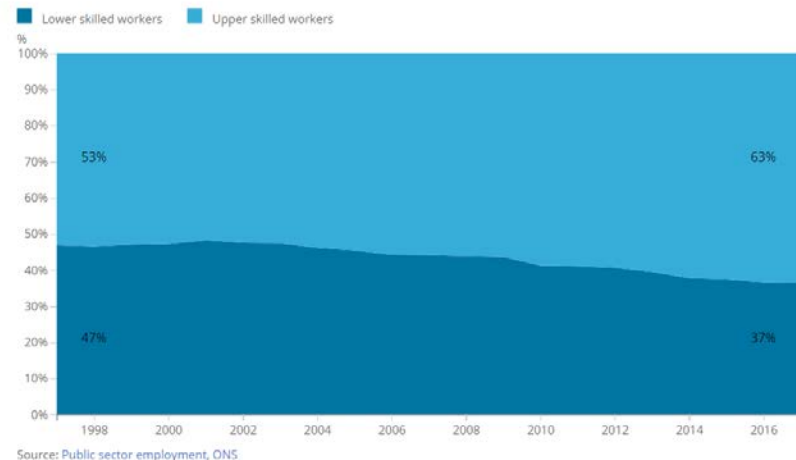
*What are trends in public sector pay?*

*Is pay in the public sector higher than in the private sector?*

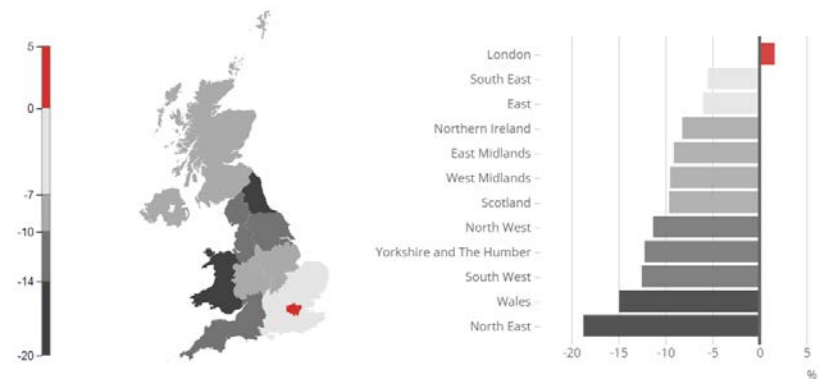
# ONS article November 2017 addressed this in part

- Referenced estimates from historical *Factors Affecting Earnings* analysis, which seeks to strip out the impact of differential worker characteristics
- Additionally, referencing other sources to show detail of worker characteristics

Skill level of public sector service jobs, 1997 to 2017



Change in public sector employment between 2008 and 2017



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But what about wider remuneration, especially (“gold plated”)

pensions?

# The impact of pensions has been considered before

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Levy, Mitchell, Guled, Coleman 2010 – including employer pension contributions, total reward in 2009 for full time public sector employees

➔ £615 per week compared with £479 per week for private sector workers (approx 28% higher)

Cribb and Emmerson 2014 – the public sector pay differential including employer pensions contributions

➔ 16.8% in 2012

# But...

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Neither approach took into account **worker characteristics** by sector

Things have **changed** since then:

Auto-enrolment

Hutton review findings implemented

Decreasing number of defined benefit pensions in the private sector

(flagged by Cribb and Emmerson)

## Plans for 2018

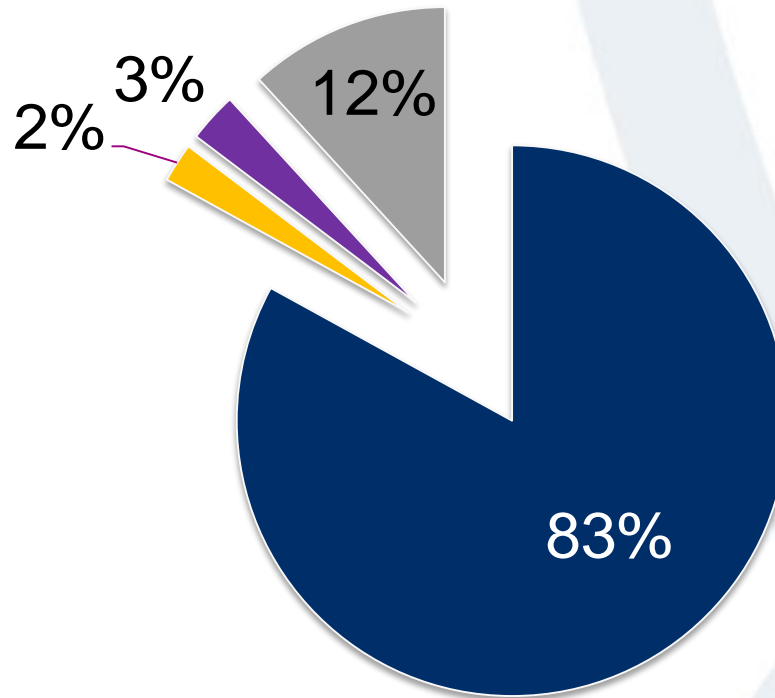
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- Repeat the annual *Factors Affecting Earnings* analysis of public and private pay using ASHE 2017
- Include pension contributions for the first time
  - ✓ Up to date
  - ✓ Take into account worker characteristics and job composition
  - ✓ Include pension contributions
- Publish results based on both the established earnings measure, and the wider measure of labour remuneration
- Target spring 2018 publication

# But pension types differ by sector: Most public sector employees are in a defined benefit workplace pension scheme

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- Defined benefit
- Defined contribution
- Other
- No pension provision

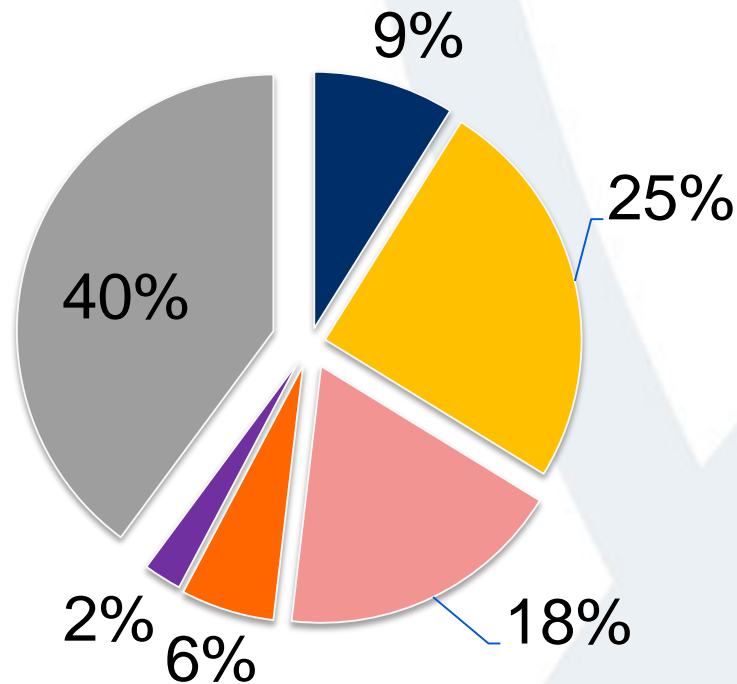


Source: Annual Survey of Hours and Earnings 2016



# Whereas the largest scheme type for the private sector is defined contribution

- Defined benefit
- Defined contribution
- Group personal pension
- Group stakeholder pension
- Other
- No pension provision



Source: Annual Survey of Hours and Earnings 2016

# This contributes to technical challenges

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- Link between contributions and pension entitlement is weak for DB schemes
- Public and private schemes are not subject to the same regulation
- Contributions do not account for the risk of underfunding
- Salary sacrifice may create distortions

# **This work is developmental and should be linked with other information, such as:**

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- In 2012, ONS published Supplementary Table on Pensions, to be updated in 2018
- The table is the most comprehensive and internally consistent source of macroeconomic data on pensions in the UK, but....
  - Some data only available for pension schemes as a whole, hence limited use for microdata analysis
  - contains information on social but not personal pensions

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Your thoughts and comments are welcome!

