

Public sector pensions - a response

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As economists we are opposed to the public sector pension reforms proposed by this government and Lord Hutton.

Public sector pensions are far more efficient than private pensions. The net cost of paying public sector pensions in 2009/10 was a little under £4 billion. The cost of providing tax relief to the one per cent of those earning more than £150,000 is more than twice as much. The total cost of providing tax relief to all higher rate taxpayers, on their private pensions, is more than five times as much.

By changing pension calculations from the RPI measure of inflation to CPI, pensioners (in all sectors) will be made hundreds of pounds worse off, with the loss accumulating as pensioners get older. The vast majority of economists and statisticians recognise that RPI is a more accurate inflation measure.

Taken as a whole these changes are a substantial disincentive to save because they will encourage people, already burdened by student debt, high housing costs, and the need to save when the social security safety net is being withdrawn, to leave public sector pension schemes and abandon provision for their old age altogether. This contradicts Iain Duncan Smith's words earlier this week about rewarding saving. If public sector workers opt out of their schemes because of rising costs, it could leave some schemes in jeopardy.

The government claims these changes will help reduce the deficit, but they will take money out of the pay packets of today's workers and from tomorrow's pensioners, suppressing demand and damaging any prospect of recovery, as well as increasing pensioner poverty.

On public sector pensions, as on so much else, the government has got it wrong.

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