



BRITISH-NORTH AMERICAN COMMITTEE

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UK PUBLIC SECTOR PENSION LIABILITIES NOW 85% OF GDP, HUGELY EXCEEDING THOSE OF US AND CANADA

Valued at £20,000 per person in the UK

Governments in all three countries are understating the true cost of public sector pensions: study calls for transparency as first step in addressing the cost falling on present and future generations of taxpayers

LONDON 29 JUNE 2009 – The Governments of the UK, US and Canada are understating significantly the true cost of their employees' pension costs in terms of both the liabilities already incurred and the annual cost of running their public sector schemes. In the UK, where unfunded schemes predominate, public sector pension liabilities are £1,177 billion, about £20,000 for every person in the UK, equivalent to 85% of GDP, a percentage three times as high as in North America. These findings are in a study *The need for transparency in public sector pensions*, published today by the influential British-North American Committee (BNAC)¹.

In the US and Canada, where the majority of public sector schemes are now funded (i.e. a 'real' fund is being built up to meet all or some of the cost of anticipated future pension liabilities), the position is somewhat better. In the US, whilst the net liabilities of public sector schemes are higher at around £2,700 billion², this equates to 'just' 28% of GDP. In Canada, liabilities are under £250 billion, equating to around 27% of GDP.

¹ See Note for Editors

² Exchange rates throughout and in tables are as at 31 March 2009 - \$/£ = 1.4304 and C\$/£ = 1.7925

The study uses the International Public Sector Accounting Standards Board (IPSAB) Standard IPSAS25, which specifies that market sovereign (or risk-free) rates are the appropriate rates to be used in valuing such pension liabilities. This produces the following figures for total pension liabilities:

	<i>Net Public Pension Liability at market interest rates</i>	
<i>Country</i>	<i>£ Sterling (billion)</i>	<i>% of GDP</i>
UK	£1,177	85%
US	£2,705	28%
Canada	£234	27%

The study found that in all three countries, when reporting to their respective Parliaments and taxpayers, Governments use interest rates in their pension calculations that are higher than their own sovereign market-based interest rates which are required by IPSAS25. This produces the effect of reducing liability calculations below what they would be under a market rate calculation:

<i>Liabilities at Governments' assumed interest rates</i>		
	<i>£ Sterling (billion)</i>	<i>% of GDP</i>
UK	£886	64%
US	£1,459	15%
Canada	£106	12%

In addition to these high liabilities already accrued, the study expresses concern that **in all three countries, Governments are recording the annual cost of the pensions they provide to their employees at less than half the cost if the pension was priced at market rates** in accordance with IPSAS25.

	<i>Current Service Cost of Public Pensions as % of Payroll</i>	
<i>Country</i>	<i>Governments' assumed interest rates</i>	<i>Market interest rates</i>
UK	18%	44%
US	18%	29%
Canada	17%	37%

Commenting, Neil Record, who chaired the BNAC's Working Group that drafted the study, said:

"Governments, when challenged on the huge forward liabilities involved with public sector pensions, are all too keen to respond that these can be 'comfortably met from future income from taxpayers'. The reality, however, is that the true costs of these large financial commitments are being hidden from

present tax-payers and, even more worrying, are destined to pre-determine the use of monies raised from future taxpayers as yet unborn. Inevitably, this will reduce the amounts available for the running of public services in the future.”

The study makes three recommendations:

- Public Pension costs fall on taxpayers and future taxpayers, many as yet unborn. We therefore believe that transparency of costs in public bodies’ reports to taxpayers should be the first aim of Governments in all three countries.
- Pension liabilities which are promised by a public body should be valued (and charged for) at sovereign market interest rates. Any other interest rate is likely to understate the true cost of pensions, and will distort reporting between unfunded and funded pension schemes. This recommendation is in line with IPSAS25.
- Consideration should be given to amortising or monetising net public pension liabilities, so that intergenerational transfers between taxpayers are explicit.

Copies of *The need for transparency in public sector pensions: a comparative study of occupational public sector pension schemes in US, UK and Canada* are available from the BNAC, St Clement’s House, 27-28 Clement’s Lane, London EC4N 7AE (Tel: 020 3207 9432) or from www.bnac.org

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The British-North American Committee:

Launched in 1969, the British-North American Committee (BNAC) is a group of leaders from business, labour, and academia in Canada, the United Kingdom and the United States committed to harmonious, constructive relations among the three countries and their citizens. BNAC is sponsored by three non-profit research organisations – the British-North American Research Association in London, the Atlantic Council in Washington, and The Massey College of the University of Toronto. Alan R. Griffith, formerly of the Bank of New York, Sir Paul Judge, President of the Chartered Institute of Marketing, and Derek Oland, Chairman and CEO of Moosehead Breweries Ltd, are respectively the US, British and Canadian co-chairmen. Professor Thomas H.B. Symons, C.C. is Chairman of the Executive Committee.

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