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Committee of Public Accounts

Public Sector Pensions

Sixth Report of Session 2021–22

Report, together with formal minutes relating to the report

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Summary

HM Treasury focuses on the affordability of public service pensions to the taxpayer. The government's reforms have helped contain the potential increase in future public service pension costs by changing the way benefits are calculated, and by increasing the contributions that employees and employers make towards pensions. While affordability is important, HM Treasury has shown a lack of curiosity about other important issues, such as: the effectiveness of pensions as a means of recruiting and retaining staff; the impact on employers of increasing pension costs; the effect on people working in the public sector; and the potential knock-on impacts on other areas of public expenditure, for example on means-tested benefits. We have seen evidence of public service pensions issues affecting delivery of frontline services, and independent schools opting out of pension schemes because of increasing costs. This lack of curiosity means that HM Treasury doesn't have the data it needs to understand the impact of its reforms, or whether it is achieving its objectives.

The Treasury seems to be unconcerned about the drop in enrolment by some workers. There is a danger of a perfect storm where some young people believe they cannot afford pension contributions because of high costs of living and retire with no equity and a reduced public sector pension as a result. The cost of supporting this generation will fall on future taxpayers. The Treasury needs to take a long-term view and consider what the interface is between generation rent, interest only mortgages, household changes and lower pension take up and consider what impact this could have on the need to provide state support in the future.

We are disappointed that HM Treasury did not act on all the Committee's 2011 recommendations, particularly on providing clear and relevant information to employees. The government has made other mistakes in its reforms. HM Treasury wants members to meet the estimated £17 billion cost of putting right the age discrimination that led to the McCloud judgment, despite it being HM Treasury's mistake. A mistake which could have been avoided by listening to advice and which will take many decades to resolve. HM Treasury has not yet performed an evaluation of its reforms and we are not convinced it is on track to meet its objectives for public service pensions. We have also identified other important issues which HM Treasury needs to address, including how pensions can be made more attractive to support, recruit and retain the staff needed to deliver public services, and the stark differences in the pensions received between different groups of members.

Introduction

Around 25% of pensioners and 16% of the working-age population are members of one of the four largest public service pension schemes (the armed forces, civil service, NHS and teachers' pension schemes). In 2019–20 the four schemes made pension payments of £33.5 billion—funded through around £8.2 billion of employee contributions and around £25.4 billion of taxpayer funding—with scheme members on average receiving around £10,000. HM Treasury has been concerned for some time about the rising cost of public service pensions to the taxpayer and it introduced reforms between 2011 and 2015 aimed at making them more sustainable and affordable. As a result of those reforms, the most recent forecasts show that costs are expected to fall over the long-term from 2.0% of GDP in 2019–20, to around 1.5% of GDP from 2064–65. In December 2018 the Court of Appeal ruled that parts of the reforms were unlawful (the 'McCloud judgment') – as the special protections offered to those closest to retirement were found to be discriminatory on the basis of age.

Conclusions and recommendations

1. **HM Treasury focuses on affordability to the taxpayer, but this is often at the expense of its other objectives.** HM Treasury's policy for public service pensions seeks to balance three important objectives: ensuring a decent income in retirement to public sector workers; ensuring pensions play a key role in good recruitment and retention of high-quality workers; and doing that in a framework that is affordable for the taxpayer. HM Treasury says it does not think there are significant trade-offs to be made, as affordability is necessary for good levels of overall remuneration and retirement income. However, there are clearly signs that in some cases the balance is not correct and that pensions are not working as well as they could for employers and employees. The focus on affordability means that HM Treasury has lost sight of the potential for public service pensions to support employers in recruiting and retaining the staff they need to deliver public services.

   Recommendation: ***HM Treasury should set out explicitly in its Treasury Minute response how it makes trade-offs between its objectives for public service pensions, for example, when evaluating proposals for additional flexibilities in the public service pension system.***

2. **It is becoming clear that public service pension policy is affecting the delivery of frontline services in some areas, such as education and health.** In 2019–20, a substantial increase in employers' pension contributions—which was not fully funded by HM Treasury—has directly impacted on employer budgets. As a result of concerns about these increasing contributions, around 200 independent schools are set to withdraw from the Teachers' Pension Scheme, and we are concerned more may follow. This may put further pressure on the remaining schools, who may not be able to withdraw from the scheme despite others in the sector viewing it as increasingly unaffordable. At least one higher education institution has had to make redundancies in response to the 2019–20 increase in costs. The employer contribution rate is due to be implemented in 2024, where it may change again. Both the SCAPE rate—which is used to help set the employer contribution rate and drove the 2019–20 increase in employer contributions—and its methodology will be reviewed prior to 2024. There is also evidence that pensions can affect staff choices about their work, which impacts frontline services. For example, the interaction between the NHS Pension Scheme rules and the tax system means a large number of doctors have reduced their working hours, opted out of the scheme, or retired early.

   Recommendation: ***HM Treasury should regularly set out the likely impact on employers' budgets of employer contribution rate changes in advance of their implementation. By giving employers plenty of notice and offering wider support, it can help minimising the impact on frontline services. HM Treasury should also consult widely on the SCAPE discount rate and its methodology, well in advance of any changes.***

3. **HM Treasury has not done enough to ensure people understand the value of their pensions.** This Committee previously recommended, in 2011, that HM Treasury should work with employers and pension schemes to ensure that clear and relevant information is provided to employees on the value of their pensions. But limited progress has been made and more needs to be done to improve employees'

understanding. The problem has been exacerbated with further complexities being introduced as a result of government's response to the McCloud judgment. HM Treasury provided us with data that implies that over 238,000 employees have opted out of their pensions, but it does not have a clear understanding of why they do so and whether some groups are more likely to opt out – it is particularly concerning if younger and lower paid employees are more likely to opt out. There are understandable reasons why people may choose to opt out of pension schemes for example, owing to short-term spending priorities, but inadequate pensions are likely to cause issues in the future and push costs into other policy areas, such as if people are more likely to be reliant on the benefits system.

Recommendation: ***HM Treasury should lead from the centre, and seek to understand members' views regarding their pensions, including the reasons why people may opt out of a scheme and whether this has a long-term impact on other parts of public services and expenditure. It should undertake a review into the take-up and retention of public pensions, particularly amongst young professionals, to help understand the issues employers face when trying to demonstrate the value of pensions. Such a review should identify areas where communication is working well and recommend best practice for employers.***

4. **HM Treasury has done little to identify and manage the stark differences in average pensions between genders and other groups.** HM Treasury does not collect and analyse data on how pension outcomes differ across groups of scheme members or across generations. The NAO report identified a 45% gap in the average pension being paid to male and female pensioners. Similar gaps most likely exist in other groups, such as black and minority ethnic scheme members, but the Government Actuary's Department tells us that there is insufficient data which means it is unable to look at this. The different pensions outcomes between male and female pensioners exist because of past differences in pay, and HM Treasury seemed resigned to the pension gap enduring for many decades after the pay gap is closed. However, we are concerned that this will lead to inequalities persisting and could lead to legal challenges in the future. We are also concerned that HM Treasury does not specifically consider whether armed forces pension scheme arrangements are sufficient to support personnel when it becomes time for them to move into civilian life.

Recommendation: ***HM Treasury should be proactive in collecting and analysing data to identify where significant gaps in average pensions exist between different groups. This analysis should inform a wider study on the adequacy of public service pensions, and to understand the impact of differences in pay and working patterns.***

5. **HM Treasury has had to revisit key elements of the reforms, and these issues may take decades to resolve fully.** HM Treasury should have foreseen the age discrimination issue that gave rise to the 2018 McCloud judgment, and putting things right will take many decades to resolve. HM Treasury wants members to pay to put this right—at an estimated cost of £17 billion—despite this being its own mistake. Separately, HM Treasury is concerned that the cost control mechanism—designed to share costs of pensions fairly between employees and employers—is not sufficiently protecting the taxpayer and members. The Government Actuary's Department says

that the cost control mechanism is likely to be triggered very frequently, rather than only as a result of 'extraordinary, unpredictable events' as HM Treasury intended. This undermines the usefulness and stability of the mechanism and will impact employees and employers alike. HM Treasury was advised at the time of the reforms of both the age discrimination problem and that the cost control mechanism could easily be triggered.

Recommendation: ***HM Treasury must prioritise work to quickly resolve the challenges presented by the McCloud judgment and cost control mechanism, in order to give certainty to scheme members and employers, and rebuild the trust lost through these issues. The Department should write to us with an update in six months' time.***

6. **HM Treasury has not yet performed an evaluation of its reforms and we are not convinced it is on track to meet its objectives.** As a part of its 2011–2015 reforms, HM Treasury made a commitment that there would be no more reforms for 25 years. We are just six years into that period and already there are substantial issues that need to be resolved. Both the McCloud judgment and HM Treasury's concerns around the cost control mechanism have highlighted weaknesses in the reforms. COVID-19 and Brexit are likely to impact GDP in the short term, and it is too soon to tell if these events will have a long-term impact on public service pension affordability. HM Treasury has not yet performed an evaluation of its reforms as it is still in the process of implementing them. We are concerned that HM Treasury has still not prioritised an evaluation of its reforms, particularly given the importance of pensions to individual scheme members, their impact on frontline services, and their significant cost to the taxpayer.

Recommendation: ***HM Treasury should perform an interim evaluation of its 2011–2015 reforms to ensure it is on track to meet each of its objectives, taking account of whether pensions are working for employers, employees and other taxpayers. It should write to the Committee with an update of this evaluation by the end of the year.***

1 Public service pension reform

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Treasury and the Government Actuary's Department about public service pensions.[1]

2. Public service pensions play a significant role in the retirement incomes of many pensioners in the UK. Around 25% of pensioners and 16% of the working-age population are members of one of the four of the largest public service pension schemes (the armed forces, civil service, NHS and teachers' pension schemes). In 2019–20 the four schemes made payments of £33.5 billion to 2.8 million pensioners (including lump sum payments), with retired scheme members on average receiving annual pensions of around £10,000. In 2019–20, these payments were funded through around £8.2 billion of employee contributions and £25.4 billion taxpayer funding.[2] Public service pensions are an important part of the overall remuneration package of public service workers, making up for lower average pay compared to equivalent roles in the private sector when employer pension contributions are excluded.[3]

3. HM Treasury has been concerned for some time about the rising cost of public service pensions to the taxpayer and, between 2011 and 2015, it introduced reforms aimed at making them more sustainable and affordable.[4] These reforms included: moving members from pensions based on their final salary to their career average salary; aligning the normal pension age with the State Pension age; changing the inflation measure used to increase pensions annually; and putting in place measures aimed at protecting taxpayers by sharing the risk of cost increases fairly between scheme members and other taxpayers.[5] As a result of those reforms, the most recent forecasts show that costs are expected to fall over the long-term from 2.0% of GDP in 2019–20, to around 1.5% of GDP from 2064–65.[6]

Objectives of the reforms

4. We asked HM Treasury what specific outcomes it was trying to achieve with its reforms to public service pensions. HM Treasury told us that the purpose of the reforms was to create a pensions system that was sustainable and to balance three important objectives:

- ensuring a decent income in retirement to public sector workers;
- ensuring pensions play a key role in good recruitment and retention of high-quality workers; and
- doing that in a framework that is affordable for the taxpayer.[7]

5. When asked how it prioritises between these objectives, HM Treasury told us this was a hugely difficult task. In 2010, the government asked Lord Hutton to undertake a

1 C&AG's Report, *Public service pensions*, Session 2019–21, HC 1242, 19 March 2021
2 C&AG's Report, paras 1, 9, 10, 13, 14, Figure 8
3 Q 18; C&AG's Report, para 3.17
4 Q 1; C&AG's Report, para 3
5 Q 4; C&AG's Report para 6
6 Q 3; C&AG's Report, para 15
7 Q 1; C&AG's Report, para 5

fundamental structural review of public service pensions (the Independent Public Service Pensions Commission, known as 'the Hutton Review'). In 2011, the Commission published its final report, which found that pubic service pension schemes had not responded to some big changes affecting pensions, such as changes in working patterns and scheme members living longer. In the Commission's view, this created an unfair balance of risks between scheme members and taxpayers. The government took many of the conclusions of Lord Hutton's report and used them to inform its 2011–2015 reforms.[8]

6. HM Treasury told us that while there are inherently difficult judgements and trade-offs to make, the most important aspect of the reforms is being able to deliver sustainable and affordable pensions. In HM Treasury's view, without a sustainable and affordable pensions system, employers would not be able to offer the overall remuneration package that drives the recruitment and retention of staff with the right skills for delivering public services, nor would government be able to guarantee a good level of retirement income. HM Treasury therefore did not accept that there were significant trade-offs to be made between its main objectives.[9] We asked HM Treasury what it was doing to make use of pensions to address skills shortages, in particular retaining more people whose skills the public sector has invested in through training. HM Treasury told us that pensions would not be the first option as a flexible lever and that there were other factors it would use to aid recruitment and retention, such as rate of pay, before it turned to pensions. HM Treasury also told us that communication and education are very important in making pensions attractive to individuals.[10] However, HM Treasury does not have a specific policy in relation to education about public service pensions, or about pensions more widely.[11]

The McCloud judgment and the cost control mechanism

7. As a part of the 2011–2015 reforms, HM Treasury offered 'transitional protection' to those closest to retirement. This meant that scheme members within 10 years of their normal retirement age would see no change to their pension age or their expected pension.[12] In 2018, the Court of Appeal ruled that these protections were discriminatory on the basis of age (the 'McCloud judgment').[13]

8. HM Treasury has since been developing a remedy for those affected.[14] In February 2021, HM Treasury announced that it plans to give the 3 million members affected by the McCloud judgment a choice of which scheme they would like their service between April 2015 and March 2022 to count towards. The affected members will make this choice at the time their pension becomes payable, which means putting things right will take decades to resolve fully.[15] HM Treasury estimates the cost of the remedy to be around £17 billion (excluding the cost of the additional administration). HM Treasury told us that it is ultimately members who will pay these costs, and this process will be managed through the cost control mechanism (see below).[16] HM Treasury said it was now working

8 Qq 2, 3; C&AG's Report, para 4, 5
9 Qq 2, 3
10 Qq 19–22
11 HM Treasury (Catherine Little) letter to the Committee, 12 May 2021
12 Qq 64–67; C&AG's Report, para 3.2
13 C&AG's Report, para 16
14 Qq 64, 67–72
15 Qq 67, 83
16 Qq 71, 72

very closely with schemes to understand what the administration of the McCloud remedy is likely to cost, and it will consider how best to support schemes in the next spending review.[17]

9. Separately, HM Treasury has some concerns about the measures it has in place to control rising costs. As a part of its 2011–2015 reforms, government put in place a 'cost control mechanism' designed to share costs fairly between employees and employers.[18] The mechanism is built into the four-yearly pension valuation process, and its purpose is to control costs for taxpayer, to maintain value of pensions for scheme members', and to achieve stability. If certain costs rise, members may see an increase in their contribution rate or a fall in the rate at which their benefits build up. Similarly, if certain costs fall, members may see a reduction in the amount they contribute, or an increase in their future benefits.[19]

10. While the cost control mechanism was only used for the first time in 2016, HM Treasury is concerned that it is not sufficiently protecting the taxpayer and members. The provisional results of the 2016 valuations show that costs had fallen across all schemes, and therefore members could expect an increase in their benefits or a reduction in the amount they contribute.[20] However, HM Treasury paused the implementation of those changes while it formed its response to the McCloud judgment. HM Treasury has asked the Government Actuary's Department (GAD) to review the mechanism to ensure it meets government's objectives. When asked for current reflections from the review, GAD told us that the mechanism is likely to be triggered "very frequently", rather than only as a result of 'extraordinary, unpredictable events' as HM Treasury intended. In his view, this undermines the stability of the mechanism and appears not to be keeping taxpayer costs under control.[21]

11. In both of these cases, the government knew these issues had the potential to arise and could have avoided them. In the case of the McCloud judgement, government was advised that special transitional protection could potentially be in breach of age discrimination legislation.[22] HM Treasury told the Committee that officials produced legal advice on a range of options for transitional arrangements, including discussion of potential risks of challenge under the Equality Act.[23] In 2012, GAD provided HM Treasury with analysis that suggested the cost control mechanism could easily be triggered even in normal circumstances.[24] It is clear from evidence submitted to us that these issues, and government's response to them, has undermined the trust between HM Treasury, employers and other stakeholders. In particular, many have commented on the pause to the cost control mechanism and government's decision that members should shoulder the cost of the McCloud remedy.[25]

17 Qq 67
18 Qq 55, 75; C&AG's Report, para 17
19 Qq 55, 75; C&AG's Report para 3.10
20 Q 75; C&AG's Report, para 17
21 Qq 75–76
22 Qq 64–66; C&AG's Report, para 3.2
23 HM Treasury (Catherine Little) letter to the Committee, 12 May 2021
24 Qq 75–77; C&AG's Report, para 3.13
25 Unison submission page 3; Prospect submission page 4; HCSA submission page 3; BMA submission page 2; UCEA submission page 3

Evaluation of reforms

12. As a part of its 2011–2015 reforms, HM Treasury made a commitment that there would be no more reforms for 25 years. HM Treasury told us there are no intentions for further cross-government reform, but that it is something it continues to monitor.[26] However, we are just six years into the post-reforms period and already there are substantial issues that need to be resolved. Both the McCloud judgment and HM Treasury's concerns around the cost control mechanism have highlighted weaknesses in the sustainability of the reforms over the long term. COVID-19 and Brexit are likely to impact GDP in the short term, and it is too soon to tell if these events will have a long-term impact on public service pensions affordability.[27]

13. HM Treasury told us it has not yet performed an evaluation of its reforms. In its 2011 report on public service pensions, the Committee noted that increasing the amount that employees have to contribute to pension schemes could result in more people opting out of their pensions and having to rely on means-tested benefits, leading to extra costs to the public purse, and that important implications of this kind needed to be evaluated and understood. We asked whether the government has undertaken any such evaluation since the 2011–2015 reforms. HM Treasury told us that it had not done any post-implementation evaluation of those reforms, including evaluation of the impact on individuals and whether they are more or less likely to need to access benefits.[28] We also asked whether HM Treasury had undertaken any evaluation linking pensions and trends in economic outcomes across different generations. HM Treasury told us it would consider this as part of any evaluation undertaken in future.[29]

14. HM Treasury said that its focus remains on implementing the 2011–2015 reforms in full and that its reforms will have an impact over the very long-term. HM Treasury acknowledged there will come a point where it will need to undertake much more detailed evaluation.[30]

26 Qq 61–63; C&AG's Report, para 5

27 Qq 15, 89; C&AG's Report, para 15

28 Committee of Public Accounts, *The impact of the 2007–08 changes to public sector pensions*, HC 833, Thirty-eighth Report of Session 2010–12, May 2011

29 Q 74

30 Qq 37–38, 57, 74

2 Impact on employers and employees

Impact on employers and frontline services

15. Pensions play an important role in the overall remuneration package employers offer to recruit and retain staff. There is evidence that pensions affect how people chose to work which may impact frontline services. For example, the interaction between the NHS Pension Scheme rules and the tax system means a large number of doctors have reduced their working hours, opted out of the scheme, or retired early.[31] A recent survey of 8,000 members by the British Medical Association (BMA)—a trade union for doctors in the United Kingdom—showed that 72% of respondents may choose to retire earlier and 61% would reduce their working hours because of tax rules.[32] Previous BMA surveys have shown that more than half of surgeons in Wales were advised by an accountant or financial adviser to work fewer hours in the NHS. HM Treasury has made some changes to the tax system in order to support senior clinicians, but ultimately doctors need to make an informed choice about their working patterns.[33]

16. Pensions are also a significant cost to public service employers. In 2019–20, employer contributions across the four main public service schemes rose in real terms by £6.4 billion, to £23.3 billion (around 24.3% of total payroll).[34] This substantial increase has directly impacted on employer budgets, putting further pressure on frontline services.[35] HM Treasury told us whenever there are unforeseen costs resulting from pension changes, particularly resulting from changes in the discount rate (a key assumption use to estimate the value of future benefits in today's terms), it has provided additional funding to employers.[36] For example, it recognised the potential impact of the 2019–20 increases to employer contributions and sought to mitigate this by providing £4.7 billion of additional funding at Budget 2019. However, this still means £1.7 billion of the increase was funded from employer budgets. HM Treasury told us there are always budget pressures that departments must manage in the normal course of their work.[37]

17. As a direct result of concerns about these increasing contributions, around 200 independent schools are set to withdraw from the Teachers' Pension Scheme. HM Treasury told us that the Department for Education has worked very closely with the Teachers' Pension Scheme to make sure that current teachers affected by this can stay within their existing pension scheme.[38] However, the withdrawal of these schools may put further pressure on those schools that remain. For example, the Universities and Colleges Employers Association—the employers' association for universities and colleges of higher education in the United Kingdom—wrote to us that at least one higher education institution has had to make redundancies in response to the 2019–20 increase in employers pension costs.[39]

31 Qq 80–82; British Medical Association, written evidence submitted to the Committee, April 2021
32 British Medical Association, written evidence submitted to the Committee, April 2021
33 Qq 80–82
34 C&AG's Report, paras 2.14, 2.15
35 Qq 9–11, 79–80
36 Qq 9–10; C&AG's Report para 2.16
37 Q 10
38 Qq 12–14
39 Universities and Colleges Employers Association, written evidence to the Committee, April 2021

18. The employer contribution rate is next due to be implemented in 2024, where it may change again. Both the SCAPE discount rate—which is a key assumption used to help set the employer contribution rate and drove the 2019–20 increase in employers contributions—and its methodology will be reviewed prior to 2024.[40]

Impact on employees

19. This Committee previously recommended, in 2011, that HM Treasury should work with employers and pension schemes to ensure that clear and relevant information is provided to employees on the value of their pensions, and that this information is regularly updated and its usefulness to staff assessed.[41] Despite this, we have seen little evidence of progress in ensuring that people understand the value of their pensions: HM Treasury told us it recognises that more needs to be done.[42] HM Treasury agreed that part of the problem lies in education, and making sure that people understand how pensions work generally. Recent initiatives may help. For example, the Ministry of Defence has considered introducing more specific information on pay slips about the employee and employer contributions to better communicate their value to the scheme members.[43]

20. Furthermore, government's response to the McCloud judgment has potential to exacerbate the problem. Members affected by the McCloud remedy will be asked to make a complex decision about their pensions, which may include balancing between the level of pension they retire with and when they wish to retire. HM Treasury told us that from 2024 it plans to require all schemes to include additional information as part of their annual benefit statement. This will show the equivalent information for the legacy schemes as well as the reformed schemes so that, throughout the remaining period of an individual's career, they can see how the two schemes change on an annual basis.[44]

21. When asked about what information was available on employees that opt out of public service pension schemes, HM Treasury told us it did not collect this information.[45] HM Treasury told us that individual pension schemes often provided assessments of opt-out rates to public pay review boards, but detailed breakdown were not always available.[46] For example, the Teachers' Pension Schemes only provides an estimate of overall participation. HM Treasury provided us with some data on overall opt-out rates:

- NHS Pension Scheme – 10% of employees opted out of their pension, the equivalent of around 180,000 employees.
- Teachers' Pension Scheme – 7% to 8% of employees opted out of their pension, the equivalent of around 53,000 to 61,000 employees.
- Civil Service Pension Scheme – less than 1% of employees opted out of their pension, the equivalent of around 5,000 employees.[47]

40 Qq 85–88
41 HC Committee of Public Accounts, *The impact of the 2007–08 changes to public service pensions*, Thirty-eighth Report of Session 2010–2012, HC 833, May 2011.
42 Qq 3, 16, 20, 25, 32
43 Q 47
44 Q 83
45 Q 30
46 Qq 42–46
47 Q 43

22. Individual schemes hold information on participation rates for some groups, for example participation in the NHS Pension Scheme is lower among younger employees.[48] However, HM Treasury told us that there are lots of imperfections in the quality of participation data, and that it does not as standard collect detailed opt-out rates..[49] As a result, HM Treasury could not give us a clear answer as to whether overall younger employees and those on lower pay are more likely to opt out of their pensions than other groups, or whether participation rates are increasing or decreasing over time.[50] HM Treasury told us that while anecdotally it was aware of this issue, the data was limited – it was not clear on why people choose to opt out of their pensions or which groups are more likely to.[51] HM Treasury also told us it does not collect any data on what happens to people once they opt out of their pension scheme.[52] There are understandable reasons why people may choose to opt out of pension schemes (for example, short-term spending priorities) but inadequate pensions are likely to cause issues in the future and push costs into other policy areas, for example if people are more likely to be reliant on the benefits system.[53]

Inequalities and differences between groups

23. The National Audit Office found there were stark differences in the average pension received by scheme members, when analysed by gender. Their report identified that the average pensioner is paid £10,000 annually, but there is a 45% gap in the average pension being paid to male and female pensioners. The largest gap the NAO identified was in the NHS Pension Scheme, at 63%.[54] We challenged HM Treasury on whether it was right and fair for there to be such a gap. HM Treasury told us this gap in average pensions is determined by differences in the pay history of these two groups and what we see in the pension data reflects historical inequalities in pay over many decades. HM Treasury said that its response is to try and close the pay gap and it is seeing evidence that it is closing. However, HM Treasury commented that closing the pay gap alone will mean the gap in average pensions will likely persist for many decades, although it did not have a target for closing the gap in average pensions, nor could it commit to a timescale.[55] However, the National Audit Office also identified other factors that affect the gap in average pensions, such as differences in working patterns between gender (for example, female scheme members are more likely to work part-time).[56]

24. HM Treasury told us it does not collect and analyse data on how pension outcomes differ across groups of scheme members or across generations.[57] GAD told us that insufficient data means government is unable to analyse similar gaps that are likely to exist in other groups, such as black and minority ethnic members. However, GAD said it would expect that similar gaps exist in the average pensions of black and minority ethnic members compared to white scheme members, because they are similarly affected by differences in historic earnings.[58] HM Treasury told us that schemes do not typically hold

48 HM Treasury (Catherine Little) letter to the Committee, 12 May 2021
49 Qq 30–31
50 Qq 30–32, HM Treasury (Catherine Little) letter to the Committee, 12 May 2021
51 Qq 20–21, 30–32, 57–60, 74
52 Q 35
53 Qq 21, 36–41, 57, 74
54 C&AG's Report, para 11
55 Qq 5–6, 26–29
56 C&AG's Report, para 11 and Figure 3
57 Qq 57–60
58 Qq 7, 30, 58–60

data on members' protected characteristics (other than gender because this is relevant to longevity assumptions), because of data protection regulations.[59] However, HM Treasury recognised the possibility that there could be other legal challenges in the future.[60]

25. We are also concerned that HM Treasury does not specifically consider whether armed forces pension scheme arrangements are sufficient to support personnel when it becomes time for them to move into civilian life, which can be well before reaching "retirement age" (of 60 in the armed forces pension scheme). HM Treasury recognises that the physical requirements of the role for members of the armed forces differ from those for members of other public service pension schemes.[61] HM Treasury said it considers the Armed Forces Pension Scheme to be very generous, with pensions at retirement fairly reflecting the unique sacrifice they have provided their country throughout their career. HM Treasury told us that the pensions offered are considered as a part of overall remuneration by the Armed Forces Pay Review Board.[62]

59 HM Treasury (Catherine Little) letter to the Committee, 12 May 2021
60 Q 26
61 Q 48
62 Qq 47–51; HM Treasury (Catherine Little) letter to the Committee, 12 May 2021

Formal minutes

Monday 7 June 2021

Virtual meeting

Members present:

Meg Hillier, in the Chair

Mr Gareth Bacon
Shaun Bailey
Dan Carden
Sir Geoffrey Clifton-Brown
Peter Grant
Antony Higginbotham
James Wild

Draft Report (*Public Sector Pensions*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 25 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Sixth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Thursday 10 June at 9:15am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 22 April 2021

Sir Tom Scholar, Permanent Secretary, HM Treasury; **Martin Clarke**, Government Actuary, Government Actuary's Department; **Cat Little**, Director General, Public Spending, HM Treasury Q1–92

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

APP numbers are generated by the evidence processing system and so may not be complete.

1 Universities & Colleges Employers Association (APP0001)

2 British Medical Association (BMA) (APP0002)

3 HCSA (APP0003)

4 Prospect (APP0004)

5 Civil Service Pensioner's Alliance (APP0005)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

Session 2019–21

Number	Title	Reference
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408

Number	Title	Reference
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190

Number	Title	Reference
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941