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We can't go on paying gold-plated pensions

The unions may not like it, but public sector workers must accept that well-paid retirements have gone for ever

Alice Miles

There does seem to be, said Nigel Edwards at a meeting in Westminster yesterday, "a theme of criticism" about public sector pensions emerging.

Who he? Mr Edwards is director of policy for the NHS Confederation, the organisation that represents the interests of pretty much everybody working in the NHS. With the CBI issuing a highly critical report about the "eye-watering" liabilities this week, and the leader of the Conservative Party calling for fundamental reform of the entire system, "a theme of criticism" was one way of putting it.

It was to his credit that Mr Edwards even raised the issue, part of a discussion about belt-tightening in the NHS. Most people in the public sector, and that includes Members of Parliament, have a vested interest in keeping this very, very quiet. For the combination of recession and a public sector vastly swollen under Labour has turned the inequity of the pension system into political tinder.

According to the Centre for Economics and Business Research, public sector employment in Great Britain rose 23.4 per cent between 1998 and 2006, compared with a 3.3 per cent increase outside the public sector. In ten areas of the country, including Cambridge, Stafford, Durham and Hastings, more than four out of ten in the workforce are employed in the public sector. In one area, Castle Morpeth in Northumberland, it is a whopping 57 per cent.

The Post Office cannot prosper until it is set free from a form of control which is fatally inappropriate to a commercial organisation

These are people in jobs for life, five million of them with gold-plated final-salary pensions on retirement at 60. The other 21 million workers, in insecure jobs and working if they are lucky until 65 or 70, will be paying for them. As those retiring live longer, with an average retirement now of 25 years, this adds up, and up, and up. The total liability for public sector pensions - already costing around £20 billion a year - is thought to be a staggering £900 billion and rising, the amount described by the CBI as "truly eye-watering" and which is set to rise even higher.

So afraid is the Government of the figures, which in 2006 put the liability at £650 billion, that it has not even published an estimate for nearly three years now. So here are a few other figures to wrestle with.

First, the CBI thinks the true amount of the liability could now exceed £1 trillion. Given that, using the Government's own figures, it rose from £460 billion to £650 billion in the two years to 2006, that is not as extreme as it sounds. Second, the Pensions Policy Institute has estimated that the annual cost to the taxpayer will increase by 40 per cent over the next 20 years, from 1 per cent to 1.4 per cent of GDP. And third, between one fifth and one quarter of your council tax pays for local government pensions as well.

"Taxpayers who are struggling to build their own personal pension will be lumbered for decades by the cost of covering public sector workers who retire years earlier on risk-free pensions," the CBI deputy director-general, John Cridland, said.

They retire at 60 on two thirds of their final salary. In the private sector, where the value of pension funds is in freefall, only a fifth of final-salary schemes are even open to new employees.

The unions argue that public sector workers have made significant salary sacrifices, but this is untrue. According to figures from the Office for National Statistics, pay is higher in the public than the private sector at all but the highest pay levels. Even where salaries are lower, in the current economic climate, job security more than makes up for it. Sir Gus O'Donnell, the Cabinet Secretary, revealed last week, for instance, that the number of applicants for the Civil Service fast stream has risen by a third, with more than 22,000 applicants for 500 posts.

Yesterday the taxpayers' liability stretched a little farther, as ministers all but confirmed that we will take on the Royal Mail's pension deficit as well, thought to be £7 billion. No doubt unions will threaten to strike over the rest of the plans for the part-privatisation of the Royal Mail.

They should tread carefully. A mean little strike was already planned for this Friday in six areas of the country because the Royal Mail needs to merge some depots and the unions fear job losses. For postal workers to go on strike on the busiest day of the year, disrupting the post during what may be a pretty grim Christmas for many families around the country, and in the same week that ministers, or rather taxpayers, are bailing out their pensions, must be the worst piece of PR since Cherie threw out the Downing Street cat.

The stupid unions who have been partly responsible for bringing the Royal Mail to its knees will not recognise that, of course. They are the great stumbling block when it comes to trying to reform the pensions system. Even a sniff of a threat and they will be out on strike. When Labour tried to raise the retirement age to 65 for everyone three years ago, the unions threatened a huge one-day national strike and Labour pathetically capitulated. Only new public employees will have to work until 65, which will take decades to have any effect.

These are the same unions, of course, that keep the Labour Party afloat, a collision of vested interests that the Government would deride as corrupt in any other nation.

One politician has been brave enough to broach the subject of root-and-branch reform. In a little-remarked-upon speech last month, David Cameron indicated that he was ready to start emptying the trough. Gently does it; Mr Cameron said that his "vision, over time, is to move increasingly towards defined contribution rather than final-salary schemes". The unions immediately threatened that it could lose the Tories the election.

It's a horrible thing to say, but sometimes this doesn't feel much like a democracy at all