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Public sector pension contributions need to rise [1]

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The headline figure that ?public sector workers will have to pay an extra £3,000 a year into their pensions? is completely misleading. Yes, if you are on a salary of £187,000 you do. But nobody earning less than £15,000 a year will pay a penny more. The average rise in contribution is just 3%, but those earning between £15,000 and £21,000 will pay just 0.6% more.

Why are these contribution rises happening at all, though? Well, partly because the government ran out of money and needs to balance its books. And partly because we are all living longer. With longevity rising at two years in every ten, men can now expect to live 17 years past the age of 65, and women 20 years. Great for us, but it delivers two pieces of bad news for public sector pensions. First, public schemes are unfunded. They are basically Ponzi schemes, which pay current pensions out of current contributions. So if more people are living longer and drawing the benefits, the contributions have to go up. And second, most public sector workers don?t retire at 65. They retire at 60. So the problem is even bigger.

And even after these contribution rises, public sector pensions remain the best schemes in the country. Only a tenth of private sector staff enjoy pensions based on their final salary. Very few indeed have their pensions indexed to inflation. And in fact, many public sector pensions are upgraded either in line with inflation or with earnings, whichever is greater. It's worth adding that ONS figures suggest that public sector workers are already 7.8% better paid than private sector workers. And they have better pensions too.

At a time when people in the private sector have been losing not only their pensions but also their jobs and their businesses, there are a lot of people out there who reckon that public sector workers have yet to share the pain. It?s a sad fact of economic life ? brought on by more than a decade of reckless government borrowing and spending ? but public workers need to grit their teeth and bear it. They certainly won?t find a better pension scheme, even with these increased contributions.

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