**A new model is needed for public sector defined benefit pension schemes**

Sir, While media attention has been firmly on Sir Philip Green’s BHS pension deal, what is not getting any widespread commentary (aside from the FT) is how much the defined benefit pensions scheme could cost local government.

The review into the viability of the pension scheme lifeboat must look more broadly at the fiscal threat to individuals and government agencies arising from the UK cultural expectation of defined benefit pensions in public services. The implications could be catastrophic, with the local government deficit likely to be bigger than any of us are currently imagining. Pension collapses are seen as the evil of capitalism; however, Sir Philip’s contribution of £363m appears immaterial to the estimated £47bn deficit accumulated in local government pension schemes. To correct this deficit requires government funds, and this will be further, growing taxpayer-funded bailout.

Defined benefit schemes are mostly closed to new employees in the private sector, but the public sector continues to accept the liability, which is, in effect, people’s pensions. Perhaps the sensitivity to individuals and government agencies is reduced because we are talking about future payments, for some many decades away, but in the end real funds are diverted away from much needed local services and infrastructure. Perhaps we should start translating the annual cost into equivalent of lost local services?

One model to look at is the defined contributions scheme in Australia (my home country) which is absolutely transparent and is set up to provide no long-term liability for the taxpayer. Existing defined benefit pension liabilities were contained and offset by the creation of the Future Fund, a national sovereign wealth fund asset. Individuals, local and national agencies must engage to isolate and ringfence the defined benefit pensions scheme liability before it becomes another dagger in the heart for councils.

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