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## News release

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### Public pensions face major change and cost pressures

Scotland's public sector pensions, which cost £3 billion a year and affect one in five people in the country, face significant cost pressures and major reforms.

An [independent commission](#) chaired by Lord Hutton is currently reviewing public pensions across the UK. Next month it will publish options for major reform which could lead to higher contributions by employees. An Audit Scotland report published today, *The cost of public sector pensions in Scotland*, says the Scottish Government and councils will need to implement changes in Scotland to ensure that pensions are fair and affordable in future.

Today's report looks at the country's six main public pension schemes. These cover about one million people, in both current pensioners and those who have yet to retire. Public bodies pay £2.2 billion and employees £810 million a year towards the costs of providing pensions.

There are significant cost pressures in all the schemes both in the pensions paid out and the money paid in. Because people are living longer, the schemes are paying out more than anticipated. Growth in the public sector workforce has also increased the number of pensioners. The total amount paid out in pensions has risen by 30 per cent in real terms over the past five years.

On average, employees' contributions cover around a quarter of total pension costs and vary between 1.5 per cent and 11 per cent of pay. Public sector employers pay the largest share with contribution rates ranging from 11.5 per cent to almost 25 per cent of pay. The report says that although higher contributions tend to reflect higher benefits in some schemes, there appears to be no clear reason for these variations.

Pensions are earned according to pay and length of service. The average annual pensions (excluding lump sums) range from £4,222 in the civil service scheme to £15,674 in the police scheme.

Auditor General for Scotland Robert Black said: "Pensions are a large and important part of public sector pay - one in five Scottish people have or will get a public sector pension and it costs the Scottish public sector £2.2 billion a year to support the six major public schemes. With major UK-wide pension reforms imminent, the Scottish Government should look at the differences between the country's schemes, and consider how to implement changes that will be both fair and affordable in the long term."

Accounts Commission for Scotland chairman John Baillie said: "The Local Government Pension Scheme provides a very important service to employers and staff across Scottish councils and a range of associated bodies. However over the past five years employers' contributions to the scheme have increased by 25 per cent in real terms to £836 million a year. Scotland's councils should now decide on the extent and pace of further reform to ensure the scheme stays sustainable. This includes considering how to share the increasing costs of pensions most fairly with employees."

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#### Notes to Editors:

1. Around one million people in Scotland participate in the six main schemes, either as employee members or as pensioners and dependents. There are 314,000 current pensioners and dependents, 195,000 past employees who are not yet drawing their pensions and 500,000 current employees who are members of schemes. 'Dependents' are spouses, partners or children of members who may receive some pension after the death of the member.

2. The six main public sector pension schemes in Scotland are: The Local Government Pension Scheme (452,000 pensioners and members); the National Health Service Superannuation Scheme (Scotland) (300,000); the Scottish Teachers' Superannuation Scheme (165,000); Civil Service Pension Scheme (46,000), the Police Pension Scheme (33,000); and the Firefighters' Pension Scheme (11,000).
3. The average pensions in each of the schemes are The Local Government Pension Scheme (£4,754); the National Health Service Superannuation Scheme (Scotland) (£7,057); the Scottish Teachers' Superannuation Scheme (£10,220); Civil Service Pension Scheme (£4,222), the Police Pension Scheme (£15,674); and the Firefighters' Pension Scheme (£13,291). On average a pensioner may opt to exchange up to a quarter of their annual for a higher lump sum. These averages reflect pensions paid after any reduction to pay for any higher lump sum.
4. Today's report does not look at smaller pension schemes such as for judicial pensions, the Scottish Parliament pension scheme or the independent schemes for the Scottish Legal Aid Board and the enterprise agencies. These smaller schemes account for about one per cent of all public sector pensions in Scotland.
5. In June 2010, the UK Government asked former Work and Pensions Secretary John Hutton to chair the new [Independent Public Service Pensions Commission](#). The commission's remit is to conduct a fundamental structural review of public service pension provision and make recommendations in time for the 2011 UK Budget. The commission published an [interim report](#) in October 2010 and will publish a final report this March. Please note that the link to the interim report opens a PDF document.
6. While the UK government is primarily responsible for setting policy in public sector pensions, Scottish ministers have some responsibility for five of the six main schemes in Scotland (all but the civil service scheme). The [Scottish Public Pensions Agency](#) advises the Scottish Government and ministers.
7. All Audit Scotland reports published since 2000 can be found on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)
8. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. Audit Scotland has prepared this report jointly for the Auditor General for Scotland and the Accounts Commission for Scotland:
  - The Auditor General is responsible for securing the audit of the Scottish Government and most other public bodies in Scotland, except local authorities. He investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Government or the Scottish Parliament.
  - The Accounts Commission checks whether local authorities, fire and police boards spend public money properly and effectively. The Commission operates independently.