

Press Release

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Public private pay differential broadly back to pre-crisis levels; pensions remain a big difference between sectors

In the immediate aftermath of the recession the real level of pay in the private sector fell much faster than that in the public sector. Since 2010 public sector pay has been held back such that the gap that opened up during the crisis has been closed. The level of pay in the public sector is now at broadly the same level as it was pre crisis relative to the level in the private sector.

There are significant differences in the patterns of pay between public and private sector, but more important than any of these are the different levels of pension provision. The large majority of public sector workers are members of defined benefit pension schemes. Only about 12% of private sector workers are now members of such schemes. On average across public sector workers this pension was worth about 19% of pay in 2011.

These are some of the conclusions from two new IFS reports, which are published today.

While the public private pay gap is now back at pre-crisis levels forecasts from the Office for Budget Responsibility imply **public sector pay will continue to grow less quickly than private sector pay over the next parliament**. This has the potential to create problems in recruiting and retaining staff of appropriate quality. At the same time the spending plans set out in the Budget imply substantial further cuts in public sector employment.

There are significant differences in the composition of the public and private sector workforces. After accounting for differences in age, region and education, in 2013–14, we find that **for women, public sector pay is on average about 8% higher than in the private sector**. Overall there is **no significant difference between public and private sector pay for men**.

Across different groups of workers and areas of the country the public-private sector pay gap varies considerably:

- Those with low wages and low levels of qualifications do better in the public sector. This difference grew in 2011 and 2012 as public sector workers were partially protected from squeezes on pay;
- Conversely higher earners and those with higher qualifications tend to earn less in the public sector than in the private sector;
- The public sector pay premium is highest in Wales, Northern Ireland and the South West, and close to zero or negative in London and the South East.

We also find some evidence that the size of the public-private sector pay gap has **implications for the ability of the public sector to attract and retain workers with particular qualities**. We find that public sector workers with the highest pay premium over the private sector (low-educated men) also

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have significantly higher levels of early life skills (as measured by their numeracy and literacy at age 10). In other words among those with low levels of education the public sector tends to attract those with higher innate abilities. While it might be the case that low-educated men need higher ability levels in public sector occupations than in the private sector it is not clear why this would be the case for men but not for women.

Focusing on headline pay alone can lead to missing out an important part of remuneration: employer provided pensions. **Without recent reforms, we estimate the value of employer contributions to public sector pensions would have risen from almost 25% of salary in 1997 to almost 35% in 2011**, due to factors such as increased life expectancy and the increasing gap between RPI and CPI measures of inflation. Reforms introduced by the Labour and the coalition government which substantially reduced this, particularly the move to index current and future public service pensions to the CPI, meant average pension accrual in the public sector fell to 19% in 2011.

While most public sector workers are members of a defined benefit pension scheme, the proportion of private sector workers in such a scheme fell from 38% in 1997 to just 12% in 2012. This large difference in coverage of relatively generous schemes is one reason why, averaged across all employees, **incorporating the value of employer provided pensions significantly increases the estimate of the public-private pay differential.**

Controlling for things like education, age and region wages in the public sector were about 7% above those in the private sector in 1997 and about 2% higher in 2007. But once you take account of the value of pensions these differentials rise to 18% and 20% respectively. Between 2007 and 2012, the public sector differential including pensions fell to 17%, compared to an increase in the differential to 5% for pay only.

When considering appropriate levels of public pay, it is important to consider the value of public pensions, in particular because over the last 15 years, **pensions have been the primary driver of changes in the gap in remuneration between the public and private sector.**

Jonathan Cribb, a Research Economist at IFS and an author of both reports, said,

“There is substantial variation in the estimated differential between public and private sector pay for different types of workers and across different parts of the country. This might suggest differentiating pay awards going forward. But the uncomfortable truth is that it is lower paid workers, women and those in poorer regions who do best in the public sector relative to the private sector.

The biggest difference between public and private sectors remains the value of employer contributions to public service pensions. These are on average, much more generous in the public sector than in the private sector. Over the last 15 years, changes in the gap between total remuneration in the public and private sectors has been driven more by the changing value of pensions rather than headline pay. Pay and pensions need to be considered together.”

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Notes to Editors:

1. For embargoed copies of the reports or other queries, please contact:
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