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Press release

Strictly embargoed until 00.01 Tuesday 20 June 2006

Report outlines funding pressures on public sector pension schemes

Audit Scotland has today published a report on the six main public sector pension schemes, which will provide retirement benefits to about 950,000 people. Nearly one in five people living in Scotland has some entitlement to a public sector pension.

The largest pension scheme examined covers local government:

- It is a funded scheme managed by 11 separate administering authorities, with the contributions of employers and employees invested through pension funds to provide the future pension benefits. The assets in these funds were valued at £11.4 billion at 31 March 2005.
- The local authority pension funds have been invested mostly in equities. A new accounting standard, FRS 17, requires that fund assets are valued at their actual market value, whereas actuaries had previously eliminated the effects of peaks and troughs in the stock market by using smoothing techniques. Liabilities under the new accounting standard were about £15 billion at 31 March 2005.

The other five main schemes are unfunded:

- The police and fire pension schemes are paid from the current contributions and the balance is met by employers. The current cost to employers in the fire scheme is up to 31% of the payroll and for police this is up to 21%.
- For the other three unfunded schemes covering the NHS in Scotland, Scottish teachers, and the civil service, employers' contributions range from 12% to 24%.

Robert Black, Auditor General for Scotland said: "The expectation that people will live for longer is increasing the value of pension liabilities. The new accounting rules are also having an effect as the discount rates for valuing liabilities have reduced. However, the ways in which liabilities are calculated are not consistent across all the schemes and this makes it harder to report on the overall situation.

"Audit Scotland calculates that the level of unfunded liabilities in the five main schemes administered in Scotland may be as high as £43 billion. This excludes the main civil service scheme which is administered at the UK level. If the civil service scheme is included the unfunded liability for Scotland may be about £53 billion.

"It is important to remember that pension provision is a long-term exercise. There will be short term gains and reversals and funds are managed with this in mind. Our report provides a snapshot of a situation that changes with the financial markets.

"However, the funding shortfall and unfunded liabilities of public sector pension schemes in Scotland are increasing. The contributions from both employees and employers will almost certainly increase and there are likely to be demands on future public spending to meet these costs."

Ends

Further information from Anne McCubbin tel: 0131 624 9970 or Simon Ebbett tel: 0131 624 9924.

[Notes to editors](#)

1. 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 Executive 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 Executive or the Scottish Parliament.
 - The Accounts Commission for Scotland was set up in 1975 and is independent of both central and local government. The commission checks whether local authorities, fire and police boards spend £9 billion of public money properly and effectively.
2. The full report can be found on Audit Scotland's website – www.audit-scotland.gov.uk