Part. A -

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 7/11/80.
Ends: 1/7/82.

PO -CH /GH/0041

PART A

Chex: G. Howe.

PENSIONS AND THE BUDGET

PART A

c

7/1/80

CHANCELLOR

cc Chief Secretary
Financial Secretary
Sir A Rawlinson
Mr Bailey
Mr Kemp

ELECTION PLEDGES ON PENSION UPRATING AND HEALTH CHARGES

You asked me to investigate what was said. I attach two extracts from the "Daily Notes" we produced during the election, which are a reliable if not comprehensive secondary source; and extracts from relevant press releases.

Pensions

2. The position about uprating in line with prices was set out clearly in the PM's speech of 17th April at A. It was also reasserted by her at a press conference. Unfortunately I have no transcript of her words to hand, but could get them if need be. The reference in pp 132, 3 of Daily Notes at B describes the gist of what she said.

3. The Manifesto commitments were not absolutely affirmative. The existence of price protection was drawn to the reader's attention in the discussion of the tax switch; and there was an explicit commitment to implementing the increases in pensions promised by Mr Callaghan on the eve of the election for 1979.

"Moreover the levels of state pensions and other benefits take price rises into account." (p 14)

"We will honour the increases in retirement pensions which were promised just before the election." (p 27)

Health Charges

4. Labour asserted that we had plans or proposals on the table

to raise prescription charges and introduce charges for visits to GPs and hospital. These assertions were false and were denied. The principal occasions on which this was done were:

- by Angus Maude in Press Releases on 25th and 26th April (C and D), the first of which was quoted by the Daily Mail on 26th April;

- by the Prime Minister at a Press Conference on 18th April as recorded in p 91 of Daily Notes, more or less verbatim (E).

The important point throughout is the denial (truthful) of present plans and intentions as set out initially in p 16 of Labour's Manifesto (F).

5. I believe that the Labour Party's assertions were built up partly on the basis of "private enterprise" correspondence between Nicholas Ridley MP and David Owen (which was not inspired by me or anyone else!); and a chance remark of Patrick Jenkin's quoted out of context.

6. No doubt you will let me know if you want any of these points pursued further.

AR

ADAM RIDLEY
7th January 1980

Conservative Central Office

NEWS SERVICE

Release time: 19.00/TUESDAY, 17th April, 1979. GE 570/79

(A)

The Rt. Hon. Margaret Thatcher
Leader of the Conservative Party

Extract from speech at Gordon School, Lower Higham Road, Gravesend, on Tuesday, 17th April, 1979.

My first Ministerial job in government was at the Ministry of Pensions and National insurance and I want to set out some of the very good things Conservatives have done for pensioners and those on other benefits.

Who was it who provided pensions for the over 80's? The Conservatives.

Who provided pensions for women widowed between the ages of 40 and 50? The Conservatives.

Who provided an attendance allowance for the severely disabled? The Conservatives.

Who provided special benefit for the chronic sick? The Conservatives.

Who introduced an annual increase for pensions and benefits? The Conservatives.

Who introduced the Christmas bonus for pensioners? The Conservatives.

Who introduced the "Family Income Supplement" to help those on low pay? The Conservatives.

Did we do enough? No - No government can ever do enough.

Do we hope to do more? Yes.

A number of misleading stories have been circulating about what we, the incoming Conservative Government, will do. Let me set out the true position in clear and simple terms. This is what we shall do.

1. The level of pensions will of course be increased to take account of price rises. That is to say we pledge to maintain the value of retirement pensions in terms of what they will buy in the shops. The increases announced for November will go ahead.

2. For a long time we have thought that the Earnings Rule for pensioners was unfair. It penalises people who want to help themselves by working. We have therefore decided to abolish the Earnings Rule during the next Parliament.

3. The Christmas Bonus will continue.

4. War Widows' Pensions will be exempt from tax altogether.

5. Those pensioners who have another little pension of their own or some savings and who therefore pay tax will benefit from our Income Tax reductions.

ENDS

between 1973, the last year of Conservative Government, and 1977, which is the latest year for which figures are available. The table below shows expenditure in 1973 and in 1977 in households where the head of the household was aged 65 and over:

	£ per week
1973	£42.73
1977	£41.94

(*Family Expenditure Survey*, all figures at 1977 prices).

"Despite the increase in pensions over this period, it will be seen that expenditure among elderly households was actually less in 1977 than in 1973. In addition, the proportion of expenditure going on food, housing and fuel rose from 54 per cent in 1973 to 56 per cent in 1977.

"The facts are simple. Pensioner households were spending *less* after four years of Labour Government and, within this total, were spending *more* on essentials. *These facts can only mean one thing: falling living standards.*

The Earnings Link. "Labour claims to have linked pensions to the increase in average earnings if they are more favourable than prices. *In practice the earnings link does not exist and cannot be enforced in a Court of Law.* Labour has broken the link in two out of the last three years and is set to break it again.

"In November 1976, the uprating should have been based on earnings increase of 19 per cent, but Labour altered the basis of comparison and provided pensions of only 15 per cent. In 1978 pensions were increased by less than earnings and the 1979 uprating of 12.8 per cent is likely to prove less than the increase in earnings, which are currently running at almost 15 per cent.

"When tackled about the 1978 pensions deficiency, **Mr Ennals** replied cynically: 'There is a statutory obligation to take these figures (i.e. earnings) into account, which was done, but no statutory obligation to get it right' (*Pensioner's Voice*, January 1979).

"Yet this is the same Mr Ennals who is now saying only three months later that: 'It was in 1974 that Labour committed itself to raising the living standards of pensioners by increasing pensions in line with earnings or prices which was more beneficial to pensioners. This was a breakthrough for the pensioners. It became a statutory commitment' " (18th April 1979).

Conservative Policy. Mrs Thatcher has reaffirmed the Conservative commitment to protect pensioners' living standards. At a Press Conference on 23rd April 1979 she said that increases in VAT would be compensated by reductions in the personal rate of tax. Pensioners need have no worry about price rises because of VAT, for if prices went up so would pensions. She said, "We have undertaken that pensions will go up, if prices go up, by the end of the year". This could be done in three possible ways:

1. Making separate extra payments to pensioners.

2. Adding to the uprating of pensions which would take place in November.
3. Adding to the Christmas bonus.

3. FROM THE HORSE'S MOUTH

"A vote for Labour is a vote for a more Socialistic society" (**Mr Foot**, *World at One*, BBC Radio 4, 23rd April 1979).

4. SHIPBUILDING AND AEROSPACE

"We all hope that those firms which are at present being helped by the taxpayer will soon be able to succeed by themselves; but success or failure lies in their own hands" (*The Conservative Manifesto 1979*).

Shipbuilding. Fifty years ago, more than half the world's ships were built in British yards. Now, we are fighting to retain a 3.5 per cent share in a world market suffering from chronic overcapacity. Even if this overcapacity were not so serious, Britain's yards would still be competing against low-cost builders in the newly industrialised countries (such as Korea), against Japan, and against heavily subsidised concerns in the COMECON states.

Labour's Aircraft and Shipbuilding Industries Act 1977 established British Shipbuilders, which employs about 85,000 people in what were thirty companies in shipbuilding and related fields. Ship repairing was excluded from the Act as a result of Conservative pressure. Although intended to provide those working in the industry with a secure future, the Act was soon followed by proposals to encourage voluntary redundancies under the Shipbuilding (Redundancy Payments) Act, passed on 7th February 1978.

The Government's proposals were much criticised by Conservatives for the inadequacy of the information they contained on the scale and cost of the redundancies. Conservative criticisms also centred on the Government's failure to do anything other than insulate the industry from world conditions.

The Polish ships deal of 1976-1977 (see *Campaign Guide Supplement 1978*, page 50) was an example of the Government's preparedness to allow our industry to live in an entirely unreal world of subsidy at the taxpayer's expense—even to the extent of aiding Eastern European shipping lines engaged in ferocious and unfair competition with our own.

Conservatives are committed to seeing British Shipbuilders flourish. Last year's announcement of losses of £106 million in the first nine months since nationalisation underline the magnitude of the task. It is disturbing—but not surprising—to see that since nationalisation, in at least one yard—

April 25th : Statement by Angus Maude

7. "The Tories back a policy which would raise food prices by the equivalent of £90 a year on the average family budget" (Labour Manifesto, page 33).

c

8. "Every Tory candidate has been advised from Central Office to lose no opportunity to clobber the unions at the hustings" (John Grant, Islington, 11th April 1979).

9. "They/[the Conservatives]/seem to be suggesting that the money /[recommended by the Comparability Commission for local authority manual workers, National Health Service auxiliaries, ambulance men and university manual workers]/ will not be paid" (Callaghan, Cinderford, 12th April 1979).

10. "They/[the Conservatives]/would have to double VAT on clothing and shoes, essential kitchen goods like saucepans and cookers, furniture, cars and so on" (Callaghan, Wandsworth, 23rd April 1979).

11. /[Tory policies would increase]/ the price of butter by 12p a pound ... of cheese by 11p a pound ... of sugar by 3p a pound ... of bacon by 4p a pound ... of bread by 1½p a loaf ... of beef by 7p a pound" (ibid.)

12. /[There are]/ Tory proposals for higher prescription charges and charges for seeing a doctor or being in hospital" (Labour Manifesto, page 16).

Each of these statements is a flat lie. We will continue to monitor and to publish what seems likely to be a ceaseless flow

END

Conservative Central Office

NEWS SERVICE

Release time: IMMEDIATE/THURSDAY, 26th April, 1979. GE 717/79

D

Statement by Mr. Angus Maude, Deputy Chairman of the Conservative Party and Conservative Party Candidate for Stratford-on-Avon.

"LABOUR'S LATEST LIES"

Yesterday, I drew public attention to twelve outright lies about Conservative policies told by Labour Ministers so far during this campaign.

I have now had drawn to my attention a Labour Party leaflet which is circulating in the North West. This leaflet repeats some of the lies and adds certain others - it reads in part: "What the Tories have planned for you......

- Scrapping of the temporary employment measures and abolishing subsidies to industry
- Abolishing concessionary travel for pensioners and the disabled.
- Increasing prescription charges by 300 per cent.
- Imposing a charge for a visit to a doctor and a stay in hospital.
- Reducing pensions and social security payments.
- Means-testing the pensioners Christmas Bonus."

Each one of these statements is a direct lie. Anyone who has listened to Conservative Spokesmen discussing Conservative policies during this election campaign would know that.

The Labour Party are too ashamed to fight on their record and too cowardly to fight on their programme for the future, and so scared of all the evidence that the Conservatives are going to win a thumping victory on May 3rd, that they are resorting to a cruel and mendacious campaign to frighten some of the most vulnerable in our society, the elderly and the sick. I do not believe these lies will help Labour in this election. We intend to see that the public are kept informed as to these shameful tactics.

ENDS.

(E)

9. LABOUR LIE ON HEALTH CHARGES REFUTED

Labour have alleged that Conservatives propose to increase prescription charges and to introduce charges for doctors' visits and stays in hospital.

Mrs Thatcher has said:

> "I doubt very much whether any responsible Government could say that over a period of five years, regardless of what happened to the value of money, they would not put up prescription charges. . . . But we have no intention to raise these charges. . . . We have no intention whatsoever of the kind attributed to us" (Press Conference, 18th April 1979).

And **Sir Keith Joseph** added:

> "All the exemptions will remain, and the exemptions cover the elderly, children, the disabled, the chronically sick, and certain other groups. They will remain" (ibid.).

It will be interesting to see whether the Labour Party also tries to spread false rumours about these exemptions.

10. HOW CONSERVATIVES WILL HELP STUDENTS

Students have been among those worst affected by the poor economic record and incompetence of the Labour Government. Students on mandatory grants have seen their value eroded by fierce inflation, with parents ever more hard-pressed to pay their contribution. Those eligible for discretionary grants have seen reductions in both the number and value of awards available. Labour's 1974 Rent Act has made private rented accommodation hard to find for all single people. And, as a result of Labour's short-sighted policies for dealing with youth unemployment, the whole area of further education and training is now riddled with anomalies.

Policy guidelines. A new Conservative government will restore confidence in post-school education. The universities will benefit from an era of consolidation rather than expansion. Polytechnics will be encouraged to concentrate on their role as vocational centres of excellence and to pay special attention to technician courses. We shall stimulate the development of part-time and sandwich study so that more people can "earn while they learn". For the 16 to 19 age group we shall review the relationship between school, further education and training, to see how better use can be made of existing resources. Finally, we shall aim to make post-school provision more flexible. As Mr Mark Carlisle, Opposion spokesman on Education, has said:

> "Providing a stepladder from one stage of education to another, and opportunities for adults to re-enter education in later stages of life, must be major tasks in the years ahead" (Liverpool, 1st April 1979).

Students Grants. We shall carry out a thorough examination of student

F

A HEALTHIER NATION

The nation's health must have priority. We reject Tory plans to create two health services: one for the rich, financed by private insurance with a second-class service for the rest of us. Labour reaffirms its belief in a comprehensive National Health Service for all our people. We oppose Tory proposals for higher prescription charges and charges for seeing a doctor or being in hospital. Our aim is to abolish all charges in the NHS.

For all the talk of cuts, the truth is that the Labour Government is spending over £600m a year more on health in real terms than the Tories. Labour will devote a higher proportion of the nation's wealth to the health service, and the personal social services.

Labour's health priorities include a renewed shift from hospital treatment to care in the community through family doctors and health centres with supporting social services; a comprehensive family planning service within the NHS; more emphasis on the prevention of illness and handicap; a fairer share of health funds across the country; more help for the frail elderly, the mentally ill and handicapped; better training and opportunities for nurses and all workers in the health services; a new career structure for hospital doctors; and a greater recognition and reward to those consultants whose only professional commitment is to the NHS.

We will streamline the bureaucratic and costly structure the Tories created and give a bigger say in running the NHS to the public and staff.

We are phasing-out the remaining private beds in NHS hospitals. We shall stop queue-jumping.

EDUCATION

The Labour Party believes in equality of opportunity. Universal comprehensive education, which is central to our

PA

10 DOWNING STREET

As requested by your office over the telephone today.

I have put a note on the file about the Lord Nelson letter. You should get a copy within the next couple of days - if not, ring the Duty Clerk again!

Vanessa Burgess
Garden Rooms

21/1

R 11

01-283 4343

CAYZER HOUSE,
2 & 4, ST MARY AXE,
LONDON, EC3A 8BP

From The Chairman
Sir Nicholas Cayzer, Bt.

10th January, 1980.

Dear Prime Minister

At this time all of us in industry are faced with the problem of inflation and pensions. I think we do the very best we can for our pensioners and are very conscious of the eroding effect that inflation is having on them, but we are just not capable of indexing them because we have to be realists and nobody will support us if our business becomes insolvent. I am sorry to trouble you about this problem, but I don't expect that I am the only one, and it is a very important point because it does divide the nation and is manifestly unfair.

I am attaching a copy of a letter that the Secretary of my Company's Pension Fund wrote to the Secretary of State for Social Services and also the reply which was received, which to my mind is totally and absolutely inadequate - particularly the third paragraph, which is pure fluff. I know that you have this question of indexed pensions in mind, and that the taxpayer should not have to subsidise certain sections of the community, but it will mean a hard decision and indexing if it cannot be withdrawn should be proscribed to a relatively low figure.

/ It saddens

01-283 0

CAYZER HOUSE,
2 & 4, ST MARY AXE,
LONDON, EC3A 8BP

From The Chairman
Sir Nicholas Cayzer, Bt.

It saddens me that this foolish move was made by a Conservative Government in Mr. Heath's time, and I never can understand why politicians don't count the cost before they take action. In business we understand the downside risk and, if we fail, we and our shareholders pay for it, not the taxpayer.

I thought you made a splendid appearance with Brian Waldren last Sunday, and I was greatly encouraged. Realism and courage are clearly your motto, and they are the only hope for this country. I am quite astonished by the attitude and manner of Trade Union leaders, particularly in regard to the steel strike which, in due course, will be followed by shipbuilding. How can people expect to be paid more than they earn? It is going to take time and courage by the Government to allow this message to get home.

Yours Sincerely,
Nicholas Cayzer.

The Rt. Hon. Mrs. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, S.W. 1.

PS 501

Department of Health and Social Security
State House High Holborn London WC1R 4SX

Telegrams Telephone 01-242 9020 ext 1469.

A H Mitchell Esq
Secretary
The Union-Castle Line Superannuation Scheme
Cayzer House
2 and 4 St Mary Axe
London EC3A 8BP

Your reference AHM/F707/AOP
Our reference PRE 256
Date 27 December 1979

Dear Mr Mitchell

Thank you for your letter of 29 November to the Secretary of State for Social Services. I have been asked to reply.

May I say first of all that the Government is well aware of the dissatisfaction which must be felt by persons whose pensions or future pensions are not protected or at any rate adequately protected against inflation.

However, I must explain that occupational pension schemes are set up voluntarily by employers and the determination of the levels of benefits and the rates of contribution, including any arrangements for inflation-proofing of pensions, rests basically with the employer. Although the provision of occupational pensions is, like other conditions of service, a matter which is open for negotiation between employers and employees or their representatives.

Your comments on inflation-proofing arrangements for civil and public service employees have been noted and a copy of the correspondence passed for information to the Civil Service Department, Old Admiralty Building, Whitehall, SW1A 2AZ.

Yours sincerely

P Constantine

MISS P CONSTANTINE

AHM/F707/aop

29th November, 1979.

The Secretary of State for Social Services,
House of Commons,
LONDON, SW1A 0AA.

Dear Secretary of State,

I write to advise you that at the Annual Meeting of Members of this Scheme, held recently, the following resolution was passed:

"That relevant extracts from the Chairman's speech be sent to the Secretary of State for Social Services together with a note of the concern expressed by the Meeting at index-linking of Government and Local Government pensions at the expense of private industry pension levels."

Extract from Mr. H.W. Webster's Speech:

"Investment performance inevitably leads one to the topic of inflation. In order to combat the erosion of the spending power of members' pensions it is necessary to achieve the best possible return on investments. Pensioners don't need me to tell them that their living standards are well nigh impossible to maintain. Politicians, public figures and newspapers are forever showering us with figures on the subject. Government and Local Government pensioners can look at the problem in a fairly detached manner as their own pensions are index-linked and are restored in value each year according to the rise in prices. This situation is very gratifying for that particular group of people, and they are an ever-increasing group, but unfortunately the rest of the retired population can only look on with envy at such an elite body, look on with a certain grim resignation knowing that the elite group's inflation-proof pensions are bought at the expense of the less fortunate. The private companies for whom they may have worked all their lives are forced into paying taxes to support the select outsiders thus reducing the chances of the Company's own employees being given increases of sufficient value to meet spiralling costs. . ."

I think I write for the majority of members of this Scheme and possibly the majority of schemes in the private sector when I state that the country is in danger of permanently splitting its pensioners into two distinct groups. The first group consists of those in receipt of inflation-proofed pensions from the Government and the second those in

Contd/....

The Secretary of State for Social Services

29th November, 1979.

private industry pension schemes who are unable to enjoy such protection. Unless the Government takes some legislative action the gulf between the two groups is going to continue to increase. The demands on the resources of private industry to meet an ever-increasing pensions bill for former Government employees can only be met by economies in its own sphere.

The Government must be well aware of this worsening situation and I cannot think that it will stand by whilst a divided pensioner society is brought about. I would like to think that consideration is being given to solving the problem and should be grateful to have a reply expressing your assessment of the situation and the likelihood of any action being taken by the Government.

Yours faithfully,
for THE UNION-CASTLE LINE SUPERANNUATION SCHEME

A.H. Mitchell
Secretary

c.c. The National Association of Pension Funds.

Telephone Heathfield (04352) 3551

Little Bodles
Newick Lane
Heathfield Sussex

PA

Registry:
Miss Sinclair sent up a submission on Friday about this which I have not yet received. These are relevant.
RIT
29/1

DP/PMR

17th January, 1980

Miss Sinclair —
Would you please prepare something for the C fairly rapidly, – to avoid any more like this.
RIT
23/1

M. A. Hall, Esq.,
Private Secretary to
The Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London, SW1P 3AG

Dear Mr. Hall,

THE PETRI PRINCIPLE

I sincerely hope that by now you have got back the Chancellor's copy of the above from the Department of the Environment to which you wrongly sent it and I ask that you ensure that the Chancellor brings himself abreast with the details so that he is in a position to answer questions and give his opinion upon it.

I need hardly tell you that this matter is of the greatest importance.

Yours sincerely,

David Petri

David Petri

(To)

RECEIVED IN
-8 JAN 1980
PRIVATE OFFICE

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4th January 1980

Dear Mr Petri

I write to acknowledge your recent letter which the Chancellor of the Exchequer has asked me to bring to the attention of the Department of the Environment.

Yours sincerely,

M A Hall

(M.A. HALL)
Private Secretary

D. Petri Esq.

Miss Stevens
Pl. have a shot at drafting a reply
This appears to be a version of the loan guarantee (or possibly equity guarantee) scheme. Mr. MacAuslan's draft to MR LOVERIDGE should provide a quarry.

[illegible] 11/1

4033

Rt. Hon. Sir Richard Howe, M.P.,
House of Commons,
London, SW1A OAA

CH/EXCHEQUER
REC. 11 JAN 1980
ACTION Miss Sinclair
COPIES TO

Dear Sir Richard,

THE PETRI PRINCIPLE

The enclosed copy letter to Peter Pratt is to advise you of a course of action that I am putting forward to the Government, the C.B.I. and the British People.

My reference to you is, of course, my previous role of liaison between the Silent Majority of this country and the Prime Minister when she was Shadow for the Environment (to Edward Heath), whereby the £300 million Rates Rebate was extracted from the Wilson Administration in 1974 for a Nation sorely pressed at that time.

This copy letter covers the most embryonic stage of my programme and is sent to you because, I believe, you will both understand and underwrite such a project with your own efforts.

Please talk about this in the right quarters and equally, please confirm to me if you are in agreement with the BASIC principle.

Yours sincerely,

David Petri

David Petri

√4/1

Ack - TRANS

Enc.

CH/EXCHEQUER
REC. -4 JAN 1980
ACTION PS/Dccw
COPIES TO

Dear Peter,

THE PETRI PRINCIPLE

Four years ago while still building the business, I got very involved with Local Government financing at Westminster and - to put it in brief - negotiated with Heath and Thatcher (then Shadow for the Environment) an Opposition majority in the House achieving a Rate Rebate of £300 million from the Wilson administration in the teeth of the obvious Labour opposition.

This, 1974, activity of mine involved a very great deal of Radio and T.V. interview and reporting work, as well as many meetings with Heath, who I found extremely genuine and helpful and Margaret Thatcher, who was "difficult" but highly effective once convinced of a policy.

This particular political activity of mine drew to a close when I had achieved the object of the Rate Rebate, that was at that time so vitally important to the British people, and with the Conservative Party in Opposition - and my contacts for that reason not very powerful - I withdrew from the scene.

This all paints the scene for a thought that I have which I would like to put to you - not as my accountant as such - but as a man of financial affairs with, I calculate, a high degree of entrepreneurship.

I suppose the background of my suggestion stems from as long ago as 1949 when I worked in Tube Investments. They had just taken over, a year earlier, Sir Edmund Crane's 25,000 employee Hercules Cycle Company for £5 million, which he had started in a shed in Catherine Street in Birmingham 29 years before. I worked in Hercules.

Tubes succeeded in a few short years in ruining all that I believed was best in the company until Hercules was no more. It went into the maw that was Raleigh Industries, which T.I. had always intended it should

I tell you this first because from it stems my firm belief that a great deal of what is commercially small and growing can be beautiful and much - if not all - of what is commercially big is ugly.

This is important to my way of thinking.

What I have to say is purely a PRINCIPLE and the details and figures provided by me are not the result of calculated reasoning - nor are they for ridicule ! They are merely to paint a picture.

The first figures are facts.

1979 - 43% of the population of the U.K. with savings invested have money in Building Societies. 7% of the same population invest in business and industry. (Statement by Edward du Cann in the House of Commons.)

This is the point where some Smart Alec - on the Opposition benches - leaps to his feet and points out that money invested in Pension Funds, etc. etc. finds its way behind industry. To this both Edward du Cann and myself would reply that about as many people in the country think in terms of their Pension Contributions backing industry as there are Labour Parliamentary Party Members on the N.E.C.

Scene I

In 1980 broad terms, commerce and industry are quite incapable of maintaining, let alone re-equipping and modernising, plant and machinery at current costs from the finance available.

This is partly why production stands around a true 98 today compared to 100 in 1975.

Almost nothing short of a war which Britain loses only to have her industry subsequently destroyed by a Control Commission (viz Germany 1945-47) and then have it completely re-financed by a Marshall Aid Plan (viz Germany 1947 onwards) would solve the problem.

Scene II

"Big" business has no more than the strength to slow down the economic decline of Britain. It offers no chance of creating any real economic recovery. It is suggested that even with "enormous" potentials such as British coastal oil/gas, etc., truly progressive economy cannot be achieved or maintained on our existing economic platform.

Scene III

Government have two definitions for company size:-

(i) Big companies with "over 200 employees"
(ii) Small companies with "up to 200 employees".

This will not suffice.

I would suggest three definitions - at the very least:-

Group I - Big companies with over £4 million turnover

Group II - Medium companies with £1 million - £4 million turnover

Group III - Small companies with under £1 million turnover.

Two points must be clear:-

(a) It is Group III that is in the vast majority, numerically speaking, in the U.K.

(b) It is much easier to double the turnover (and profit) of a Group III company than a Group I or II company. (Indeed the latter is, in 99.9% cases, impossible, impracticable, inadvisable and dangerous.)

Scene IV

I ask you to give your mind to the idea of vastly increasing - doubling if you like - the sales, profit and general activity of the COMMERCIALLY SOUND companies in Group III.

Scene V

To achieve the picture of Scene IV, where the activity, covering both trading and employing capacity, is to be considerably increased in selected small companies, a pre-requisite is sufficient finance availability - at least to achieve the target in a limited period.

Such finance is not the ONLY requirement by any means, but it is the basic and unavoidable one. It needs to be available without the strings of "unreasonable direction" or over heavy cost.

Scene VI

Among reasonably successful small companies there is inherently the capability of achieving what is mapped out in Scene IV. Small companies are consistently thinking, not only in terms of survival, but also in terms of growth and development of every section of the business.

Such thoughts practically never cross the minds of the Boards, Staff or Workers of the Medium sized companies - let alone the Big ones.

In other words, Group III is pre-inclined to bringing about expansion - massive expansion - though it be split into many small units rather than being centrally orientated in a massive "one piece" machine.

There are plenty of "I.C.I.'s" and "British Leylands" and "Marks & Spencers" in this country but they are diversified into fractional sections and are all the more capable of profitable expansion for that very reason.

Scene VII

Think upon how the expertise of small company direction can be financially assisted to achieve expansion targets - not to build them up into Big companies where the Management of the sprat would be completely out of depth - but into "larger small" companies where the return to the Nation, the company's employees, the linked businesses and the company itself would be more than worthwhile.

Scene VIII

For the sake of picture painting, let's take one lot of 5,000 small (Group III) companies with £400,000 turnover each - or total sales of £2,000,000,000 (2 billion pounds). Let's say that they are employing 25 people each on average, or 125,000 workers. Let's also assume that the issued accounts of these companies show a "fair" financial picture.

We have a quite possible scenario for just one section of the British Isles today.

Scene IX

We have seen that no more than 7% of the investing public of the U.K. have their money behind Commerce and Industry. There is wide scope for improvement here - though, of course, the return must be both sufficient and secure to attract investment.

My thoughts go as follows:-

(i) A Government Board - (yes, a Quango - but a truly effective one) - should issue shares or bonds or stock for public purchase and underwrite that stock.

(ii) The finance so raised to be invested in, for example, our 5,000 small Group III companies outlined in Scene VIII.

(iii) Our approved company should be able to borrow from the Government Board up to one year's profit before tax at any time.

(iv) The cost to the company to be 10% at present M.L.R. levels.

(v) Government should contribute 4% (at present M.L.R. levels) to the 10% company payment and pay to the shareholders 14% tax paid.

(vi) Assuming company profits running at 8% then on sales of £2 billion (see Scene VIII) the public's (and thus the Board's) investment could be £160 million.

(vii) The interest paid by the companies would be £16 million and the Government 4% contribution would be £6½ million - an incredibly small contribution that would be immediately more than offset by the savings on unemployment benefit alone resulting from increased worker employment.

(viii) Thus an average company from this Group could raise up to £32,000 at 10% to expand their business IN THE WAY THEY SAW FIT.

An essential part of this project is that there should be the minimal interference from outside the companies chosen. Minimal, in this instant, particularly applies to GOVERNMENT who have, of course, no idea how to run small effective business and the over involvement from which would be disastrous to the whole scheme.

At the same time, entrepreneurs are not always experienced in carrying their business to the next stage and it is suggested that a small number of the chosen companies will require guidance and advice of the right type from time to time.

I suggest that the Nation and the Government should have FAITH in these small businesses and that while some will "let the side down" without doubt, the vast majority will more than cover the failings of the few.

(ix) Part of the expansion of this Group will undoubtedly be in the field of overseas sales and added employment and such activity should be understood by the companies to be the kind of development that the Nation expects of them.

(x) Without doubt more than just a financial operation must be built into this scheme.

A whole new SPIRIT of venture and adventure must be sold to the Nation, to the Government and to the companies. In fact, of course, the section which will require least "selling" will be the companies themselves.

I THINK THAT (x) IS POSSIBLY MORE IMPORTANT IN WHAT I AM ENDEAVOURING TO ACHIEVE THAN THE PRECEEDING NINE POINTS.

You, Peter, do not have to find holes in this scheme of things. It is, I am aware, like a colander and you only have to take a knitting needle and plunge it roughly in the right direction to strike air. No project of this type can be proposed at the initial stage without it being full of fault.

I am aware, for example, of the commercial hazards from such as the Building Societies and other money groups who might find the raising of their own funds slightly restricted. My answer to this is, of course, that we have got to get our priorities right and I believe that this Government was returned to do just that. (This is NOT to say that I think they are so doing but merely that that was what they were returned to do.)

I think the British public are well aware of the small endeavours they make towards improving the economic situation of this country and that their efforts are mainly in the wrong directions - not by choice but by lack of opportunity.

Apart from the straight-forward commercial hazards already mentioned, I know that the Conservative Party believes itself financially beholden and under unsigned contract to Big business and that certain members are under the false impression that they dare not risk offending it or their funds might cease to flow. I myself believe that they are really far more dependent upon Small business and that if they handle this project of mine correctly, both their funds and their votes could flow considerably faster.

I intend seeing this project through to a successful conclusion because I believe that it is vitally necessary to the country at this time.

I understand that Downing Street have been asking the C.B.I. for more dynamic ideas in the way of commercial and industrial expansion and from my talks with the C.B.I., it would seem that this project is exactly what they, and 10 Downing Street, are looking for.

By means of "selling" in the right way and in the right quarter, one can get attention paid to ideas PARTICULARLY if one has achieved success in this kind of direction previously. The Rates Rebate of £300 million stimulated by an outsider was sufficiently novel to have earned me at least a hearing in the right ears.

Now I would value your view of the PRINCIPLE - as well as any comments you may have.

With kindest regards,

Yours sincerely,

David Petri

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

24 January, 1980

Dear Jim

I thank you, belatedly I fear, for your letter of 13th December, enclosing one from your constituent, Mr. R. Morgan.

Mr. Morgan is quite right to remind me of the Radio 4 broadcast on 22nd April. Indeed, I remember my conversation with him perfectly clearly.

I have no wish to undermine the legitimate expectations of retired public servants; I was a loyal member of the Government which introduced the indexation legislation in 1971 and recognised the obligations then undertaken.

At the same time we have to recognise the strong feelings that are generated on this subject, among people who have suffered very acutely from the impact of inflation on fixed investment incomes and unindexed pensions.

Taking a hypothetical, but not entirely fanciful example, let us envisage a situation in which, one year, the Gross National Product fell 10 per cent and prices rose 20 per cent. In that combination of circumstances I am sure you would agree that full indexation of public service pensions would be almost impossible to sustain. Beyond a certain point, the protection of the real living standards of one particular part of the community at the expense of all others might force any government to reconsider its obligations.

It is, of course, up to all of us to try and prevent these circumstances being realised. The present Government is indeed

J. Lester, Esq., M.P.

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

24 January, 1980

I thank you, [illegible], for your letter of
15th [illegible] from your constituent,
Mr. [illegible] Morgan.

Mr. Morgan [illegible] right to remind me of the radio
broadcast [illegible]. Indeed, I remember my conversation
with him [illegible].

I have [illegible] the legitimate expectations
of retired public [illegible]. I was a loyal member of the
Government which introduced the index-linking legislation in
1971 [illegible] the obligations then undertaken.

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that [illegible], among people who have
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impossible [illegible], the protection
of the [illegible] of one particular part of the
community [illegible] all others [illegible] any
government to [illegible] its obligations.

It is, of course, [illegible] and present
circumstances [illegible] the present Government is [illegible]

J. Lester, Esq., M.P.

straining every sinew to bring the rate of inflation down and prevent the international energy crisis from having too serious an impact on the domestic economy. If we are successful then the clamour for an end to indexed pensions will subside. Nobody would be happier, then, than I.

Meanwhile, the relative future cost of maintaining indexed public service pensions has grown considerably as a direct result of the past few years of inflation. You will know that, in relation to some public services, arrangements have been made to increase the notional deductions from salary which stand proxy for the employee contributions which are made to private funded schemes. The government is at present reviewing the basis of these arrangements and may well find it appropriate to seek further and wider adjustments in future.

GEOFFREY HOWE

Dear Mr. Lester,

I am aghast to read in today's Sunday Times that "Mr William Clark, Conservative MP for Croydon South and his influential finance committee of Conservative MP's" is calling for the suspension of the index-linking of public service pensions.

I was personally assured by Sir Geoffrey Howe in a Radio 4 broadcast on 22nd April 1979 that the Conservatives would not do this. 0905 a.m.: Robin Day

In view of the importance of this pledge, I had its full text published in the Civil Service Pensioner Magazine. I also retain the original tape-recording of this pledge in Sir Geoffrey's voice.

I cannot believe he will dishonour it and would welcome your re-assurance.

Please accept my congratulations on your ministerial appointment and also the season's greetings,

Sincerely,

Reginald Morgan

This is an extract from the summer 1979 edition of the magazine 'Civil Service Pensioner'. The magazine is published by the Civil Service Pensioners' Alliance

GENERAL ELECTION PLEDGES

From Mr. Reginald Morgan of Nottingham

I was fortunate enough to get included in Robin Day's Election Call programme on Radio 4 on 22nd April 1979, and spoke to Sir Geoffrey Howe who is now Chancellor of the Exchequer. Had the result of the election gone the other way, there would have been no point in getting his statement into print, but now you may think it worth putting on record. Fortunately I tape-recorded the interview, so can give it verbatim. In addition to the following, I also asked about the State Retirement Pension indexation, but I believe this was subsequently well aired, so have not included it. The part relating to Public Service Pensions went as follows:

QUESTION. Although the Conservatives brought in the Pensions Increases Act of 1971, which index-linked public service pensions, many Tory backwoodsmen have since sniped at it. Do the Conservatives intend to take this benefit away from public service pensioners?

SIR GEOFFREY HOWE. No, there's no intention to do that, Mr. Morgan, and you're right to remind us that it was introduced with all-party support in 1971, because you may remember that for years before that, there had to be periodic protests on behalf of retired people, who had been Public Servants, to get any account taken of inflation in the level of their pensions. But of course it's important also to make sure that the cost of those benefits, which existing public servants are going to enjoy, is properly shared and the all-Party Expenditure Committee in the House of Commons a little time back, recommended that there should be an independent examination, to make sure that the contributions being made by those still in service, towards the value of the benefits they are going to get when they retire, should be properly assessed to make quite sure they really are paying the full value, as do of course people working for private organisations in contributory pension schemes.

enforced and root out waste. And I'll give you one illustration of why we think we can be successful at that, if you compare what's happened to the rates charged in London Boroughs this year, and of course waste can take place in local Government as well as in Central Government - in the Boroughs that are under Labour control rates have gone up by 26 per cent on average this year; in the Boroughs under Conservative control by 2.6 per cent. So that it does show that it's possible if one is firm, in tackling waste, for a Conservative administration to reduce it very substantially.

DAY: Mrs. Collins thank you. Next Mr. Reginald Morgan in Beaston Nottinghamshire. Mr. Morgan it's your Election Call to Sir Geoffrey Howe.

MORGAN: Thank you Mr. Day, good morning gentlemen. Although the Conservatives brought in the pensions increases Act of 1971 which index-linked public service Pensions, many Tory backwoodsmen have since sniped at it. Do the Conservatives intend to take this benefit away from public service pensioners?

HOWE: No there's no intension to do that Mr. Morgan, and you're right to remind us that it was introduced with all-Party support in 1971. Because you may remember that for years before that there had to be periodic protests on behalf of retired people who'd been public servants to get any account taken of inflation, in their level of their pensions. But of course it's important also to make sure that the cost of those benefits which existing public servants are going to enjoy, is properly shared. And the all-Party expenditure Committee in the HOuse of Commons a little time back recommended that there should be an independent examination to make sure that the contributions being made by those still in service, towards the value of those benefits they're going to get when they retire, should be properly assess to make sure they really are paying the full value as do of course, people working for private organisations in contributory pension schemes.

DAY: Mr. Morgan?

MORGAN: Yes yes that's fair enough. This also has

CIVIL SERVICE PENSIONERS' ALLIANCE

Questionnaires from branches of the above body have been sent to candidates asking various questions. Because the questions vary a little, an answer in general terms, as under, is suggested. Specific questions that have been identified are dealt with individually in the Background Note below.

Suggested Answer

I have carefully studied the proposals which are mentioned in your letter. I have to point out that our Manifesto makes clear that control of inflation must be an overriding priority. It would be difficult to reconcile most of the proposals you put forward with that objective, which inevitably involves keeping down public expenditure. Our Party introduced the revised very generous Civil Service pensions are currently adjusted. Sir Geoffrey Howe has said (on 23rd April) when asked whether Conservatives intended to take this benefit away from public service pensioners: "No. There is no intention to do that". The question of raising the "ceiling" for old age income tax allowance is one for the future Conservative Chancellor of the Exchequer and I don't think one should anticipate his next budget proposals. I deal elsewhere with the question of concessionary fares /see Question 5 below7.

Background Note

Question 1

"Increases in Civil Service pensions, as for National Insurance pensions, should be based upon either the Retail Prices Index or the Earnings Index, whichever is more favourable at the time".

Civil Service pensions are based on the Retail Price Index under the Social Security Pensions Act 1975. Mrs. Thatcher has reaffirmed our commitment to increasing the level of retirement pensions "to take account of price rises. That is to say....in terms of what they will buy in the shops" (Gravesend, 17th April 1979).

Question 2

"Increases in Civil Service pensions should apply to those retiring from the Service before the age of 55".

The point about this question is that it is only on reaching retiring age that the pensioner who retires prematurely becomes eligible for an annual index-linked review of his or her pension. Effectively, within the Civil Service the provision for retiring on pension at 55 (or earlier on a reduced pension) only applies to prison officers. But outside there are many thousands to whom this concession would have to be offered - armed forces, police, MPs etc. For most of these it was the Conservatives who lowered the age-bar from its former level of 60 to 55. A further

24.4.79

concession could only be considered when economic curcumstances permit.

Question 3

"Civil Service earnings depressed by Incomes policies should be adjusted for pensions purposes".

It is a complaint of the Service that because incomes restraint was imposed on them more effectively than on private enterprise and because pensions are based on one's final year of earning, the level of pensions was kept artifically low for Civil Servants. Of course the same could be claimed for other enterprises that loyally observed wage-restraint policies. But candidates might feel justified in saying that the Conservative Party is concerned about this grievance and when returned to office would wish to assess its impact and extent with a view to some amelioration of the position.

Question 4

"The 'ceiling' for income tax allowances shpuld be abolished".

Old age allowance for income tax currently stops at £4,000 p.a. The future level of the 'ceiling' is a matter for general taxation policy.

Question 5

"A national scheme for concessionary bus fares for pensioners should be introduced".

Concessionary fares are covered in Questions of Policy : 63 (q.v.).

Question 6

"Widows of Civil Service Pensioners who retired before 1972 should receive half pension, instead of one-third".

Before 1972, when the Conservatives brought in the revised Civil Service pension scheme, Civil Servants paid actuarily calculated contributions to provide a one-third provision for widows. There is now an increased contribution to give widows a one-half pension.

Question 7

"Pensioners who are over the age of 80 years who are entitled to a non-contributory State pension should have their pensions made up to the normal State retirement pension".

After the 1966-70 Labour Government had refused to do anything for the over-80s, it was the Conservatives who introduced a special non-contributory pension for them. The over-80s have now been drawing this pension since 1970 (in some cases since 1971). Its

rate is lower than the normal NI retirement pension because Retirement Pensioners will have paid contributions for many years - in many cases for all their working lives - whereas the over-80s will not. But the over 80s' pension is protected against price rises because it is linked to the level of the Retirement Pension, which we are pledged to increase "to take account of any price rises" (See Question 1 above).

Conservative Research Department,
24 Old Queen Street, London, SW1

24.4.79

To Mr Cropper

CHANCELLOR

PUBLIC SECTOR PENSIONS

Is this what you had in mind?

2. Perhaps John Wiggins will advise me on circulation?

P J CROPPER
11 February 1980

CHANCELLOR

PUBLIC SERVICE PENSIONS

You asked me to draw together the various documents setting out the Conservative Party's position on indexation of public service pensions at and around the time of the 1979 General Election.

2. During the year preceding the General Election, Party opinion hardened in favour of some revision of the basis of calculation of public sector pensions - most likely in the form of an increased deduction from pay, designed to ensure that the cost of index-linked pensions was properly covered. A copy of the guidance note then in use is attached.

3. The matter was not touched on in the Manifesto.

4. A typical letter was that which you sent to Mr Charles Messer of Newton Abbott, who had written to you asking about the Party's policy on public service pensions:-

> "The Conservative Party is not proposing to change the index-linking arrangement for existing public service pensioners. A real anxiety has, however, been expressed by the All-Party Public Accounts Committee about the extent to which the cost of this benefit, particularly at a time of high inflation, may be falling unfairly on the general body of taxpayers rather than upon those public service employees still at work who are to enjoy this particular benefit. We should, therefore, want to ensure that the deductions made from public sector pay cover the cost of index-linked pensions at a proper and realistic level."
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> (19 April 1979)

5. The Party organisation set out a similar view in its General Election note "Questions of Policy 107 - 19 April 1979". A copy is attached.

6. On 23 April 1979 you were questioned in the course of a Radio Four Robin Day Phone-in programme by a Mr Morgan, of Nottingham. Mr Morgan recorded the discussion and his account was reprinted in the magazine "Civil Service Pensioner" published by the Civil Service Pensioners Alliance. A copy is attached.

7. This interview was quoted in a further General Election briefing note - "Questions of Policy No. 126, 24 April 1979" - which took the form of answers to a questionnaire submitted by the Civil Service Pensioners Alliance. Copy also attached.

/8. You

8. You were recently asked by Mr Jim Lester MP to comment on a letter which the same Mr Morgan had sent to him. A copy of your reply, which had been checked with No. 10, is attached. In this reply you indicated that there were circumstances in which index linking of public sector pensions would be subject to intolerable strain.

Summary and conclusion

9. Throughout the run-up to the General Election, answers on this subject always emphasised the need to vary the deduction from civil servants' pay so as to ensure that the cost of their pensions was properly covered.

10. When it came to the actual index linking of pensions, you replied in one letter " . . . not proposing to change the index-linking arrangement for existing public service pensioners". In the Robin Day phone-in you went rather further in declaring that "there's no intention to do that" - i.e. "to take this benefit (index linking) away from public sector pensioners".

11. Public concern about the unfairness inherent in index linking of public sector pensions has rumbled on since the election; it has tended to concentrate on the senior ranks of the civil service, and has fed on a number of stories about persons who have been retired a long time and whose indexed pensions have run ahead of the present salary rating of the job they were formerly doing.

12. Any proposal to break or modify index linking will meet with strong opposition from some of those affected. But a failure to act will draw strengthening criticism from the private sector - so long, that is, as inflation remains a dominant economic issue. The Government will have to weigh these considerations, and act in the context of the action being taken at this time on the index-basis of other social security benefits and fiscal parameters.

PJC

P J CROPPER

11 February 1980

15/2/80

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9. I remind you also of the answer given by Mrs Thatcher under one of the headings in a questionnaire sent in by one of the ex-service organisations. This answer, prepared for Mrs Thatcher by Sir Ian Gilmour and Peter Joynes, was later quoted in the journal "Pennant", published by the Officers' Pension Society in November 1978:-

> Index Linking of Pensions
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> "I can assure you that the Conservative Government will continue with the present arrangements."

Summary and conclusion

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P J CROPPER

15 February 1980

15/2/80

Pl type X below as Minute from Ch/Ex to PM

CONFIDENTIAL

DRAFT LETTER TO ACCOMPANY NOTE FROM CHANCELLOR TO PRIME MINISTER ON PUBLIC SERVICE PENSIONS

X //

PUBLIC SERVICE PENSIONS

The attached note has been prepared at my request as a background to the discussions we are ~~bound~~ to have during the coming weeks on indexation of Public Service Pensions.

As you will see, we have made some fairly definite statements on the subject, which will doubtless be quoted if we attempt to change the system. But we are going to be caught in cross-fire whatever happens, for the moves we are taking in other directions will only serve to underline the significance of the ~~civil servants'~~ present advantage. of public sector pensions. //

Chancellor: I will prepare a set of the enclosures for the PM.

Do I take your red pencilled circulation instructions on my note of 11th February (in this bundle) as still applicable?

Rather fewer people now: No. 10, Ty Mins, Key Ty officials

CONFIDENTIAL

COPY

CHANCELLOR

PUBLIC SERVICE PENSIONS

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P J CROPPER

15 February 1980

GUIDANCE NOTE 1978

From: The Rt. Hon. Sir Geoffrey Howe, QC MP

HOUSE OF COMMONS
LONDON SW1A OAA

INFLATION PROOFED PENSIONS: A NOTE

The principle of automatic inflation-proofing for public sector pensions was established, after a debate which had stretched over many years, by the Pensions (Increase) Act 1971. At that time inflation was running at such a comparatively low rate that many private pension schemes were able to increase pensions more or less in line with inflation. In those circumstances it was generally argued that it would be right for public service pensions to receive similar treatment. Many other countries reached the same conclusion.

The position does, of course, look very different today because the Government have allowed inflation to reach such disastrous leve

This is the cause of our present anxiety. For although most public service pensioners receive quite modest pensions, their recent increases have certainly been larger, in percentage terms, than most private pension funds have been able to afford, and in many cases pensions (and some other benefits) have risen faster tha earnings.

People who have no pension, but only an investment income to live on, have particularly resented the fact that they have been paying higher taxes but receiving no increase in income. Some public service pensioners have themselves begun to question the justice of the position.

Even so there is substantial (and understandable) reluctance to break faith with existing pensioners by challenging the originally sensible general principle of the 1971 Act. The way to avoid that is for the Government to give over-riding priority to reducing the rate of inflation as far and as fast as possible.

It can, however, be argued that the pension contributions made by public servants do not take sufficient account of higher inflati rates - indeed the Government has admitted as much. This question cannot at present by examined by the Pay Research Unit, which has been suspended by the Government. But, as I expect you will have se from recent press reports, it is now being considered by the House of Commons Select Committee on Expenditure. The Expenditure Committ undertook a major investigation of the pay, conditions and manning the Civil Service early in 1976. It is expected to produce the most important report on the Civil Service since the Fulton Report of 19

We are awaiting the outcome of this investigation, and meantime concentrating our attack on the Government's failure to get inflati under control, which is the root cause of present problems.

PUBLIC SECTOR PENSIONS

Question

What will a Conservative Government do about inflation-proofed public sector pensions?

Suggested Answer

The principle of automatic inflation-proofing for certain public sector pensions was first established by the Conservative Government in the Pensions (Increase) Act of 1971. For private sector employees a considerable degree of inflation-proofing is now provided not only in the state retirement pension but also in the new second pension scheme, whether state or private. We are not therefore proposing to change the index linking provisions for public sector pensions.

There is, however, a real problem about the way contributions are assessed in the public as compared with the private sector. The cost of inflation-proofing to the taxpayer has risen substantially as a result of the sharp increase in the rate of inflation. This has given rise to a real sense of grievance amongst those working in the private sector, for whom complete inflation-proofing of occupational pensions is impossible and who feel they have to pay through taxes for the inflation-proofing of others. The most important remedy is, of course, to reduce the rate of inflation as fast as possible.

We would ensure that the independent Pay Research Board is fully satisfied that the deduction which is made from public sector wage settlements for index linked pensions is realistic.

Background Note

Pension contributions are natioanl and are not deducted from public employees' salaries. But their notional value is taken into account in determining fair relationships between public and private pay for comparable work.

Conservative Research Department,
24 Old Queen Street, London, SW1

19.4.79

BOARD OF INLAND REVENUE

PB

PS/Chancellor

Tim

On the 16 May

Miss Watson sent

personally

you the attached

contrib & she would

now like to see

a copy of the final

reply.

I spoke to you

about this last week

& you said you would

investigate. Copies of

corres. are attached.

Betty

21/7

CHANCELLOR OF THE EXCHEQUER

REC.	24 APR 1980
ACTION	Mr Patterson
COPIES TO	PS IR

10 DOWNING STREET, WHITEHALL

12 ...

PRIVATE SECRETARY

Treasury

We attach a letter which the Prime Minister has received.

~~It refers to correspondence sent to you on ....~~

~~Please arrange for your Department to deal with it as they think fit.~~

Please arrange for your Department to send a full reply as soon as possible. If you are not responsible for this matter, please transfer the letter to the appropriate Department and let us know. Not writer.

~~Please co-ordinate any reply with the following Departments, to whom copies have been sent~~

( ) We have not sent an acknowledgement.
( ) We have sent a plain acknowledgment.
(✓) We have sent an acknowledgment, saying that the letter is receiving attention.
( ) A copy of the acknowledgment which we have sent is attached.

Correspondence Section
Date: 8.4.80

25 APR 1980

The National Archives

DEPARTMENT/SERIES .... PIECE/ITEM .... (one piece/item number)	Date and sign
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Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
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If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

£400 A WEEK RISES FOR THE STATE BOSSES

By TOM CONDON

STATE industry bosses are set for massive double rises that will boost their pay by up to £400 a week.

They will get increases this week of between £170 and £200 a week — and at least another £200 under a new deal in May.

The **FIRST** rise will come from the last stage of a three-year deal agreed with former Premier James Callaghan. The **SECOND** rise will come as a result of a recommendation by Lord Boyle's Top Salaries Review Body.

The double bonanza is bound to cause a political row.

The review is expected to urge Mrs Thatcher to increase the bosses' salaries at least in line with inflation.

In May inflation will be running at around 20 per cent.

British Rail chairman Sir Peter Parker's present salary is £36,945.

Backdated

He will get £44,000 after the first rise and £52,800 with the further 20 per cent rise.

Coal Board chairman Sir Derek Ezra will receive the same.

British Steel chairman Sir Charles Villiers gets £41,695, which will rise to £48,500 — then £58,700.

Post Office chairman Sir William Ryland, whose present salary is £38,945, will also end up with £58,700.

The Boyle Review Body rises will be backdated to April 1 if Mrs Thatcher agrees.

ABOUT 500,000 Whitehall civil servants are expected to get average rises of 18 per cent this week.

£58,700

For British Steel's chief Sir Charles Villiers

£58,700

For head of the Post Office Sir William Ryland

£52,800

For chairman of the Coal Board Sir Derek Ezra

£52,800

For British Rail's top man Sir Peter Parker

Your letter of 31 March to the Prime Ministe has been passed to the Chancellor of the Exchequer as it is partly about taxation. Si Geoffrey is sorry that you have not had an earlier reply.

Sir Geoffrey fully appreciates the contribut made by many pensioners during their working years and understands their feelings about t amount of tax they have to pay. But, as wit other taxpayers, a pensioner's tax bill depe upon the size of his or her total income and the personal allowances and reliefs to which or she is entitled. Thus people with simila incomes and family circumstances pay the sam amount of tax. This means that pensions, bo State and occupational together with any oth income such as part-time earnings have to be taken into account in calculating the amount tax payable.

Sir Geoffrey can understand your concern abo the amount of tax deducted from your part-ti earnings but, as State pensions are paid without deduction of tax, it is necessary fo pensioners to have their total tax liability collected from another source of their incom to which PAYE can be applied. Although, therefore, a pensioner may feel that the amount of tax deducted from his earnings is particularly high it must be remembered that this is because the deduction covers the tax due on both his earnings and his pension.

The Government are, however, very conscious that the burden of direct taxation has been heavy in recent years on the whole community and it is their aim as and when resources allow to raise further the threshold at which income tax starts so that an increasing number of lower income people are taken out of tax liability altogether.

The Government believe that the best way to help all pensioners is by generally increasing tax thresholds and pensions. To this end the Chancellor in his first Budget substantially raised all the main personal allowances by twice the amount required to offset the effect of inflation on the allowances and he also substantially increased the State pension. In his Budget of 26 March he continued this improvement by proposing further increases in all the main personal allowances for 1980/81 - in particular he proposes to increase the age allowance for a person taxed as single by £280 to £1,820 and to increase the associated income limit to £5,900. The proposed increase in the tax threshold will ensure that a single pensioner can supplement his pension with earnings up to £10.29 a week (previously £8.65 a week) before becoming liable to tax. The overall effect of the proposed income tax changes will be to protect the position of taxpayers on the lowest incomes, whilst ensuring that basic rate taxpayers receive some, though not complete, protection from the rise in prices. In view of the current economic situation it is just not possible to protect taxpayers fully from the effects of inflation.

In addition, Sir Geoffrey was able to announce that the standard State pension for a single

person will be increased in November by a further £3.85 a week and that the £10 Christmas bonus will again be paid. This increase, which brings the standard retirement pension for a single person up to £27.15 a week fully reflects the expected rise in prices between the last uprating and the next.

In the context of the limited resources available this year Sir Geoffrey is confident that these measures are the best way of providing help for all pensioners. Nevertheless, he would assure you he will continue to keep the particular problems of pensioners very much in mind.

PA

RIT

HF to provide draft to

I spoke to MST(c) office there is nothing for them.

Surely this is a matter for DHSS?

TAN 1/7

Minister of State, Treasury

13618

TIM

WE SPOKE

M

30/6/82

PS/MST C
for advice please.
KA
26/6.

Date of first letter 24/4

trans MST(C) 7/5.

Further letters 2/5 6/5

trans MST (C) 9/5.

Then ~~whole~~ All corres

trans. DHSS 13/5

Chris.
25/6

CH/EXCHEQUER

REC.	26 JUN 1980
ACTION	PS MST (C)
COPIES TO	

From: Fergus Montgomery M.P.

Clerks : details pl
of when recd
in Tsy + when
dispatched to 3362
MISS
RJ
25/3.

2616

HOUSE OF COMMONS
LONDON SWIA OAA

23rd June, 1980

Dear Geoffrey,

I enclose some correspondence I have had from an Accountant, called Harry Clough. He is a great supporter and he did feel very strongly about the provisions for small workshops in the recent Budget.

I rather think I sent on all of the correspondence to the Treasury and it looks as if it has been transferred to the Department of Health and Social Security. a), they seem to have missed the point altogether, and b) they seem to have taken a long time to reply.

I should be grateful if you could let me have an answer to pass on to Mr. Clough, who, after all, has been waiting two months to get any sort of reply.

Sincerely,

Fergus

The Rt. Hon. Sir Geoffrey Howe QC MP
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
LONDON S.W.1.

EF

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Joint Parliamentary Under Secretary of State

PO(PS-SS)2006/23

Fergus Montgomery Esq MP

19th June 1980

Dear Mr Montgomery,

Your letters of 30 April and 8 May enclosing correspondence from Mr Harry Clough, an accountant, were transferred to this Department.

However after careful consideration by the Department, I am advised, that as Mr Clough's letters refer to private pension schemes, the matter is not one on which we can comment. I am very sorry we were not able to reply sooner.

Yours sincerely

Private Secretary
Correspondence Section

TELEPHONE NO (0274) 35724-5 LINES

HARRY W. CLOUGH & CO.,

CHARTERED ACCOUNTANTS.

HARRY W. CLOUGH, F.C.A.
KENNETH D. GLOVER, F.C.A.
KEITH V. WATMOUGH, F.C.A.
A. STUART LEEMING, F.C.A., A.T.I.I.
PAUL S. NOLAN, F.C.A.
STEVEN GASH, A.C.A.

CAVELL HOUSE
ELDON PLACE
BRADFORD
WEST YORKSHIRE
BD1 3RJ

Our Ref. HWC/CW.

2nd May, 1980.

Dear Fergus,

Many thanks for your letter of the 30th April and I was glad to see that you found this helpful.

Since I wrote my letter on the 24th April it has been reported that one of the Union pension funds, I believe the N.U.M., have indicated that they are making £15M available for this purpose, together I believe with a further £5M from Government funds. However, these are being made available to the English Property Corporation which, so far as I know, is basically a nationalised industry providing business premises on a speculative basis in areas which are not found ~~active~~ attractive by the normal pension fund.

This is an illustration in my view of what I spoke to you about. These funds will not be available to the small businessman, either to build for himself, which is probably unlikely anyway, but not available to businessmen and small developers who might be encouraged by your recent Budget proposals. I cannot therefore imagine the purpose for which the recent proposals were intended will be fulfilled as well as they might be, if the purpose was to infill in a small way area requirements.

Since writing my letter I have spoken to the local authority and put similar views which they clearly understood. It may be that they might be prepared to consider rental guarantees or loans from their own funds, or funds which they can borrow at market rates. On the basis that funds have a duty to their own investors and policyholders they are not prepared to take the inherent risk, their funds might channel perhaps through a local authority who accept the responsibility to the fund but have a close knowledge of the areas requirement and can monitor and approve such proposed developments.

If you want me to go through this with you in more detail, or perhaps with one of your treasury colleagues please let me know.

Yours sincerely,

Harry

Fergus Montgomery, Esq., M.P.,
House of Commons,
Palace of Westminster,
LONDON, SW1A 0AA.

TELEPHONE No (0274) 35724-5 LINES

& CO.,

rs.

CAVELL HOUSE
ELDON PLACE
MANNINGHAM LANE
BRADFORD BD1 3RJ

6th May, 1980.

y letter of the 2nd May I see from the copy that some detail
. The Union pension fund which I referred to as the N.U.M.
.C.B. pension fund.

operty Corporation which I referred to is, I believe, English

se errors of detail my views still hold.

Yours sincerely,

Esq., M.P.,

er,

TELEPHONE NO (0274) 35724 - 5 LINES

H. .RRY W. CLOUGH & CO.

CHARTERED ACCOUNTANTS.

HARRY W. CLOUGH, F.C.A.
KENNETH D. GLOVER, F.C.A.
KEITH V. WATMOUGH, F.C.A.
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PAUL S. NOLAN, F.C.A.
STEVEN GASH, A.C.A.

CAVELL HOUSE
ELDON PLACE
BRADFORD
WEST YORKSHIRE
BD1 3RJ

Our Ref. HWC/CW.

24th April, 1980.

Dear Fergus,

I was pleased to meet you again at what was, I thought, a very successful and enjoyable function.

Very many thanks for all your help and assistance.

You asked me to write to you on the matters we spoke of which were primarily concerned with the recent Budget and the provisions applying to small workshops.

I must say that these suggestions have aroused a great deal of local interest amongst businessmen, small developers and others. Whilst I am sure the idea is right what I believe is that these proposals might not have the maximum affect.

The greater part of funding for industry and other developments comes through the pension funds in the longer term. They have a requirement to protect their investment and get the best possible arrangements and in consequence the kind of development envisaged by the Budget provisions will probably be largely abortive unless the funds take a less stringent view of their function.

I find it difficult to believe that this will be the position and if you are not careful the purpose will be stifled. I have thought about this and discussed it with others and it might be a suggestion if some Government department guaranteed, either in whole or in part, advances from such funds for such propositions. I will be glad to speak to you again regarding this but please take my assurance that we in the provinces, which have been built on small enterprise wholeheartedly welcome this kind of approach.

Yours sincerely,

Harry

Fergus Montgomery, Esq., M.P.,
House of Commons,
Palace of Westminster,
LONDON.

10, DOWNING STREET,
WHITEHALL S.W.1

With the Private Secretary's Compliments

22901

EXCHEQUER
REC. -3 MAR 1981
ACTION Mr Dixon
COPIES TO CST FST MST

10 DOWNING STREET

THE PRIME MINISTER

2 March 1981

Dear Mr. Fawcett.

Thank you for your letter of 26 February.

I can assure you that your Council's representations will be taken into account before any decisions on the Report of the Scott Inquiry are taken.

Yours sincerely

Margaret Thatcher

G. B. Fawcett, Esq.

PUBLIC SERVICE PENSIONERS' COUNCIL

Hamilton House, Mabledon Place, London, WC1H 9BD

Telephone: 01-387 2442 Extension 130

PPS
R27

Hon. Secretary:
G B FAWCETT Esq
Hamilton House,
Mabledon Place,
London,
WC1H 9BD.

The Prime Minister
10 Downing Street
LONDON SW1

26 February 1981

Dear Prime Minister

On the publication of the report of the Scott Inquiry you advised Parliament that the Government wished to take account of the reactions to the Report's analysis and findings before coming to any decisions.

The Public Service Pensioners' Council includes all the major organisations representing the interests of retired public servants, and we trust that the Government will consider carefully the views of the Council on the Scott Report.

The conclusions of the Scott Inquiry are generally welcomed, and we certainly take the view that any pension disparities between the public and private sectors should be tackled by improving the position in the private sector. To that end we endorse the view of the Scott Committee that serious consideration shall be given to the issue of indexed bonds to cover pension liabilities.

We agree with the Scott Inquiry's conclusion that a long term view needs to be taken of pension issues, and the importance of any consideration not being prejudiced by short term expediencies. We believe that many of the criticisms made of the present arrangements have been based either upon ignorance of the true position, or upon the recent experience of high rates of inflation which do not provide a reliable guide for the future. The assumptions made by the Government Actuary are in line with those of other actuaries as the Scott Inquiry makes clear. We consider that any change to the existing arrangements resulting from reference to such short term circumstances would be completely unjustified. Equally, we believe that the imposition of any cut off point, which you referred to as a possible matter for discussion on 12 February 1981, would be taken as an admission of the Government's inability to control inflation, or manage the economy to provide a reasonable real rate of return upon investments.

Continued ..../2

In conclusion, therefore, it is our view that the analysis and findings of the Scott Inquiry provide no justification for any curtailment of existing provisions for the index linking of pensions.

Yours sincerely

G.B. Fawcett

G B FAWCETT
Hon. Secretary

SJB

10 DOWNING STREET

For Information

With the compliments of

T P LANKESTER

pa

10 DOWNING STREET

From the Private Secretary 3 March 1981

The Prime Minister has asked me to thank you for your letter of 1 March about the Scott Inquiry. She has asked me to assure you that your representations will be taken fully into account before any decisions on the Report are taken.

I. P. LANKESTER

G. H. Massey, Esq.

115

The National Federation of Post Office and Civil Service Pensioners

(Member of the Public Service Pensioners' Council and the Civil Service Pensioners' Joint Consultative Committee)

General Secretary
G. H. MASSEY
14 Larch Road,
Kingswood,
Bristol BS15 4UQ
Tel. 0272-566306

Asst. Secretary
J. F. HETZEL, T.D. M.B.I.M.
The Uplands,
[redacted]
12 Brookside Road,
Old Bedhampton,
Havant,
Hants. PO9 3JL
Tel. 0705-454666

1 March 1981

R3

The Rt.Hon.Mrs Margaret Thatcher MP.,
The Prime Minister,
10 Downing Street,
LONDON SW1A 2AA

Dear Mrs Thatcher,

THE SCOTT INQUIRY

Further to the exchange of correspondence we had in December last concerning your interview with Peter Simmonds as published in the Sunday Telegraph 7 December 1980, I note that on the publication of the report of the Scott Inquiry you replied to a Parliamentary Question to the effect that the Government will take account of the reactions to the Report's analysis and findings before coming to any decision.

As explained in my letter to you dated 15 December, I can only speak for Post Office pensioners and in so doing, I am very much aware of the views of the Civil Service Pensioners' Alliance and the Public Service Pensioners' Council because we work together for the common good of pensioners.

In general, we welcome the general conclusions of the Report especially :-

1. That it is a highly desirable social objective that the standard of living of those in retirement should be protected.

2. That the considerable inequalities between pensions in the public and private sectors should be harmonised by improving the position in the latter.

3. That there is a clear recognition that many of the criticisms made of the present arrangements have been based either upon ignorance of the facts, or because of the extremely high valuations which some of the critics have suggested.

4. That in considering pension schemes, short term considerations should not prejudice the long term interests of such pensioners, especially in a period of high inflation and the associated highly charged atmosphere.

5. That the assumptions made by the Government Actuary have been upheld by the Inquiry.

May I say that any change to the existing Public Service Pension agreements because

of

because of short term expediencies would be completely unjustified. Neither should there be any imposition of any cut off point which you mentioned as being a possible matter for discussion on 12 February. This would be tantamount to an admission by the Government that the situation had got out of hand and being unable to control inflation. Furthermore, as I said in my letter to you 15 December, any interference in our pensions to our disadvantage will be regarded by Post Office pensioners as the unilateral breaking by government of a contractual obligation.

It is to be hoped that the analysis and findings of the Scott Inquiry are accepted by the Government with the clear understanding that there is no basis for any curtailment of existing provisions for the index-linking of pensions.

Yours sincerely,

G.H.Massey

(G.H.MASSEY)

General Secretary

10, DOWNING STREET,
[ITEHALL] S.W.1

With the Private Secretary's Compliments

pa

10 DOWNING STREET

THE PRIME MINISTER

11 May 1981

Dear Mr Barnett,

Thank you for your letter of 1 April with which you enclosed one from Mr. W.F. Wilson of 21 Paine Court, 57 Westcombe Park Road, London, SE3, about our election manifesto.

As stated on the copy document which Mr. Wilson enclosed with his letter, we undertook to protect pensioners' living standards by increasing pensions in line with prices. This we have done and are pledged to continue to do during the lifetime of the present Parliament. What we could not sustain was an arrangement whereby pensions would be increased each year by the better of wage or price increases. This would have meant that in the longer term pensions would have risen faster than either prices or wages. This, I am afraid, is something which the country just cannot afford.

I can assure Mr. Wilson that we are fully aware of the problems that face retirement pensioners especially in a time of high inflation. That is one reason why we are determined to get inflation under control and that must remain our first priority.

Protection against price rises is the minimum pensioners can expect. When the economy improves they can expect to share in that improvement. But the improvement in the economy must come first.

We have never liked the earnings rule for pensioners and so promised to abolish it. It acts as a disincentive to those who wish to continue working, after reaching pension age. We remain

/ determined

determined to phase out the rule but in the present economic situation it is not possible to state the timetable to bring this about. Nevertheless, it remains our intention to bring the rule to an end.

As promised in our manifesto, we have passed legislation to make the Christmas Bonus a regular feature of the Social Security scheme. Pensioners can, therefore, now look forward to a payment each year.

We also promised in our Manifesto to reduce the burden of the investment income surcharge to help those pensioners who pay this additional tax on the income from their life-time savings. As you will know, we increased the threshold for the surcharge to £5,000 in 1979 and £5,500 last year, taking many pensioners out of its scope altogether.

I hope Mr. Wilson will agree we have not reneged on our promises to pensioners. We would, of course, like to do much more for them but this is simply not possible at present.

Yours sincerely

Margaret Thatcher

Guy Barnett, Esq., M.P.

Southwark Pensioners' Action Group

AFFILIATED B P & T U A A

Chairman :
D. J. CLARK
5 Recreation Road, S.E.26
Tel.: 01-778 4521

Secretary :
M. MORRIS
111b Benhill Road, S.E.5

Treasurer :
W. B. COOMBE
264 Ivydale Road, S.E.15
Tel.: 01-639 7363

TOP ACK CAM CH/
CH/EXCHEQUER
REC. 10 JUN1981 10/6
ACTION C D BUTLER
COPIES TO PS/ C+E

29813

To the Rt. Hon. Sir Geoffrey Howe M.P. Q.C.
House of Commons
London, S.W.1.

6th June, 1981

Priority reader

Dear Sir,

It was with great concern when it was brought to our Committee's notice of a report in the Daily Express some weeks ago concerning remarks made by you in a speech you delivered in Birmingham.

To keep things brief, you apparently made the following points.

The enormous cost of providing pensions for retired people - you question whether the economy could substain high payments.

You state that a tax payers revolt could mean the end of inflation proofing for their pensions.

You said "Nothing for Nothing" and that there is a very real risk that the working population may question the justice of further increases in their burden.

You also state that retired people had got steadily better off in comparison to wage earners and that since 1971 the old age pension has risen 30%, twice as fast as the average earnings of workers who have to pay the bill.

You say that the Country is in danger of requiring the working population to provide more for the retired population than they are prepared to tolerate.

X You also wish to exclude any VAT increase and energy cost from the price index which governs each years rise in the pensions.

Our Committee is requesting that you would explain your reasons and provide figures to justify your speech and answer the following queries.

Do you believe that the people of this Country of ours are so callous as to ignore the needs of the elderly who in the past have contributed to the high standard of present day living.

Can you explain how a pensioner is better off in comparison to workers as regards their earnings?

Can you justify removing VAT increases and energy cost from the price index when they directly affect the spending power of a pensioner,especially at the rate of price increases of Electricity and Gas. We feel as a group that as the Government is claiming back a substantial sum from the profits of the Gas Corporation this is a hidden tax which we feel we should not pay.

I would like to add that I, as an individual, have voted Conservative for many years than I can remember, as so many of our Members.

We look forward to receiving your letter explaining the above.

Yours sincerely,

W. B. Coombe.

W. B. COOMBE
Treasurer.

From IAN STEWART R.D., M.P.

jeus 1/12

CH/EXCHEQUER
REC. 30 NOV 1981
ACTION Mr Monger
CST
FST
EST
MST(C)
MST(L)
Sir D. Wass
Sir A. Rawlinson
Mr Le Cheminant
Mr Barratt

HOUSE OF COMMONS
LONDON SWIA OAA

Mr N. Moore
Mr Kemp
Mr Ridley

27th November, 1981

JOHN KERR, Esq.,
Office of the Chancellor of the Exchequer
The Treasury,
Parliament Street,
London, SW1P 3HE

Pl. distribute

Dear John,

I am sure the Chancellor is fully aware of the anxieties in the City about the possibility that the forthcoming review under the Social Security Pensions Act might shift in the direction of contracting into the State scheme. However, I thought it worth asking my friend, Stewart Lyon, Chief Actuary of Legal & General, to put in writing a few comments he made to me a couple of days ago about this.

Yours
Ian

Legal & General Assurance Society Limited
Temple Court, 11 Queen Victoria Street, London, EC4N 4TP

Telephone Number 01-248 9678
Extension 3170

Telegraphic Address
Legener London EC4
Telex No. ~~885683~~ 892971

Ian Stewart Esq, MP,
House of Commons,
Westminster,
London SW1.

Our Ref Chief Actuary
Your Ref
Date 23 November 1981

Dear Ian,

Social Security Pensions Act 1975
First Quinquennial Review of the Terms for Contracting-Out

I am writing to follow up our conversation on Tuesday evening when I asked whether you could check that both the Secretary of State for Social Services and the Chancellor are personally aware of the wider implications of the first quinquennial review of the terms for contracting-out, which has to take place before April 1982.

There are clear indications in a recent consultative document from the DHSS that this review is likely to be undertaken on lines which would lead to a significant shift in the balance of the contracting-out terms in favour of the state scheme. The issues are discussed in a clear and balanced way in a recent newsletter from Wood, Mackenzie & Co, a copy of which is enclosed.

Whilst for the reasons summarised on page 7 of the newsletter, it is possible that a shift in the balance of the terms would not greatly affect the numbers of contracted-out, it is equally possible that a bandwagon effect could develop in the private sector, particularly if a sudden worsening of the basis for transferring accrued contracted-out liabilities to the state schemes were to be promulgated. By this I mean that, if such a step were taken by a Conservative Government which is

/cont....

otherwise committed to altering the balance between the public and private sectors in favour of the latter, substantial numbers of employers might see it as an indication that things could only get worse in the future. Their conclusion could then be that, notwithstanding the administrative problems for their occupational schemes, they should contract back into the state scheme before the present terms for buying back the accrued contracted-out liabilities run out - that is to say, before April 1983. They could well be encouraged to take this action by a small but vocal minority of pensions consultants who have always been opposed to contracting-out and are likely to seek to use an unfavourable shift in the balance of the terms to attract other consultants' clients.

If you require any further information, please let me know.

Yours sincerely,

C.S.S. Lyon
Chief Actuary

[illegible]

[illegible]

If you require any further information, please let me know.

Yours sincerely,

[illegible]

WOOD, MACKENZIE & CO.

62-63 Threadneedle Street, London EC2R 8HP
Telephone: 01 600 3600 Telex: 883369

Erskine House, 68-73 Queen Street, Edinburgh EH2 4NS
Telephone: 031 225 8525 Telex: 72555

Members of The Stock Exchange

Life Newsletter

Contracting into the State Scheme

Recommendation: **The possibility of large-scale contracting-in could affect sentiment towards the life sector, particularly Legal & General. In addition the new business figures in January are unlikely to be spectacular. Thus, we are more cautious on the life sector short-term, although any weakness may offer buying opportunities thereafter.**

Introduction: In January 1982 the Social Services Secretary will lay before Parliament draft proposals which will adjust the terms under which pension schemes can contract out of the State Scheme. There are fears that these terms could provoke large-scale contracting-in before they become effective in April 1983.

Implications of Large-scale Contracting-in: If significant numbers of pension schemes elected to contract in, this would affect the stockmarket in principally three ways:-

- There could be a "one-off" impact over 1983 as schemes elect to contract in by paying a "buy back" premium to the State Scheme. If 10% of private scheme members contracted in, then up to £1.5bn could be paid to the State Scheme, although not all this would need to be realised in the markets. Equity market levels could suffer, but gilts would be less affected since this money would reduce the PSBR.

- Thereafter the cash flow of pension funds into the markets would fall, with more money directed to the State. Again assuming 10% contract in, this reduction would be around £300m p.a.

- More specifically, those insurance companies with substantial proportions of UK pensions business (Legal & General, Sun Life, Prudential and Equity & Law) would lose premium income, which would ultimately reduce life profits.

Probability of Large-scale Contracting in: The revised terms are not yet known and so this must to some extent be a matter of conjecture. There is little doubt, however, that a pension scheme could realise a profit by contracting in before April 1983 and that the terms will become less favourable thereafter.

Nevertheless, we do not believe that significant numbers of schemes will take advantage of the favourable buy back terms: contracting-in would entail enormous administrative work; the actual profit is unlikely to be as great as is theoretically possible; and there could be employee opposition. Also public sector schemes (currently representing over half the contracted-out members) are very unlikely to contract in. These factors lead us to believe that current fears are considerably overstated.

Peter Rice/David Nisbet

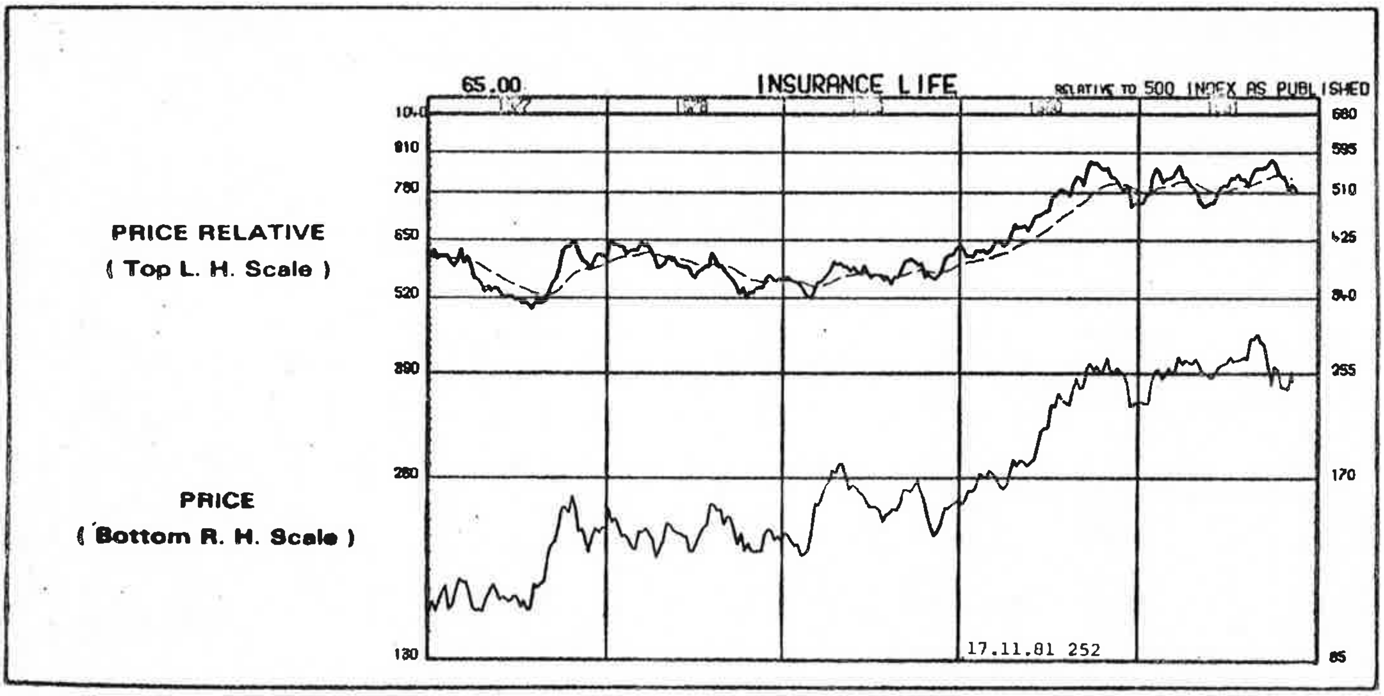
17th November, 1981.

Life Sector Market Data

	Price/ Index p (1)	Price Relative	1980 Dividend Yield %	1981 Forecast Dividend Yield	Mutual-isation Price p(2)	Price/ Mutual-isation Price
F.T.A. Life Assurance	252	798	6.0	7.1		
Britannic	274	867	7.3	8.6	308	0.89
Equity & Law	396	125	4.7	5.4	408	0.97
Hambro Life	330	104	4.2	5.0	n.a.	n.a.
Legal & General	208	658	6.2	7.9	324	0.64
London & Manchester	244	772	6.1	7.3	205	1.19
Pearl	410	130	7.0	8.4	543	0.76
Prudential	228	721	6.9	8.2	248	0.92
Refuge	222	702	7.9	9.5	230	0.97
Sun Life	318	101	3.7	4.5	254	1.25

(1) Market data as at 17.11.81
(2) Mutualisation Prices as at 31.12.79.

Relative Strength Chart



Introduction

The Secretary of State for Social Services is about to produce the first quinquennial review of the terms under which pension funds may contract out of the State Scheme. There has already been some press comment about the possibility of large numbers of pension schemes ceasing to contract out as a result of the proposed revision in terms; interest in this subject is likely to grow over the next few months.

If large-scale contracting-in were to occur, then there would be major implications for the stock market as a whole (certain life assurance companies would be particularly affected). This note is designed to:

- provide background information on the contracting-out provisions.
- set out the possible implications of large-scale contracting-in.
- discuss the possibility of large-scale contracting-in.

Timetable of Events

August 1981	:	The Government Actuary issued a memorandum presenting the material which will form the basis of his report to the Social Services Secretary. This was published in order to allow pension funds to make representations to the Secretary of State before the Government lays its proposals before Parliament.
January 1982	:	Social Services Secretary lays the draft proposals before Parliament.
6th April 1982	:	New legislation must be passed by this date.
6th April 1983	:	New legislation becomes effective on this date.

It is important to note that the proposed revisions will not be known until January 1982 : the Government Actuary's memorandum indicates some possible alterations, but these are not certain to be adopted by the Social Services Secretary. (In 1975 the original proposals were amended because of representations made by the pensions industry).

Present Arrangements

If a pension scheme contracts out of the State Scheme, then it must guarantee to pay benefits at least as generous as those offered by the State Scheme. In return for accepting this liability, the private scheme receives a reduction in National Insurance contributions. Until April 1983 this rebate is set at 7% of the upper earnings band (currently earnings between £27 and £200 per week).

A pension scheme can cease to contract out at any time. It then has two options:

- To preserve the benefits which have accrued over the period during which the scheme was contracted out.
- To buy back into the State Scheme: a premium is paid to the State Scheme which then accepts all liability for the accrued benefits.

There are two important safeguards for contracted-out schemes in the event of a decision to buy ~~k into the State Scheme. These provide that the premium payable:

- depends on stockmarket levels at the date on which the scheme ceases to contract out (i.e. the premium is reduced when market levels are depressed).

- can be calculated assuming that salaries have increased at only 12% p.a. over the preceding five years rather than using the actual earnings increase (thus protecting the contracted-out scheme against high salary escalation).

These two provisions should make the "buy back" option the more attractive in the event of the decision to contract in.

Likely Revision in Terms

It is almost certain that the present abatement in National Insurance contributions will be reduced. Because of the way the scheme was established, the abatement is expected to gradually fall over 30 years; for this reason alone the abatement would reduce to 6½% . In addition, statistics now available indicate that the original estimates of age and sex distributions were slightly incorrect and this would reduce the abatement by a further ½%. These two points, together with some minor adjustments to his assumptions, lead the Government Actuary to mention a possible abatement level of 6% for the five years following 1983.

It is probable that the value of the two safeguards mentioned above will be reduced. The Government Actuary suggests an adjustment to the formula which relates the buy-back premium to stockmarket levels and also an increase to the 12% limit on salary escalation.

The Government Actuary's report has not been well received by the pensions industry which questions some of the assumptions used and regards the recommendations as too severe. The Social Services Secretary's final decision will be influenced by conflicting arguments. Politically it would be unwise to cause a major upheaval in pension arrangements only three years after the establishment of the new scheme; also a Conservative Government may be reluctant to appear hostile to private pension schemes. On the other hand, in the present economic climate the Government will be unwilling to pass up the opportunity of extra revenue.

We believe that the Social Services Secretary will make minor concessions to the representations from the pensions industry, but he probably will follow most of the Government Actuary's recommendations.

Implications of Substantial Contracting-in

The vast majority of pension schemes are presently contracted-out. The 1979 Survey of Occupational Pension Schemes indicated that there were 10.3m. members of contracted-out schemes, representing 89% of all pension scheme members.

The estimated cash flow of pension funds and life assurance companies (for which pensions business represents a sizeable proportion of the liabilities) is shown for the last five years:-

A--ual Net Investments (£m)

	1976	1977	1978	1979	1980
Pension Funds	2974	3178	3719	4697	5549
Life Assurance Companies	2084	2863	4027	4604	4931

Source: C.S.O. statistics.

Thus, any change in the direction of the cash flow could clearly have major implications for the stockmarket.

If large numbers contracted in, then this could affect the markets in several ways.

After April 1983, the cash flow of pension funds into the markets would slow down. The reduction in National Insurance contributions allowed to contracted-out schemes is estimated to total approximately £3¼bn at the moment. Thus if 10% of private scheme members were to cease to contract out, then around £300m p.a. would be paid to the State rather than invested in the markets.

Potentially more significant is the "one-off" situation in which a substantial number of schemes decide to buy back into the State Scheme before the terms are changed on 6th April 1983. This is the most likely method of contracting-in. Pension funds might then have to realise assets in order to pay the "buy back" premium. For every one million members bought back into the State Scheme then, at a very rough estimate, up to £1½bn might need to be paid over.

The actual timing of the payment is uncertain. In order to take advantage of the present terms, a scheme will probably need to give notice of its intention to buy back before the end of 1982. The premium is then payable:

- within 6 months of the State scheme certifying its acceptance or
- within one month of the date of the premium bill, whichever is the later.

At the moment, the second alternative applies and payment tends to occur around one year after notification. This would suggest that if schemes delay the decision until the last moment, then most money will be transferred in the second half of 1983.

In actual fact not all this money will need to be realised from the markets. A pension fund will be able to set aside around one year's cash flow to help meet the "buy back" premium. Also in the case of those pension schemes insured with a life company, the cash flow of the insurance company should be adequate to support any payment. Thus a considerable proportion of the "buy back" premiums could be met from cash flow rather than the realisation of investments.

Pens'-- fund assets currently exceed £60bn (adjusting figures from the 1979 survey of pension sche.. ,. The distribution at the end of 1980 was as follows:

UK Equities	Overseas Equities	Fixed Interest	Property	Cash
47%	10%	22%	17%	4%

Thus large-scale contracting-in could precipitate weakness in the UK equity market over 1982 and 1983: assets would be liquidated and the cash flow of pension funds and insurance companies (because of insured pension schemes) would slow down. The gilt market would be less affected; also there is the bullish feature that money received by the State Scheme would effectively reduce the PSBR (the State Scheme is run on a "pay-as-you-go" basis).

More specifically, the stockmarket rating of insurance companies with a high proportion of pensions business is likely to suffer. Substantial contracting-in would reduce their premium income, which would eventually impact life profits. However, there would be a minor offset in that these companies would charge a discontinuance penalty on any money withdrawn. This could allow a small "one-off" profit over 1983 if insured schemes buy back into the State Scheme.

The table below indicates that Legal & General, Sun Life, Prudential and Equity & Law would be the companies most affected.

UK Group Pensions Business as a Proportion of Total Liabilities

Company	Proportion %
Britannic	0
Equity & Law	28
Hambro Life	0
Legal & General	79
London & Manchester	4
Pearl	0
Prudential	31
Refuge	0
Sun Life	47

(1) As at 31.12.80.
(2) Figures include all subsidiaries.

Pro... ...lity of Large-scale Contracting-in

It is clearly not possible to form a definitive view on this subject until the revised conditions are known. Up until now the decision to contract out has been the correct investment decision. This alone, however, is not an argument to contract back in.

There are principally two points in favour of contracting back in:-

- A contracted-out scheme should realise a profit by buying back into the State Scheme on present terms. The example shown in the Appendix, although very crude, indicates that this profit could be meaningful in certain circumstances.

- There is little doubt that the revised terms will be less advantageous to contracted-out schemes.

The arguments against ceasing to contract out are as follows:-

- The "buy-back" profit will be reduced by the cost of the change. In addition, pension schemes insured with insurance companies are likely to suffer a discontinuance charge on any assets realised.

- A decision to contract in would entail considerable administrative work. Furthermore, the scheme design would need to be adjusted into a more complicated form: part of the benefits would be provided by the State, with "top-up" benefits being provided privately. Such integration is difficult to achieve and difficult for members to understand.

- There could be employee opposition to the decision to contract in (it is necessary to consult scheme members). Also an employee would lose some tax relief on his pension contributions if the scheme contracted in.

The original decision to contract out was based on a number of factors, many of which have not changed over the last three years. In view of the disruption to a pension scheme caused by a decision to contract back in, it will be surprising if significant numbers adopt this course, unless the terms are appreciably worsened.

In fact the large public sector schemes, which account for more than 50% of all contracted-out members, are virtually certain to remain contracted out. This substantially limits the downside risk.

Appendix

We work below a very simple example to give an approximate indication of the profit a contracted-out scheme could realise by buying back before April 1983.

A model pension scheme consisting of three male members is considered, using the following data:-

Age at April 1978	Eligible Earnings (1) In Tax Year 1978/9 £	1979/80 £	1980/1 £	1981/2 £	1982/3 £
30	2600	3000	3750	4300	4700
40	2900	3300	4200	4800	5200
50	3200	3600	4650	5300	5700

(1) Earnings between lower and upper earnings limit.

The 7% abatement in National Insurance Contributions for these members would be £609, £693, £882, £1008, £1092 for the five years.

Assuming a rate of return of 10% p.a. on its investments and allowing for administrative expenses of 5% p.a. the pension fund would hold £5060 in April 1983 in respect of these abatements.

The "buy-back" premium will depend on stockmarket levels at the time of the decision to contract out. The Market Level Indicator has varied as follows:-

Tax Year	Minimum Monthly Level	Maximum Monthly Level
1978/9	0.68	0.74
1979/80	0.59	0.81
1980/1	0.60	0.68

A Market Level Indicator of 0.70 would appear reasonable. The "buy-back" premium in respect of these members would then be as follows:

Age at April 1978	Value of Accrued Pension (1) £	Market Level Indicator	"Buy-back" Premium £
30	965	0.70	676
40	1570	0.70	1099
50	2301	0.70	1611
	4836		3386

(1) Calculated using prescribed tables.

Thus, the potential "profit" on buying-back into the State Scheme would be £5060 - £3386 = £1674.

The actual profit is affected by many factors and we would not wish to draw too many conclusions from this very simple example. However, it does indicate that the potential profit could be significant. In addition it also vindicates, to some extent, the Government Actuary's argument for a tightening-up of the "buy-back" terms.

C.

CONFIDENTIAL

FROM: G W MONGER
DATE: 1 July 1982

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Economic Secretary
Financial Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir A Rawlinson
Mr Barratt
Miss Brown
Mr Cassell
Mr Dixon
Mr Gilmore
Mr Kemp
Mr Mountfield
Ms Seammen
Mr Spackman
Mrs Holmans
Mr Ridley
Mr Monck

STATE EARNINGS-RELATED PENSION SCHEME

The Government Actuary's Quinquennial Review of the State pension scheme is now complete. A detailed submission is attached.

2. The review contains estimates for the future level of NI contributions. They are very sensitive to what happens to flat rate benefits. If these rise in line with earnings, the contribution will remain at about its present level until the end of the century and then rise to about 20-22% by 2025. If flat rate benefits rise in line with prices, and these rise more slowly than earnings, the contribution should not exceed its present level and could even fall.

3. We have also asked the GA to undertake a study of the cost of private sector schemes. This will allow us to see how the total cost of pensions will change. The results should be available in the autumn.

4. The questions for decision now are as follows:

a. Publication of the report. DHSS want to publish as soon as possible, probably in the week of 19 July. There seems no reason to disagree.

b. The first Government response. The next step is to invite public comment. There is no need for any Government statement on substance now. The attached draft press statement which we have provisionally agreed with DHSS does however refer to the Government's concern with the possibility of increases in the cost of the scheme. This will start to prepare the public for changes if they are later judged to be necessary.

c. Further official work on possible changes in the scheme. These are listed in paragraph 11 of the detailed submission. I would suggest that officials (with DHSS in the lead) should be asked to look at options (1)-(5) which would reduce the cost of the scheme in not too obtrusive a way.

5. Formally the next step is for you and Mr Fowler to agree a line. A separate submission is going to him and a meeting should not be necessary if you and he agree to 4(a) - (c) above. He will then write to H Committee colleagues.

G W MONGER

DRAFT PRESS NOTICE

REVIEW OF SOCIAL SECURITY FINANCE

Norman Fowler, Secretary of State for Social Services, today laid in the House of Commons a report by the Government Actuary on the operation of the Social Security Acts between 6 April 1975 and 5 April 1980 as required by Section 137 of the Social Security Act 1975. Mr Fowler said:

"I welcome this report, which looks at the experience of the early years of the new pension scheme, and provides a detailed analysis of possible future contributory benefit costs, on a variety of assumptions.

Pension costs are much the largest element in the overall costs. The Government must keep under careful review the developing costs of the social security system as a whole including in particular the possibility of increasing costs for contributors. Equally, we must keep under review the effectiveness of that system in meeting its underlying objectives, and do so in the context of our wider social and economic policies. This report will be a valuable contribution to that process.

We shall now be studying in detail all the implications of this report, but, in view of the importance of pensions and their complicated, long-term mature, it is likely to be some time before we reach any conclusions. To assist in this, I shall be inviting all those concerned, including the Select Committee on Social Services, the Social Security Advisory Committee, the Occupational Pensions Board, both sides of industry and the pension organisations to let me have their views and comments by the end of the year."

2. Mr Fowler announced the publication of the report in reply to a written Parliament Question from [ ]. A copy of the Answer is attached.

3. Also attached is a summary of the conclusions reached by the Government Actuary. [Drafting note: summary to be prepared by GAD.]

DRAFT PQ

SOCIAL SECURITY FINANCES

To ask the Secretary of State for Social Services if he has yet received a report by the Government Actuary on the operation of the Social Security Acts since 1975.

2. Mr Norman Fowler: I have laid before the House today the report which the Government Actuary has made on the operation of the Social Security Acts between April 1975 and April 1980 in accordance with S.137 of the Social Security Act 1975. The report also provides a detailed analysis of the possible future costs of benefits paid out of the National Insurance Fund and of the contributions that will be needed to pay for them. The Government will be considering this report very carefully before reaching any conclusions. We shall also be consulting widely with interested organisations and inviting comments by the end of this year.

THE QUINQUENNIAL REVIEW

My minute of 26 February reported on progress on the Government Actuary's Review of the long-term prospects for the National Insurance Fund. The review is now complete and ready to be published. A copy is attached (not to all).

2. The review shows how NI contributions might change between now and 2025. It therefore bears on the important question, raised in your speech last year to the NAPF about the burden of pensions provisions for the working population.

3. The most important Table in the review is Table 14 estimating future Class 1 standard contribution rates on specified assumptions. This can be summarised as follows:

Standard NI Contribution Rates

Case		A	B	C	D	E	F
Assumed annual increase in	Earnings	8	8	8	8	8	8
	Prices	8	7	6	7	6	6
	Earnings-related pensions after award	8	7	6	7	6	6
	Flat rate benefits	8	8	8	7	6	7
Rate of contribution	1985-6	15.4	15.3	15.3	15.3	15.3	15.3
	2000-01	16.1	15.9	15.7	14.4	13.0	14.3
	2025-26	21.9	21.1	20.3	17.0	13.5	16.3

4. The actual contribution rate in 1981-2 (after deducting allocations to the NHS and the Redundancy Fund) was 16.5%. The calculations shown above are however based on the assumption that unemployment will be 6% of the labour force. Had it been

at that level in 1981-2 (instead of the actual level of nearly 12%) the contribution in that year would have been only 15.3%.

5. The calculations do not show a simple picture. The main features are:

a. The cases fall into two main groups. In the first group (A-C) flat rate benefits - of which by far the most important is the basic pension - are assumed to rise in line with earnings. Where earnings rise faster than prices (as in Cases B and C) this means that these benefits participate fully in the benefits of economic growth. In the second group of cases (D-F) flat rate benefits are assumed, in varying degrees, to fall behind the increase in earnings, although they at least keep pace with prices.

b. Between now and the end of the century, contributions in the first group of cases show, on the specified assumptions, only a very small increase. In the second group of cases, the failure of flat rate benefits to participate fully in the benefits of growth actually reduces the level of contributions.

c. Between 2000 and 2025, the contribution in Cases A-C rises to about 20-22%. The other cases show only a small rise above present levels or even, in the most extreme case, a continuing shortfall below it.

6. All these calculations are however subject to a qualification on the assumption about unemployment. If unemployment remained throughout the review period at 9%, rather than the 6% assumed, the contribution rate would be about 1% higher in both 2000 and 2025 (as stated in the report in Table 15). As Table 15 also shows changes in the demographic assumptions could also produce changes in the contribution rates.

7. These figures do not demonstrate any clear-cut conclusion that the burden of pensions will become intolerable for the working population.

There should be no significant increase in [illegible] rates by the end of the century and could even be a fall. Even after that, and even in the worst case, the increase would not be great, indeed not much more than the increase over just the last few years (4½% since 1978). But the way that the employed population regard such an increase will depend on general economic circumstances. If economic growth is low, any significant increase would come to appear as a burden.

8. There is another argument against deciding now that no changes are necessary. The Quinquennial Review examines only the cost of the State Earnings-Related Pension scheme. Occupational schemes have been growing rapidly, and their usual practice of relating pensions to final salary is potentially expensive. Moreover, the burden of pensions for the working population is to be measured not only by the level of contributions but by the level of benefits, and the proportion of national consumption which they absorb. Evidence presented by the Government Actuary to the Wilson Committee on Financial Institutions in 1979 showed that with low economic growth, higher pensions could by the end of the century pre-empt a high proportion of the increase in consumption. We have therefore asked the Government Actuary to prepare estimates of the level of contributions to, and benefits from, the private schemes over the Quinquennial Review period. This work should be complete in the autumn. It should allow for a more complete view of the future cost of the pensions burden.

9. I suggest therefore that it would be right to suspend judgement now on whether it is desirable to make changes in present pension arrangements to reduce their future cost. Another reason for doing so is that it will be interesting to see what public reaction is to the Quinquennial Review itself, on which the next step is to invite comments. But it would be worth doing preliminary work now against the possibility that changes will be thought desirable.

10. In official discussions on the Review, we have therefore been pressing for a first list to be drawn up of possible changes in the State scheme designed to reduce its future cost. One possibility is obvious from the table shown in paragraph 3 above: that a long-term policy should be followed of holding down flat rate benefits in line with prices. This is indeed a possibility to be borne in mind. As the calculations show, it could have a substantial effect on the future level of contributions. But there are several disadvantages in relying on this possibility:

a. It assumes that earnings are consistently ahead of prices - that is, that there is sustained growth throughout the period.

b. It assumes that a policy of holding down flat rate benefits in line with prices would be followed over several Parliaments, whereas there would no doubt be strong pressure for benefits to share the advantages of economic growth. (Although if earnings rise much more rapidly than prices, it would be possible to raise benefits at a rate between the two, which would give these benefits some share in economic growth but also help to contain the burden of financing the scheme. This possibility is illustrated by Case F.)

c. It would result in benefits falling in relation to earnings. For example, if earnings rose 2% a year faster than prices, and the basic pension rose no faster than prices, it would fall from 21% of average male earnings now to 10% in 40 years' time. Other benefits would be similarly affected.

d. Even if such a policy could in practice be maintained for decades, it does not necessarily follow that it is the right way of tackling the problem. It might be better, for distributional and other reasons, to operate on the earnings-related addition rather than the flat rate benefits.

11. We therefore thought it necessary to prepare a first list of possible options for changing the State scheme itself. These options, most of which were mentioned in my minute of 26 February, are as follows, with an indication of the eventual reduction in the contribution rate resulting from them in Cases A and C.

		Case A	Case C
(1)	Abolish best 20 years' provision	2.9	2.3
(2)	Abolish accelerated maturity	2.9	2.3
(3)	Substitute best 30 years	1.4	1.1
(4)	Widows to inherit only half of additional component (AC)	1.4	1.1
(5)	Widows choose own or husband's AC	1.0	0.8
(6)	AC halved	4.7	3.7
(7)	Prices revaluation of AC up to retirement	2.9	3.9
(8)	Post-award increase of AC 2% below prices	2.0	1.3

The options are explained further in the Annex to this minute.

12. The next step is for officials to study these possibilities, or such as Ministers may select, in more detail. I would be grateful for an indication from Ministers as to which they would like studied in this way. They are of varying degrees of difficulty and effectiveness. Options (1), (2) and (3) all attack the present arrangement by which the maximum AC can be obtained with less than a full working life. Options (4) and (5) all attack the present very generous inheritance arrangements which, with the favourable treatment for those with only a partial working life, bias the scheme towards women. All these changes seem well worth considering on their merits, but would not of course be easy politically. The others are even more difficult partly because they are more fundamental, partly because they could be more readily understood. Option (6), halving the maximum AC from 25% to 12½%, would be a radical change which everybody could understand. Option (7) would dilute the earnings-related nature of the scheme and would also represent a radical change. Option (8) would of course mean a fall in the real

value of pensions in payment. My inclination, unless you believe that these more radical possibilities must be looked at further, would be to confine the official study to Options (1)-(5).

G W MONGER

ANNEX

POSSIBLE CHANGES IN STATE EARNINGS-RELATED PENSION SCHEME

Option 1. Abolish best 20 years' provision

The additional component, or AC, is the State-financed earnings-related addition to the basic pension. At present, it is the revalued sum of 1¼% of relevant earnings in each of the best 20 years (thus providing a maximum of 25% of a year's earnings). Relating the AC to the best 20 years has an important effect. It means that a full AC can be obtained with only 20 years' work. Women who have a short working life before they marry (and then perhaps work again after their family have grown up) can have a high proportion of the full AC, or even the whole of it. So can immigrants or emigrants with only part of a normal working life here.

By contrast the Guaranteed Minimum Pension (GMP), which contracted-out private schemes have to provide, is related to earnings over a full working lifetime. It accrues at ⅝% of each year's relevant earnings, so that it does not equal the full 25% until after 40 years. Option 1 assumes that the AC is calculated in the same way.

Option 2. Abolish accelerated maturity

The calculations of the AC and GMP described above apply to those with a full working life after the present scheme began in 1978. Ultimately, of course, they will apply in all cases. But specially favourable transitional treatment is given to those with a working life of less than 20 years when the scheme began. For them, the GMP accrues at 1¼% a year rather than ⅝%, so that they can achieve the full 25% after only 20 years. The first calculation assumes that, when the AC is aligned on the GMP, this "acceleration" is retained. Option 2 assumes in addition that this "accleration" is eliminated and that for everybody both AC and GMP accrue

at only $\frac{5}{8}$% a year. It would of course not affect the ultimate cost of the scheme, compared with Option 1, but it would produce bigger savings in the medium-term, and we have asked the GA to cost these.

Option 3. Substitute best 30 years

This is a modification of the best 20 years' provision which does not go as far as the first proposal. It means that the maximum 25% AC can be achieved over 30 years instead of (as at present) 20 years or (as with the first proposal) a full working life of 40 years.

Option 4. Widows inherit half of AC

At present, when one of a married couple dies, the survivor inherits all the deceased spouse's AC so long as the result is not to bring the survivor's total AC above the maximum allowed in the Act. This seems excessive, given that the needs of the survivor must be less than those of the couple. It also introduces a further bias in the scheme towards women, who already benefit from the favourable treatment of those with only partial working lives. Men have to pay higher contributions to finance these generous inheritance arrangements, but the beneficiary is usually the wife, the more frequent survivor of a marriage. Again, the GMP is calculated on a basis which at first is more reasonable, since it provides for only half the deceased partner's GMP to go to the survivor. Option 4 is that in this respect too the calculation of the AC should be aligned on that of the GMP.

Option 5. Widows choose own or husband's AC

This is another, rather less radical, change in the present inheritance arrangements. It would allow the surviving spouse to choose the higher of the couple's AC's.

Option 6. AC halved

This is a simple, though obvious change. It would halve the earnings-related addition from 25% to 12½% with an accrual rate of 5/16% over 40 years. A full working lifetime would therefore be necessary to achieve even the 12½% AC.

Option 7. Prices revaluation of AC up to retirement

At present the 1¼% of relevant earnings for each year is revalued up to retirement in line with the movement in average earnings. This change would substitute revaluation in line with the movement in average prices. It would mean that the scheme was no longer fully earnings-related. If average earnings rose faster than prices, the contribution from the early years of a retiring man's career would be progressively reduced.

Option 8. Post award increase of AC

The scheme at present provides for the earnings-related addition, like the basic pension, to be uprated after retirement in line with prices. The last change we have considered is that it should be uprated by 2% less than the rise in prices.