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PRIME MINISTER

MBM 12 2/2

Public Service Pensions: Index Linking

In his minute to you of 1st February the Chancellor of the Exchequer suggests that his officials, with help from the CSD and DHSS, should prepare a paper for E setting out the broad considerations bearing on, and possible legislative options for, breaking the index-linking of public service pensions. I am sure it is right that Ministers should take a hard look at this emotive area on the basis of the facts, in order to decide whether action should be taken. I think that you can welcome the Chancellor's proposal.

2. In doing so perhaps you should remind the Chancellor of the remit he obtained from E Committee on 23rd January to bring forward a further paper on his proposal to seek higher contributions from public service pensioners for the benefits they enjoy. The two proposals should be looked at together because they are alternatives. One can raise contributions or reduce benefits but hardly both.

3. I would also hope that the Treasury paper would be supported by an adequate factual analysis. I can say, without revealing the activities of previous Governments, that this is not a subject which has gone unresearched, in considerable depth, in recent years. As your colleagues discovered when E Committee discussed the Chancellor's "contributions" proposal, the complexities and ramifications can be very wide. Indeed it was for this reason that I suggested in my brief for the January meeting that there could well be a case, at the end of the day, for establishing some kind of independent inquiry - perhaps a Royal Commission - to take a fundamental look at pensions across the whole of the public sector.

4. If you agree your office might reply to the Chancellor on the lines of:-
- (a) you welcome a paper of the kind he suggests as a basis for an early discussion in E;
 - (b) you would want it and the paper already commissioned on "contributions" to be looked at together;

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- (c) you regard it as essential that both papers should not merely increase arguments but should also contain a factual base adequate for an informed discussion.



Robert Armstrong

5th February 1980