

DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(80) 6

COPY NO 82

22 January 1980

CABINET

THE NOVEMBER 1979 UPDATING OF RETIREMENT  
PENSIONS AND OTHER LONG-TERM BENEFITS

Memorandum by the Chancellor of the Exchequer and  
the Secretary of State for Social Services

BACKGROUND

1. Legislation required that the updating in November 1979 of retirement pension and other long-term benefits (eg invalidity benefit for the long-term sick) should be in line with an estimate of the higher of the rise in earnings or the rise in prices over the 12 months from November 1978. Our estimate was that prices (17.5 per cent) would run ahead of earnings. The figures now available show that in fact earnings went ahead of prices: 19.2 per cent (provisional) compared with 17.4 per cent.
2. We in fact increased pensions by 19.5 per cent, but this included a 1.9 per cent increase to fulfil our campaign promise to make good the shortfall in Labour's 1978 Updating. But the Opposition have already said that the earnings figure shows a further "shortfall" and are pressing us on our intentions.
3. We need to decide what to do, and when to announce our decision.

CONSIDERATION

4. There is no legal requirement to make good a shortfall due to an underestimate of prices or earnings movements. We have no statutory or political commitment to take action. To make good would cost £165 million in a full year and add significantly to our problems in bringing public expenditure under control.
5. Long-term benefits did not lose value as a result of the shortfall since the rise in prices over the 12 months to November 1979 was 17.4 per cent. The updating has therefore met our pledge to price protect pensioners.
6. We are removing the link with earnings in the Social Security Bill now before Parliament, as we announced in the Budget last June.
7. Our view is that, particularly in view of the public expenditure implications, we should not make good the 1979 shortfall.

CONFIDENTIAL

8. We could defer an announcement until the full details of this year's uprating are given at the time of the Budget statement. But the Social Security Bill is now in Committee and the debate on the provisions relating to uprating (Clause 1) will lead to pressure to declare our intentions. There is in fact an Opposition amendment which would require shortfalls to be made good. In resisting the amendment Department of Health and Social Security Ministers would make it clear that our pledge to protect the pension against increases in prices was a minimum commitment and the Government would retain the discretion to do more when circumstances permitted.

9. We are in favour of an announcement as soon as possible to get the matter out of the way.

CONCLUSION

10. Colleagues are invited:-

- a. to agree that we do not make good the shortfall in the November 1979 rates of long-term benefit; and
- b. to agree that we announce this decision as soon as possible.

G H  
P J

Treasury Chambers

22 January 1980