

Civil
Service

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PRIME MINISTER

Civil Service Pay Research: Pensions Valuation
(E(79) 60)

BACKGROUND

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When the Committee discussed the future of pay research on 17th July (E(79) 5th Meeting, Item 4) it agreed that the assumptions on pensions to be employed in future pay negotiations in the Civil Service "should be re-examined and the availability of actuarial advice to the PRU Board should be reconsidered, if necessary by the addition of a suitable member of the Board". And when the Committee discussed the Standing Commission on Pay Comparability on 11th September (E(79) 7th Meeting, Item 1) they expressed a desire "to have advice on how best the value of index-linked pensions could be subjected to independent scrutiny". This paper by the Lord President fulfils both remits.

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2. The essence of the paper is that the 2.6 per cent notional deduction from the pay of Civil Servants to offset the value of index-linked pensions is widely misunderstood. It is not meant to value index-linking as such but to cover the difference between index-linking as applied to the Civil Service and the practice of uprating pensions applied by their analogues. Moreover, the full deduction made - 7 per cent - for Civil Service pensions compares favourably - i.e. is greater than - that applied by most of the analogues. This being so the Lord President argues that the deduction to be made from Civil Service pay to cover the cost of pensions (mostly deducted before the appropriate pay scales are struck) should for presentational reasons be expressed as a single figure. The Lord President also suggests that the assumptions and method used in valuing Civil Service pensions should be submitted to the Pay Research Unit Board for audit; and that the Board itself should be strengthened by nominating a pensions or insurance expert as an additional member.

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3. We understand that the Chancellor of the Exchequer had intended to put forward a paper of his own on this subject but changed his mind. It is nevertheless likely that he will have points to make - perhaps tending in the direction of suggesting that Civil Servants should pay a higher contribution for their pensions. But such an outcome is not excluded by the Lord President's proposals. If the "audit" by the PRU Board shows that the Government Actuary's calculations are based on too favourable assumptions, a correction can be made.

HANDLING

4. You will want the Lord President to introduce his paper. You might then call upon the Chancellor of the Exchequer and the Secretary of State for Employment to contribute before opening up the issue to wider discussion.

CONCLUSION

5. Subject to discussion the most likely outcome is that the Committee will endorse the Lord President's recommendations as set out in paragraph 8 of his paper.



(Robert Armstrong)

29th October 1979