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Prime Minister

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

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PRIME MINISTER

PUBLIC SERVICE PENSIONS

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

2. 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 crossfire whatever happens, for the moves we are taking in other directions will only serve to underline the significance of the present advantage of public sector pensioners.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

18th February 1980

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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 service pensions - most probably 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 1979 General Election Manifesto.

4. Typical of the letters you were sending out was one 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."

(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 Robin Day Radio Four 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" -

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which took the form of answers to a questionnaire submitted by the Civil Service Pensioners Alliance. Copy also attached.

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.

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

"I can assure you that the Conservative Government will continue with the present arrangements."

Summary and conclusion

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

11. 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". (My emphasis.) 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".

12. Public concern about the unfairness inherent in index linking of public service 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.

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13. 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 current changes in the index-basis of other social security benefits and fiscal parameters.



P J CROPPER

15 February 1980

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



HOUSE OF COMMONS

LONDON SW1A 0AA

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 levels.

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 than 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 inflation rates - indeed the Government has admitted as much. This question cannot at present be examined by the Pay Research Unit, which has been suspended by the Government. But, as I expect you will have seen from recent press reports, it is now being considered by the House of Commons Select Committee on Expenditure. The Expenditure Committee undertook a major investigation of the pay, conditions and manning of the Civil Service early in 1976. It is expected to produce the most important report on the Civil Service since the Fulton Report of 1957.

We are awaiting the outcome of this investigation, and meantime concentrating our attack on the Government's failure to get inflation 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 notional 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.



Treasury Chambers, Parliament Street, SW1P 3AG
OF 233 3000

24 January, 1980

Dear Sir

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.



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

Telephone:
Nottingham 256344

14 Beeston Fields Drive
Beeston

Nottingham
NG9 3DB

Hon Member for Beeston

9.12.79

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. ~~Monday~~

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 Pensioners'. 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.

need 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 below].

Background NoteQuestion 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

concession could only be considered when economic circumstances 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 artificially 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 should 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 actuarially 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).

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