



Handwritten scribble or signature

Handwritten initials 'JR'

10 DOWNING STREET

THE PRIME MINISTER

2 March 1982

*Dear Richard,*

Thank you for your letter of 23 February about our exchange during Question Time on 18 February about the value of retirement pension.

First of all, I do accept that the 1978 uprating, the last for which the Labour Government was responsible, did increase the value of pensions by more than was necessary to cover the movement of prices from the previous uprating. However, there was, as I said, a shortfall in that uprating of 1.9 per cent against the movement of earnings over the previous year, and that worsened the relative value of pensions against the movement in average earnings despite the last Government's commitments under the Social Security Act 1975. In the twelve months to November 1978 earnings rose by 13.3 per cent, prices by 8.1 per cent. The 11.4 per cent uprating of pensions that year therefore left a 1.9 per cent shortfall.

You are right in saying that the pension increased by 2 per cent more than prices at the 1979 uprating. But that uprating was, of course, not carried out by the last Labour Government but by us. The 1979 Labour Manifesto had talked of a pension rate of £22 for a single person, but we actually provided a pension rate of £23.30. This not only made good the shortfall against earnings in the 1978 uprating but also provided full price protection.

/ We made

Handwritten initials 'JR'

We made abundantly clear in our 1979 election campaign and subsequently that our commitment has been to protect the pension against rising prices. We have introduced legislation to make that commitment clear and we have pledged ourselves to make good any errors of forecasting that comes in the way of that commitment. That was why the 1981 uprating was adjusted to compensate for a 1 per cent over-estimate of inflation in 1980. That is why we will make good at the 1982 uprating the 2 per cent under-estimate of inflation in 1981.

I believe that our record on pensions stands up to the closest scrutiny. Even with the 1981 shortfall, the pension is still worth as much in real terms as it was at the time of the last Labour uprating. When the shortfall is made good in November we will have restored the real improvement of 2 per cent which we made in 1979, in honour of a commitment we made even before taking office. In the economic circumstances which we inherited in 1979, this is an achievement of which we are proud. Pensioners are already fully aware of our intention at the 1982 uprating not only to make good the 1981 shortfall, but also to increase pension fully in line with the expected increase in prices between November 1981 and November 1982. This will effectively restore the 1979 value of pension. The uprating details will be announced in the usual way in Budget week.

Yours sincerely

Raymond Theobald