



Economic PR
G. M. Lytton

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

15 May 1980

T. Lankester, Esq.,
No.10, Downing Street

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Dr T.,

INDEPENDENT ENQUIRY ON INDEX-LINKED PENSIONS

... As promised, I enclose the remaining two biographical notes to be annexed to the background briefing.

I am copying this letter, with enclosures to Richard Dykes and Geoffrey Green.

Yours,
M.A.

M.A. HALL

GAVIN LAIRD

Born 14 March 1933

Joined Amalgamated Engineering Union at age of 16

Shop Steward then Convenor with Singer Manufacturing (UK)

1973-75 General Council STUC

1975 - Executive Councilman for Scotland and North West England

1976-79 General Purposes Committee, TUC

1979 - Elected Member of TUC General Council

1974-79 Scottish Industries Development Advisory Board Member

1979 - Member of IDAB

1973-75 Member, Scottish Oil Development Council

1974-75 Member HIDB

1976 - Part time Director BNOC

1976 - Member BBC Consultative Group on Industrial and
economic affairs

1979 - Member, Iron and Steel Training Board

SIR BERNARD SCOTT, Kt

Born: 1914

FEng, FIMechE, FBIM, FRSA

Served 1939-45 War (despatches 1944); Belgian Croix de Guerre 1945. 1931 joined Joseph Lucas Limited as apprentice. Held various managerial posts in Lucas companies at home and abroad.

1969-73 Deputy Chairman Lucas Industries Limited

1973-74 Managing Director

1974-80 Chairman

1974 CBE

Director Lloyds Bank Ltd., Lloyds Bank International, Boots, Thomas Tilling.

Member: CBI Council 1974-76

British Overseas Trade Board 1973-77

Vice President: SMM & T 1976 -

Hon LLD Birmingham, 1977

Hon DSC Aston, 1979



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BK
cc: B. Ingham

10 DOWNING STREET

From the Private Secretary

14 May 1980

Enquiry into the Value of Pensions

Thank you for your letter of 13 May. The Prime Minister is content to go ahead on the basis proposed, except that she has decided it would be best to announce the enquiry on Thursday 22 May, which is the day the PRU Board report and the Government Actuary's report will be published.

I am sending copies of this letter to Richard Dykes (Department of Employment) and Geoffrey Green (Civil Service Department).

T. P. LANKESTER

sp.

Martin Hall, Esq.,
HM Treasury



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

13th May, 1980

cc Mr Lyden

Prime Minister

T. Lankester, Esq.,
Private Secretary,
10, Downing Street

We recommend that the pension enquiry be announced next Thursday (not this Thursday) along with the publication of the PAW Board report and the Government Actuary's report.

Dear Tim,

ENQUIRY INTO THE VALUE OF PENSIONS

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As I told you on the telephone, we now have a full team, including Gavin Laird. I enclose fair copies of the proposed draft written question and answer, which we agreed could appropriately be tabled for a reply on Thursday. Also attached are the draft press notice, background brief, and short biographical notes on some of the members of the enquiry. I will forward the remaining biographical notes in time for your press release.

As soon as you can confirm the final texts, and that the announcement will definitely be made on Thursday, I should like to write to the Private Secretaries to other members of the Cabinet, and to the members of the enquiry themselves, with copies of the proposed reply and press notice.

I am copying this letter to Richard Dykes and Geoffrey Green.

Yours ever,

M.A.

M.A. HALL

Better to get them all out on the same day. We have already seen the draft answer and press notice, which are OK.

Yes and

Content to go ahead on this basis?

Th. 13/5

Question: To ask the Prime Minister if she is satisfied that the value of index-linked pensions for public sector employees is adequately taken into account in contributions and levels of pay.

Draft Reply: Arrangements in different parts of the public sector vary widely and I am not satisfied that the difficult problem of the value of index-linked pensions has been adequately considered in all of them.

I am therefore setting up an independent enquiry to consider and advise on how such pensions might be valued. Sir Bernard Scott has agreed to be Chairman. Other members will be Sir Alex Jarratt, Professor Harold Rose, Mr Robert E Macdonald and Mr Gavin Laird.

It is my hope that the enquiry can be completed within three or four months. I am sure it will want to consider representations both from those directly concerned and from others. It would then be for the Government and other public sector authorities to decide, in the light of the advice given, whether and what changes in present arrangements would be desirable. Any such changes would of course have to be considered by the managements and unions and staff associations concerned.

The full terms of reference will be as follows:

[Take in text of terms of reference].

TERMS OF REFERENCE

Having regard to the need to ensure that full account is taken in all areas of the public sector, whether by contributions or salary abatement, of the value of inflation-proofing of occupational pensions, and of relative job security, taking due account of arrangements in the private sector:

- (a) to consider the assumptions and methods used by the Government Actuary where he assesses the value of differences in inflation-proofing of occupational pensions;
- (b) to consider the relative degree of security in the full inflation-proofing enjoyed by public sector employees compared with those in the private sector, and the additional value to be placed upon it;
- (c) to consider how to assess the relative job security enjoyed by employees in the private and public sectors;
- (d) to report their findings and suggest what valuations or methods of valuation would be appropriate to take account of these factors in determining pay and other conditions of service.

DRAFT PRESS NOTICE
ENQUIRY INTO VALUE OF PENSIONS

The Prime Minister gave the following reply today to a Parliamentary Question about the value of index-linked pensions for public sector employees:

"[Take in text of reply]".

Any correspondence about the enquiry should be addressed to The Secretary, Enquiry into Value of Pensions, c/o H.M. Treasury, Parliament Street, SW1P 3AG.

NOTES FOR EDITORS

This is the enquiry which was also mentioned in the Chancellor's Budget Speech.

2. The Government is concerned about the arrangements for index-linked occupational pensions almost throughout the public sector, which are not matched by occupational pensions in the private sector. The difference of pension treatment and its cost has become important as a result of several years of high rates of inflation, and has attracted strong criticism. The Government is dedicated to the objective of reducing inflation, and success in that will diminish the problems arising from difference kinds of pension treatment.

3. But widespread doubts have been expressed about the valuation of the benefit of index-linking and the Government wishes to explore thoroughly the question whether the additional advantages of index-linked pensions can be adequately valued, and their additional value translated into an appropriate level of contributions or reflected in the settlement of pay. The purpose of the proposed enquiry is to seek advice on the problem of valuation. It would then be for the Government and other public sector authorities to decide, in the light of the advice given, whether and how changes in present arrangements should be made, in consultation with unions and staff associations.

4. The terms of reference specify two particular elements in valuation which seem to be worth attention: first, one which arises only where (as in the case of the non-industrial Civil Service and some other public service groups) a deliberate attempt is made to cost the effect of inflation-proofing for future years; the other an attempt to get at the elusive problem of valuing security in an uncertain world.

5. The terms of reference also refer to the problem of relative job security. This is of course separate from the pensions valuation problem, but could involve some similar considerations. It has been included in the hope that the enquiry might, in the course of considering security of pensions value, develop ideas which could help in considering job security also.

BACKGROUND BRIEF

General Comment

It is important to emphasise that the enquiry is addressed to the general issue of valuation. It is not being asked to examine in detail the precise arrangements and commitments of existing pension schemes, far less to set out any blue-print of how such schemes might be changed.

For this reason, it should not be necessary for the enquiry to take extensive and detailed evidence in respect of the whole range of public sector pension schemes, which have many important differences of history, statutory or other basis, financial structure and details of calculation of benefits, and contributions.

Continuation of Index-Linking

The enquiry is concerned with the valuation of index-linking, not with the appropriateness of index-linking itself. Pension schemes and the benefits attached to them involve long-run expectations and commitments which should not lightly be interfered with. The Government is conscious of the obligations it has inherited towards its own direct employees and other employees in the public sector. Nevertheless, any Government must ultimately reserve the right to reconsider the arrangements for full inflation-proofing of public sector occupational pensions against the background of national economic and social considerations.

Representations

The Chairman of the Enquiry will no doubt publicise soon his proposals to receive any representations. Meanwhile any comments addressed to The Secretary, Enquiry into Value of Pensions, c/o H.M. Treasury, Parliament Street, London, SW1P 3AG, will be acknowledged and forwarded to the Chairman.

What Public Sector Pension Schemes are Index-Linked?

Nearly all, which makes a very long list, including Civil Service, Ministers, Members of Parliament, Judiciary, Armed Forces, Police, Nurses, Doctors, Teachers and other local authority and nationalised industry employees. In total, some 5½ million present employees in the public sector are covered by index-linked pension schemes.

Details of Schemes

Details vary, and enquiries should be referred to the managements of the particular public sector groups concerned.

Basis of Present Index-Linking

A large collection of "official pensions", mainly but not exclusively central and local government employees, are covered by the 1971 Pensions (Increase) Act, read in conjunction with other pensions legislation, notably the Social Security Pensions Act 1975. Official pensions are increased in line with forecast movements of the retail price index, at the same time and by the same amount as the additional component of long-term social security benefits (the State Scheme). Other public sector schemes provide similar inflation-proofing, but rest on different legislation or agreements.

Membership

Brief notes on the members of the enquiry are attached. They are in no sense "representatives" but collectively offer great depth of experience and authority in a wide range of management and financial matters.

Cost

Global figures are not available (there are no central statistics of the costs of a large number of schemes under different managements). Figures of current and past pension payments can no doubt be obtained from individual managements (e.g. CSD for Civil Service and some other groups of employees). But to identify

costs of 'index-linking' requires assumptions about an alternative basis with which to compare current and past costs, or a series of assumptions about future developments.

R. E. MACDONALD, M.A., F.F.A.

General Manager & Actuary and also Director
The Scottish Mutual Assurance Society

- 1942 M.A. (Hons. Mathematics and Natural Philosophy),
Glasgow University.
- 1942-1946 War Service (Fl.Lt. R.A.F. (Signals)).
- 1950 Fellow of The Faculty of Actuaries.
- 1962-1969 Pensions Manager, The Scottish Mutual Assurance Society.
- 1969 General Manager & Actuary, The Scottish Mutual Assurance
Society.
- 1976-1978 Chairman, Associated Scottish Life Offices.
- 1977-1979 President of The Faculty of Actuaries.
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8th May, 1980

HAROLD B ROSE

H B Rose is Group Economic Adviser to Barclays Bank and Esmee Fairbairn Visiting Professor of Finance at the London Business School. He has recently served on the Research Panel of the Wilson Committee on the Functioning of Financial Institutions and is a Special Adviser to the Treasury and Civil Service Committee of the House of Commons.

Sir Alex Jarratt CB

Date of Birth : January 19th, 1924

Education : Royal Liberty Grammar School, Essex

University : Birmingham

Qualifications : Bachelor of Commerce (First Class Honours)

Decorations : Companion of the Order of the Bath, 1968.
Knight Bachelor, 1979.

Honorary Degrees : Doctor of Science, Cranfield Institute
of Technology, May 1973.
Doctor of the University, Brunel University
1979

Family : Wife - Philomena. Three grown-up children:
Helen, Ruth and Andrew

Address : Fryerning, Essex

Military Service : Fleet Air Arm

Career

1949 Ministry of Power - Assistant Principal.
Promoted to Principal, 1953.

1954-55 Treasury

1955-59 Recalled to Ministry of Fuel and Power as
Principal Private Secretary to Minister.

1959-63 Assistant Secretary, Ministry of Fuel and
Power (Oil Division)

1963-64 Under-Secretary, Ministry of Fuel and Power
(Gas Division).

1964-65 Under-Secretary Cabinet Office.

1965-68 First Secretary to the National Board for
Prices and Incomes.

1968-70 Deputy Under-Secretary of State at the
Department of Employment and Productivity.

1970 (June) Deputy Secretary, Ministry of Agriculture.

1970 (Sept) Resigned from Civil Service.
1970 (Oct) Became Managing Director of IPC
and was appointed to Boards of IPC
and Reed International Limited.
1974 (Jan) Appointed Chairman of IPC and IPC
Newspapers (now known as Mirror
Group Newspapers).
1974 (Dec) Appointed Chairman & Chief Executive
of Reed International Limited.

Non-Executive Directorships

Imperial Chemical Industries Limited
Midland Bank Limited
Supervisory Board of Thyssen-Bornemisza

Outside Activities

Chairman of Administrative Staff College, Henley
Governor of the London Business School
Governor of Ashridge Management College
Member of Court of Cranfield Institute of Technology
Member of the Council of the Industrial Society (Chairman 1975-79)
Member of the President's Committee of the Confederation of
British Industry
Member of the National Economic Development Council
President of the Advertising Association
Vice-President of the Periodical Publishers Association Limited