



10 DOWNING STREET

THE PRIME MINISTER

30 January 1980

C.F. to note

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*Original
in G/P
Econ 10/1*

Dear Sir Nicholas,

Thank you for your letter of 10 January and your kind remarks about my "Weekend World" appearance.

The question of indexed pensions is very much in my mind and, like you, I am troubled at the extent to which the rapid increase in inflation of recent years has created a growing disparity in the treatment of different pensioners, far beyond what was foreseen in the House of Commons when the legislation to index official pensions was first enacted. And, as the Department of Health and Social Security letter to the Secretary of your pension fund makes all too clear, the Government machine often shows inadequate appreciation of the problem.

Inflation is the root of this, as of so many other problems in our economy and society. If we can get inflation down, and keep it down - as we are determined to do - that will certainly be the best way of tackling the pensions problem. In a society without serious inflation, there would be strong arguments for trying to maintain the value of pensions during the years of retirement.

Meanwhile, the relative present and future cost of maintaining indexed public service pensions has certainly grown considerably, and I agree that it is questionable whether public service occupational pensioners should have their real living standards fully protected, when real living standards are falling for most of the rest of the population.

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One possible solution would be to withdraw or limit the indexation - this would be, as you suggest, a hard decision; it would also involve complex legislation, defining for the wide variety of public sector pension arrangements some appropriate alternative arrangement.

Another approach may be to ensure a more satisfactory charge on the employees concerned to reflect the full cost of inflation-proofing. We are at present reviewing the arrangements for determining these charges, and we may well decide that a bigger adjustment to employees' salaries is needed.

All best wishes,

Yours sincerely

Raymond Stott

Sir Nicholas Cayzer, Bt.