Mr Lankester
Spoke Wiggins. Request for draft PQ by close of play taken aboard.
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21-3

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
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T Lankester Esq
Private Secretary to the
Prime Minister
No 10 Downing Street

20 March 1980

Dear Tim

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25/3

INDEX-LINKED OCCUPATIONAL PENSIONS

Further to your letter of 18 March, the Chancellor met Sir Rowland Wright yesterday, offering him the job of Chairman. Sir Rowland was obviously attracted by the possibility, but said that there were heavy and exceptional demands on his time at the moment because his firm - Blue Circle Cement - had just been referred to the Monopolies and Mergers Commission. He would however think the matter over and let us know by the end of the week-end. I will report further.

... Meanwhile, the Treasury have drafted the enclosed Press Notice, with which the Chancellor is content, including the passage in the notes to editors in square brackets. The intention would be that this would be released by No 10, and would be referred to in the Budget Speech. We should welcome your early reactions.

I am copying this letter to Don Brereton, Ian Ellison, Richard Dykes and Geoffrey Green.

Yours ever,

MAH

M A HALL
Private Secretary

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DRAFT PRESS NOTICE

ENQUIRY INTO VALUE OF PENSIONS

The Prime Minister has appointed as Chairman of an independent enquiry to consider the value of index-linked occupational pensions which are widely provided in the public sector. The names of other members of the enquiry team will be announced later. It is hoped that the enquiry can be completed within 3 or 4 months. The terms of reference are attached.

NOTES TO EDITORS

This is the enquiry referred to in the Chancellor's Budget Speech today.

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 have 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 different kinds of pension treatment. Nevertheless, those problems do at present exist, and need urgent consideration.

3. 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. The Government nevertheless reserves for future consideration whether it is right to continue present arrangements for full inflation-proofing of most public sector occupational pensions against the background of national economic and social considerations.

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4. First, however, the Government wishes to explore more 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 employee contributions. This is the purpose of the proposed enquiry.

5. [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 sector 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. The opportunity is taken to invite those conducting the enquiry to consider also the problem which is in some ways parallel, that of relative job security.]

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 in his assessment of the value of differences in inflation-proofing;

(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 conclusions and suggest what valuations or methods of valuation would be appropriate to take account of them in pay negotiations.

BACKGROUND BRIEF

Representations

A further announcement will be made when the team for the proposed enquiry has been completed. That announcement will indicate arrangements to receive representations.

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 many 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 government employees, are covered by the 1975 Pensions Increase Act, read in conjunction with other pensions legislation. These provide a link to the Retail Price Index, calculated annually. Other public sector schemes operate similar linkages, but rest on different legislation or agreements.

Cost

No figures can be given. (Global figures are not available because there is no central knowledge of the costs of a large number of schemes under different managements within the public sector. Even for any particular scheme, the definition of cost can only be given in relation to some alternative system; there are also problems in interpreting the cost in any particular year.)