



Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

INDEX-LINKED OCCUPATIONAL PENSIONS

We agreed at the expanded meeting of E Committee on 20th February to go ahead with my proposal for an independent inquiry into the value of the right to inflation-proofed pensions in the public sector.

2. I suggest that we aim to announce the inquiry either on Budget Day or the day after (when Patrick Jenkin will be announcing the detailed social security payment changes). I think it would be right for the inquiry to be set up and the members appointed formally by you, and that the announcement should therefore come from your Office. I will arrange for a draft to be prepared a little nearer the time.

..... | 3. Meanwhile, the most urgent step is to decide upon, and recruit, a team of people for the inquiry. I attach at Annex A a note on the shape of a 5-man team and suggestions of names. I would welcome any additions or comments. Subject to that, you may like to leave it to me to approach possible candidates.

/4. I also



... 4. I also attach, at Annexes B and C, a slightly revised draft of the formal terms of reference which I would suggest for the inquiry, and an explanatory note indicating the line which should be adopted in explaining the purpose of the inquiry to candidates, and I envisage that we would draw on some of this material for explanations in our public announcement.

5. You will remember that, as regards publicity, we also talked at E Committee about the possibility of bringing in a Parliamentary Committee, not confined to the question of valuation for contributions, but on the subject of inflation-proofed pensions more widely. The appropriate Committee must, I think, be the Treasury and Civil Service Committee (we would of course need to make it particularly clear to them that we were not just concerned with the Civil Service). On reflection, however, I doubt the wisdom of our putting the question formally to the Committee: to do so might make it difficult for us to avoid taking a position on the merits of "inflation-proofing". We cannot avoid some awkward questions in any case, but I conclude that our best course would be to ensure that our decision to set up an inquiry is brought to the attention of the Committee, and to encourage the Committee discreetly to take the initiative itself in pursuing the subject. If you agree, this could readily be arranged through our normal contacts with the Committee, at the time.

/6. To conclude, I



6. To conclude, I would be grateful for early comments on the suggested names for the inquiry, and to know whether you would like me to approach them. Any comments on the proposed terms of reference and public presentation can be taken at more leisure.

7. I am copying this letter and the enclosures to other Members of E Committee, other colleagues who were present at the discussion on 20 February, (the Lord Chancellor, the Secretaries of State for Defence, Scotland, Social Services and Education, the Paymaster General, Minister of State, Civil Service Department, and the Minister of Transport), and to Sir Robert Armstrong.

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

(G.H.)

6 March 1980

MEMBERSHIP

It is thought desirable to have a chairman plus four members, with distinction and collective breadth of experience. The chairman might best be an industrialist with varied past experience; a reasonable balance might be achieved if he were supported by another man with wide management experience, a leading figure in the insurance industry, an economist and a trade unionist. The idea of one member being a public service employer is attractive, but such a man is likely to be a beneficiary himself of a substantial inflation-proofed pension of the kind under discussion. It is also desirable to have some cross-membership with the Pay Research Unit Board, and/or the Clegg Commission and/or Review Bodies.

2. Some spare names will be needed for the list of candidates to be approached. The following is a suggested list.

Chairman

Alex Jarratt (Chairman of Reed International, formerly National Board for Prices and Incomes and a civil servant, a respected leading member of the CBI).

✓ Lord Plowden (a good mixture of public and private sector experience, an experienced chairman and currently a member of the Top Salaries Review Body).

Members

3. From the insurance industry, we do not want a professional actuary but a leading figure in the industry (most of whom, as it happens, have been actuaries). The following four names are suggested:

R.E. Holland (Chief General Manager of Pearl and a prospective member of the PRUB).

✓ Respected Gordon Bailey (National Provident, past President of Institute of Actuaries, member of Wilson Committee and well-known and highly respected in the City).

Bob Macdonald (Scottish Provident, former President of Faculty of Actuaries).

CONFIDENTIAL

Ron Peat (General Manager of Legal and General).

Trade Union Member

4. The two names suggested are:

✓ Leif Mills (NUBE and a Member who has worked reasonably effectively on the PRUB).

David Lea (Deputy Secretary General of the TUC).

Economist

5. Two academic economists who have shown particular interest in pensions from various points of view are:

✓ Andrew Bain (Edinburgh, Member of Wilson Committee).

Michael P Fogarty (Centre for Studies in Social Policy, London).

An alternative would be to seek an older general economist of high reputation, such as Sir Alec Cairncross.

Other Member

6. Possibilities might include:

Peter Gibson (formerly BP, a Member of the Clegg Commission suggested for that by the CBI).

Lord Diamond

✓ Alan Lord (Dunlop, formerly Treasury, who might be disqualified by his own pension position, but could be expected to make a vigorous contribution to discussion).

DRAFT 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.

EXPLANATORY NOTE

The Government is concerned about the arrangements for inflation-proofed occupational pensions almost throughout the public sector, which are not matched by occupational pensions in the private sector. The difference of pension treatment which might have attracted little attention or criticism in other circumstances has become large and important as a result of several years of very high rates of inflation. 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.

2. There are two sides to the arrangements for occupational pensions: the scale of benefits provided and the scale of contributions, particularly those made by employees, towards the value of their future pensions. Equity could be sought by bringing benefits more closely into line with each other, but could also be obtained, although in different form, with differing expectations of benefit matched by different employee contributions. There is indeed already an element of differential contribution in some public service schemes, explicitly but perhaps not adequately taking account of benefits to be expected, especially the benefits of full inflation-proofing.

3. Pension schemes and the benefits attached to them involve long-run expectations and commitments which should not be lightly 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 against the background of national economic and social considerations. First, however, the Government wishes to explore more thoroughly the question whether the additional advantages of the kind of inflation-proofed pension enjoyed in the public sector can be adequately valued and that value translated into an appropriate level of employee contributions. This is the purpose of the proposed enquiry.

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 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.

5. It is hoped that the enquiry can be completed within a few months.





6 MAR 1967

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