

CIVIL SERVICE PENSIONERS' ALLIANCE

Hon. General Secretary
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8 December 1980

The Rt. Hon. Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
London, SW1.

R10/12.

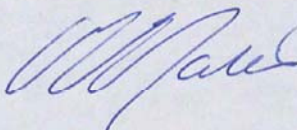
Dear Prime Minister,

I write to express the concern of my members at some of the remarks attributed to you during your interview with the Political Correspondent of the "Sunday Telegraph" and reported in that paper of yesterday's date. They find it surprising that an Inquiry set up by you under the Chairmanship of Sir Bernard Scott should be urged to go outside its terms of reference, a fact capitalised upon by the "Sunday Telegraph" under a sensationalised headline on its front page.

There may be resentment regarding index-linked pensions, particularly among those motivated by the politics of envy and among those who either refuse to recognise or do not understand the contributions made towards those pensions during years of public service, and correspondence expressing this resentment may form a large part of your postbag. Nevertheless, bearing in mind undertakings given before the election not to remove the index-linking of public service pensions (including one by Sir Geoffrey Howe on 22 April 1979), undertakings which persuaded many of our members to support your party with their votes, one would have hoped that some acknowledgement of the need to take account of such pledges would have warranted a mention in your interview.

In order to redress, if only partially, the apparent imbalance of your postbag, I have been asked to let you have a copy of the Alliance's submission to the Scott Inquiry, and to commend especially to your attention the last paragraph thereof.

Yours sincerely



to the [REDACTED]

INQUIRY INTO THE VALUE OF PENSIONS

- 1 This memorandum is submitted on behalf of the Civil Service Pensioners' Alliance the objects of which, in accordance with its constitution, are "to improve the method of calculating all Civil Service pensions and to maintain their purchasing power, to promote the social well-being of members, and to take part in any matters which will benefit the pensioner in receipt of or qualified to receive Civil Service pensions paid from UK funds".
- 2 It is recognised that the Inquiry's terms of reference require determination of the value of index-linked pensions, and that the principle of index-linking as such is not involved. It is also recognised that it is for the Government to decide, in the light of the advice given by the Inquiry, whether any changes in the present arrangements for civil service pensions would be desirable. Nevertheless, bearing in mind the unfounded attacks upon the so-called privileged position of civil service pensioners and the probability that such attacks could appear in the guise of evidence submitted to the Inquiry, the Alliance has decided to submit a brief statement of its own views.
- 3 The Pensions (Increase) Act 1971 made provision for "inflation-proofing" public service pensions and eliminated the requirement for separate Acts of Parliament on each occasion Parliament decided that it was necessary to restore the value of pensions that had been eroded by the rising cost of living. Parliament had acknowledged that it had a duty to public service pensioners to maintain their standard of living. The Social Security Pensions Act 1975 provides for the occupational pensions of employees both in the private and public sectors to be uprated on the common basis of changes in prices levels, and public service pensions are now increased similarly to the additional component pension (occupational pension) provided by the 1975 Pensions Act. Parliamentary pensioners have the same criteria for their pensions increases.
- 4 In Chapter VI of its Eleventh Report, published in July 1977, on the subject of developments in the Civil Service since the Fulton Report, the Expenditure Committee of the House of Commons, whilst recognising that there had been criticism of the index-linking of pensions, held that the principle was defensible for civil servants as under the comparability principle they received less pay than individuals in the private sector for the same work. It was conceded, however, that it was difficult for the Government Actuary to assess accurately the level of adjustment which should be made to civil servants' salaries to reflect their more generous pension arrangements.
- 5 In para 57 of their Report the Expenditure Committee described index-linked pensions as a gamble which a working civil servant will lose if he retires into a less inflationary world than he worked in, and win if the reverse is the case; and that if the trade unions who represent working civil servants accept this gamble on behalf of their members it was difficult to say that they have not some right to do so, since it is their members who lose current pay to assure themselves of security in retirement.
- 6 Evidence will be submitted from other quarters giving the basis of the current deduction from the salary of civil servants for pension purposes, but the Alliance wishes to place on record the view that existing pensioners have contributed adequately in the form of deferred pay for their pensions, and that any interference with the terms of the arrangements under which they retired would be a retrospective breach of what are, in effect, contractual obligations. Where added years have been purchased, the contractual aspect is more clearly defined in the strict legal sense.

- 7 Much is made of the argument that as no insurance company is prepared to quote for an index-linked pension at present levels of inflation it is impossible to quantify the contribution that should be made by the individual participant. Notwithstanding tax reliefs funded private sector schemes claim that they are unable to maintain the real value of pensions. Yet in France, two organisations, comprising representatives of employers and employees, cover the whole of the private sector and are able to link benefits with movements in earnings, with administrative costs of no more than 3% of the total contributions. In the UK these costs amount to between 10% and 30% of the amount contributed.
- 8 Instead of criticising the index-linking of public service pensions the private sector should aim at achieving a similar standard. As a recent article in "The Times" (29 May 1980) puts it:
- "There is little doubt that a disparity of treatment is bad. But we ought to harmonise policy on the most sensible practice, not the worst. In the case of pensions this must be to give everyone a guarantee of the real value of their pension. There is no reason why anyone should see the worth of their retirement income being steadily reduced. Indexation in tax allowances and in state pensions is rightly seen as honesty in government; much the same applies to contributory pensions."
- 9 To do otherwise than to recognise the need for maintaining public service pensions in real terms would put this country out of step with all major Western countries and with such bodies as United Nations and the EEC, where the linkage of staff pensions is either with prices, or the pay of the former post, ie parity.
- 10 The advantage of parity is that it avoids anomalies in the form of unsatisfactory pension peaks and troughs which occur as a consequence of any periods of pay restraint. In a debate on Service Pensions in the House on 2 May 1980 the Minister for the Civil Service, Paul Channon, MP, described parity as an ideal solution but one which, unfortunately, would be far too costly to contemplate. The choice of linkage to prices in 1971 was thought to be rational, easily implemented, and the cheaper solution. To replace this now with less favourable conditions would be an indefensible retrograde step.
- 11 Whenever improvements in pension conditions have been made it has been Government policy to insist on applying the so-called principle of no retrospection. If changes are made that clearly involve a worsening of pension conditions, existing pensioners denied the benefit of improvements negotiated following their retirement, would be doubly penalised if the worsened conditions were applied retrospectively.
- 12 During the 1979 election campaign assurances were received from the bulk of parliamentary candidates that index-linking of public service pensions would not be interfered with, although the question of the adequacy of the contributions payable by those still serving would be reviewed. Such undertakings were confirmed by Sir Geoffrey Howe in an Election Call programme on 22 April 1979 in which he assured an Alliance member that there was no intention to remove the index-linking of public service pensions.
- 13 For those who have given a lifetime of service to the State, and who accepted conditions of service less well remunerated than comparable work in the private sector in the expectation of adequate provision for retirement, nothing is more unsettling than a threat that the money value of their pensions may be diminished, and that of their widows may see a similar decline at an even lower level of income. It is time that this uncertainty was removed, and, in the view of the Alliance, the Government should declare unequivocally that there will be no worsening of the conditions under which existing civil service pensioners receive their pensions. The Government's declared aim is to beat inflation. In their success any problems resulting from index-linking will disappear. To interfere with index-linking might well be assumed to be an acceptance that inflation had become unmanageable and destroy public confidence in the credibility of Government policy. The Alliance prefers to have inflation under control and avoid the necessity to uprate pensions to counteract any erosion in the value of money.