

RETIREMENT PENSIONS

Following the Chancellor's Budget Statement, the Government has introduced legislation to revert to the historic (or actual) method of uprating pensions and National Insurance benefits.

Background to the Change

It was in 1976 that the then Labour Government changed from the historic method, i.e., basing increases in pensions and other National Insurance benefits on *actual* price rises recorded, to the forecasting method, whereby benefit increases are based on the *estimated* rise in prices for the period November to November.

The advantage for the Labour Government, as Mrs Castle has said in her Diaries (p. 595), was that the change 'would save the Treasury some £500 million' – around £1 billion in today's prices. Instead of uprating benefits by the 21.2 per cent by which prices actually rose between March 1975-March 1976, they based the 1976 increase of 15 per cent for pensions on an inflation forecast of 12 per cent.

Labour's forecast of 12 per cent inflation to November 1976 proved to be 3 per cent too low. Since then the system has been marked by inaccurate forecasting, resulting in the bewilderment and confusion surrounding necessary adjustments. Mr Norman Fowler, Secretary of State for Social Services, has stated that the forecasting method has only been right twice – in 1977 and 1979:

'It has been wrong in 5 out of 7 years it has been used. In 1978 the forecast was 1.9 per cent too little. In the spring of 1980 the forecast was 1 per cent too high. In 1981 it turned out to be 2 per cent too low. In 1982 it was 2.7 per cent too much' (*Hansard*, 17th March 1983, Col. 356).

The forecasting system was introduced on grounds of expediency rather than principle. It has few admirers. Recently, a Report of the All-Party Social Services Select Committee, chaired by Mrs Renee Short, commented:

'It is apparent that the system is far from perfect. An uprating system based on forecasting rates of inflation is always likely to produce overshoots or undershoots; it has done so consistently since 1978' (First Report, January 1983, pp. XIII-IV).

The Government's decision to revert to the historic method will remove uncertainties inherent in the forecasting method. The historic method avoids the possibility of forecasting error and therefore the need for later adjustment of uprating increases. It replaces doubt with certainty based on fact.

Effect on Pensioners

For this year, the Chancellor made it clear that the uprating will be based on the rise in prices in the twelve months to May of this year. An uprating statement will be issued in June, which is the latest possible month in which a decision can be made if all benefits are to be paid from November 21st.

The result of this change will be that pensioners will be paid more this November than would have been the case if the Government had stuck to the forecasting method with adjustment. It is thought probable that the 12 month inflation rate will be about 6 per cent in November. Under the forecasting method, if last year's overshoot of 2.7 per cent had been taken into account, pensioners would only have received a 3.3 per cent rise. On the new basis, pensioners stand to gain a rise in the region of around 4¼ per cent. Pensioners will thus still be better off under the change *now* proposed, whereas Mrs Castle's change in 1976 left them over 6 per cent worse off.

Moreover, as Mr Fowler stated in the House: 'any rise in prices between June and November this year that was not picked up for the November 1983 uprating will be picked up in the following uprating' (*Hansard*, 17th March 1983, Col. 358).

Mrs Castle's change effectively eliminated any protection for pensioners and others against the peak months of inflation between March and November 1975. These months were completely missed out of the calculation. There will be no 'missing months'. The period between May and November 1982 is included in the uprating formula now proposed, as the calculating period will be May 1982-May 1983.

The Government is pledged to protect pensions against rising prices. This pledge will be more than fulfilled. The basic pension has increased by about 68.5 per cent over the four upratings since November 1978. The RPI for the same period has risen by 61 per cent (*Hansard*, 15th November 1982, Col. 144). The Chancellor estimated in his Budget that for the whole period November 1978-November 1983 prices are likely to have risen by some 70 per cent and pensions by some 75 per cent.

The Conservative Record on Pensions

- The real value of basic retirement pensions has been protected and increased. Not only have pensions been raised faster than the RPI, they have risen faster than the pensioner price indices in the 4 years to November 1982.
- Pensions have also risen faster than earnings. From May 1979 to November 1982 earnings rose by 59.4 per cent compared to an increase in pensions of 68.5 per cent (*Hansard*, 8th March 1983, WA. Col. 382).
- Supplementary benefits, which 1½ million pensioners draw to supplement their basic retirement pensions, have also been raised ahead of prices. Between November 1978 and November 1982 the main Supplementary Benefit Scale Rates increased by about 65 per cent while the RPI increased by 61 per cent (*Hansard*, 21st February 1983, WA. Col. 351-2). The Chancellor announced in the Budget that the capital disregard limit allowed in the supplementary benefits scheme is to be raised to £3,000. There will be an additional disregard of £1,500 for the surrender value of life assurance policies.
- The Christmas bonus of £10 has been paid each year under the Conservative Government, whereas under Labour it was *not* paid in 1975 and 1976.
- Under the Conservatives the basic heating addition is being paid automatically where a householder aged 70 or over is in receipt of supplementary benefit. The basic rate itself has been doubled and the higher rate has been increased to £4.65. The Government is currently spending a record £325 million on supplementary benefit heating addition. Following the Government's initiative, gas and electricity standing charges are being limited to no more than 50 per cent of any bill.

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