

PRIME MINISTERBILATERAL WITH THE CHANCELLORI. Social Security Reviews: Pensions

The position is still fluid and will develop further tomorrow. Lord Whitelaw and the Chief Whip are "moving between the parties" to see if an outcome can be reached which delivers the political prize you and Mr. Fowler seek but which does not make life impossible for the Chancellor. Three compromise options have been canvassed:

- (i) Abolition, voluntary provision with the threat of subsequent compulsion;
- (ii) Abolition, with compulsion deferred, say, two years;
- (iii) Abolition, compulsion with contributions to private schemes and the realignment of NICS phased in over, say, two years.

It has been made clear that (i) and (ii) are unacceptable to you. The Chief Whip has met Mr. Fowler and has reported that the latter is working on a scheme to produce (iii). He will meet the Chancellor and Mr. Tebbit in the morning to discuss this further. I will report back during the course of the day.

Mr. Fowler may argue that if phasing is applied to the compulsory contributions and the harmonisation of contracted in and out NICs, there should be a phasing out over a similar period of SERPS, i.e. people should continue to accumulate rights to SERPS but at a diminishing rate. There are political arguments in favour of this. First, it provides reassurance to those within a few years of retirement who will worry

about losing SERPS benefits without having time to build up as much through the compulsory scheme. Secondly, it will provide a justification for maintaining different NIC rates for a time after 1987. Thirdly, it will help mollify the big CBI companies who would lose most from the abrupt change. But does it look half-hearted about abolition of SERPS? Not necessarily - like the reform of Corporation Tax, it will all be legislated for at the start and by the time of the Election people will still have begun to accumulate private pensions.

II. Money Figures

The Chancellor can provide his interpretation of the growth of £M3. Are there any special factors at work? Is it a sign that monetary conditions are deteriorating? Or, as I suspect the Chancellor will argue, is it a sign that £M3 is more and more flawed as an indicator?

III. Local Government Finance

The bilateral follows immediately after the meeting on Scottish rates at which you will be discussing the line to be taken on rate reform at the Conference. The Chancellor will be arguing in favour of a cautious line.

AG

30 April 1985