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BF with Treasury response or 6 January

DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON SW1P 3AG

22 December 1983

Dear Nigel,

TEACHERS' SUPERANNUATION SCHEME (ENGLAND AND WALES)

The Government Actuary (GA) has now completed his quinquennial review of the Teachers' Superannuation Scheme (TSS). I presented his report to Parliament on 19 December, saying then that I was considering his conclusions and would make a statement in due course. This letter is concerned with the action needed to collect the increased contributions indicated in his report. I need to announce by mid-January any change to be implemented during 1984-85, so that local authorities can plan their 1984-85 budgets.

In total from 14.4% to 15.45%

Briefly, the facts are that the GA's calculations require an increase in the normal contribution rate of 0.8% (from 12.9% to 13.7%) and an increase of 0.25% in the employers' supplementary rate (from 1.5% to 1.75%). His calculations assume implementation from 1 April 1984. The current regulations do not require the GA to determine the cost of Pensions Increase (PI); nevertheless, he has calculated that if PI were included the normal contribution rate would rise to 19.9% - a further increase of 6.2%.

The current regulations fix the employees' contribution at 6.0%. The employers' contribution is at present 8.4%.

The first question to be addressed is whether this review affords an opportunity to move on the PI front, so far as teachers are concerned. Regretfully, I have to exclude that possibility for 1984-85. I come to this conclusion partly because we do not yet have an agreed policy on the reform of public service pension schemes and, without a clear public commitment to across-the-board change, it would be difficult to justify introducing a PI-related increase in contributions to the TSS alone. But even if we were willing to move on the indexation costs of teachers' pensions ahead of policy decisions of general application and if we were willing to fix employees' contributions from 1 April 1984 at a realistic level, say 8%, then on the GA's indexed calculations there would remain a PI-related increase of 4.2% falling to the employers. I cannot think that we would contemplate re-opening the Rate Support Grant settlement for 1984-85 on that account and I judge it quite unrealistic to expect local authority employers to carry such an increase - of the order of £230m for 1984-85. While I conclude that PI cannot be brought into account for teachers from 1 April 1984, I believe that we should remain committed to across-the-board change of that kind for introduction in due course - perhaps phased.

There remains the question of introducing the non-indexed increase identified by the GA. That is in two parts - the supplementary rate increase (0.25%) and the normal contribution rate increase (0.8%). So far as the supplementary rate is concerned, there is a long-standing convention, shared with other schemes, that deficiencies are borne by employers. I believe that this should remain the case and that in line with the present regulations the supplementary rate increase should be met by the employers.

So far as the normal contribution is concerned, there are two possibilities. The first would be to leave the employees' rate unchanged at 6% for 1 April 1984 with employers bearing the whole of the increase of 0.8%; this would be in accordance with the present regulations, and is what is widely expected. The second would be to share the increase between employees and employers: this would require changes to the regulations and prior statutory consultation. If the 0.8% were shared equally between employees and employers there would be a modest but significant saving to local education authorities, of the order of £20m in 1984-85, but only if the employees' increased contribution level was not reflected, in whole or in part, in the 1984 pay settlement. (The increase gathered from the teachers, also £20m, would have a lower net value to the Exchequer, of course, because employees' contributions are tax deductible.) But this course of action has drawbacks. At the previous quinquennial review the total contribution rate was reduced by 0.5%: that decrease accrued to the employers alone. It would therefore be the less easy to justify sharing an increase this time. We would also be in difficulty in the immediate future in answering questions about our intentions on funding the cost of PI. When we come to tackle - as we must - the PI issue, I should much prefer to do so for teachers in the context of a public service-wide policy and not against a background of controversy about isolated change for them alone from April 1984.

My view is that while we remain uncertain about what might follow OP's report the case for an immediate change in the employees' contribution rate is weak. The field expects the increase to be met by the employers and the present regulations provide for that outcome without amendment. But in announcing my conclusion I would want to make it clear that we are committed to the principle that public servants should bear a realistic share of the costs of their superannuation schemes and that we look to bring PI costs into account for all. I attach a draft statement. (The square-bracketted part is intended to leave our options open for the future: you may wish to suggest adjustment to that, if otherwise content.)

I should also note that the report itself is certain to come under close scrutiny from employers and employees, particularly the underlying economic assumptions. I believe that those match the assumptions made when the police and firemen's schemes were last reviewed, but they do differ from those used in the previous TSS review and the report makes clear that use of the previous economic assumptions would have led to a <u>decrease</u> in contribution rates. I shall not enter the argument myself, on the grounds that the assumptions are a matter for the GA's professional judgment. Nevertheless, you may wish to note that I expect attack on the point, in terms of the GA's judgment or in terms of the compatibility of his assumptions with our economic policies.

I should be grateful for any comments you may wish to offer on my proposed line of action, by close of play on 11 January.

Copies of this letter go to the Prime Minister, Members of E(PSP), the Secretaries of State for Scotland, Wales and Northern Ireland, and to Sir Robert Armstrong.

Even. Keith.

DRAFT STATEMENT ON TEACHERS' SUPERANNUATION CONTRIBUTIONS

I presented the Government Actuary's Report to Parliament on 19 December last. His review identified a need for increased contributions totalling 1.05% of salary. Under the present regulations governing the scheme the employees' share of the normal contribution rate is 6.0%. To meet the increase required the employers' share of the normal contribution rate increases to 7.7% and the supplementary rate, met by employers, rises to 1.75%, bringing the total contribution payable by employers to 9.45%.

I have no immediate plans to amend the regulations so as to adjust the respective contributions of teachers and employers, [but would wish to remind the House of the Government's firm commitment to reform the present public service pension arrangements in due course, so as to bring the cost of Pensions Increase into account and to set realistic contribution levels for employees receiving such benefits.]

The new rates will apply from 1 April 1984.

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CC/NO NBPM AT 16/1

QUEEN ANNE'S GATE
LONDON SW1H 9AT

13 January 1984

Dr Keith,

TEACHERS' SUPERANNUATION SCHEME (ENGLAND AND WALES)

When contribution rates in the police and firemen's pension schemes were increased by 4% in 1982 and 1983 the increases were based on valuations of the two schemes by the Government Actuary which took account of the cost of Pensions Increase (PI). In the case of those two schemes the cost of PI has therefore been taken into account and I suggest that a statement on the lines proposed in your letter of 22 December should include something to the effect "where this has not already been done".

This has been copied to those who received your letter.

Ever,
Leon

The Rt Hon Sir Keith Joseph, Bt, MP

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