C&E NO

PRIME MINISTER

MS

TEACHERS' SUPERANNUATION SCHEME (TSS) (ENGLAND AND WALES)

1. Your Private Secretary's letter of 19 January suggested a meeting if I still favoured my original suggestion. I would welcome that. This minute sets out brief notes on points which I suggest we might cover, avoiding as far as possible restating arguments already on the record.

Sharing the required contribution increase

2. I do not think the Chancellor's proposal would be perceived as a neutral stance. The status quo is 6% from employees, in the teachers' and other normal accrual schemes for non-manual employees; the employers' contributions vary. When the total TSS contribution last changed, downwards, the employee contribution was kept at 6%. Present policy is thus to require employees to contribute 6%. A change in that percentage will be seen as a policy change.

Should employees' contributions change with GA reports?

3. I gather that a Government Actuary's (GA) report on the NHS scheme is expected soon and that it may indicate a reduction in total contributions. Raising the teachers' rate now in association with the GA report on their scheme might suggest that any reduction required in the NHS case should also be shared with employees. More generally, I do not think the absence of recent GA reports on some schemes should inhibit us from moving to a single (higher) employee rate for all - 8% or thereabouts if we conclude that is the appropriate level. (I understand that this issue may be before us within a month or two, from the Official Committee on Public Sector Pensions.) If we decide to act in this

way we shall have to present the change as a policy decision, divorced from the detail of recent valuations. This is one of the reasons why I am uncertain about acting on the teachers' scheme now, on the back of the GA report.

Pay implications

4. The Chancellor believes that any further general statement of policy could well be interpreted by other groups as posing an unquantified and potentially serious threat, perhaps jeopardising their pay negotiations. I am sure he would agree that an actual increase in the teachers' contribution level, in isolation, with the prospect of further increase to take account of Pensions Increase to follow (I should have to make it clear that any increase from 1 April 1984 was not related to Pensions Increase costs), would on the same argument certainly impact on their pay negotiations. Whatever we decide now about teachers' superannuation, we will never know what the pay settlement would otherwise have been, of course, but some or all of any increased contribution may be reflected in pay, if only because of employers' relatively greater ability to pay a salary increase if some of what they currently expect to meet on superannuation is passed across to the teachers. My veto might not protect us against that, as already noted.

5. Insofar as a higher settlement might result, it would seem bound to affect other public service pay negotiations, no matter how carefully we presented the superannuation context. Any consequential pay increases would then be reflected in higher pension levels, from next year onwards.

Wider implications

6. Colleagues may see the GA report on teacher pensions as a good opportunity to break the general 6% pattern, perhaps thinking that would make it easier to deliver across-the-board change later. I don't agree. Our determination to apply general change is firm and our rate of progress towards that seems to me to depend on considerations other than the teachers' contribution

rate. It will be easier to play down detailed analysis of different groups' contributions and benefits if all move together to a new higher rate, as a result of a policy of general application.

7. We may want to bring about a change in employees' contributions from a date other than 1 April (1984 or 1985). I would therefore now suggest a change in the statement I proposed on 16 January so that I would specify contribution rates from 1 April 1984 rather than for 1984/85.

Conclusions

8. We must decide this matter soon, to give employers the maximum time for their 1984/85 financial planning and before employer representatives have to present their ability to pay arguments in this year's pay negotiations. I do not expect the first meeting, on 30 January, to include a pay offer, but one may be required as early as mid-February. I will write to the Chancellor separately about the instructions I propose to give my representatives.

9. A factual note on present and possible future contribution rates etc is attached.

10. Copies of this minute go as previously to members of E(PSP), the Secretaries of State for Scotland, Wales and Northern Ireland, and to Sir Robert Armstrong.

KJ

25 January 1984

ANNEX

TEACHERS' SUPERANNUATION SCHEME (E & W): FACTS

Contributions

	Normal Contribution (Total)	of which Employee	Employer	Supplementary Rate (Employer)	Total
Present arrangements:	12.9%	6%	6.9%	1.5%	14.4%
GA's Report:	13.7%	no recommendation		1.75%	15.45%

These rates do not cover Pensions Increase. The GA has calculated that a normal contribution rate for new entrants of 19.9% would be required to cover PI costs.

INCOME, EXPENDITURE AND BALANCE

	1982/83
Receipts	£775m
Expenditure on basic benefits	£504m
Surplus to notional fund	£271m
Expenditure on Pensions Increase	£299m
1982/83 cost to Exchequer (including PI)	£ 28m
Current balance in notional fund (note: notional fund does not bear PI costs)	c £10,000m

Education: Teachers Pay pt. 3

26 JAN 1984

10 DOWNING STREET

2

Prime Minister

Sir Keith is taking you up on your offer of a meeting. I am arranging. Since part of his argument is the comparison with other public sector groups, we will need SS/SS, SS/Emp etc.

I do not accept the argument in para 3. Do employers see 100% loading of variations on them as neutral.

AT

26/1

M

HMT
HO
D/N
DOE
DHSS
DTI
CDL
D/M
D/Trans.
W/Ivrs
CO
+ below
+ bc

CONFIDENTIAL

bc O. Letwin

10 DOWNING STREET

From the Private Secretary

30 January 1984

Dear Elizabeth,

Teachers' Superannuation Scheme (England and Wales)

The Prime Minister has seen your Secretary of State's minute of 25 January arguing the case for maintaining the employees' contribution rate at 6% and for seeking the increase required entirely from the employers' contributions. She has agreed to hold a meeting to discuss this and this has been arranged for 15 February. The Chancellor of the Exchequer, the Secretaries of State for the Environment, Social Services, Scotland and Wales, and the Home Secretary have been invited.

BF

I am copying this letter to the Private Secretaries of members of E(PSP), John Graham (Scottish Office), Colin Jones (Welsh Office), Derek Hill (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Miss Elizabeth Hodkinson,
Department of Education and Science.

BF.

CR

Please arrange a meeting on Teachers' Superannuation - correspondence with Sir Keith Joseph refers:

- SS | ES
- SS | Env
- SS | SS ~~Health~~
- SS | Scot
- SS | W
- Ch | Ex
- HS (if he feels he has an interest) ?

andrew.

3/4

Wednesday 15 February at 11.15, f | Ed office happy to wait that long.

CR