



13

PROVISION FOR RETIREMENT

(MISC 111(85)1: Appendix 1)
(MISC 111(85)5)

1. The Secretary of State for Social Services makes the following proposals:

✓ (i) Retirement provision should be based on the "twin-pillar" approach (ie. basic provision by the State, supplementary provision by individuals).

✓ (ii) The State earnings related pension scheme (SERPS) should be abolished, but rights already accrued should be honoured.

✓ (iii) Private pension provision should be encouraged by National Insurance contribution (NI) rebates to employers, by incentives for personal pensions and by efforts to create industry-wide schemes.

(iv) No commitment to move to a common retirement age for men and women but consultation on increasing flexibility (perhaps a "decade of retirement" - between the ages of 60 and 70 - giving entitlement to a reduced or enhanced basic pension).

✓ (v) The earnings rule for pensioners should be abolished.

(vi) The indexation of public sector pensions for new entrants should be limited to the lower of the RPI or 5%.

(vii) The age addition (25p a week) paid to pensioners over 80 should be abolished, with the savings applied for the benefit of the elderly.

2. At MISC 111(85)1st meeting there was general agreement with the "twin pillar" approach, and to the abolition of SERPS. There was, however, concern that abolition of SERPS should be linked with fully adequate alternative arrangements by employers or individuals



to supplement the basic pension so as to avoid the State having to do this itself. There was also some concern that the proposal to limit index-linking of public sector pension for new entrants, where the savings will be several decades off and will depend on future levels of inflation, might not be worth the considerable short-term controversy.

MAIN ISSUES

3. The main issues are -

- (a) Are the Group satisfied with the adequacy of the measures to encourage employers and individuals to supplement the basic pension when SERPS is abolished?
- (b) Should there be consultation on increased flexibility in the retirement age?
- (c) Should the earnings rule be abolished?
- (d) Should the age addition for the over-80s be abolished?
- (e) Should index-linking of public sector pensions be limited for new entrants?

Alternative provision when SERPS is abolished

4. MISC 111(85)5 sets out Mr Fowler's thinking on what arrangements should replace SERPS. He offers two alternatives. The first uses "encouragement" only: employers would be encouraged to set up occupational schemes by offering them a rebate on their NI contribution; the rebate would be phased out over time; and a personal pension would be a permitted alternative. The second adds an element of "compulsion" in that after a transitional period employers would be required to provide a scheme matching the minimum qualification. In both cases the minimum qualification level for a scheme would be a contribution of 5% of earnings, at least half of which would come from the employer. The costs for employers and employees are shown in para 8 of MISC 111(85)5 and the likely benefits of schemes replacing SERPS are shown in paragraph 9.



Except at the lowest income levels the result is likely to be pensions reduced by between 10% and 30% for slightly greater contributions. The NI contribution rebate proposed for a transitional period will both encourage employers to set up schemes and soften the effect of abolishing SERPS for employer's contributions for contracted-out employees. (Para 11 of MISC 111 (85)5).

5. Recipients will do less well under post-SERPS arrangements than under SERPS so the change is not likely to be popular. But in the other scale is the fact that the cost of SERPS suggests that either the benefits would be reduced in due course or the contributions of the then-employed very substantially increased. An element of compulsion in future provision on the lines suggested by Mr Fowler will prevent employers from opting out of pensions provision with the likely future burden on the state.

The retirement age

6. Present policy on the age at which the state retirement pension is payable (60 for women, 65 for men) may not be stable. There are arguments for reducing the male age to 60 (on both sex equality and assisting with unemployment grounds) or for equalising them at some other age eg. 63. There are also arguments for enabling people to work longer, eg. up to age 70, given the increasing number and good health of people in their 60s. Mr Fowler does not ask for a final decision in this area but for agreement to consult on the possibility of a "decade of retirement" (60 to 70) with a reduced or enhanced basic pension depending on when the retirement option is chosen. The possible costs involved are not clear. It will be difficult to consult on policy on retirement provision generally without saying something about the retirement age. However, unless it is clear that nil net cost proposals can be developed, it may be better to stick on the present line rather than to raise expectations.

The earnings rule

7. The 1983 Manifesto committed the Government to abolish the earnings rule "as soon as they can". Abolition would cost



£70 million net (£170 million gross) and there is already provision in PES to abolish the rule in two equal stages -in November 1987 and 1988.

The over 80s age addition

8. Just under a million pensioners over 80 receive an additional 25p a week (£13 a year). Mr Fowler proposes abolition with the savings being applied for the benefit of the elderly eg. for a higher pension uprating or relevant health services. This payment can bear little relation to any costs that fall on the over-80 pensioners. On the other hand the savings will not go far.

Indexation of Public Service pensions

9. The proposal is to limit the indexation of the pensions of new entrants to the lower of the RPI or 5%, basically on the grounds that it is not fair that public service pensioners should have fully-indexed pensions when private sector schemes cannot afford them. This would be a policy of potential long-term gains (40 years hence), depending on the rate of inflation at that time, at the expense of immediate controversy. It would seem better for the Group to leave this issue on one side, for decision separately in the context of public-sector employment policies as a whole.

HANDLING

10. The Secretary of State for Social Services should introduce his proposals. The Chancellor of the Exchequer and the Secretaries of State for Employment and Trade and Industry will particularly wish to contribute on the impact on the economy and industry.

CONCLUSIONS

11. You will wish to reach conclusions on:-

- (i) the abolition of SERPS and alternative arrangements thereafter, in particular whether there should be an element of compulsion in the latter;



- (ii) whether to consult on a "decade of retirement";
- (iii) the abolition of the earnings rule, and the over 80 age addition;
- (iv) Limiting the indexation of public sector pensions

Pg

P L GREGSON

12 February 1985