

PRIME MINISTER

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PENSIONS

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Norman Fowler's paper has the figures without the politics.

His bald figures are unattractive, showing employers and employees both paying more in order to get less pension.

What they fail to reveal is:

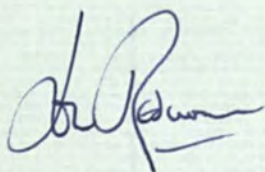
1. Taxes would rise rapidly and dramatically over the next 30 years to pay for the generous SERPS scheme - by much more than the modest increase required to buy a proper funded pension scheme for everybody.
2. The pensions derived from the employee fund may be much more than suggested if investment returns stay strong. Conversely, the pension from SERPS may be less, as future generations may be unwilling to meet the big bill.
3. Nowhere is the importance of individual savings and control over assets stressed - a vital part of the wider wealth-ownership policy.
4. The balance in NIC contributions between currently contracted-out (people with their own pension funds) and currently contracted-in (people in the state



scheme) is difficult. However, funds are very flush with assets at the moment and many are reducing the employers contribution. Now is therefore the time to do the change: and the funds still enjoy great tax privileges.

Abolishing SERPS can be attractive politics, but only in the context of a major drive to stress the values of savings and wider wealth-ownership. Why not give people the right to know the value of their share of their existing pension fund so they can see what their assets are and can transfer them more freely if they wish? This would be an exciting move to get people to understand the wealth at their command liberated by the Government's moves to encourage transfers.

The choice between compulsion and encouragement is a choice between a cheaper route and a dearer but politically more attractive route. Compulsion stops people coming back on benefit and removes the need for NI rebates as incentives. Encouragement will upset fewer people but has some financial risks. You could accept the DHSS compromise - although Treasury will be unhappy about the rebate.



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