



For Cabinet folder
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 on AT's instructions

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Treasury Chambers, Parliament Street, SW1P 3AG
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22 April 1985

The Rt Hon Norman Fowler MP
 Secretary of State for Social Services
 Department of Health and Social Security
 Alexander Fleming House
 Elephant & Castle
 LONDON SE1

Norman

SOCIAL SECURITY REVIEW - PUBLIC SERVICE PENSIONS

- At 1 at flap
 Your recent minute to the Prime Minister about your proposals for a new framework for occupational and personal pensions indicated that you would discuss separately with Treasury Ministers the implications of these proposals for the indexation of public sector pensions. While I am sure it would be wrong to include any specific reference to this in your Green Paper, the proposal that occupational and personal pension arrangements should, in respect of future benefit rights, have to provide as a minimum for the annual indexation of benefits in payment up to a maximum of 5 per cent, is likely to raise questions about our future policy on the existing indexation arrangements in public service and sector schemes.

Our present policy was set out in the 1983 Manifesto which said that "public sector pensioners will also be protected on the basis of realistic pension contributions". We discussed this in Cabinet on 15 September 1983, following which an Official Group was set up to look at this and other allied matters. We discussed their work in E(PSP) on 24 July last, and concluded, as I reported in my minute to the Prime Minister of 27 July, that the ways forward identified by officials were unattractive, and that the matter should be reviewed again following the outcome of your Inquiry into Provision for Retirement.

My view is that if the question of indexation of public service pensions is raised following publication of your Green Paper, we should take the line that your proposals have no necessary relevance. We would base this on the fact that our proposals for the future related to a minimum requirement for indexation, with nothing stopping those concerned doing better if they so wish; and that accrued rights under the present state earnings-related pension schemes (SERPS) will be honoured. If pressed, we should continue to rest on the Manifesto statement though indicating that the possibility of changes is not closed off, certainly on the contribution side.



If you agree we could report it to Cabinet at the same time as we consider your Green Paper, on 25 April; and my officials could circulate for agreement with officials in interested Departments a form of words to be used when questions arise.

More generally I agree that if the framework you are to propose in your Green Paper is introduced, public service schemes must fit in with it. There are two particular points I should mention here. First, in most cases the schemes will have to be amended to allow employees to opt for personal pensions; and in the case of the Civil Service it will almost certainly be necessary, if the personal pension option is to be a reality, for us to find some way of moving to a contributory scheme. Second, although the cost may be substantial, we shall have to consider extending membership of the public service schemes down to include those part-timers earning above the lower earnings limit, if that is the condition which is in future to apply in the private sector.

I am copying this letter to the Prime Minister, other members of Cabinet and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON

Social Services

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