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Ref. A085/1288

PRIME MINISTER

Social Security Review

FLAGS A + B (C(85) 9 and 12)

FLAG C On 2 May (CC(85) 15th Conclusions) Cabinet reached decisions on family support and supplementary benefit. It now needs to make decisions on the rest of the review, including the abolition of the State Earnings Related Pension Scheme (SERPS) on which Mr Fowler has put in a further memorandum (C(85) 12) following your meeting on Monday evening.

MAIN ISSUES

2. The main issues for the Cabinet are:
 - a. whether the major proposals are agreed on:
 - i. housing benefit;
 - ii. pensions.
 - b. whether the remaining lesser proposals are agreed;
 - c. whether the package as a whole is acceptable, in particular the total cost savings, and the overall impact in terms of gainers and losers;
 - d. whether Mr Fowler's proposals for a Green Paper, legislation next Session and implementation from April 1987 are agreed.

--- The proposals are summarised in the Annex to this brief.



Housing Benefit

3. For housing benefit the proposal is to bring the tests and entitlements for those in and out of work into line (and to have the same tests as for the new supplementary benefit income support scheme) and to withdraw entitlements on a combined taper for rent and rates. MISC 111 discussed at some length the principle of 100 per cent assistance with rent and rates. On rates it concluded that the maximum level of assistance should be restricted initially to 80 per cent so that all ratepayers would have to make a personal contribution to their rates. On rents it considered whether maximum levels of rent should be set above which benefit would not be paid. It concluded that this would be too complicated. The Chancellor of the Exchequer then urged a maximum level of rent assistance of, say, 95 per cent. I understand he is not pursuing this. The proposal is therefore to give 100 per cent support with rents; control of housing benefit rent expenditure will rest on reimbursing directly only 80 per cent of local authorities housing benefit expenditure, on streamlining and strengthening their powers to act on unreasonable rents, and by taking reserve power to impose a rent cap on local authorities which are judged to behave unreasonably. The effect of the proposals is to reduce housing benefit expenditure by £560 million in a full year.

Pensions

4. The main proposals on pensions is to abolish SERPS. The main argument for doing so is that the cost of providing SERPS pensions in the next century, with its implications for contributions from the then working population and for public expenditure, will be an intolerable burden. There is also a philosophical case for shifting the responsibility for making pension provision (apart from the State basic pension which is unaffected) away from the State to the employer and the individual and for putting it on a funded rather than a



Flag B
 pay-as-you-go basis. The proposal approved by MISC 111 was to abolish SERPS immediately (while preserving accrued rights) and to substitute non-State second pensions based on a compulsory contribution requirement. However, the Chancellor was concerned about the short-term cost implications of this proposal, and you and other Ministers were concerned at the likely effect on the pension expectations of those nearing retirement. C(85) 12 puts forward revised proposals which meet these concerns. The main features (paragraph 6 of C(85) 12) are:

- a. For men aged 50 or over and women 45 or over, SERPS will continue until their retirement.
- b. For all other employees SERPS will be phased out and a compulsory minimum private pension contribution phased in over the three years 1987-88 to 1989-90. The compulsory contribution will build up to 4 per cent of earnings (shared equally between employer and employee).

This approach will still secure cost reductions in the next century (rising to £22 billion by 2033-34) but will also protect the position of those within 15 years of retirement, and significantly reduce the short-term costs (see paragraph 7 of C(85) 12).

5. The abolition of SERPS is certain to be highly contentious. It will be attacked by those who see it as going back on the all-party agreement of the seventies and as a step back towards greater poverty for the pensioner. Those contracted-out of SERPS will lose the benefit of the contracted-out rebate. More particularly, those in the age groups immediately below 50 (men) or 45 (women) may feel especially aggrieved: those above them will retain full SERPS entitlement; those below them will have time to build up a reasonable pension entitlement by retirement;



they will be caught in between. Following your meeting last Monday, Mr Fowler is considering further how their position can be ameliorated.

Other Proposals

6. MISC 111 also agreed proposals on unemployment benefit, widows benefit, death and maternity grants, maternity allowance and students (see C(85) 9, paragraph 21, and Annex to this brief). They also agreed to make no change in the scheme of industrial injuries benefits. Savings of £50 million a year and upwards will accrue.

The Package; Savings and Impact

7. The proposals taken as a whole amount to a radical and significant restructuring of the social security system. The main resistance will come from those who perceive themselves as losing from the changes (see Annex) including:

changes in supplementary benefit will produce about 2 million losers (and 1½ million gainers);

changes in housing benefit will produce 7 million losers (because of the loss of entitlements to 100 per cent reimbursement of rates; 5 million of the losers will lose less than £2 a week);

abolition of SERPS means that many of those in middle-age are likely to perceive their retirement expectations as reduced;

abolition of death and maternity grants will affect 500,000 or so people a year in each case.

Undoubtedly much will be made of hard cases.



8. The savings likely to be made will be very relevant to whether the controversy is worthwhile. As proposed, the structural changes other than pensions will save £800 million in 1987-88 and £1 billion in 1988-89 and 1989-90. Taking account of the proposal for abolishing SERPS, savings will be £700 million in 1987-88 and 1988-89 and £400 million in 1989-90. Longer term savings accrue from abolishing SERPS: £6 million by 2013-14 and £22 billion by 2033-34. The changes will also save 3,000-4,000 staff and £20 million in administrative costs. During the course of the MISC 111 discussions the Chancellor of the Exchequer and the Chief Secretary, Treasury argued for even greater savings in the early years (at one stage for up to £2 billion) and it is the case that savings not made now may be very difficult to achieve for a number of years. Against this Mr Fowler argued that greater savings should be discussed separately in the public expenditure round and that, in any case, to attempt to achieve too great savings would arouse too great controversy and jeopardise the whole exercise. The Chancellor's present view as you know, is that he is not disposed to press for savings directly from the review greater than those already identified. He may, however, seek to secure Cabinet agreement in terms of making greater savings from Child Benefit than are required to finance Family Credit by eg forgoing future upratings. Last week's meeting agreed that there

was no presumption of annual inflation linked upratings for CB. Chancellor wants to go further and seek agreement that after increase Next Steps to £7.00, there should be no further cash increase planned.

9. Mr Fowler proposes that, following Cabinet's decisions, he should publish the proposals in a Green Paper. (A draft of volume one of the Green Paper is attached to C(85) 9). His intention was to publish before Whitsun but, following your meeting last Monday, he is considering whether timing before or after Whitsun would be better. The intention is then to legislate next Session and to implement proposals for April 1987. An earlier implementation date (eg November 1986) would not allow adequate time to prepare instructions and guidance.



Even to meet the April 1987 date legislation next Session is vital and there is already much less time than is desirable to develop and draft considered legislation.

HANDLING

10. You may like to suggest that the Cabinet should consider the remaining major proposals on housing benefit and pensions, and then the other proposals, the overall package and presentation and next steps in that order. You will wish the Secretary of State for Social Services to introduce each part of the discussion very briefly. The Chancellor of the Exchequer will wish to contribute on pensions and overall savings in particular and the Lord President on presentational and legislative implications. Otherwise you may wish in particular to let those Ministers who have not been on MISC 111 contribute (ie the Lord Chancellor, the Foreign and Commonwealth Secretary, the Secretaries of State for Energy, Defence, Scotland, Wales, Transport and Northern Ireland, the Lord Privy Seal and the Chancellor of the Duchy of Lancaster).

CONCLUSIONS

11. You will wish the Cabinet to reach conclusions on:

i. the major proposals on:

housing benefits;

pensions.

ii. the other lesser proposals:

← unemployment benefit (higher rates but duration reduced to 26 weeks);

Ms Forde is getting cold feet on this - see attached note.



widows' benefit (short-term 26 week allowance replaced by lump sum; subsequent benefits concentrated more on older widows and those with children);

✓ death and maternity grants (to be abolished; better help for those most in need);

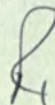
✓ maternity allowance (more flexible, and more relevant to working women);

students (intention in principle to exclude from supplementary and housing benefits).

iii. the acceptability of the package as a whole;

iv. presentation - including in particular the publication of the Green Paper, and public announcement;

v. legislation and implementation.


P.P. ROBERT ARMSTRONG

8 May 1985

SUMMARY OF PROPOSALS

ANNEX

Pensions

1. SERPS abolished (existing rights protected) for men under 50 and women under 45
2. Occupational provision to be made compulsory on basis of defined contribution.
3. Encouragement to industry wide schemes and personal pensions.

2. Supplementary Benefit

1. New income support scheme based on age, marital status, client group and family responsibilities. Replaces the present short-term and (higher) long-term scale rates and the extra weekly payments (for heating, diet, laundry etc)
2. New social aid scheme to give discretionary help with extra needs, (births, deaths, financial crisis) and budgetting difficulties.
3. No help with mortgage interest for first 6 months.
4. Higher limit on capital (£6000 instead of £3000) with weekly income assumed and set off against benefit.
5. Higher earnings disregard for long-term unemployed families after 2 years (£15 instead of £5) on an experimental basis.
6. No separate help for residual housing costs or water rates - amount to be allowed for in setting new weekly benefit rates.

Consequences (resources, people)

Resources: PSBR costs of £100 million in 1987/88 rising to £600 million in 1989/90 but savings from SERPS abolition of £1.2 billion in 2003/04 rising to £22 billion in 2033/34.

People : Those now in contracted-out schemes will pay higher contributions and lose some inflation-proofing of their pensions; retirement expectations of those near but below 50/45 potentially reduced.

Consequences (resources, caseload, people)

Resources : reduces overall expenditure by £180m after transitional protection runs out
 : Saves 2000-3000 DHSS staff (plus 350-450 from YTS expansion and eventual exclusion of students)

Caseload : People entitled fall by 590,000

Gainers 1,243,000 + 550,000 gain £0-£2
 458,000 gain £2-£5
 229,000 gain £5+

1,243,000
 includes 216,000 pensioners
 651,000 unemployed
 232,000 lone parents
 138,000 sick and disabled

Losers 1,942,000 - 773,000 lose £0-£2
 882,000 lose £2-£5
 287,000 lose £5+

1,942,000
 includes 1,098,000 pensioners
 558,000 unemployed
 197,000 lone parents
 49,000 sick and disabled

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3. Housing Benefit

1. Main structure to be fully aligned with new income support scheme replacing supplementary benefit. Secures equitable help for all at or below basic income levels for new income support scheme.

2. Help to be based on combined assessment of rent and rates with a single (70 per cent) taper for withdrawing benefit as net income rises.

3. Maximum help with rents will be 100%, and 80% for rates.

4. Some capital rules to be applied as for the new income support scheme.

5. Benefit subsidy to local authorities by specific grant to be limited to 80 per cent of total benefit cost.

6. A reserve power to be taken to impose controls on individual local authority areas.

Consequences (resources, caseload, people)

Resources: reduces overall expenditure by £560m in first full year (£310m from tenants; £250m from owner occupiers)

Caseload: people entitled fall by 1.8m (about 25%) (0.3m tenants (0.6%); 1.5m owner occupiers. (58%))

Gainers: 810,000

Losers: 7.2m - 5.3m lose £0 - £2
1.5m " £2 - £5
0.4m " £5 +

7.2m includes 3,930,000 pensioners
950,000 earners
620,000 lone parents
240,000 sick/disabled
1,460,000 others (mainly unemployed)

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✓ 4. Death Grant

1. To abolish the universal £30 death grant
2. To meet funeral costs of people who cannot afford them under the discretionary social aid scheme.

Consequences (resources, people)

Resources: overall benefit saving of about £15m a year plus most of £12m grant on administering death grant.

: DHSS staff saving of 500-600

People : about 600,000 no longer qualify for £30 grant
15,000-20,000 poor families will receive more help under Social aid arrangements than now.

✓ 5. Maternity Grant

1. To abolish the universal £25 grant paid to all expectant mothers.
2. To pay a £75 grant automatically to mothers in families receiving new income support or family credit.
3. To pay up to £75 to other expectant mothers who need help, under the discretionary Social aid scheme.

Resources: overall benefit saving of about £10m a year.

: useful DHSS staff saving

People : about 500,000 expectant mothers no longer qualify for £25.

: about 150,000 poorer expectant mothers receive up to £75, ie gaining up to £50.

in low income families

1750.
50.10.

6. Widows' benefits

1. To abolish widows' allowance (paid for first 26 weeks)
2. To pay all widows under 60 a lump sum ~~£4,000~~ of ~~£750~~ 35.80.
3. To pay widowed mothers with children widowed mothers allowance immediately, and widows' pension to widows aged 55 and over who have no dependent children.
4. To pay age-related widows pension to widows aged 45 to 54 who have no dependent children.

Consequences (resources, people)

Resources: net savings overall - nil cost year 1) with
 - £15m year 2) £750
 - £50m year 5) lump
 - £100m year 10) sum

~~(savings are £15m lower if lump sum set at £4,000 and first year effect is £45m cost)~~

: some savings in DHSS manpower (to be quantified)

People :

<u>Gainers</u>	(all in first 26 weeks)	Total amount
	48,000 widows over 55 and/or with dependent children	+£375
	12,000 widows 50-54 with no child	+£210
<u>Losers</u>	(first 26 weeks)	
	2,000 widows under 45 with no child	-£550
	3,500 widows 45-49 " " "	-£110

(after 26 weeks)

childless widows	under 40	2,000	lose	£35.80	per week
	40-44	30,000	"	£20.25	" "
	45-49	81,000	"	£13.00	" "
	50-54	72,000	"	£7.00	" "

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7. Unemployment Benefit (UB)

1. To propose a new short-term contributory benefit scheme covering first 26 weeks of unemployment. Structure to be based on new income support scheme but with rates set slightly higher.
2. To revise the present contribution tests for determining entitlement and for requalifying.

Consequences (resources, caseload, people)

Note: figures are subject to further working.

Resources: Small benefit saving (£10m to £40m); loss of tax revenue (£95m); possible man-power saving. Expenditure on UB falls by about £550m but Supp Ben expenditure rises by some £500m.

Caseload: 240,000 people will not have to deal with both UB and SB office at the same time.

The numbers on UB will fall by about 300,000; the rise in the number on income support will be rather less.

Gainers:

1st 6 months: 260,000 over 25 (£1 to £1.85)
140,000 couples, including 80,000
with children - latter gain
substantially;

after 6 months: none

Losers:

1st 6 months: 188,000 single under 25 (£5)

after 6 months: 85,000 lose unemployment benefit and fail to qualify for income support because resources too high.

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8. Family Credit

1. New benefit (replaces FIS) designed to improve help to low-income working families with children and to improve employment incentives.
2. Children's rates aligned with new income support scheme, but entitlement to welfare milk and to school meals replaced by £2 a week addition.
3. Payment via the wage packet with the credit off set against tax and national insurance payments.
4. Six-months entitlement based on 13 weeks earnings (instead of 12 months based on 5 weeks in FIS). Tighter administration and less scope for abuse. Income and capital tests substantially as for the new income guarantee, but no account taken of changes in circumstances within the entitlement period.

Consequences (resources, caseload people)

Resources: assuming 60% take up additional net expenditure £67m, after allowing for FIS abolition, transfers in respect of school meals and welfare milk and housing benefit effects. (70% take up requires £100m; 80% £130m.) Can be paid for by abatement of child benefit uprating. Addition 500 staff required assuming 60% take up.

Caseload: 330,000 families (FIS 200,000).

Gainers: About 240,000 families with an average gain of £4.40. Nearly 60,000 families with either 3 or more children or 2 older children gain from £5 to £10+ a week.

Losers: About 109,000 families (including 20,000 FIS families who do not qualify for family credit) lose an average of £4.70 a week. Main losers are small families and lone parents

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