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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
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20 May 1985

Nigel

SOCIAL SECURITY REVIEW: PUBLIC SERVICE PENSIONS

- file on BUP
You wrote to me on 22 April about the implications for the new pension framework for public service pensions.

It did not seem to me that it would be helpful to reply until we had settled the shape of the framework. Now that we have, I am writing to say that I am in general agreement with you and with the line you propose to take on indexation of public service pensions when the Green Paper is published.

You mentioned two other points - the impact of personal pensions on public service schemes and on the Civil Service scheme in particular and part-timers in public service schemes.

On the first point, it will be essential, if we are to carry forward our policy on personal pensions, for them to be available to those working in the public service as well as the private sector. In practice, members of public service schemes are unlikely to see advantage in choosing a personal pension: but in principle they should have the right to do so. I do not think we should seek to draw any distinction for this purpose between funded and unfunded schemes or between contributory and non-contributory schemes. (There are, of course, non-contributory schemes in the private as well as the public sector.) The right to take a personal pension should apply to them all.

I should add, in case you or other colleagues are concerned about the impact on public service schemes, that my intention is that the right to take a personal pension will only operate in respect of pension rights after the starting date of the new legislation. It

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will not apply to accrued pension rights before that date. I shall leave open in the Green Paper whether the right should apply to pension rights accrued between the starting date of the new legislation and the decision to take out a personal pension or just to pension rights after the decision takes effect. Either way, any impact on public service schemes - assuming there is any impact at all - will be very slow to build up.

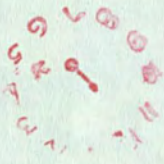
On the second point, we have of course taken account of the cost of part-time membership of public service schemes in considering the new pensions framework. As with personal pensions, it would not be politically practicable to deal differently with public and private sector schemes.

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

You see. Norman

NORMAN FOWLER

Social Security: Renew Pt 2.



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D.W.

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29th May 1985

NBPM

*Dear Secretary of State*SOCIAL SECURITY REVIEW: PUBLIC SERVICE PENSIONS

Thank you for sending me a copy of your letter of 20th May to Nigel Lawson.

We have discussed this matter informally. As I understood what you were saying the Armed Forces would not be included in the proposed personal pension arrangements if that necessitates the Armed Forces Pension Scheme becoming directly contributory. That would almost certainly add £25 million a year to the Defence Budget at current prices, and the figure could rise to £45 million. There is obviously no point in accepting this level of additional expenditure simply to offer Servicemen a choice that few, if any, would regard as a real extension of opportunity.

I am prepared, while maintaining the present arrangement whereby the Armed Forces Pay Review Body deducts 11% from comparator pay in respect of the full excess of benefit of the Armed Forces Pension Scheme over comparator schemes, to offer the choice of a personal pension to Servicemen on the basis that my Department will contribute to that pension both the minimum employer's and employee's contributions of 2% each with the Serviceman relinquishing any claim to occupational pension scheme benefits accruing from the date of the option. There is, of course, a presentational difficulty

The Rt Hon Norman Fowler MP



in offering such a one-sided choice - and the Armed Forces will not be alone in that - and for that reason I see considerable merit in good occupational pension schemes being exempt from the requirement to offer a personal pension to their existing members. To my mind it is easier to defend no choice at all than a completely bogus choice.

If, however, you maintain your present policy that all occupational pension scheme members should, without exception, be offered the choice of a personal pension, then I am sure that we shall in the coming months come under considerable pressure to explain why, if the Government is so committed to personal pensions, there is not a requirement on employers to fund them to the same level of contribution as they currently fund, or notionally fund, occupational pensions. If that were conceded, however, and extended to the public services, there could be a considerable adverse effect on public expenditure in the short term, even if neutral in the longer term. It will be important, therefore, rigidly to maintain the minimum contribution requirement of 4%; and in no circumstances to require public service pension schemes to fund personal pensions over and above that amount.

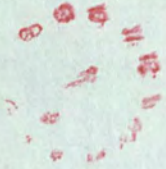
I am copying this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

Michael Heseltine

*(Approved by the Secretary of State
and signed in his absence)*

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