



cc: [handwritten initials]

38 A

PRIME MINISTER ②

To note. A significant improvement in pension for ⁴⁰⁻⁴⁹ 49 year olds can be achieved at relatively small cost. The 49 year olds get £6-70 p_w more. This adds £½ billion to residual cost of SERPS in 2013/14 but saving is still £5 billion. AT 23/5

SOCIAL SECURITY REVIEW: TRANSITIONAL PENSION PROVISIONS

Full SERPS

Cabinet agreed that people within fifteen years of retirement should remain fully covered by SERPS up to retirement.

The Green Paper will, therefore, propose that full SERPS cover should be maintained for men over 50 and women over 45 in 1987. On this basis no one retiring this century will be affected.

Enhanced SERPS rights for men over 40 and women over 35

Cabinet also felt that continuing SERPS in this way without any special help for people in the age group immediately below those remaining in SERPS would produce sharp discrepancies between the pensions that the two groups could expect. Although those under 50 (45) will be covered by the new occupational/personal pension arrangements, they will not have time to build up nearly as much pension as the older group will get from SERPS.

For example, a man of 49 on weekly earnings of £100 at today's levels could expect a total (state plus occupational) pension of £49.60 compared with the total pension from SERPS for a 50-year old on the same earnings of £56.80. If the occupational pension were not fully indexed, as SERPS pensions are, the difference would be still more marked.

We recognised this problem at the meeting you called on 6 May and agreed that ways should be investigated of dealing with it, for example by adding a bonus to the SERPS pension of those just below the cut-off. We agreed that such a solution should not involve any immediate extra costs.

E.R.

I have identified a way of achieving this which will be explained and illustrated in the Green Paper. It is basically a development of the "added years" method which enables people to add to their occupational pension rights. When SERPS has been phased out, people will retain their pension rights already accrued under the scheme. These pension rights will be boosted by crediting people, according to their age, with additional years of pension rights. At the top end of the age group - men aged 49 and women aged 44 - 7½ additional years will be credited; at the bottom end men of 40 and women of 35 will get one year added.

This will have the effect of smoothing out the differences between various age groups' pensions that would otherwise exist. There is no extra cost this century. The maximum effect is in 2013/14 when it reduces the savings from £5½ billion to £5 billion. We still, of course, achieve our objective of entirely replacing SERPS.

I am copying this minute to Nigel Lawson and Sir Robert Armstrong.

23 May 1985


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Ree



41 *dfg*

10 DOWNING STREET

From the Private Secretary

28 May 1985

The Prime Minister has now seen your Secretary of State's minute of 23 May setting out proposed transitional pension provisions following discussion in Cabinet. She has noted the arrangements proposed by your Secretary of State.

I am sending copies of this letter to Rachel Lomax (H.M. Treasury) and Richard Hatfield (Cabinet Office).

A handwritten signature in black ink, appearing to be 'TF' with a flourish.

Timothy Flesher

Steve Godber, Esq.,
Department of Health and Social Security

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SECRETSERPS: TRANSITIONAL PENSION PROVISIONSPension £ per week

Age	Full SERPS	SERPS Abolished (old scheme)	SERPS Abolished (new scheme)
50	56.80	-	-
49	57.20	49.60	56.30
45	58.50	55.10	50.65
40	60.20	53.40	52.66

Costs of SERPS

£ billion

	Full SERPS	SERPS Abolished (old scheme)	SERPS Abolished (new scheme)
2003/04	5.5	4.5	4.6
2013/14	11.2	5.6	6.1
2023/24	17.6	5.2	5.6
2033/34	25.3	3.2	3.4

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