6

P 01715

From: J B UNWIN
9 October 1985

MR NORGROVE - NO 10

REVIEW OF SOCIAL SECURITY

I attach on a personal basis a copy of the draft MISC 111 paper which DHSS have let me have in great confidence.

2. This is only a first draft, to be discussed at Blackpool this week with Mr Fowler, but it conveys fairly clearly the substance of Mr Fowler's new proposals. What is not at all clear, however, either in the covering paper or the annexes, is the public expenditure and PSBR implications both of the various changes in the proposals themselves and of the proposed change in timing. Paragraph 13, for example, provides only the bearest of information, and only related to public expenditure.

3. As we have discussed, I think that final decisions both on the measures and their timing must depend on more detailed discussion of the social security programme in the Star Chamber. My brief for MISC 111 will seek to guide the Prime Minister on this. However, I am pressing DHSS to produce more information in this paper on the financial implications of the new proposals.

4. You will note also the comments on timing. I imagine that at next Tuesday's meeting the Prime Minister will still want to preserve the option of an April 1987 start. I will address this also in the briefing; one possibility, for example, might be to detatch the pensions proposals into a separate and later Bill. Again, however, final decisions will need to be postponed until the end of the month in the light of discussion in the Star Chamber, which could in practice operate on these issues as a mini MISC 111.

5. I should be grateful if you would have a word with me about this paper before passing on any further copies.

J B UNWIN

DRAFT PAPER FOR MISC 111

Copy No .10A
MISC 111(85)14

REVIEW OF SOCIAL SECURITY: THE NEXT STEPS

Memorandum by the Secretary of State for Social Services

1. The social security Green Paper generated tremendous public interest and debate. Over 6,000 individuals and bodies sent in their views during the consultation period. Nothing in the responses leads me to question the validity of the objectives of our reforms. Nor - with the single exception of pensions, which I examine below - do I believe that we should reconsider the broad structure of those reforms. The proposal to use a common assessment for all income-related benefits based on net income has been particularly welcomed, as has the alignment of income support and housing benefit. Criticism has been mainly directed at details of the proposals, or expressed in fears that the benefit rates may be inadequate.

2. I have however identified a number of points on the income-related benefits where I believe we should move from our original proposals. These are listed in annex A: none of them affects the overall structure of the changes, and meeting them has the presentational attraction of showing our readiness to take full account of consultations in finalising our proposals. Annex B lists some minor changes to social security legislation which I would like to include in the Bill and which have not

previously received collective approval. Many of them further the general aim of having common rules across a number of benefits.

3. My chief concern is over the reactions to our pension proposals. The main elements in these were to phase out the State earnings-related pension scheme (SERPS) for all but those within fifteen years of pension age; and to replace it by a requirement on employers to provide occupational or personal pensions, with a minimum joint contribution of 4 per cent of earnings.

4. Our objectives - to reduce the costs of SERPS, to see an expansion of occupational provision and to increase choice through the option of personal pensions - command a good deal of assent. But there is considerable worry over the means we have chosen. Employers and the pensions world, including the large insurance companies, believe that our proposals will lead to higher administrative and wage costs for employers. They also fear that a pension contribution of 4 per cent will commonly be too low to secure employees an adequate pension when they retire.

5. These reactions from bodies who would normally be our firm supporters and on whom we will depend heavily in getting new arrangements in place have led me to think again about the path we have chosen. I believe it would be possible to meet the major objectives of change in a different way. Many of the bodies who commented on our proposals have suggested that they would prefer to see the acknowledged problems tackled through modifications to SERPS rather than outright abolition. They believe that this would reduce the risk of pensions again becoming a political football and that employers would find change broadly within the present structure easier to cope with than a radical disruption of existing arrangements.

6. I therefore propose that our final pension proposals in the White Paper and the Bill should be to modify SERPS in order to reduce its emerging costs; to make contracting-out for occupational pension schemes simpler; and to give everyone the right to opt for a contracted-out personal pension, instead of remaining in his employer's scheme or fully in SERPS. I have set out in annex C the details of a possible package of measures and their effects on long-term pension costs.

7. A plan on these lines should be welcome to employers and the pensions world, which will reassure our supporters, and might well attract the support of opposition parties in Parliament, other than the Labour Party. We would be able to defend a change of direction as being a response to the concern voiced on the Green Paper proposals and as proof that we had conducted a genuinely consultative exercise. A further round of consultations would not therefore be needed before publishing the White Paper and the Bill.

8. I do not think that this change of direction should affect the timing of the White Paper. We are subject to understandable pressure to make our final decisions known as soon as possible; and we have undertaken to publish illustrative figures showing the effects of our proposals at the ame time. I therefore hope to publish the White Paper, as previously planned, in early to mid-November.

9. But a substantial change in pensions policy inevitably affects the timing of the Bill and of implementing our proposals. The redrafting of the clauses dealing with pensions will mean that the Bill cannot be ready for introduction before mid-December at the earliest - and mid-January may be a more realistic target. That may make it possible for Second Reading to take place after the Secretary of State for the Environment has made an announcement on his local government finance

proposals. There would be advantages in this, because of the obvious link between rating changes and my housing benefit proposals.

10. If the Bill is not introduced until mid-December or later, it will be impossible for us to obtain Royal Assent by the end of June, and so to get affirmative Regulations approved before the summer recess and guidance out to employers and local authorities. That in turn rules out the option of introducing the major reforms in April 1987 (although I shall examine the scope for retaining that date for changes to widows' and maternity benefits).

11. We had up to now taken the view that it was important to implement all the reforms in this Parliament. But I think that a later date - April 1988 - for most of them could be to our advantage. In the response to the Green Paper the pensions bodies suggested in the strongest terms that April 1987 was unrealistic as a start date. Even a modified SERPS approach, with provision for easier contracting-out and personal pensions, would involve changes for employers on a scale likely to require considerable discussion and preparation. An April 1988 start will avoid the risk of ill-preparation; it will also mean that the Financial Services Bill framework, on which we shall depend heavily for investor protection for personal pensions, will be firmly in place.

12. The extra time will also enable us to meet the very strong representations from the local authority associations that the timetable for implementing the housing benefit changes was too tight. We shall not in any case have their good will in meeting that timetable and we do not want to risk a repetition of what happened in 1983 when housing benefit was introduced. A 1988 start will make it impossible for them to argue that they have had insufficient time. It will also maintain the coherent strategy between the housing benefit and rating reforms.

13. The later start for implementing the major reforms will mean deferring some of the savings and costs from them. This will not significantly affect the total quantum, apart from shifting the transitional costs into the second year. Annex D shows the broad distributional effects of the changes in the benefit structure designed to achieve those savings. These rest on my view (yet to be agreed with the Chief Secretary) of the savings needed to meet the target. They will be amplified in the illustrative figures published with the White Paper. I am discussing separately with the Chief Secretary the short-term effect of a deferred start: this is likely make the same contribution to public expenditure restraint in 1986/87, and a rather better one in 1987/8, than our original timetable.

PSBR effects? Not shown 88-89.

14. I invite my colleagues to:

i. agree that we should stand by our proposals on income-related and other benefits, except pensions, subject to the points in annex A;

ii. approve the other minor changes to social security legislation in annex B;

iii. agree that our pension reforms in the White Paper and the Bill should be on the lines set out in annex C;

iv. agree that the White Paper should be published in early or mid-November, and that the Bill should be introduced in mid-December or mid-January, with implementation of the major reforms in April 1988;

v. note the broad distributional effects of the changes as set out in annex D.

OCTOBER 1985 NF

ANNEX A

MAIN BENEFIT PROPOSALS (EXCEPT PENSIONS) AND CHANGES OR ADDITIONS IN THE LIGHT OF CONSULTATIONS

1. Supplementary Benefit

Proposals: - supplementary benefit to be replaced by income support: standard personal allowances with premiums for certain groups (families with children, pensioners etc)

- a social fund to provide discretionary help with exceptional difficulties, including budgeting and community care. Also help at a realistic level with maternity and funeral costs, replacing present universal grants.

Changes/additions: - negotiations continuing with building societies to get round need to pay 100% of mortgage interest for everyone on income support

- no budgeting limit on social fund payments for maternity and funerals.

2. Housing Benefit:

Proposals: - assessment for housing benefit (income and capital) to be on same basis as income support

- maximum level of help 100% rent, 80% rates, same as for people on income support

- single taper of 70% for withdrawing benefit as income rises

/

- rents and rates to be assessed together

- direct benefit subsidy to authorities to be variable, initially 80%; administrative subsidy to be subsumed in rate support grant.

Changes/additions: - have separate assessment and tapers (55% on rent, 25% on rates) for rent and rates. This avoids disproportionate losses for owner-occupiers - especially pensioners - under the Green Paper proposals

- possibly some concession to local authorities on direct benefit subsidy, while keeping (through the power to set the level of subsidy annually) incentives to economy

- continue to allow authorities to operate local schemes to give war pensioners favourable treatment

- possible concession on authorities' transitional administration costs

3. Family Support

Proposals: - replace family income supplement (FIS) with a new family credit assessed on net earnings on a similar basis to income support and housing benefit and paid by employers through the wage-packet. The rate of the credit to include an extra amount in place of free school meals and milk.

Changes/additions: - family credit to be assessed on 5 weeks' earnings, as for FIS, not 13, as in the Green Paper: more flexible and less trouble for employers

- possible need for some concession to keep milk for pregnant women.

4. **Widows and maternity benefits**

Proposals: - widows' allowance to be replaced by tax-free lump sum of £1,000

- widowed mothers allowance and widows' pension to be payable immediately, but minimum age for widows' pension to be raised from 40 to 45

- maternity allowance to be based on recent work and contributions test and paid for a flexible (not fixed, as now) period of 18 weeks

Changes/additions: - the test for maternity allowance to be based on recent contributions (26 weeks in the last year)

ANNEX B

MINOR CHANGES TO BE INCLUDED IN 1985/86 SOCIAL SECURITY BILL

Note: Most of these changes are to carry through the Social Security Review's aims of simplification and increasing common rules and ground between different benefits.

Adjudication

A further step towards harmonization of decision-making on social security benefits (the process began with the Social Security Adjudications Act 1983). Main interests have been consulted and broadly support the proposals of which the main one is that appeals to Commissioners from decisions of local appeal tribunals will be made, with leave, only on matters of law (not fact as is currently possible on some decisions). This has been agreed by the Lord Chancellor's Department.

Benefit fraud

It is intended to provide local authorities with power to prosecute in cases where housing benefit is obtained fraudulently. This has been agreed by the Home Secretary.

Recovery of overpaid benefit

We shall make common provision, covering all main benefits (except statutory sick pay and housing benefit), for recovering benefit paid due to misrepresentation or failure by the claimant to disclose information.

Consultation on subordinate legislation

We intend to clarify existing powers to introduce subordinate social security legislation where the need for urgency requires this to be done before a report is received from the Social Security Advisory Committee, the Occupational Pensions Board [and local authorities].

Northern Ireland

The Bill will bring legislation on social security in Northern Ireland into line with Great Britain by transferring administrative functions (affecting NI Social Security Commissioners) to the Lord Chancellor and by amending the law to give a right of appeal from a medical appeal tribunal to a Commissioner. These changes have been agreed by the Northern Ireland office.

Industrial injuries legislation

No major change is proposed but (1) a right to an increase of benefit for a husband is to be introduced for those suffering from an industrial disease who were employed in prescribed occupations before 5 July 1948; (2) industrial death benefit will be restructured to match the changes to be introduced for widows under main social security legislation (see above), and (3) for most beneficiaries of special hardship allowance, the award will be periodically revised by the percentage movement in earnings in the industry in which the claimant was previously employed, rather than by making individual enquiries to employers.

SECRET

SECRET

Uprating

Changes enacted in the 1985 Social Security Act paved the way for annual uprating of benefits in the first complete week of April. This Bill will generalise the annual review to all main benefits and will require a comparison of the general level of prices at the beginning and end of a 12 month review period. The obligation to uprate some and power to uprate other benefits at least in line with the increase in prices will not be altered by this legislation.

Trade Disputes

The Bill provides an opportunity to reinforce and clarify existing legislation on unemployment benefit and income-related benefit for those involved in a trade dispute. The main changes will enable a person withholding his labour to be disqualified for benefit even if there is no general stoppage of work. The income support payable to a non-striking spouse will be half the appropriate rate for a married couple. Other changes will affect the recovery of benefit after return to work and the taking into account of any payments received by the striker or his family.

Consolidation

The Bill will look forward to the later consolidation of social security law by providing a power to make minor amendments of the benefit Acts by Order in Council in conjunction with the Law Commissions for England and Wales and Scotland.

SECRET

ANNEX C

ELEMENTS IN A NEW PENSIONS POLICY AND THEIR EFFECTS ON LONG-TERM COSTS AND NATIONAL INSURANCE CONTRIBUTION RATES

The elements in the new package of pension measures proposed in the main paper are as follows:

Modifications to SERPS in order to reduce the emerging costs

- base full SERPS rights on 30 years' earnings, rather than 20

- allow widows to inherit only half their husband's additional pension; at present, they can have all of it, plus any of their own, up to a ceiling

- require contracted-out schemes to protect guaranteed minimum pensions after award against inflation up to 5 per cent. The full inflation-proofing of the State additional pension would provide protection above this ceiling, and contracted-out national insurance contribution rates would reflect the additional burdens on schemes.

Changes to contracting-out arrangements, and encouraging the spread of occupational schemes

- simplify the present contracting-out requirements for salary-related occupational pension schemes

- allow money purchase schemes to qualify for contracting-out on the basis of the level of contribution; at present, only salary-related schemes qualify

- encourage the spread of occupational pension schemes, possibly by limiting exclusions from them (e.g. of part-timers and younger employees), and by stimulating industry-wide schemes.

Personal pensions

- give everyone the right to opt for a personal pension, instead of staying in his employer's scheme or fully in SERPS. Personal pensions would be contracted-out, with minimum age-related contributions paid by DHSS to the scheme of the employee's choice as a national insurance contribution rebate. This would avoid involving employers in a great deal of extra administration, and would simply mean the employer and employee paying national insurance contributions as if they were fully in SERPS.

/DN: The Government Actuary's Department are working on the implications of various options for the long-term costs of pensions and for national insurance contribution rates. But it will not be possible to be precise about these until Ministers decide the package of proposals on which they wish to go to colleagues. For the same reason, this draft annex does not at the moment cover the "radical" option outlined in the Hannibal House paper HH12./

JW

GAINS AND LOSSES: ALL INCOME RELATED BENEFITS (000)

Client Group	Gainers £5+	£3-£5	£1-£3	<£1	No Change	Losers <£1	£1-£3	£3-£5	£5+	Total gainers	Total losers
Pensioners	90	150	500	615	20	1285	1145	370	235	1355	3025
Sick or disabled	90	70	85	30	*	20	35	10	10	285	70
Single parents	215	25	20	25	*	140	165	30	60	285	395
Couples with children	210	185	235	100	*	90	90	30	85	725	300
Others	25	160	25	170	315	235	395	300	245	385	1175
Total	630	590	875	950	335	1770	1840	745	630	3040	4960
										2.9	4.8

NOTES

Totals may not sum because of rounding.

November 1985 benefit rates. All November 1985 changes assumed to have been made.

? Child benefit assumed to be £7 in real terms.

Housing benefit assumed to be on separate assessment: 55 per cent rent taper, 25 per cent rates taper.

ANNEX D