

SECRET

10

cf Bulp.

PRIME MINISTER

11 October 1985

WHAT SHOULD WE DO ABOUT SERPS?

I suggest that MISC 111 on Tuesday should focus on the future of SERPS. Norman Fowler's proposals for the other benefits are best looked at by the Star Chamber as the main objective is to get useful savings in 1987/88 as originally planned.

There are four options for the future of SERPS:

- i. abolish SERPS in 1987 as planned
- ii. delay abolishing SERPS to 1988
- iii. abolish SERPS but without a compulsory alternative
- iv. make SERPS less attractive and private pensions more attractive

Going Ahead Regardless

Abolishing SERPS furthers the objective of a property-owning democracy and in the long run delivers big cuts in tax and public expenditure. Anything else looks like a retreat.
~~After failing to tax pension funds we would be bowing to pressure from them twice in one year.~~

But even the institutions which support the policy now genuinely doubt whether 10 million people can be signed up in private pension schemes by April 1987. Selling council houses to willing buyers over a five-year period is one thing. Compelling everyone to buy their council house within 18 months despite opposition from estate agents and building societies would be trickier.

SECRET

SECRET

So I reluctantly recommend that we go for as good a combination as possible of the other three options.

Delay Abolition to 1988

This meets the widespread objection that it simply isn't feasible to get the new system in place by April 1987. But we have been messing around with pension proposals for far too long already. The only proposal that has actually been implemented is improved rights for early leavers. We need more such concrete achievements.

If everything is delayed to 1988, pensions will succumb to planning blight. The surge of savers into personal portable pensions would be delayed, so there wouldn't be any beneficiaries of the new policy until after the next Election. We need to pick out practical proposals for encouraging private pensions which can actually be implemented in April 1987. In particular everyone should have the right to opt for a private portable pension.

Abolish SERPS With a Voluntary Private Alternative

This is closest to the true spirit of Beveridge - a basic contributory benefit for all and voluntary provision on top. The only compulsion is that those employees who want a pension can oblige their employers to match their own contributions.

You rejected this approach earlier for two reasons. First, you were afraid that the improvident would end up on supplementary benefit. This danger is not as great as may appear because the number of old people on supplementary benefit will fall anyway as widows get better treatment under their husbands' occupational schemes, contribution records improve and home-ownership spreads.

SECRET

SECRET

The second problem was political: that we would be accused of abolishing SERPS without replacing it with anything at all. It might however be politically feasible to make second pensions voluntary for people under 30. We could exclude them from SERPS (giving them and their employers the lower contracted-out rate) but give incentives to private pension provision if they wished. This is attractive as it:

- starts the habit of private savings for pensions
- lowers the cost of employing young people
- cuts the the eventual cost of SERPS.

Making SERPS Less Attractive

Norman Fowler wants to drain people out of SERPS and into funded schemes, particularly into personal portable pensions. He presents this as meeting our main objective of spreading private pensions and cutting the ruinous cost of SERPS. It also defuses criticism from the pension funds that they are being obliged to cover unattractive as well as attractive bits of the pension market.

But it has its drawbacks. The sort of measures which Norman Fowler envisages to save money on SERPS will be politically unpopular. It would just be making SERPS meaner with no greater vision. Several of the expensive features of SERPS (full entitlement after only 20 years of employment, generous provision for widows), were aimed specifically at women who would lose heavily from his proposed savings. Norman Fowler says he will protect them, but can he do this without reducing the savings?

- 3 -
SECRET

SECRET

Recommendations

We should give everyone a right to a personal portable pension in April 1987 at the latest. At the same time, we should give anyone aged under 30 the right to opt out of SERPS and his occupational scheme if he so wishes.

Other measures will have to wait until 1988. We could still get away with abolishing SERPS then if you judged extra private provision could be voluntary. If that is politically impossible then we should settle for draining SERPS of the maximum number of people. Norman Fowler should be asked for estimates of the number of people likely to leave SERPS under his proposals and how that number can be increased.

David Willetts

DAVID WILLETTS

SECRET