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From: J B UNWIN
14 October 1985

Prime Minister

MR NORGROVE - NO 10

REVIEW OF SOCIAL SECURITY (MISC 111(85)14)

Our discussion with the Prime Minister earlier this afternoon confirms that it would be sensible at MISC 111 tomorrow to take the discussion in two distinct parts - the first on SERPS, and the second on the other social security measures.

2. The key issues are:-

(i) SERPS:

- Does the Group accept the arguments for modifying rather than abolishing SERPS?
- If so, is it broadly content with Mr Fowler's proposals, subject to a more detailed examination and report?
- does the Group accept postponement of the main changes (except perhaps on personal portable pensions - see below) until April 1988?

(ii) Other social security measures:

- subject to a more detailed explanation of what is proposed, and examination of the expenditure implications in the Star Chamber, is the Group broadly content with the changes Mr Fowler proposes from the package set out in the Green Paper?
- if so, do they also accept that implementation should be postponed until April 1988.

3. If MISC 111 could form at least an interim view on these main issues tomorrow morning, it would set the framework for further urgent work before the next meeting of the Group at present planned for 28 October. The elements of that work would be:-

- consultation by DHSS with the Treasury and others concerned on the feasibility of Mr Fowler's proposals for modifying SERPS (including the possibility of a provision in the legislation to give every one



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a right to a personal portable pension in April 1987;

- examination by the Star Chamber of the detailed expenditure implications of the new package (I strongly recommend that MISC 111 should not try to discuss these tomorrow;

The Treasury work you already have done should not be mentioned at the meeting.

- (if the Prime Minister so wishes) a report from the Cabinet Office, with the help of the Treasury, DHSS and DOE, on the distributional implications of the social security and local government finance packages and the other key interactions between them.

4. Subject to discussion, and the results of this further work, this could lead to an outcome on the following lines:

- December 1985 - Publish Social Security White Paper
- January 1986 - Introduce Social Security Bill (covering both SERPS and other social security measures)
- November 1986 - Bill receives Royal Assent
- April 1987 - (if feasible) right of everyone to a personal portable pension takes effect
- April 1988 - Changes to SERPS and other Social Security measures take effect.

5. On the basis of the above, I attach a revise set of conclusions which the Prime Minister might find it helpful to draw on tomorrow.

J B UNWIN



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MISC 111: Possible Conclusions

1. SERPS

(a) To take a provisional decision on whether Mr Fowler's proposals for modifying rather than abolishing SERPS is acceptable.

(b) If so, to express interim views on Mr Fowler's proposals for modification and to ask him to discuss them further with the Chancellor of the Exchequer and, as appropriate, the Secretary of State for Trade and Industry; and to report the outcome of this consideration to the next meeting of the Group at the end of October.

*Mr Howard from
Home office in
1987 if possible.*
(c) To ask Mr Fowler also to report back on the possibility of including in the legislation a provision to give everyone a right to a personal portable pension in April 1987 at the latest.

(d) To note that final decisions on SERPS must await consideration of the further work at (b) and (c).

2. OTHER SOCIAL SECURITY CHANGES

(a) To express provisional views on the other proposed social security policy changes from the Green Paper.

(b) To refer the detailed expenditure implications of those changes to the Star Chamber.

(c) To invite Mr Fowler to report more fully on the nature and effects of these changes to the next meeting of the Group.

*The Treasury
work you have
seen should not
be mentioned at
the meeting.*
(d) To invite the Cabinet Office to prepare, with the help of the Treasury, the DHSS and DOE, a report for the Group on

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the combined distributional effects of the social security and local government finance proposals, and the main interactions between them.

(e) To note that the final decisions on the other measures must await consideration of the further work at (b), (c) and (d).

3. TIMING AND IMPLEMENTATION

(a) To express interim views on the White Paper, legislation and implementation timetable, and in particular on the possibility of legislation providing for implementation of the main changes on SERPS and the other social security changes in April 1988, but preceded by giving the right to personal portable pensions in April 1987.

(b) To note that final decisions on the timetable must await consideration of the further work on SERPS and the other measures under 1 and 2 above.



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ANNEX

ESTIMATED SAVINGS FROM MODIFYING SERPS (£ billion)

	2013	2023	2033
Full cost of SERPS	9.6	15.7	23.1
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SAVINGS			
1. Make schemes responsible for inflation-proofing contracted-out pensions up to <u>5% a year.</u>	1.1	2.2	3.2
2. Base SERPS pensions on lifetime earnings since <u>1978</u> not on 20 best years, with protection for those bringing up children, the long term sick and disabled and those caring for them.	0.9	2.0	4.0
3. Widows and older widowers to inherit half their spouse's SERPS rights.	0.9	1.6	2.3
	1.8	3.6	6.3
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Total Savings	2.9	5.8	9.5
Compared to: savings from abolition	2.5	7.4	16.7



Annex to
DHSS to DN 14/10

ESTIMATED SAVINGS FROM REDUCING DEBT (in millions)

1995-96
1996-97
1997-98

Total

£1,000

£1,000