



SECRET

PRIME MINISTER

## REVIEW OF SOCIAL SECURITY : THE NEXT STEPS

As you know, I shall be unable to attend the MISC 111 meeting on 15 October, since I shall be meeting the Indian Prime Minister. I should therefore like to let you and colleagues have my views on the major elements of Norman Fowler's paper (MISC 111(85)14) - ie those relating to the abolition of the State Earnings Related Pensions Scheme (SERPS).

I welcome the broad approach that Norman now proposes, and agree with the concept of reducing the costs of a mature SERPS, and of encouraging the maximum provision of occupational and personal pensions within the private sector. I also share Norman Fowler's view that - in the light of the very substantial consensus amongst the industrial and other voices commenting on the Green Paper - we need to reconsider the means of achieving those objectives.

On the basis of Norman's new proposals, I endorse his view that the way forward lies in the modification of SERPS rather than its abolition. Some of the modifications suggested - for example the proposal to base pensions on lifetime earnings rather than the best 20 years - are likely to find considerable favour with industry. But I must add that I have reservations about two elements of his proposals. I think it would be a great pity if these elements were to spoil what is potentially an attractive package, which could bring substantial support from the business community.



SECRET

My first worry relates to the effect on business costs (and the PSBR) of the proposed transfer of guaranteed minimum pension inflation-proofing to the private sector. I have no problems with the principle of the modification, but it will impose a major new obligation on employers and employees, and we shall have to do all we can to prevent it from being presented as a £1 billion increase on taxation.

My second reservation relates to the timetable. Here Norman proposes to publish a White Paper as planned in the autumn and legislation shortly thereafter, but to allow an extra year for implementation of the new system. I wonder whether this will be sufficient to allay industry's concerns. The responses to the Green Paper have stressed that pensions reform must not be rushed. They have also pointed to the need, if it can be achieved, to have a degree of consensus on pensions issues. Industry has asked for a more careful study of a modified SERPS. There may be a case for announcing the decision on pensions now but deferring legislation on this element of the social security package until the 1986-87 session.

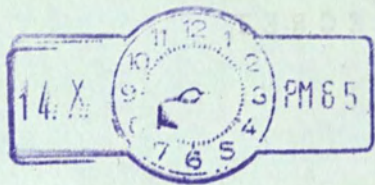
I am copying this letter to colleagues on MISC 111 and to Sir Robert Armstrong.

L.B.

L B

14 October 1985

Department of Trade & Industry



My first worry related to the fact that the  
level of the proposed transfer of assets would  
relating to the proposed transfer. It was  
with the principle of the solution, but it was  
major new solution to solve the problem, and we  
have to do it without a system if that is the  
only way to increase the value.

My second worry was that the transfer of assets  
would be done in a way that would be  
difficult to understand, but we will  
not be able to do it. We will be able to  
do it, but we will be able to do it in a  
way that will be difficult to understand.  
We will be able to do it, but we will be  
able to do it in a way that will be  
difficult to understand. We will be able to  
do it, but we will be able to do it in a  
way that will be difficult to understand.

The copy of the transfer of assets will be  
sent to the relevant authorities. We will  
be able to do it, but we will be able to  
do it in a way that will be difficult to  
understand. We will be able to do it, but  
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