

PRIME MINISTER

30 October 1985

PENSIONSSavings on SERPS

Norman Fowler has changed his package slightly.

He was proposing to meet the cost of inflation-proofing for contracted-out schemes whenever inflation rose above 5%.

Now he wants to be more generous, and meet the costs whenever inflation rises above 3%. He proposes to offset this reduction in savings by lowering the SERPS pension from 25% of earnings to 20%. He still intends to save money by giving widows only half their husband's pension.

Here are the crucial figures:

	<u>SAVINGS ON SERPS</u>			£bn
	2013	2023	2033	
Full cost of SERPS	9.6	15.7	23.1	
Savings from complete abolition	2.5	7.4	16.7	
Savings under proposals of 11 October 1985	2.9	5.9	9.5	
Savings under latest proposals	2.3	5.7	10.3	

Breakdown of savings under latest proposals:

	2013	2023	2033
<i>Between what earnings bands?</i> Reduction from 25% of earnings in 20 best years to <u>20% of life-time earnings</u>	1.5	4.0	8.0
<i>On what basis are they revalued?</i> Half inheritance for widows	0.8	1.4	1.7
3% inflation-proofing	0	0.3	0.6

I recommend that, rather than delaying further, MISC 111 should go ahead with these proposals.

Contracting-out

Norman Fowler's proposals on contracting-out will:

- i. Give everyone a right to take out a personal pension with a contribution from the employer, and make it simple to exercise this right.
- ii. Make it simpler to contract-out from SERPS into a normal occupational scheme.
- iii. Give an additional 2% National Insurance rebate for new contracted-out schemes.

SECRET

This sounds fine, but:

- Will it encourage employers to set up new blue-collar schemes instead of creating industrial harmony by allowing blue-collar workers to join existing white-collar schemes?

- Will the new inflation-proofing arrangements for occupational pensions also cover new personal pensions? (If not, as Norman Tebbit pointed out, no-one will take out a personal pension.)

- Shouldn't people in private schemes be told the value of their pension fund, as well as their pension rights, so that they realise what they are worth? (There is no reason for identifying either value or rights in the case of SERPS, because people in SERPS are paying for present pensions, not saving for their own.)

- Norman Fowler is envisaging implementing most of these proposals in 1988. But can the right to opt out from SERPS into a personal portable pension be implemented earlier?

I recommend that you accept the proposals on contracting-out if Norman Fowler can satisfy you on these points.

SECRET

SECRET

Presentation

The danger is that, after all the detailed discussions, the SERPS proposals will be represented as technical changes with no purpose except saving money.

I recommend that you end the discussion by reminding colleagues that the SERPS proposals can be an Election winner:

- People want their own pensions.
- They don't want paper promises drawn on future taxpayers.
- The aim is to encourage everybody to save for his own retirement.

David Willetts

DAVID WILLETTS

SECRET