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C.D.W.
B.J.P.

PRIME MINISTER

SOCIAL SECURITY REFORM

I shall need to put to MISC 111 and Cabinet the figures which illustrate the effect on individuals of our reforms. The figures (which we are committed to publishing in the White Paper) will stand until we implement the reform in April 1988.

Before committing myself on what advice to give my colleagues, I would like to discuss with you informally the options open to us and their political consequences.

The central problems are basically these. One effect of the changes at present is to create some major losses for pensioners. A second problem is that the impact of the housing benefit changes could worsen incentives to work. I have therefore examined both the position of pensioners and family credit - while at the same time endeavouring to meet my commitment to a savings target for the review amounting to £1 billion for 1988/89.

To illustrate the problem and possible options, I have shown in the tables attached the number of gainers and losers arising under three possible options for reform:

Option A is based on the provision in the Autumn Statement (which is subject to adjustment in the light of decisions yet to be taken on the Review);

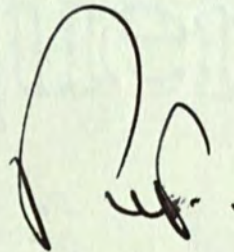
Option B provides for a higher rate of adult credit in the family credit scheme and adds £1 to the pensioner premium in income support. Pensioners are also exempt from paying 20 per cent of their rates, which greatly reduces the number of pensioner losers without increasing public expenditure. Fewer families than now have out-of-work

incomes within 90 per cent of their work incomes; and the number of losers among FIS families is reduced by about about 20,000. Pensioner losers are reduced to below 2 million and the number losing over £5 is halved;

Option C assumes the same level of family credit as Option B but adds a further £1 to the pensioner premium in income support. Pensioners would still have to pay 20 per cent of their rates; and about 2.3 million of them will lose.

In the tables only significant gains and losses (more than 50p per week) are counted.

The political sensitivities of all this are obvious and I have not yet broadened the discussion outside a small circle of officials in my Department. I shall want to go through the issues with the Chancellor and then present them to MISC 111. But before doing so I wanted to be sure that you were fully seized of what is at stake.



12 November 1985

N F

GAINS AND LOSSES: ALL INCOME-RELATED BENEFITS

<u>Client</u>	000s					
	<u>Option A</u>		<u>Option B</u>		<u>Option B</u>	
	Gainers	Losers	Gainers	Losers	Gainers	Losers
Pensioners	300	3,460	1,100	1,900	870	2,300
Sick/Disabled	180	90	210	70	230	70
Single Parents	250	250	270	240	270	240
Couples with children	600	260	670	200	670	200
(of whom:						
In f/t work	230	120	290	100	290	100
Not in f/t work	370	140	380	100	380	100)
Others	240	980	540	1,040	540	1,040
TOTAL	1,570	5,040	2,790	3,450	2,580	3,850

Option A: based on the provision in the Autumn Statement;

Option B: adds £2 to adult credit in family credit;
adds £1 to pensioner premium in income support;
excludes pensioners from paying 20% rates;
same rate of income support for all couples aged 18+;

Option C: adds £2 to adult credit in family credit;
adds £2 to pensioner premium in income support;
pensioners pay 20% rates;
same rate of income support for all couples aged 18+.

W.S. Ryder

Fixed for

11.30.

CR.

to Norman



10 DOWNING STREET

11/11

PRIME MINISTER

Mr. Fowler has asked to come and see you before the next MISC 111 to discuss with you his ideas for social security reforms.

The only time possible next week is 1130-1215 on Wednesday. Shall we fit him in then?

N.L.W.

Yes not

8 November 1985

cc Mrs Ryder