

PRIME MINISTER

19 November 1985

SOCIAL SECURITY REVIEWS: PENSIONER LOSERS

Norman Fowler is right that pensioner losers present a real political problem, but:

- it is not as bad as he claims; and
- there is a better way of dealing with it than his proposal.

What is the problem?

The Supplementary Benefit changes save about £160 million from 1.5 million pensioners. The savings in Housing Benefit affect over 3.5 million pensioners. But the position is not as bad as it sounds because:

- i. The changes will be introduced at the time of a benefit uprating, so some of Norman Fowler's losers will be getting cash increases in their benefits. The Treasury paper allows for this by assuming a 3.25% uprating in April 1988.
- ii. MISC 111 has already agreed to spend £200 million on transitional protection so that nobody actually loses cash as a result of the SB changes such as the loss of heating additions.



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iii. Exposing old people to the cost of rates won't mean a reduction in the value of their girocheques. It means an extra bill coming from their local authority. So it is one step removed from the DHSS.

iv. A 3% uprating of tax allowances in 1988 would be worth about 65p a week to an elderly couple paying tax (and approximately 1.9 million old people do).

v. Kenneth Baker's rate reforms help the single pensioner.

Norman Fowler is showing the figures the Opposition will use. The Government can reply that most old people will carry on becoming better off.

But even the Treasury's figures show that there is a problem which cannot be swept under the carpet. 2 million pensioners suffer cash losses. And as most of the changes are to be implemented in 1988, the Opposition will exploit this issue in the Election campaign.

What is the best way of dealing with the problem?

Norman Fowler wants to spend £200 million increasing income support payments for pensioners by £2 per head. This is too expensive. Moreover, it would be a permanent increase in their level of income support to buy off a transitional problem. I recommend a solution which differs from Norman

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Fowler's in three ways:

- a. Offer old people on SB an extra £1 per week. The Treasury's tables show that, of the 2 million pensioner losers, 1.2 million are losing under £1, and another 450,000 between £1 and £2. Most of these are on SB.
- b. Make it temporary, declining say to 50p in 1989 and disappearing thereafter.
- c. Find offsetting savings by toughening the SB regime for unemployed people without children, particularly people under 25. These are the 520,000 able-bodied people not in full time work who gain under Norman Fowler's present proposals. Many can also benefit from David Young's programmes.

*Norman Fowler seems to have ignored your remit to him on this, given at your meeting last week.*

*DEN*

The cost of my transitional proposal would be well under £100 million gross and maybe £50 million net of savings from the unemployed. That should just about enable Norman Fowler to keep to the Autumn Statement baseline.

*David Willetts*  
DAVID WILLETTS

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