



10 DOWNING STREET

THE PRIME MINISTER

BM2400
file
address
dhs.
27 March 1986

Dear Mr. Willis.

I am writing to follow up the main points which were made at my meeting with the National Pensioners Convention on 6 March.

This Government fully recognises the special problems of pensioners and others dependent on fixed incomes. We have more than honoured our pledge to maintain the real value of the state basic retirement pension, which at present is worth £3 a week more in real terms for a married couple than when we took office. In cash terms, the married pension is £61.30 a week, compared with only £31.20 in 1978-79. Pensions went up by 7 per cent in November, giving an extra £4 a week for a couple and £2.50 a week for a single pensioner, and they will be raised again in July 1986 and April 1987.

The interim July uprating will only be small - 1.1 per cent - but it will keep pace with inflation, as we have pledged. The size of the increase also demonstrates how far we have brought inflation under control. This is particularly good news for pensioners because it means that the pension holds its value for longer, and it helps to safeguard the value of savings and other income. Rapid inflation cut the value of savings by over a half in just five years under the last Labour Government. Our achievement in increasing the value of pensions while

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bringing inflation under control is a far better deal for pensioners than massive cash increases in pensions chasing massive increases in prices.

Over the last 40 years pensioners' living standards have in fact improved considerably by comparison with the working population. The main reason for this is the increase in the real value of the basic pension, which has gone up by two and a half times in real terms. Whereas the single person's basic pension was worth only 20 per cent of average take-home pay for a manual worker in 1949, it is now worth about a third. For a married couple it has risen to about half. To increase the basic pension still further to meet the Charter demand of a level equivalent, respectively, to one-third and one-half of gross pay would add at least £10,250 million to a pension bill which will already be some £17,500 million in the next financial year. This would mean increasing national insurance contributions by one third, to about 26 per cent of relevant wages. Including other benefits such as widows' pension which is at present linked to retirement pension would take the bill still higher. Such increases both in public spending and in the burden on the working population would be economically ruinous, with disastrous consequences for pensioners, just as for everyone else.

We shall continue to do our best to improve the quality of life available to elderly people, but we do not believe massive increases in the basic retirement pension are the most sensible way to achieve this. We have made clear in our White Paper on the Reform of Social Security that social security has to be based on the twin pillars of support by the state and provision by the individual. In terms of pensions, that means greater development of occupational and private pension provision, as well as provision through the basic state pension and the state earnings-related pension (SERPS). Even though earnings-related pensions have been earned only since 1978, they can now add substantially to the income provided from basic pension, which only accounts for about half of pensioners' average incomes. The maximum SERPS

currently possible is over £20 a week, compared with a standard basic pension of £38.30. Although we are making changes to reduce the long-term costs of the scheme, it will nevertheless provide a steadily increasing amount of pension to those retiring up to the end of the century. Our proposals to encourage greater occupational pension provision and to give people more flexibility and incentive to add to their pensions in the way they prefer seem to us, with the modified SERPS, a far better way to improve pensioners' incomes overall.

There are of course a large number of pensioners who have not been able to benefit from either an occupational pension scheme or the state earnings-related pension scheme. For those people we provide substantial additional support, related to individual needs, in the form of housing and supplementary benefit. The housing benefit scheme, for example, provides help with rent and rates for both tenants and owner-occupiers according to their needs and their housing costs; several million pensioners benefit from these arrangements. About 1.7 million pensioners also receive help through the supplementary pension scheme, designed to assist those whose income is less than their basic financial needs. The proposed changes in these benefits put forward in the current Social Security Bill will, we intend, lead to a simpler income support scheme which will give a special premium for people over 60 and an increased premium for the over-80s, without the need for intrusive questioning to determine each person's correct entitlement.

Social Security benefits are only one aspect of the assistance we give to elderly people. Indeed, our total spending on elderly people through cash benefits, the health service and personal social services is the third highest in Europe in relation to the size of our economy. About 40 per cent of all health and personal social service spending goes on elderly people, and we have steadily increased the amount of cash and the number of doctors, nurses and other staff who care for them. The need to support adequately the increasing

number of elderly and very elderly people is our greatest challenge, and I believe our support for the health and personal social services demonstrates how we are meeting it.

The delegation were also concerned about heating costs. In the recent very cold weather, these have been in everyone's minds. It is worth mentioning that under this Government gas prices are cheaper in real terms than they were two years ago, and in fact are roughly the same in real terms as in 1970. Electricity prices have risen less than inflation in the three years to April 1985. Despite this we have increased the amount of help with heating that is given to people on low incomes; an automatic heating addition is given to all supplementary pensioner householders aged 65 or over, with a higher rate for those over 85. Over 90 per cent of all supplementary pensioners now get a heating addition, compared with only 71 per cent in 1979. Overall, since 1979 spending on help with fuel bills has increased by £140 million over and above inflation and the value of heating additions has increased by 40 per cent more than the increase in fuel prices. Moreover, we have strongly supported the Homes Insulation Scheme, which provides grants to help with insulation, so that pensioners and others can get better value for what they spend on heating.

As we made clear to the delegation, DHSS Ministers have done their best to publicise the exceptionally severe weather payments and an advertising campaign has been arranged to try to ensure that everyone entitled is aware of the existence of this form of help. Payments will be made when the bills come in and pensioners can see how much extra they have had to spend. Also the gas and electricity authorities should not cut-off pensioners on supplementary benefit without prior reference to DHSS.

Our record shows that we have given the interests of pensioners very high priority indeed. We do not believe in making extravagant and unsustainable promises which would destroy the economic growth which is the only basis for a

better life for all our people. We do believe in improving the lives of pensioners without placing an intolerable burden on the working population. We shall continue with that policy.

Yours sincerely

Roger M. Thelton

Norman Willis, Esq.,

ce/bg



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From the Secretary of State for Social Services

Mark Addison Esq
Private Secretary
10 Downing Street

24 March 1986

Dear Mark ^{for} / _{pr} ^{to}

You wrote to me on 7 March to ask for a draft letter which the Prime Minister could send to Mr Willis. I hope the attached will be of use.

Yours ever
Giles

Giles Denham
Private Secretary

N Willis Esq
Chairman
National Pensioners' Convention

Handwritten initials: BMZAW

follow up

I am writing to ~~say how pleased I was to meet the delegation from the National Pensioners' Convention on 6 March. As arranged, I will set out the main points which John Major and I made in response to the various matters which the delegation raised with us.~~ *at my meeting with the National Pensioners' Convention on 6 March.*

This Government fully recognises the special problems of pensioners and others dependent on fixed incomes. We have more than honoured our pledge to maintain the real value of the state basic retirement pension, which at present is worth £3 a week more in real terms for a married couple than when we took office. In cash terms, the married pension is £61.30 a week, compared with only £31.20 in 1978-79. Pensions went up by 7 per cent in November, giving an extra £4 a week for a couple and £2.50 a week for a single pensioner, and they will be raised again in July 1986 and April 1987.

The interim July uprating will only be small - 1.1 per cent - but it will keep pace with inflation, as we have pledged. The size of the increase also demonstrates how far we have brought inflation under control. This is particularly good news for pensioners because it means that the pension holds its value for longer, and it helps to safeguard the value of savings and other income. Rapid inflation cut the value of savings by over a half in just five years under the last Labour Government. Our achievement in bringing ~~it~~ *inflation* under control has to be borne in mind in considering the level of pensions and other benefits. *is excellent news for pensioners that massive cash increases in pensions chasing massive increases in prices.*

Over the last 40 years pensioners' living standards have in fact improved considerably by comparison with the working population. The main reason for this is the increase in the real value of the basic pension, which has gone up by two and half times in real terms. Whereas the single person's basic pension was worth only 20 per cent of average take-home pay for a manual

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worker in 1949, it is now worth about a third. For a married couple it has risen to about half. To increase the basic pension still further to meet the Charter demand of a level equivalent, respectively, to one-third and one-half of gross pay would add at least £10,250 million to a pension bill which will already be some £17,500 million in the next financial year. This would mean increasing national insurance contributions by one third, to about 26% of relevant wages. Including other benefits such as widows' pension which is at present linked to retirement pension would take the bill still higher. ~~Additional spending of this magnitude, which would increase employment costs and feed through into prices, simply cannot be contemplated in present economic circumstances.~~ Such increases both in public spending and in the burden on the working population would be ~~economically~~ economically ruinous, with disastrous consequences for persons, just as for everyone else.

We shall continue to do our best to improve the quality of life available to elderly people, but we do not believe massive increases in the basic retirement pension are the most sensible way to achieve this. We have made clear in our White Paper on the Reform of Social Security that social security has to be based on the twin pillars of support by the state and provision by the individual. In terms of pensions, that means greater development of occupational and private pension provision, as well as provision through the basic state pension and the state earnings-related pension (SERPS). Even though earnings-related pensions have been earned only since 1978, they can now add substantially to the income provided from basic pension, which only accounts for about half of pensioners' average incomes. The maximum SERPS currently possible is over £20 a week, compared with a standard basic pension of £38.30. Although we are making changes to reduce the long-term costs of the scheme, it will nevertheless provide a steadily increasing amount of pension to those retiring up to the end of the century. Our proposals to encourage greater occupational pension provision and to give people more flexibility and incentive to add to their pensions in the way they prefer seem to us, with the modified SERPS, a far better way to improve pensioners' incomes overall.

There are of course a large number of pensioners who have not been able to benefit from either an occupational pension scheme or the State earnings-related pension scheme. For those people we provide substantial additional support, related to individual needs, in the form of housing and

supplementary benefit. The housing benefit scheme, for example, provides help with rent and rates for both tenants and owner-occupiers according to their needs and their housing costs; several million pensioners benefit from these arrangements. About 1.7 million pensioners also receive help through the supplementary pension scheme, designed to assist those whose income is less than their basic financial needs. The proposed changes in these benefits put forward in the current Social Security Bill will, we intend, lead to a simpler income support scheme which will give a special premium for people over 60 and an increased premium for the over-80s, without the need for intrusive questioning to determine each person's correct entitlement.

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The delegation were also concerned about heating costs. In the recent very cold weather, these have been in everyone's minds. It is worth mentioning that under this Government gas prices are cheaper in real terms than they were two years ago, and in fact are roughly the same in real terms as in 1970. Electricity prices have risen less than inflation in the three years to April 1985. Despite this we have increased the amount of help with heating that is given to people on low incomes; an automatic heating addition is given to all supplementary pensioner householders aged 65 or over, with a higher rate for those over 85. Over 90% of all supplementary pensioners now get a heating addition, compared with only 71% in 1979.* Moreover, we have strongly supported the Homes Insulation Scheme, which provides grants to help with insulation, so that pensioners and others can get better value for what they spend on heating.

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since 1979

* Overall, spending on help with fuel bills has increased by ~~140%~~ 140 million since 1979 and the value of heating additions has increased

As we made clear to the delegation the Departmental Ministers have done their best to publicise the exceptionally severe weather payments and an advertising campaign has been arranged to try to ensure that everyone entitled is aware of the existence of this form of help. Payments will be made when the bills come in and pensioners can see how much extra they have had to spend. Also the gas and electricity authorities should not cut-off pensioners on supplementary benefit without prior reference to DHSS.

Our record shows that the interests of pensioners have been kept in the forefront of the Government's consideration. That will continue to be the case. We shall always seek to ensure that elderly people have a fair and adequate share of the nation's resources, ~~and that benefits and services for them are as good as the economy will allow.~~

Our record shows that we have kept the interests of pensioners at very high priority indeed. We do not believe in making extravagant and unsustainable promises which would ~~destroy the economic growth~~ ~~destroy the economic growth~~ ~~growth on which we~~ ~~which all~~ place intolerable burdens on the wealth creators ~~destroy~~ ~~place intolerable~~ ~~destroy~~ the economic growth ^{depends} on which all ~~hope~~ ~~for~~ a better life is the only basis for a better life for all our people. We do believe in achieving a ~~proper balance~~ ~~between~~ the needs of those receiving ~~imposing~~ the lives of pensioners without placing an intolerable burden on the working population. ~~II~~ ~~II~~ We shall continue with that policy.

PM

Pensioners

contribution

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