

*Prime Minister**cc 5.2*
6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

Norman Fowler and I have discussed the social security uprating and, subject to your views, have agreed on the following.

2. The 1983 uprating will be based on the historic method, using the RPI outturn for the 12 months to May 1983. Norman's advice is that this is the latest monthly figure which it is practical to use particularly bearing Parliamentary considerations in mind. There is still considerable uncertainty about what the outturn for May will be, but the best present estimate is about 4½ per cent (which on present prospects will be the lowest of the year). Public service pensions will be treated in the same way.

3. An uprating of 4½ per cent would be higher than pensioners and other beneficiaries would have expected to get under the forecast method, with full recovery of overshoot. On present prospects, inflation in the 12 months to November will be 6 per cent, so that full recovery of the 2.7 per cent overshoot would have given an uprating of 3.3 per cent, almost 1 per cent less than is now in prospect.

4. The other side of this coin is that some offsetting savings will be necessary to avoid an increase in public expenditure, from the change in uprating method. A 4 per cent uprating would not cost extra: but at 4½ per cent there will be a cost of about £30m in 1983-84, or £90m in a full year. We think that restoration of the 5 per cent abatement in Unemployment Benefit is unavoidable in any case. We shall therefore have to look again at the other benefit improvements we have been considering: I shall be pursuing this further with Norman Fowler.

SECRET



5. If you agree with these proposals, you may wish to make a brief oral report to Cabinet on Thursday. Alternatively, Norman or I could do so if you wished.

6. I am copying this minute to Norman Fowler and to Sir Robert Armstrong.

gh

(G.H.)

1 March 1983

SECRET



Prime Minister

Ms 2/3

7

Prime Minister

1983 UPRATING OF PENSIONS AND OTHER BENEFITS

I agree with the Chancellor's minute to you today.

2. If you decide to report these developments to Cabinet tomorrow yourself, the attached notes may be helpful.

3. I am copying this to the Chancellor and to Sir Robert Armstrong.

2 March 1983

N F

CONFIDENTIAL



1983 UPDATING OF PENSIONS AND OTHER BENEFITS

1. Last Autumn we decided to adjust the 1983 updating of social security benefits to take account of the 2.7 per cent overshoot in the 1982 updating. This was announced in the Chancellor's Autumn Statement, when we said we would reduce the social security programme in 1983-84 by £180 million.
2. We inherited the forecast method of updating from the previous Labour Government. The Conservative Government before this used the historic method. We can only get away from the recurrent problems of overshoot and shortfall by moving to the historic method. Pensioners prefer the certainty and stability of the historic method and organisations representing them have asked for it to be restored.
3. It would not be possible to revert to the historic method if it meant pensioners and other beneficiaries were worse off or if the change could not be accommodated within the public expenditure figures. In fact, both these conditions can be met in 1983 - probably the first such year since the forecast method was introduced.
4. What is proposed therefore is that we should introduce a Bill immediately after the Budget to enable us to return to the historic method. The 1983 updating would then be based on the increase in prices between May 1982 and May 1983, which is published on 17 June. This is the latest date we can manage for operational and Parliamentary reasons.
5. On present estimates, this would mean a pension increase of $4\frac{1}{4}$ per cent under the historic method. This compares with a pension increase of 3.3 per cent under the forecast method - this is a 6 per cent forecast increase in prices, less a 2.7 per cent adjustment. In other words, by reverting to the historic method



pensioners would get an uprating about 1 per cent higher, provided there were no adjustment. No adjustment would therefore be made to take account of the 1982 overshoot.

6. Public service pensioners would be treated in the same way.

7. There will be two major advantages in returning to the historic method:

*First, the Bill we shall have to take through will be much less contentious than a Bill which was simply regarded as a 'clawback' Bill. There is no doubt that however we presented it, a 'clawback' Bill would be unpopular. Pensioners organisations have made this plain to me. Moreover some of our own backbenchers have made their unease clear, both publicly and privately.

*Secondly, if we restore the historic method, we shall have a much more acceptable and defensible position on the future uprating of pensions. The historic method brings back certainty and stability, since there would be no more short-falls or overshoots. This is what pensioners want.

8. The Government's proposals would be announced by the Chancellor in his Budget speech.



pensioners would get an uprating about 1 per cent higher, provided there were no adjustment. No adjustment would therefore be made to take account of the 1982 overshoot.

6. Public service pensioners would be treated in the same way.

7. There will be two major advantages in returning to the historic method:

*First, the Bill we shall have to take through will be much less contentious than a Bill which was simply regarded as a 'clawback' Bill. There is no doubt that however we presented it, a 'clawback' Bill would be unpopular. Pensioners organisations have made this plain to me. Moreover some of our own backbenchers have made their unease clear, both publicly and privately.

*Secondly, if we restore the historic method, we shall have a much more acceptable and defensible position on the future uprating of pensions. The historic method brings back certainty and stability, since there would be no more short-falls or overshoots. This is what pensioners want.

8. The Government's proposals would be announced by the Chancellor in his Budget speech.

