DEPARTMENT OF HEALTH AND SOCIAL SECURITY
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From the Secretary of State for Social Services

David Norgrove Esq
Private Secretary
10 Downing Street

16 December 1985

Dear David,

I attach a copy of the White Paper "Reform of Social Security: Programme for Action"(Cmnd 9691) whch my Secretary of State is publishing today. Also attached is a summary of the White Paper.

I am sending copies to Private Secretaries to Cabinet Ministers and to Michael Stark in the Cabinet Office.

Yours ever

Tony.

A Laurance
Private Secretary

16 December 1985

MR FLESHER

c Mr Ingham

BENEFITS WHITE PAPER

I attach a set of bull points and a short Q&A brief.

David Willetts

DAVID WILLETTS

In addition, child benefit of £21 would continue to be paid direct to the mother.

This family's family credit would be around double the FIS they get today (£15.88 plus passported benefits). It would bring their take-home pay above what they would actually receive today if they were earning about three-quarters of average gross male manual earnings (£135 gross or £102.28 net; at this level of earnings the family would have no FIS entitlement today).

Other rules

Single parent families will be treated on the same basis as couples - i.e. they will get the same adult credit as a couple, the same child credits and have the same threshold. In addition, One Parent Benefit is ignored in the assessment.

Capital rules will be calculated net of tax and NI (as also in income support and housing benefit).

Where both members of a couple are working 24 hours or more, they may choose who should claim and receive the credit with their earnings.

The credit will be paid for 26 weeks and will not be changed to reflect changes of circumstances (unless the recipient leaves the job; if he or she starts a new job a fresh claim can, of course, be made).

CC Questions
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STATEMENT ON SOCIAL SECURITY WHITE PAPER: MONDAY 16 DECEMBER 1985

With permission, Mr Speaker, I will make a statement on the Social Security White Paper which I am publishing today.

In June the Government published a Green Paper which set out in detail the case for change, the Government's objectives for social security and our proposals for achieving them. That Green Paper marked a further stage in the process of review and public consultation which began two years ago in the Autumn of 1983. The Government have four main aims.

We want to see a simpler system of social security which provides a better service to the public. By common consent social security at present is too complex. There are some 30 benefits each with separate and frequently conflicting rules of entitlement, and supplementary benefit alone requires almost 40,000 staff to administer it.

We want to see more people looking forward to greater independence in retirement. Only half the work-force currently have occupational pensions of their own. Our plans extend not only to occupational pensions but also for the first time provide a new right to personal pensions.

We want a system which is financially secure. As the Government Actuary's report published with the White Paper demonstrates, the future cost of the State Earnings Related Pension Scheme will grow substantially - at the same time as the ratio of contributors to pensioners worsens. The Government believe that this problem must be tackled now.

Above all we want to see more effective help going to those who most need it. More than half of those living on the lowest incomes today are in families with children. This includes both families where the parents are unemployed and also low income working families. Added to this people can still find themselves with less income in work than if they were unemployed. Others can find that a pay rise in work can actually make them worse off. The Government believe that urgent action is necessary to tackle these problems.

Mr Speaker, one of the major priorities of the Government's proposals is to make better provision for low income working families with children. Accordingly, we propose to abolish the present family income supplement and introduce a new benefit, family credit.

Family credit is designed to ensure that families with children will be better off in work. It will be based on take-home or net pay - rather than gross earnings as with family income supplement - so that the worst effects of the poverty trap are eliminated.

We expect that compared with family income supplement, family credit will give help to an extra 200,000 families. In other words, twice as many low income families with children will benefit from the new scheme. Family credit will be paid through the pay-packet, but it should be emphasised that child benefit will be paid in addition and that that payment will go as now direct to the mothers.

We also intend to bring extra support to families who are not in work. This will be achieved through the new income support scheme. A family premium - a special higher level of benefit - will be paid on top of the basic income support rate and on top of the rates for individual children. One of the groups who will most gain from this change will be unemployed families with children.

The income support scheme will replace supplementary benefit. The regular extra payments now made on the basis of detailed individual assessment will be absorbed into the main rates of benefit. As well as a premium for families with children, there will be an additional premium for lone parents and premiums for pensioners and the long term sick and disabled. At the same time the capital rule, which at present is an inflexible £3,000 cut off, will be substantially eased; and we will also ease the earnings rules for lone parents, disabled people and long term unemployed families.

While the broad pattern of income support will remain as set out in the Green Paper, we have modified our proposals in the light of consultations in two significant ways.

First, the income support rate will still be based on age divisions at 18 and 25 for single people. However, in order to help young families with children in particular, we now intend to have the same rate for all couples over 18.

Second, we intend to increase the help for families with more than one disabled child. The Green Paper proposed a double family premium where there was one or more disabled child. We have now decided to pay the extra premium for each disabled child in a household.

This last change will reinforce the special attention which we give to disabled people in our proposals. They will benefit from the premium in income support and from a higher earnings disregard. Overall, disabled people on low incomes will benefit significantly from these proposals.

However well designed the income support scheme may be, it cannot anticipate every special or emergency need. These needs will be dealt with by the social fund.

Instead of the present small universal maternity and death grants - which have both remained at the same value for over 15 years - proper help will be available from the fund to all low income families, not just those on supplementary benefit. The grant for funeral expenses will ensure that the full cost of the funeral can be met and it is planned that the maternity grant should be set at about £75. Grants will also be given for community care purposes, for example to help someone leaving a long stay hospital. In addition, the fund will provide loans to help claimants cope with items other than normal weekly needs.

The main structure of our housing benefit proposals has been acknowledged as an important simplification of the scheme. Treating employed and unemployed people alike, and so getting rid of two separate systems in housing benefit, has been particularly welcomed.

We shall go ahead with this but I intend, in response to consultations, to make two significant changes to the Green Paper proposals. <u>First</u>, I recognise the anxieties expressed about the effect of a single taper for rent and rates on owner-occupiers, particularly pensioners. I also recognise the concern of local authorities that a single taper would create administrative difficulties for them. We shall therefore keep separate tapers for rent and rates. This will still be a substantial simplification compared with the six tapers in the present system.

<u>Second</u>, although the general power to run local housing benefit schemes will be ended, local authorities will retain their power to grant extra benefit to individual claimants in exceptional circumstances. I have also decided that they should retain their power to give special treatment to war pensioners.

As we made clear in the Green Paper, we believe that the basis on which help is provided with rates needs to be changed. At present around 7 million householders receive help with some or all of their rates bill and up to 3 million householders pay no rates at all. We stand by the principle that everyone should make a contribution towards the cost of their local services. The White Paper therefore reaffirms the proposal that everyone should pay at least 20 per cent of their rates, but the proposals which my rt hon Friend the Secretary of State for the Environment will be bringing forward shortly on the reform of local taxation may affect the way this contribution is made.

The Government will be carrying forward the proposals for directing widows' benefits to those who need them most and for making maternity allowance more flexible and more closely related to recent work. The new lump sum payment of £1,000 to widows will be tax-free and will be ignored when considering help with funeral expenses. The White Paper also proposes that maternity allowance, like statutory sick pay, should be paid through employers, and a consultation document will be published shortly.

On timing, we will move to the first April uprating in 1987 and at that time we will introduce other changes like statutory maternity allowance and the new system of help with maternity and funeral costs. The main structural changes to income-related benefits and the other elements of the social fund will be introduced in April 1988. This recognises the arguments of employers and local authorities that the timetable must allow them to make proper preparations.

As far as income-related benefits are concerned, a technical annex is published with the White Paper. The figures show the possible distributional effects of the changes but these can be no more than illustrative. The actual position at the time of change will depend among other things on the exact benefit rates decided for April 1988; and the illustrative figures take no account of any changes resulting from the reform of rates.

As far as pensions policy is concerned, the Government Actuary's report published with the White Paper shows that if no action is taken total pension costs will increase from under £15½ billion to nearly £49 billion provided that the basic pension is uprated by prices. If, as some urge, the basic pension is uprated in line with earnings then the total pension cost increases to nearly £73 billion which would require a national insurance contribution of 27½ per cent. The cost of SERPS alone will increase from barely £200 million today to £25½ billion.

The Government cannot ignore this vast pensions bill which is being handed down to our children. In the consultation a number of important organisations recognised this case but argued that rather than totally replacing SERPS the costs could be reduced by modifying its provisions.

In testing whether a policy of modifying SERPS would be acceptable, the Government has two major objectives. First, we want to see the future cost of SERPS substantially reduced. Second, and even more fundamental, we want to see many more people in this country with their own pension. It is on the basis that both of these objectives can be achieved that the Government are prepared to change the proposals from those put forward in the Green Paper.

The Government propose to modify the scheme so that costs in the next century can be afforded. As with the Green Paper proposals, the Government recognise the particular needs of those nearest retirement. The SERPS changes will not affect anyone retiring this century, nor anyone widowed this century. There will also be a transitional period as the new scheme comes into effect fully in 2010. The basic pension is entirely unaffected by these proposals and we will continue to fully protect its value.

The changes to SERPS are that:

> occupational schemes contracted out of the state scheme should be responsible for inflation-proofing guaranteed minimum pensions in payment up to 3 per cent a year;
>
> SERPS pensions should be based on a lifetime's earnings, not on the best 20 years as now. Special protection will be built in for women who have breaks in work to bring up families and for those who become disabled and people looking after them;
>
> SERPS pensions should be calculated on 20 per cent of earnings rather than 25 per cent;

widows and widowers over 65 should be allowed to inherit half their spouse's SERPS rights, rather than the full amount as now.

However, policy on SERPS is only one part of the Government's pensions strategy. Our central aim is to provide many more people in this country with their own pension. The White Paper puts forward a six point plan to achieve this:

First, a special incentive will be given to encourage the setting up of new occupational pension schemes. This will consist of a reduction, or rebate, on national insurance contributions. An extra 2 per cent rebate will be added to the existing rebate making a total incentive of almost 8 per cent. This special rebate will last for five years.

Second, for the first time every employee will be able to take a personal pension whether or not his employer runs an occupational scheme. The holder of a personal pension will also receive the special national insurance incentive and his contributions will qualify for tax relief.

Third, for the first time employers will be able to contract out of the state scheme by guaranteeing a level of contribution to an occupational scheme - rather than accept the unlimited liability of promising a "final-salary" pension. These new arrangements will also open the way for more industry wide schemes.

Fourth, building societies, banks and unit trusts will be able to provide personal pension savings schemes as well as group schemes.

Fifth, all members of occupational pension schemes will in future have the right to pay additional voluntary contributions in order to boost their income in retirement.

Sixth, people with personal pensions will be fully covered by the new investor protection arrangements to be made for all financial services.

These changes build on top of the reforms introduced by the 1985 Social Security Act which protect the rights of early leavers. The White Paper proposes that this protection will be extended to all members of schemes leaving after 2 years rather than 5 years as now. And anyone changing jobs will be able to transfer all his rights into a personal pension.

Mr Speaker, the effect of the White Paper proposals will be to direct substantially more help to low income families with children and to provide more help for disabled people on low incomes. We will take new steps to increase the spread of occupational pensions and give everyone the right to have a personal pension. We will provide a simpler and more effective benefit structure and have now embarked on the biggest computer project of its kind in Western Europe.

Following this White Paper, the Government will introduce comprehensive legislation early in the New Year. The aim will be to achieve a modern social security system directing help where that help is needed.