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// To await DW comments.

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

7 July 1986

The Rt. Hon. Norman Fowler MP
Secretary of State for Social Services

Dear Norman

PERSONAL PENSIONS

Thank you for your attached letter of 30 June.

I entirely agree with you that the earlier personal pensions can be introduced, the better. If you have in mind a date fairly late in autumn 1987, at this stage I foresee no difficulties on the tax front.

My officials are in close touch with yours on this question, and you will know that we intend to publish detailed proposals, for consultation, later this year.

I should like to reflect on your proposal for "freestanding AVCs". In principle, I can see the attractions of this. But, as you know, it could have some undesirable consequences; and I am not yet sure how they can be overcome.

I am copying this letter to the Prime Minister, Norman Tebbit and Paul Channon.

Yours ever
Nigel

NIGEL LAWSON

CONFIDENTIAL

CCBG

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

31 July 1986

Dear Nigel.

PERSONAL PENSIONS AND FREESTANDING AVCs

I was very glad to have confirmation in your 7 July letter that you foresee no tax obstacles to an Autumn 1987 start for personal pensions (PPs). I am asking Paul Channon to have another look at the difficulties he has outlined in the context of the Financial Services Bill, following colleagues' support for an early PP launch.

I was also encouraged that you, the Prime Minister and Norman Tebbit share my view that "freestanding AVCs" are an attractive prospect. I hope we really can find some way to overcome administrative problems for the Inland Revenue, given the potential mass appeal of what is being proposed. I am more than ever convinced that freestanding AVCs would be the ideal complement for personal pensions, and the best means of ensuring that the benefits of our pension reforms are made available to the whole working population. Time is, of course, of the essence. If there is any help which my officials can offer, I should be very glad to arrange that.

I am copying this letter to the Prime Minister, Norman Tebbit, Paul Channon and David Young.

Yours ever
Norman

NORMAN FOWLER

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SOCIAL SERVICES
REVIEW
PT 4

cc BG

Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

14 July 1986

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON
SE1 6BY

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D Norman.

PERSONAL PENSIONS

Thank you for the copy of your letter of 30 June to Nigel Lawson. File with DRN

I very much welcome your wish to bring forward the introduction of personal pension reforms to Autumn 1987, and I am glad to see that Nigel does not foresee obstacles to this.

I share your view that we should allow freestanding AVCs. I would anticipate that this will be an important bridge for those committed to occupational schemes who would otherwise be unwilling to move to personal pension provision. It would, as you say, complete the framework of reform in this area. It would therefore be helpful to know further, from Nigel, whether he believes the practical difficulties can be overcome.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson and Paul Channon.

Yours
Norman

NORMAN TEBBIT

SOCIAL SERVICES: Review: Pt 4

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DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

June 30th.

Dear Nigel.

PERSONAL PENSIONS

Our proposals on personal pensions represent a major Government initiative. They will greatly extend the freedom of choice in pensions and will give a major boost to our efforts to encourage wider share and property ownership. It is therefore very important that they get strong visible support from the public. I believe there are two further steps we can take to make sure that such support is forthcoming from an early date.

The Social Security Bill provides a new framework for personal pensions by:

- giving everyone in employment the right to take a personal pension instead of remaining a member of SERPS or an employers' scheme;

- requiring all occupational schemes to offer within the scheme the facility to make additional voluntary contributions (AVCs).

It will complete this framework if - as you know I would like - we permitted freestanding AVCs. In other words, members of schemes would not be restricted as now to taking out an AVC through the scheme: they could have an AVC facility which would be in practice like a personal pension. This would mean tax rules which allowed occupational scheme members to get the same tax advantages when they make AVCs outside their schemes.

Freestanding AVCs would be very popular. The great success of individual retirement accounts in the USA has got a lot to do with the fact that people have access to them while remaining in occupational schemes. I believe freestanding AVCs would be equally popular here and would go well with the main personal pension

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reforms. Everybody in occupational schemes would have the option of building up individual pension wealth without having to sacrifice their scheme membership. And the insurers and all the new providers we are bringing into the personal pensions market would be bouns to set up AVC facilities alongside personal pensions.

The CBI and virtually all pension interests have been pressing for freestanding AVCs since I began to look at pension reforms. There was also considerable support for this from Nigel Vinson and others at Lords Committee stage of the Social Security Bill on 17 June. Freestanding AVCs would, of ocurse, very considerably extend the scope of personal pensions, since they would provide a new opportunity for the 10 million plus people in salary related occupational schemes. So they could provide the key to a significant extension of popular capitalism to complement the new personal equity plans.

I know that it is argued that freestanding AVCs would present policing problems for the Inland Revenue but I believe that these would be relatively temporary pending the introduction of full computerisation. There would also be problems of reconciling the revenue limits on pension benefits and contributions; but you already have this on board following our commitment to allow transfers between personal pensions and occupational schemes.

Secondly, as you know, I believe there are obvious attractions in getting personal pensions off the ground before April 1988. If we can bring forward the introduction of all these personal pension reforms to the autumn of 1987, they will start to make a real impact on people by early next year - because by then pension providers will be busy letting people know what they have to offer.

If the pensions industry is to have time to gear itself up to an autumn 1987 start for personal pensions, they will need to know in the very near future that we are working to this timetable. I believe it is essential to announce our intention to do this as quickly as possible. I would therefore be grateful for your confirmation that this does not conflict with your own timetable assessment for getting the relevant tax regime into force.

Could I add a rather more political point. If the personal pension reforms were introduced in the autumn of 1987 and if members of schemes were also able to take them there would be formidable and obvious support for our policies running throughout 1987. The changes would be welcomed by the public and providers of personal pensions alike.

I am writing to Paul Channon about the implications of this timetable for the financial services protection regime. In view of the political importance of what I am proposing, I am also copying this letter to the Prime Minister and Norman Tebbit.

Yours ever
Norman

NORMAN FOWLER