Pps please at home

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PRIME MINISTER

Agree to write as proposed?

DLW 15/7

11 July 1986

Yes mt

PERSONAL PENSIONS

Personal pensions rival council house sales as a means of spreading direct property-owning democracy. The Benefit Reviews will encourage personal pensions by reducing the attractiveness of the state scheme and giving everyone the right to opt out from their institutional scheme. Norman Fowler now has two more proposals.

First, he wants to introduce the new personal pension framework in the autumn of 1987 rather than 1988. This is something which you yourself urged on him during last year's discussion of pensions reform. The providers of personal pensions are a group with a vested interest in selling the Government's policies. The sooner they are out on the road, the better.

The second proposal is that people should get tax relief on Additional Voluntary Contributions (AVCs) which don't go into their main occupational scheme but into a personal second pension. This is what lies behind the boom in personal pensions in America. It enables people to build up an extra pension entitlement without leaving their occupational scheme entirely. Officials are now trying to work out such a scheme which avoids giving too expensive a tax break.

I recommend that you:

- endorse the introduction of personal pensions in the autumn of 1987;

- endorse the idea of "free-standing AVCs", though recognising the need to keep an eye on its revenue cost.

David Willetts

DAVID WILLETTS