



Treasury Chambers, Parliament Street, SW1P 3AG
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15 October 1982

Michael Scholar Esq.
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cg 50
WR
Prime Minister (2)

MUS 15/10

Dear Michael,

DEBATE ON THE SCOTT REPORT

I am writing to tell you about the intended arrangements for handling the Debate on the Scott Report on 22 October. The Debate is on a Friday, on a Motion for the Adjournment, and Mr Hayhoe will make both the opening and the winding up speeches.

As factual background we are intending to publish information about the extent of index-linking in the public sector and the way in which it is financed. Copies of two PQs which we intend to put down for Written Answer on 19 October are attached. This is the first opportunity which members will have to see the information in consolidated form, but almost all of it is available elsewhere. It seems preferable to volunteer it in advance rather than have it elicited piecemeal by Questions, and it certainly shows how complex the issue is and helps to explain the delay in responding to Scott.

The Prime Minister commented earlier that she thought the Debate should be a low-key occasion. We think it would be wrong therefore to say anything definite one way or the other about the future of index-linking. We can point to the success in bringing down the rate of inflation. More stable money reduces the disparity in pensions which has caused great public concern and this is one of the benefits of controlling inflation. There can be some discussion about the various groups who enjoy index-linking, with references to the information in the PQ, and we will emphasise the Government's continuing concern at the disparity between the public and private sector. There may be a passage about indexed gilts which provide fund managers with an important new financial instrument.

Since the Megaw Report has appeared since the last Debate on Scott in February, we intend to take up the suggestion that civil service pensions should be made contributory, and say that the Government is disposed to favour such a change. We will emphasise the Government's concern that a proper level of contributions should be paid by all groups who enjoy index-linking, referring to the increases in contributions from the armed forces and the police, but if asked whether this implies that index-linking will be retained provided it is properly paid for, we will say that action on contributions does not imply that nothing is to be done about benefits.



A copy of the draft of the opening speech will be sent round early next week.

I am sending copies of this letter to the Private Secretaries of all members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

HM TREASURY

FOR WRITTEN ANSWER ON
MONDAY 18 OCTOBER 1982

Con - []

No []- []: To ask Mr Chancellor of the Exchequer, if he will detail the main pension schemes in the public sector whose benefits are fully protected against increases in the general level of prices.

DRAFT ANSWER

The Pensions (Increase) Act 1971, as amended, provides for annual increases in line with increases in the general level of prices, for pensions payable under the schemes listed in Schedule 2 to that Act. The largest such schemes are the Principal Civil Service Pension Scheme, the Local Government Superannuation Scheme, the Teachers' Superannuation Scheme, the National Health Service Superannuation Scheme, the Police Pension Scheme, and the Fire Service Pension Scheme. The Armed Forces Pension Scheme follows these arrangements by analogy. Other schemes covered directly by the Act include the Parliamentary Contributory Pension Scheme, pensions payable under the Judicial Pensions (Consolidation) Act 1981, and those payable to former holders of certain public offices such as the Parliamentary Commissioner for Administration and the Comptroller and Auditor General. A wide variety of pensions paid to former overseas officers, such as the expatriate staff who served colonial governments, are also increased under the Act.

2. The financing arrangements for the main schemes in Great Britain covered by the Act (including, for these purposes, the Armed Forces Pension Scheme) are as follows:

Scheme	Employee Contributions (incl pay reductions)		Employer Contributions (c)		Source of benefits	
	per cent of pay	Estimated revenue (or savings) in 1982/83 £m	per cent of pay	Estimated revenue in 1982/83 £m	Basic pensions (c)	Pensions increase
Civil Service (a)	See note (b)	(360) ^(b)	n/a	n/a	Exchequer	Exchequer
Local government	5 (manuals) 6 (non-manuals)	400	8.5 ^(d)	600	Local authority pension funds(d)	Last employer of pensioner
Teachers	6	335	8.4	450	Notional fund	Exchequer
NHS	5 (manuals) 6 (non-manuals)	350	7.5	425	Notional fund	Exchequer
Police (a)	11 (men) 8 (women)	100	n/a	n/a	Police authorities	Police authorities
Fire (a)	6.75 (e)	20	n/a	n/a	Fire authorities	Fire authorities
Armed Forces (a)	See note (b)	(260) ^(b)	n/a	n/a	Exchequer	Exchequer

Notes:

a. Most of the pensions in this table are subject to a maximum of 2/3 final pay (or the broad equivalent in pension and lump sum) after 40 years' service, from age 60 or 65. However, the arrangements for the police and fire services, the armed forces, prison officers (within the Civil Service scheme) and mental health officers (within the NHS scheme) provide for pensions from earlier retirement ages and accrual of full pension over a period of less than 40 years. The value of such arrangements as a percentage of salary is considerably greater, and at the present time is reflected in higher effective employee contributions for the armed forces and the police.

b. Civil Service and armed forces pensions are largely non-contributory and it is therefore necessary to incorporate pensions deductions into gross pay levels. For the Civil Service, the most recent adjustment was in 1980 pay research, which resulted in an average total effective contribution of 7.9 per cent of Civil Service pay,

cluding the $1\frac{1}{2}$ per cent paid by men for widows' benefits. For the armed forces, the last two sets of recommendations by the Review Body on Armed Forces Pay have included reductions of 11 per cent in pay rates to take account of pension benefits.

c. The employer contributions listed are those payable to actual or notional pension funds; for the wholly unfunded schemes, no employer contributions as such are paid. However, the NHS and teachers' notional funds and the local authority pension funds cover basic pensions only (that is, without increases under the Act) and pensions increases are financed separately. Thus, the contributions shown do not cover the liability for pensions increase. This liability falls on the source shown in the final column of the table. The Government Actuary estimates that if pensions increases were taken into account in the funds the employer contributions might be some 6 per cent higher.

d. Pensions under the local authority superannuation scheme are paid from pension funds maintained by county councils, the GLC, the City of London, London boroughs and Scottish regional authorities. The employer contributions vary from fund to fund, and average $8\frac{1}{2}$ per cent.

e. Revised rates under consideration.

3. The numbers covered by these schemes are as follows:

Thousands

Service	Number of employees	Members of pension scheme	Number of pensioners		
			retired employees	dependants	Total
Civil Service	659	657	323	101	424
Local government	2 054	1 060	286	66	352
Teachers	658	613	201	11	212
NHS	1 179	820	202	35	237
Police	133	133	51	24	75
Fire	39	39	18	7	25
Armed Forces	328	321	224	60	284
Overseas	-	-	46	9	55
Total	5 050	3 643	1 351	313	1 664

4. Estimated expenditure in the 1982/83 financial year, and the average pension before and after the 11 per cent increase due on 22 November 1982, is as follows:

Service	Lump sum £ million	Basic pensions £ million	Pensions increase £ million	Total £ million	Average pension £ a week	
					pre-Nov 1982	post-Nov 1982
Civil Service	300	403	354	1057	32.40	35.80
Local government	175	325	240	740	29.70	32.70
Teachers	219	333	373	925	56.10	61.90
NHS	174	220	228	622	32.10	35.40
Police	44	80	107	231	46.00	50.80
Fire	9	20	29	58	36.00	39.80
Armed forces	130	244	289	663	34.60	38.30
Overseas	1	20	103	124	41.80	46.70
Total	1052	1645	1723	4420	36.20	39.90

5. Information is available about the distribution of Civil Service, teachers and NHS pensions by size (before taking account of the increase due in November 1982):

Size of pension £ a year	Civil Service	Teachers	NHS
0 - 999	49.7	9.1	52.1
1000 - 1999	23.3	16.9	21.7
2000 - 3999	16.5	44.8	16.2
4000 - 5999	6.4	24.7	4.6
6000 - 7999	2.3	3.9	2.2
8000 - 9999	1.1	0.5	1.7
10000 or more	0.7	0.1	1.5
Total	100.0	100.0	100.0 ^F

6. The Pensions (Increase) Act does not in general apply to pension schemes in the wider public sector, such as the nationalised industries. Most of these schemes do, however, provide for regular increases in line with movements in prices. These schemes fall into three groups:

- A. those whose rules provide annual increases in line with those under the Act;
- B. those which provide full index-linking, but related to actual movements in the Retail Price Index rather than, as with increases under the Act, forecast movements; and
- C. those whose schemes do not provide explicitly for inflation-proofing, but who have in practice followed the increases made under the Act.

About two-thirds of nationalised industry employees belong to the first group, and are thus subject to the same pensions increase arrangements as members of the schemes discussed above. The following table describes the main pension schemes in the wider public sector, within these three groups, as they were in 1980/81 (the latest year for which the full range of information is centrally available).

Scheme	Scheme members 000	Pensioners (including dependants) 000	Employee contributions per cent	Employer contributions per cent	Expenditure on benefits in 1980-81 £ million
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A: schemes whose rules require them to follow the 1971 Act

Post Office/ British Telecom	400	180	6	9	571
British Rail	217	64	9 $\frac{1}{2}$	14	40 (in 1979)
British Steel	128	101	8 (staff) 5 $\frac{1}{4}$ (manual)	16	127
British Airways	47	15	5 $\frac{3}{4}$ -7 (women) 7 $\frac{1}{4}$ -8 $\frac{1}{2}$ (men)	12.65- 25.5	46
Atomic Energy Authority	35	7.5	4 $\frac{1}{4}$ -7 $\frac{1}{2}$	10-12 $\frac{1}{2}$	18
London Transport	50	14	5 (manual) 6 (staff)	13 $\frac{1}{4}$ (manual) 18.9 (staff)	21
Universities	58	38	6 $\frac{1}{4}$	14	52.5
National Bus Company	36	5	2 $\frac{1}{2}$ (manual) 7 $\frac{1}{2}$ (staff)	7 $\frac{1}{2}$ (manual) 22 $\frac{1}{2}$ (staff)	6
Civil Aviation Authority	7.4	1.6	7 $\frac{1}{2}$	25	8.7

B: schemes which provide index-linking by other means

National Coal Board: Miners	240	255	5 $\frac{1}{2}$	5 $\frac{1}{2}$	130
Staff	59	50	4 $\frac{1}{2}$ -5 $\frac{1}{2}$	10-12	85
British Air- ports Authority	7.5	1.2	6-7	11 $\frac{3}{4}$ -12 $\frac{3}{4}$	2.9

C: schemes which have in practice followed the 1971 Act

Electricity Supply	143	66	6	12	133
British Gas	93	39	6	15.2 (manual) 29.1 (staff)	65
BBC	21.5	7	7 $\frac{1}{2}$	20 $\frac{1}{4}$	21

Other schemes, covered directly by 1971 Act				
Water industry	56	11	As for local government	27.5
Forestry Commission	8	4.7	As for Civil Service	7.1
Total	1606	860	- -	1362

7. With the exceptions of the National Water Council pension fund (which has adopted the local government scheme) and the Forestry Commission, which has an unfunded scheme, all the above schemes pay pensions increases from their funds, so that the liabilities met by contributions include this element.

8. The foregoing schemes cover in all some $5\frac{1}{4}$ million scheme members and nearly $2\frac{1}{2}$ million pensioners, and are expected to spend up to £6 billion on benefits in the current financial year. This list is not however exhaustive, since there are a great many smaller schemes in the public sector which also provide index-linked pensions. The latest survey of occupational pension schemes by the Government Actuary in 1979 found 130 public sector pension schemes, with 5.6 million members and 2.3 million pensioners. Later figures are not available, but the number of pensioners has certainly increased since 1979.

9. The Government Actuary's survey found 11.8 million members of occupational pension schemes, 10.3 million of which were in schemes contracted-out of the earnings-related, index-linked additional element of the State pension scheme. This figure of 11.8 million represents about 51 per cent of employees in the United Kingdom, 24 per cent in the public sector and 27 per cent in the private sector. There are also about 9 million people in receipt of state retirement pensions. These pensions, and Guaranteed Minimum Pensions, to which the 10.3 million members of contracted-out schemes will be entitled, are fully increased in line with increases in the general level of prices, as provided for in the Social Security Acts. About 3.7 million people were in receipt of pensions from occupational pension schemes (although not all would yet have reached state pension age, so that this figure is not comparable with that of 9 million retirement pensioners). Of these 3.7 million, 62 per cent come from public sector schemes and 38 per cent from private sector schemes.

10. The potential beneficiaries of public sector pension schemes are not confined to contributing scheme members. There are an estimated 800,000 people who have left public sector schemes before retirement age with preserved benefits which will become payable in due course. In addition, many wives of scheme members and pensioners may become entitled to widows' pensions in the future.

H M TREASURY

Con - []

No [] - []: To ask Mr Chancellor of the Exchequer, how changes in the general level of prices since 1970 compare with changes over the same period in national average earnings and gross domestic product.

DRAFT ANSWER

The following table compares movements in the Retail Prices Index, national average earnings and gross domestic product since 1970.

	June RPI (June 1970 = 100)		June earnings (June 1970 = 100)		GDP (Q2) (1970 Q2=100)	
		Year-on-Year increase per cent		Year-on-Year increase per cent		Year-on-Year increase per cent
1970	100	-	100	-	100	-
1971	110.3	10.3	110.9	10.9	109.8	9.8
1972	117.0	6.1	123.9	11.7	126.0	14.8
1973	127.9	9.3	142.9	15.3	147.4	17.0
1974	149.0	16.5	165.8	16.0	163.3	10.8
1975	188.0	26.1	208.1	25.5	207.7	27.2
1976	213.9	13.8	245.9	18.2	244.9	17.9
1977	251.7	17.7	265.9	8.1	290.0	18.4
1978	270.4	7.4	306.8	15.4	329.8	13.7
1979	301.1	11.4	347.7	13.3	386.9	17.3
1980	364.3	21.0	423.3	21.7	451.0	16.6
1981	405.5	11.3	473.9	12.0	482.2	6.9
1982	442.7	9.2	520.6	9.8	520.3	7.9