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10 DOWNING STREET

From the Private Secretary

25 October, 1982

PUBLIC SECTOR PENSION SCHEMES

Many thanks for your letter of 21 October with which you enclosed a note on the pensions burden imposed on the public sector in terms of write-offs, subsidies and employers' contributions to pension funds.

B/P
The Prime Minister has the impression that some large deficiencies not mentioned in the note have been written off in the past by legislation or by other arrangements. Please could we have a further short note, stretching back say ten years?

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J. Gieve, Esq.,
Chief Secretary's Office
H.M. Treasury

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✓ JV



Prime Minister (4)

The key figures
you wanted are

Treasury Chambers, Parliament Street, SW1P 3AG. at flag A

M Scholar Esq
10 Downing Street
London SW1

Dear Michael

Had the impression
large part determined by 21/10
had been written at
by leg in emergency
other ? (Ranking?)
not

PUBLIC SECTOR PENSION SCHEMES

Your letter of 11 October recorded the Prime Minister's concern about the costs of pension provision in the public sector and asked for a note on the burden imposed in terms of write-offs, subsidies and employers' contributions. The enclosed note sets out this information for the nationalised industries. Margaret O'Mara wrote to you on 15 October about the position in the public sector more generally in the context of the line it is proposed to take in the debate on Scott later this week.

So far as the debate is concerned, the approach set out in Margaret's earlier letter covers the nationalised industries as well. The major difference between the nationalised industry schemes and those elsewhere in the public sector is that we have no direct responsibility for pension arrangements in the industries.

I am copying this letter to Private Secretaries in the Departments of Energy, Environment, Industry, Transport, the Scottish Office and to Richard Hatfield (Cabinet Office).

Yours sincerely

J. Gieve

JOHN GIEVE
Private Secretary

PUBLIC SECTOR PENSION SCHEMES

This note deals with the nationalised industries.

2. The attached table shows for the main nationalised industry funds total expenditure on benefits and its financing. Generalisations are difficult. Employee contribution levels range from 2.5% to 9.33% of earnings (averaging about 6%), and between 17% and 50% of total contributions. Employer contributions range from 7.6% to 29.1% of earnings (averaging about 11%).

Within some schemes contribution rates differ between manual and white-collar workers. These disparities reflect the fact that pensions are negotiated by each management as part of a total package of remuneration and conditions of service.

3. 6 of the 12 industries make deficiency payments to their pension schemes, ranging in 1981-82 from £1.3m to £89.3m and from 0.03 - 3.3% of total labour costs. In addition the Government makes payments to the funds of three industries: the Coal Board, the Post Office and British Rail. Subventions from industry and Government totalled £260 million in 1981-82. Of this total £64.1 million, in respect of British Rail, reflected a statutory obligation to meet the emerging cost of certain historic liabilities. This obligation was incurred when a general capital reconstruction of British Rail in 1974 revealed that

British Rail, as a contracting industry, could not meet pension obligations from its revenue account. Similarly contributions from the shrinking workforce of the NCB are insufficient to meet past pension obligations. The Government sees an overall financial benefit in contributing to the pensions fund and enabling redundancy schemes for miners to go forward. Government contributions to the Post Office Staff Superannuation Fund are on a different basis. When the Post Office became a public corporation in 1969 the national fund to which the Post Office had been contributing was transferred to fund trustees through a series of lump sum payments by the Government, which will cease in 1982/3.

4. Comparisons of the burden of pension funding in the public and private sectors are difficult and have to be treated with caution. Comprehensive surveys distinguishing between public and private sector schemes are few, and tend not to separately identify nationalised industries. What information is available suggests that the total cost of pensions tends to be somewhat higher in the public sector industries than in the private sector; but that the public sector employee pays a higher employee contribution and meets a slightly larger proportion of total costs.

5. A survey by the Government Actuary in 1979, for example, found that total pension contributions averaged 15% of average earnings in the private sector, but 18% in the public sector. These contributions on average were divided between employee and employer in the ratio 1:3; but among the nationalised industries all but

6 (out of 15) schemes showed a higher proportion than this of employee contributions. A more recent survey by the National Association of Pension Funds in 1981 showed an average employer's contribution of 10.81% - exceeded by most nationalised industries - but also showed that 42% of all employers made deficiency payments into their funds. Deficiency payments in the nationalised industries are not running at significantly higher levels.

6. The Government no longer has any direct involvement in or powers over pension terms in the nationalised industries. Arrangements are made however to monitor the funds' finances at regular intervals to ensure that major deficits do not arise (because in practice the Exchequer could find it hard to stand back from the consequences of such deficits); and to ensure that where deficiencies do arise, proper consideration is given to meeting them (within the constraints of contractual obligations and the statutory independence of the Funds) by adjusting benefits and employee contributions before the industry makes any payments to the funds.

HM TREASURY

20 October 1982

Industry	Number of Scheme members ('000)	Number of beneficiaries ('000)	Total Expenditure on benefits (£m)	Contribution Rates		Deficiency payments from employer		Subventions from Exchequer (£m)
				Employee	Employer	(£m)	As % of total wage costs	
National Coal Board: Staff	56	51	85	5-7%	11%	33	-	- (5)
Miners	233	255	118	5.25%	5.25%	58	3.3%	54
Electricity Supply Industry	131	71	200	6%	12%	19.2	1.3%	-
British Gas	93	39	74	6%	19.5% (manual) 29.1% (staff)	-	-	-
British Steel	106	109	129	5.25% (manual) 8% (staff)	16%	-	-	-
Post Office and British Telecom.	400	180	428	6%	9%	89.3	0.03%	45
British Shipbuilders (1)	55.2	4.4	12.1	6% (2) or 4.5%	7.6% (average)	-	-	-
British Airways (3)	46	15	45	7.25-8.5% (men) 5.75-7% (women)	12.65-25.5%	2.2	0.5%	-
British Airports (3)	7.5	1.2	3.4	6-7%	11-12%	2.1	2.6%	-
Civil Aviation Authority (3)	7.4	1.7	6.2	7.5%	25% (6)	-	-	- (4)
British Rail	209	52.2	85.2	9.33%	14%	-	-	64.1
National Bus Co.	35	4.7	6.9	2.5% (manual) 7.5% (staff)	7.7% (manual) 18.5% (staff)	1.3	0.06%	-
Water Industry (3)	56	11	27.5	5% (manual) 6% (staff)	11%	-	-	-

Notes:

- (1) Scheme not index linked
- (2) Two tiered scheme
- (3) Information relates to 1980-81. All other figures relate to 1981-82 except for British Rail and National Bus where the figures relate to calendar 1981.
- (4) The Government meets the emerging cost of certain historic liabilities.
- (5) The Government reimburses to the NCB the costs of eliminating that part of the deficiency in the Mineworkers Pension Scheme that relates to those persons who left the industry before 6 April 1975. (For 1981-82 this amounted to £54m out of total deficiency payments of £59m.)
- (6) Includes deficiency payments of up to 10 % of salary.

ECON. POLICY: INFLATION PROOFED PENSIONS.



21 OCT 1982