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Econ Pol

10 DOWNING STREET

From the Private Secretary

12 November, 1982

PUBLIC SECTOR PENSION SCHEMES

Many thanks for your letter of 10 November,
with the attached note and table.

I showed this to the Prime Minister, and she
was grateful for the work you have had done.

M. L. SCHOLAR

J. Gieve, Esq.,
Chief Secretary's Office
HM Treasury

CONFIDENTIAL



Prime Minister (2)

You asked
about this.

Treasury Chambers, Parliament Street, SW1P 3AG

Ms 10/11

M C Scholar Esq
10 Downing Street
London SW1

10 November 1982

Dear Michael

PUBLIC SECTOR PENSION SCHEMES

You asked in your letter of 25 October for a further note on the pensions burden imposed on public sector industries over the past ten years.

... I attach some figures and a short note. They show that no deficiencies have been "written off". But three industries in particular - the Coal Board, the Post Office (including British Telecoms) and British Rail - face large historic deficiencies in their pension funds. The Exchequer has been directly involved in meeting the cost of some of these deficiencies. The circumstances of each case and the amounts involved are described in the attached note.

A fourth industry, British Gas, has not made formal deficiency payments but the increasing burden of employers' contributions suggests they may have chosen to meet a similar problem by a different route.

The explanations underlying the larger scale deficiencies are rooted in historic factors - reflecting decisions taken ten or more years ago. Our primary concern is to ensure we do not add to these liabilities. To this end we are currently doing some work to clarify how far the industries have freedom to replace existing schemes with new ones; how far the industries (and implicitly the Exchequer) stand behind the liabilities of their pension fund; and whether there are any other factors which could create contingent liabilities on the Exchequer. The Chief Secretary will be considering the implications of this work when complete.

Yours sincerely

J. Gieve

JOHN GIEVE

Private Secretary

PUBLIC SECTOR PENSION SCHEMES

1. Tables A and B attached show contribution levels and the extent of deficiency payments by the main public sector industries since 1972-73.
2. Table A shows in most cases a relatively stable picture. Contribution rates in general have tended to rise over the past ten years. This reflects the trend towards improved pension provision, marked particularly by the introduction of the new State Scheme in 1975-76.
3. One exception is British Gas where the regularly increasing level of employer contributions suggest there is an underlying problem with deficiencies in the fund which are being met by the employer.
4. Table B again shows a relatively stable picture for most industries. A number of industries have made or are making deficiency payments on a modest scale. This is not unusual by normal commercial standards. Three cases however stand out - the Coal Board, the Post Office (including British Telecoms) and British Rail. In each of these cases regular deficiency payments are being made and in some cases the Exchequer is directly involved. The circumstances in each case are different.
5. The deficiencies in the Coal Board schemes stem from the rapid rundown in manpower in the industry over two decades and the decision in 1974 to inflation proof the pensions paid to existing pensioners. The Government meets that part of the deficiency in the miners' scheme that relates to people who left the industry before April 1975. These deficiency payments are additional to the Government grants to the NCB to meet early retirement and redundancy costs.
6. The Post Office fund has a total deficiency of £2049 million of which £1712 million has been attributed to British Telecom. £1250 million of the deficiency dates from the time when the Post Office was a Government Department and fund's investment was placed notionally in low interest bearing Government stock. The remainder of the deficiency reflects later inadequate funding stock. The payments by the Post Office and British Telecoms to liquidate these deficiencies are due to come to an end in 1992.

The Exchequer does not contribute towards these deficiencies. The £45 million paid annually by the Exchequer to the Post Office Fund represents the transfer to the Post Office of the assets of a nonotional fund which existed prior to 1969 when the Corporation was a Government Department. These payments will come to an end this year.

7. In the case of British Rail no deficiency payments are made by the industry but the Government is meeting the emerging cost of certain historic deficiencies. These deficiencies arose as a result of inadequate funding in the past and because favourable transfer terms were offered to members of the old railway pension schemes when the modern funds were established. By the early 1970s the deficiencies were reaching a point where the industry was unable to fund them and under the Railway Act 1974 the then Government undertook to fund any unfunded obligations incurred up to 1 January 1975. Under the Transport Act 1980, the Government changed the method of funding to meet only the emerging cost of the deficiencies. The BR funds are currently fully funded by employer and employee contributions in respect of current service.

TABLE A

CONTRIBUTION RATES 1972-73 - 1981-82

	1972 - 73	1973 - 74	1974 - 75	1975 - 76	1976 - 77	1977 - 78	1978 - 79	1979 - 80	1980 - 81	1981 - 82
	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee	Employer
National Coal Board: Manu- als Staff	6-20p/wk 5-6%			5%				5.25%		
Electricity Supply: Manu- als Staff	5% 6%			6%						
British Gas: Manu- als Staff	Scheme not constituted prior to 1975 Scheme not constituted prior to 1975			2.5% 6%	11.3% 17.9%	2.5% 6%	13.4% 25.0%	2.5% 6%	18.3% 28.6%	6% 6%
British Steel: Manu- als Staff	4.5% 6%			5.25% 6%						
Post Office + B Telecom	6%									
British Shipbuilders	Scheme not constituted prior to 1981									
British Airways: Men Women	Scheme not constituted prior to 1973			7.25-8.5% 5.75-7%	13.05-26.35% 10.35-12.6%	7.25-8.5% 5.75-7%	14.5-29.75% 11.35-19.75%			
British Airports	6%			6%						
Civil Aviation Authority	-			(1) 11.5% (1) 7.5%						
British Rail: Wages grade Staff	6.5% 8%			(2) 9.33% (2) 9.33%	14% 14%					
National Bus Co: Wages grade	Scheme not constituted prior to 1974			2.5%						
Water Industry	5.5%			10-11%						

Notes

Arrows indicate rates unchanged in intervening years.

(1) Rate increased December 1974

(2) Rate increased July 1974

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TABLE B

DEFICIENCY PAYMENTS 1972-73 - 1981-82
(£ million unless otherwise stated)

	1972 - 73		1973 - 74		1974 - 75		1975 - 76		1976 - 77		1977 - 78		1978 - 79		1979 - 80		1980 - 81		1981 - 82	
	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government	by industry	by Government
National Coal Board: Manual Staff	5.6	-	6.1	8.3	6.2	8.3	17.2	18.0	19.7	23.2	23.3	34.0	29.1	36.1	34.5	41.3	21.7	49.3	4.2	54.3
Electricity Supply: Manual Staff	5.0	-	15.7	-	37.7	-	44.3	-	50.2	-	55.5	-	20.1	-	22.7	-	33.0	-	33.0	-
British Gas: Manual Staff	4.9	-	-	-	-	-	-	-	-	-	17.6	-	17.6	-	17.6	-	17.6	-	17.6	-
British Steel: Manual Staff	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Post Office + B Telecom	44.3	45	112.7	45	105.4	45	131.6	45	205.2	45	173.7	45	67.8	45	78.8	45	81.2	45	89.3	45
British Shipbuilders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
British Airways	-	-	0.2	-	0.5	-	1.25% of pay + £1.2m	-	1.25% + £0.5m	-	1.25% + £1.3m	-	1.25% + £0.8m	-	1.25% + £1.8m	-	1.25% + £2.3m	-	1.25% + £2.1m	-
British Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civil Aviation Authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
British Rail (1): Wages grade Staff	8.8	-	9.5	-	23.6	46.8	-	101.3	-	108.8	-	109.2	-	86.6	-	124.6	-	47.6	-	52.0
National Bus Co: Wages grade Staff	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Industry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Notes

Unbroken line indicates no payments made.

(1) Includes some payments on a calendar year basis.

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