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c.c. Mr. Owen

10 DOWNING STREET

From the Private Secretary

19 September, 1983.

Sir Robert Armstrong

Public Sector Pensions

The Prime Minister was grateful for your minute of 16 September about the next steps on public sector pensions.

The Prime Minister has agreed to the procedure you propose. She has commented that the subject of the further work (described in paragraph 2i. of your minute) should be "the detailed implications if the Principal Civil Service Pension Scheme were to be made contributory".

M. C. SCHOLAR

19 September, 1983.

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Ref. A083/2643

PRIME MINISTER

Prime Minister ^①
Agree?
MUS 16/9

Yes mb

Public Sector Pensions

The Cabinet agreed on 15 September (CC(83) 27th Conclusions, Minute 4) that further detailed work should be done by officials on public sector pensions and that you would arrange for further consideration by Ministers when the results of the detailed work by officials were available.

2. The further work falls under the following headings:

i. the detailed implications ^{of making} ~~of making~~ the Principal Civil Service Pension Scheme ^{was to be made} contributory;

ii. in respect of other public service schemes, the detailed implications of bringing employees' pension contributions more into line with benefits (the scope for adjustments of benefits not to be ruled out entirely but the Manifesto broad policy of proceeding by seeking realistic contributions to be borne in mind);

iii. in respect of the nationalised industry schemes, how they could be required or encouraged to adopt a similar policy to that eventually decided upon for the public services.

3. I propose that the official work should be carried out in a new Official Group in the MISC series under Treasury chairmanship. As to further Ministerial consideration, you referred in the Cabinet discussion to a Sub-Committee of the Ministerial Steering Committee on Economic Strategy. The obvious forum would be the Ministerial Sub-Committee on Public Sector Pay (E(PSP)) which is chaired by the Chancellor of the Exchequer and contains not only the Secretaries of State for Social Services and Employment, who have a general policy interest in pensions, but also the main Ministers with responsibilities for the public services and the



nationalised industries. There is also a close connection between negotiations on pensions and those on pay. I think that it might well be advantageous to have a discussion in E(PSP) under the Chancellor of the Exchequer's chairmanship of the detailed points arising from the work of officials before you become involved again. Depending on developments you might then want to chair a meeting yourself - either ad hoc or in ES - before the matter came back to the Cabinet.

4. Shall we proceed on these lines?

ROBERT ARMSTRONG

16 September 1983

Ref.A083/2603

PRIME MINISTER

Public Sector Pensions

C(83) 30

BACKGROUND

This memorandum by the Chancellor of the Exchequer proposes increases in public service pension contributions as the solution to the problem of index-linking.

2. The Cabinet last discussed public sector pensions on 3 June 1982 on the basis of a paper (C(82) 14) by the then Chancellor of the Exchequer (CC(82) 31st Conclusions, Minute 4). In essence, the basic structure of public service pension schemes would be left largely unchanged. Most public servants would pay a basic contribution of 6 per cent of salary, plus a "special charge" related to the year-by-year cost of index-linking; this "special charge" was expected to be about $2\frac{1}{4}$ per cent, and would vary in line with the cost of index-linking. Public servants with an especially early retirement age (mainly policemen, firemen, and members of the Armed Forces) and therefore faster than normal accrual of pension benefits would pay a rather higher basic contribution, and a higher "special charge", to reflect in part the significantly higher cost of their benefits. Particularly in view of the difficulty of legislating in the 1982-83 Session, it was decided not to proceed further at the time.

3. The present Chancellor's proposals, in C(83) 30, though also involving an increase in employee contributions to around 8 per cent in normal accrual schemes, are significantly different. In particular:

- a. He proposes extensive changes in the financing arrangements of public service pension schemes "to bring out more clearly the total costs of the benefits provided and how they are split between employer and employee".