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bc. J. Redwood

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From the Private Secretary

1 August, 1984.

Public Sector Pensions

The Prime Minister has seen the Chancellor's minute of 27 July. She agrees that the best course is to await the outcome of the Inquiry into the Provision for Retirement before taking decisions on the financing arrangements of public sector pensions schemes.

I am sending copies of this letter to the Private Secretaries to the Members of E(PSP), John Graham (Scottish Office), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Margaret O'Mara,
HM Treasury.

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PRIME MINISTER

PUBLIC SECTOR PENSIONS

Last year the Cabinet agreed that the financing arrangements of public sector pension schemes should be reformed to bring out more clearly the total costs of the benefits provided and how they were split between employer and employee; and that all public service pension schemes should be reviewed to settle and introduce appropriate realistic contribution rates. I was invited to arrange for officials to undertake further work on the detailed technical, negotiating and legislative implications (CC(83)27th) Conclusions, Minute 4). As subsequently agreed, the work by officials has been carried out by the Official Sub-Committee on Public Service Pensions (OP(PS)). The Sub-Committee's interim report was considered at the meeting of the Ministerial Sub-Committee on Public Sector Pay (E(PSP)) under my chairmanship on 24 July.

2. The report by OP(PS) was confined to the four main public service groups of teachers, the National Health Service, local authorities and civil servants. At the moment, the first three of those groups pay an overt contribution of 6 per cent, while civil servants pay overtly nothing, apart from a contribution of 1½ per cent by men for widows' benefits. However, it can be argued that the effect of past pay negotiations is that overt contributions do not represent the full effective contributions that are paid.

3. OP(PS) agreed that, although there was no unique or objectively right figure for the employees' contribution, it would be reasonable to take the figure of 8 per cent, envisaged by the Cabinet, as

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a 'realistic' rate. On that basis, OP(PS) identified four broad choices for Ministers.

Option A No change.

Option B Increase contributions paid by civil servants under the Principal Civil Service Pension Scheme (PCSPS) to 8 per cent either

(i) increasing gross pay to offset the effects on net pay of the increase in contributions, but amending the terms of the PCSPS to avoid any improvement in pension benefits consequential on the increase in gross pay; or

(ii) accepting the increase in pension benefits, but increasing gross pay by less than the amount required fully to offset the effects on net pay of going contributory in recognition of the increased actuarial value of pension benefits.

There would be no immediate action on the other three groups; but later action would not be precluded.

Option C Increase employee contributions in the NHS, local government and teachers' schemes to 8 per cent on a publicly stated basis of maintaining the existing actuarial value of the pay and pension package; move to a fully contributory PCSPS as under Option B (i) or B (ii) above.



Option D Increase employee contributions to 8 per cent as under Option C, but with the objective of achieving some net savings from all four groups through a pay offset less than required to maintain the existing actuarial value of the pay and pension package.

4. A majority of OP(PS) recommended attempting Option D, while recognising that the outcome might be nearer Option C. This recommendation was endorsed in the memorandum by the Minister of State, Treasury, considered by E(PSP).

5. E(PSP) agreed that we must rule out Option A. It would mean abandoning our Manifesto commitment to protect public sector pensions against rising prices on the basis of realistic contributions. However, E(PSP) also agreed that in present circumstances the other three options had little political attraction.

Option B would be attacked as a gratuitous improvement in Civil Service pay, or pensions, or both.

Option C would, of its very nature, allow us to achieve no financial savings, but would no doubt involve a great deal of effort, argument and misunderstanding.

Option D might achieve something of substance; but it would be bitterly resisted by the employees affected and might well find little favour with the local authority employers; given our current difficulties on the pay front, E(PSP) were clear that, at the very least, now was not the time to embark on this Option.

6. E(PSP) also had in mind that the Inquiry into Provision for Retirement, set up by the Secretary of State for Social Services,

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is expected to report within the next few months on a number of issues which will be very relevant to the whole subject: the relation between public and private sector pension schemes; the prospective economic burden of pensions; and the protection of pensions against inflation after award.

7. E(PSP) therefore agreed that we should await the outcome of the Inquiry into Provision for Retirement and then review our approach. Meanwhile, officials should do no more work on the approach developed in the OP(PS) report, except in the context of their work on preparing material for the Inquiry.

8. I am sending copies of this minute to the other members of E(PSP), to the Secretary of State for Scotland, and to Sir Robert Armstrong. I should be grateful if all recipients would ensure that copies are seen only by those with a clear need to know.

N.L.

27 July 1984