

C. (62) 209

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31st December, 1962

## CABINET

NATIONAL INSURANCE AND OTHER BENEFITSMemorandum by the Chancellor of the Exchequer

The Cabinet have agreed that legislation shall be introduced during the current session to increase national insurance and related rates of benefit and that national assistance rates should also be increased (C. C. (62) 68th Conclusions, Minute 5). The Prime Minister set up a Committee of Ministers, with myself in the Chair, to examine the case for differential rates of benefit and other questions referred to in C. (62) 177 and to bring the matter before the Cabinet at a later meeting. I do so on behalf of the Committee in this memorandum.

The Background

2. My Committee have taken account of three special factors:-

- (a) There has for some time been pressure from various sources for differential benefits, and we have said as long ago as October, 1961, that we are examining this.
- (b) There is need to increase unemployment benefit as unemployment rises to a peak in the early months of 1963.
- (c) A Private Member's Bill to give effect to the Opposition's promise to double the 10s. widow's pension and to abolish the earnings rules applied to widowed mothers' allowances and widows' pensions will come up for Second Reading on 25th January.

The alternative courses

3. We have considered and rejected a number of possible courses. We are left with two alternatives; we are not agreed upon which is to be preferred.

4. One course would be as simple a Bill as possible, providing for a flat increase of 7s. 6d. a week in the single rate of benefit under the national insurance scheme, and (subject to discussion between the Minister of Pensions and myself on the exact amounts) corresponding flat-rate increases in the other national insurance rates and in those under the industrial injuries and war pensions

schemes. The National Assistance Board could be expected to recommend an increase in the national assistance scale rates of about 4s. (for the single householder) which, together with the increase of last September, would amount to an increase of 8s. in all.

5. The alternative would be a Bill providing for an increase of 6s. a week in the single national insurance benefit for all those who are unemployed, sick or pensioners aged less than 70 years, and 12s. 6d. a week for those aged 70 years or more (the increases under the industrial injuries and war pensions schemes would require further consideration). It might also be desirable for the Bill to provide for the introduction of a similar differential in the scales of national assistance - although this could be done by regulations - also effective at age 70, the exact amounts of the revised rates to be determined subsequently in the normal way upon recommendations of the National Assistance Board. Such a differential would involve a lower increase for those aged less than 70 than would otherwise be appropriate.

Provisions common to both alternatives

6. Whichever of the two alternatives is adopted, the Committee are agreed that provision should be included also for the following:-

- (a) The increases in unemployment, sickness and maternity benefits under the National Insurance Scheme, in injury benefit and unemployability supplement and additional treatment allowance, should all be paid from the earliest practicable dates, which would fall in the first half of March, even though it will not be practicable to bring into payment the increases in other benefits, including retirement pensions or national assistance, until a few months later on.
- (b) Contributions would not be increased until after most of the benefits were increased, so that increased rates of certain benefits, particularly unemployment and sickness benefit, would have been in payment for some months before contributions rose. This would be consistent with the reflationary measures which we are adopting for the immediate future.
- (c) The abolition of the widowed mothers' earning rule, proposed in Mr. Lipton's Bill, should be resisted. It would cost  $\pounds 1\frac{1}{2}$  million a year, would benefit widowed mothers who are already reasonably well off and would almost certainly lead to the abolition of the earnings rule for widows' pensions and probably for retirement pension itself. Instead, the following improvements in respect of widowed mothers would be introduced.

- (i) Widowed mothers' earnings up to £6 a week (instead of £5 as at present) should be disregarded in computing their allowances. (Draft regulations for this have already been put to the National Assistance Advisory Committee and published.)
- (ii) The allowances in respect of children of widowed mothers should be increased by more than the corresponding provision for children of parents receiving unemployment or sickness benefit.
- (iii) The earnings rule applied in computing widowed mothers' allowances should be modified by the Bill so that in addition to her children's allowances the widow should always have about 25s. a week of her own allowance free of the earnings rule. This would replace the rule under which the whole of her own allowance - except 10s. in the case of a widowed mother from the pre-1948 scheme - is subject to the earnings rule.

The arguments for the simple flat-rate increase

7. Those in the Committee who favour the simple flat-rate increase do so for the following main reasons:-

- (a) The interest which has been displayed in recent years in differential benefits may be overlaid to some extent in the immediate future by concern about the unemployed. Speed might be a greater virtue than development of the national insurance system at this stage.
- (b) With unemployment rising, the public may be more concerned with the sharp drop in the standard of living of a man who loses his job than with the prolonged erosion of the resources of the aged. There may be a case for some differential or graduated unemployment benefit varying with the time for which the recipient has been out of work. This has not been fully examined, and should be considered along with any other proposed differential benefits; but the examination would take time. Meanwhile, it may be best in the present situation to give the maximum possible increase all round - to the unemployed, the sick and the younger pensioner as well as to the older pensioner - rather than to give less to those classes in order to give more to the over-70s.

- (c) The pressure for differential benefit, though real, may not have been fully thought out. It is not clear, for instance, how far its advocates want greater selectivity as a means of transferring people from reliance upon national assistance to reliance upon national insurance, or how far they want it as a means of directing benefit to some group with particular need, instead of distributing it generally. We ourselves may want, in the light of our own studies, to develop the system in one such direction rather than another, and we cannot be sure at this stage that by adopting differential benefit for the over-70s we might not be putting an obstacle in the path that we should want to follow.
- (d) Differential benefit for the over-70s would not be universally welcomed. It might be resented by the unemployed, the chronic sick, retirement pensioners under 70, particularly those in ill health, those too old to have become insured in 1948 (who are now well over 70 years of age) and women (who would receive the lower rate of retirement pension for as long as ten years from age 60 to age 70). It might indeed prove impossible to limit the differential to retirement pensioners over 70, but there are serious difficulties involved in extending it further.
- (e) The Committee agree that it would not be practicable to recognise that the over-70s have a special claim to extra benefit under national insurance without at the same time recognising the same claim under national assistance. On the other hand, if a corresponding benefit were introduced in the national assistance scales, this would defeat what might be regarded as one of the objects of a national insurance differential for the over-70s, namely to take many of the older pensioners off national assistance.
- (f) It would also be open to formidable objections from the point of view of national assistance principles. The purpose of national assistance is to meet need on an individual basis: where the old or any others, such as the chronic sick, have special needs these are met by discretionary payments supplementing the scale rates. To introduce a new conception of a higher standard of need in favour of a whole group irrespective of individual need would undermine this principle and inevitably lead to pressure from other groups where hardship was no less and possibly greater. It certainly cannot be said that the needs of a hale man of 70 are as great as those of a chronic invalid under 70.

- (g) The administrative complexities in introducing differential benefit for the over-70s would delay the payment of new rates of national insurance retirement pension and widows' benefits from the end of May to the second week in July. It would not be practicable to pay the lower rate as from the end of May and to add the differential as from July.

The arguments for differential benefit for the over-70s

8. Those members of the Committee who favour the differential benefit do so for the following main reasons:-

- (a) There is widespread criticism among both supporters of the Government and others of the non-selective nature of the overall non-discriminating increases in national insurance benefits. In October, 1961, at the Conservative Party Conference at Brighton, the motion advocating selectivity in the case of future changes was accepted by the then Minister of Pensions and National Insurance. It has been the understanding of those Government supporters in the House who concern themselves with these matters that a close study was being given to measures to make national insurance more discriminating in respect of future increases.
- (b) There is merit in the view that old age as such justifies additional benefit, both generally and for specific reasons, for instance that in old age resources have frequently been eroded, health may be imposing extra burdens and household goods and clothes may need replacement. The Committee on Economic and Financial Problems of the Provision for Old Age, under the Chairmanship of Sir Thomas Phillips, can be quoted in general support of the view that benefit should be concentrated on those over 70.
- (c) There is a large group of old people whose standard of life has fallen heavily since they were at work and who yet, being still above national assistance standards, cannot be benefited by national assistance.
- (d) Publication of "The Economic Circumstances of Old People" by Dorothy Cole and J. E. G. Utting has stimulated sympathy for the aged, with the impression that is given that there are up to half a million old people who are living at or below the poverty line but are unwilling to apply for national assistance.

- (e) The principle of differential benefit has been recognised in war pensions, where widows receive 10s. a week extra at age 70 and the full basic rate for war pensioners is raised by up to 15s. a week for the severely disabled on reaching age 65; in national insurance itself, where larger allowances are paid in respect of widowed mothers' children than of children of parents receiving other forms of benefit; and in our recent Pensions Increase Act, 1962, which gave additional increases to public service pensioners over 70 and which was very well received.

#### A review?

9. Even if we decide to introduce differentials for the over-70s at this stage we can see no escape from some form of public inquiry, if only to focus attention on the merits of, and arguments for and against, differential benefit for the newly unemployed; and we shall need our own private inquiry for the determination of our long-term policy on national insurance and assistance. These, however, are matters to which the Committee will be giving further thought.

#### Cost

10. The scheme of flat-rate increases would cost the National Insurance Funds £158 million a year, towards which the Exchequer would contribute £22 million and would also bear £11 million in respect of war pensions increases. There would be a saving to the Exchequer of about £8½ million on national assistance, assuming a national assistance single householder increase of 4s.

The differential scheme would cost the Funds £185 million a year, including £26 million a year from the Exchequer, which would also bear £13 million a year in increases in war pensions; and the saving on national assistance would be about £10 million, assuming that the national assistance increases were 2s. on the general rate for the single householder plus an extra 6s. 6d. for the over-70s. These savings on national assistance take no account of the cost for "attraction" of new recipients when national assistance scale rates go up, as this cannot be estimated. This additional cost would be higher, and might be substantial, with a national assistance differential which would represent for people over 70 by far the highest increase ever given on national assistance.

#### The graduated national insurance scheme

11. We have considered how the burden on the Funds should be financed. The majority of us favour finding a substantial part of the money (about £44 million) by extending the range of earnings on which the 8½ per cent graduated contributions are levied from £9-£15 to £9-£18 a week, with a correspondingly larger increase

in the flat-rate contributions paid in respect of employments contracted out of the graduated scheme than in those paid in respect of employments participating in it. The same members also favour a relatively larger increase in the employer's contribution in contracted-out employments, making it equal to that of the employees.

12. We recognise that these two measures will create serious difficulties in a number of contracted out employments, including local government and the National Health Service. But, while we have considered a proposal that these difficulties might be avoided by levying all the required money by increasing the normal flat-rate contributions, the majority of us consider that the objections to this are overriding. The main objections are that the resulting rate would be too large for the poorest paid; that men's average earnings have risen above the top of the graduated scheme which is, therefore, reverting in effect to a flat-rate scheme; and that it is desirable that the scheme should be extended to offer larger graduated pensions.

#### Conclusion

13. We invite the Cabinet -

- (a) to decide between the alternative schemes of flat-rate and differential increases in benefits outlined in paragraphs 4 and 5 above;
- (b) to approve the inclusion in the Bill of the provisions outlined in paragraph 6;
- (c) to approve the inclusion in the Bill of the provisions outlined in paragraph 11.

R. M.

Treasury Chambers, S. W. 1.

31st December, 1962.

