2 December 1975

CABINET

RETIREMENT PENSIONS EARNINGS RULE

Memorandum by the Chancellor of the Exchequer and the Secretary of State for Social Services

1. The earnings rule limits the amount of earnings which will be regarded as consistent with "retirement" and hence the amount a pensioner can earn before starting to lose benefit. It applies only to those under age 70 for men, 65 for women.

2. In the last Session, an amendment to the uprating Bill was forced on us, raising the earnings rule limit from the level of £13 a week to £20 in April this year, £33 in April 1976 and £50 in April 1977. We fought the amendment both in Committee and on Report, but in the final vote (on 29 January) nine of our backbenchers sided with the Opposition. We have said consistently and repeatedly that the resulting expenditure is low priority, because it benefits only the younger pensioners able to earn quite substantial amounts.

THE PROBLEM

3. The issue for Cabinet is whether to introduce immediately legislation to rescind the increase to £35 due next April. We have already implemented the increase to £20, and that is irretrievable. It might be necessary to go as high as £26 next April, to get the Bill through. But if we can limit the rise to £24 - which would be more than enough to match the movement of earnings since the £20 limit came in - we will save £50 million in 1976-77, £100 million in 1977-78, £65 million in 1978-79 and £50 million in 1979-80. We badly need these savings, which are among the least damaging of all our options on social security, and we are at present counting them towards the £3,750 million target. If we are to secure them, we must introduce a short Bill at once.

4. For the future we would offer a commitment to increase the earnings limit each year from the 1977 uprating onwards. (To increase it at the 1976 uprating would mean two increases within the year and would eat into
the savings which are the object of the exercise; and to raise the earnings limit in April 1977, separately from the benefit uprating, would involve unnecessary staff costs.) This commitment would have considerable presentational and political value.

5. If we miss the opportunity of legislating now, allow the increase to £35 to go through, and rescind only the increase to £50 due in April 1977, we will be sacrificing about £50 million a year of potential savings which we, as a Government, will have to find from expenditure that we ourselves would probably regard as having higher priority. The Economic Policy Committee agreed that we should go for immediate legislation. In view of its political sensitivity, however, and the fact that there will be difficulty in fitting in a Bill, the Lord President suggested that the issue should be brought to the Cabinet: colleagues will have seen his letter to the Chancellor of the Exchequer of 27 November, and the Chancellor of the Exchequer’s minute to the Prime Minister of 28 November.

LEGISLATIVE REQUIREMENTS

6. We have examined the possibility of making the necessary amendment to the Social Security Act in a Bill already in the legislative programme, but have found that there is no Bill which would be suitable. A separate Bill will therefore be needed, and time will have to be found for it for which at present there is no provision. The Bill will, however, be short and can be ready for immediate introduction. It will need to be given an exceptional degree of priority - Second Reading before Christmas and Royal Assent not later than 19 February 1976. The reason is that people who wish to retire after 6 April 1976 must receive reasonable notice of the amount of earnings which can be regarded as consistent with "retirement".

POLITICAL FEASIBILITY

7. The political feasibility will of course need to be weighed by our colleagues and in particular we shall need to have the appraisal of the Leaders of both Houses and of the Chief Whips. The Secretary of State for Social Services considers that the chances of getting the Bill through in time may be slim unless she can show that the effect in its first year of operation would be to divert the savings for use for a more urgent social purpose. She would therefore wish to be able to announce the use of an extra £50 million, in 1976-77 only, elsewhere in her programme. The Chancellor of the Exchequer wishes, however, to make use of the £50 million of savings in 1976-77 to keep down the borrowing requirement in that year; also he does not see how it would be possible to divert £50 million to another purpose in 1976-77 alone without incurring a continuing commitment for later years.
8. Although we were twice defeated on the earnings rule at the turn of the year, the situation now has changed. Our own supporters should know that public expenditure has to be reined back. They have already won the substantial increase in the earnings rule which was implemented this year; we would be increasing this year’s limit of £20 in line with the movement of earnings since it was introduced and, from the 1977 uprating onwards, we would be committing ourselves to further increases in line with earnings. The row over our introducing the income tax age allowance, whose apparent cost was compared with that of relaxing the earnings rule, has now died down. The Opposition are pressing insistently for cuts, and would be put on the spot by a concrete proposal for one.

CONCLUSION

9. We ask our colleagues to agree that we should introduce a short Bill at once to rescind the increase in the earnings limit from £20 to £35 which is due in April 1976, to substitute an increase to £24 (or at most to £26) and to commit us to raising the earnings limit, from the 1977 uprating, in line with the movement of earnings.

D W H
B A C

Treasury Chambers

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