8th November, 1954

CABINET

TIME-TABLE FOR REVIEW OF WAR PENSIONS AND NATIONAL INSURANCE PENSIONS AND BENEFITS

Memorandum by the Minister of Pensions and National Insurance

General

The National Insurance Scheme, which is the main subject of the review, is exceedingly complicated. It is due for review under legislation passed in 1946 and lays down a statutory procedure which I am bound to follow. This includes the laying before Parliament of a report by the Government Actuary on the five years' working of the Scheme, and a subsequent report by myself on the adequacy of existing rates of benefit and pensions. The outcome of the review will have far-reaching consequences on the future of the Scheme, the main feature of which is the rapidly mounting bill for pensions. We are at present paying nearly £360 millions a year in pensions and in twenty-five years' time we should, at existing rates, be paying about £665 millions. It was because of the seriousness of this prospect that we appointed the expert Committee under Sir Thomas Phillips to advise us on the steps we should take to meet it. We have more than once emphasised that we cannot act before we get their report; if we now announce complete proposals for our review without waiting for the report, or before we are at least able to say that we are cognisant of its contents, we shall lay ourselves open to very just criticism from informed opinion that we are sacrificing the stability of the great National Insurance Scheme to public clamour.

Importance of preserving the insurance principle

2. We collect over £500 millions in a year in contributions towards the cost of various social services. If we are not careful we shall jeopardise all this. To preserve the insurance character of the National Insurance Scheme we must review rates of benefit and contributions simultaneously and as far as possible bring the two sets of new rates into force at the same time. The preparation, printing and distribution of new stamps of over twenty different denominations which are needed to collect the new contributions is a long process which cannot be materially accelerated by emergency measures and it would be quite impossible to have these stamps available in the first two or three months of the New Year.

Administrative problems

3. I regard the safeguarding of the insurance principle as paramount. I must, however, also warn my colleagues that if we attempt to carry out the necessary work for an orderly up-rating of pensions in my offices
during January, February or March we shall be heading for an almost
certain breakdown owing to the burden which even normal winter sickness
among the public imposes on my offices; we cannot, moreover, exclude
the possibility of a winter epidemic when sickness payments impose a
very serious burden indeed. We should incur well-merited censure if,
as the result of trying to bring new rates of benefit in a little earlier,
we land pensioners and sick people in the hardship and inconvenience
they would inevitably suffer if they were left without the means of
obtaining payment of the pensions and benefits due to them. Alternative
arrangements would be makeshift in character. They would involve the
Post Office and lead to long queues in the busier post offices, to
uncertainties and disputes about whether old people had been paid the
correct amount or not, and to the waste of a considerable amount of
public money owing to lack of reasonable financial safeguards.

National Assistance

4. The National Assistance Board are in a somewhat similar
position as regards any increase in assistance scales. The National
Assistance Act deliberately placed responsibility for proposing increases
in scales on the National Assistance Board. If they were now, for the
first time, to adopt some emergency plan of an obviously makeshift
character for bringing new scales into force in the immediate future,
it would be plain to everybody that the Board had moved in response to
Government pressure or for other reasons. This would undermine the
whole object of removing the administration of assistance from direct
Ministerial control. The Chairman of the Board did, however, come to
see me some time ago and I have had a further talk with him as the
result of which I expect the Board will put forward proposals for raising
the scales of assistance early in the New Year. I hope now to receive
these proposals in time to announce them at the same time as I announce
my own plans.

War Pensions

5. The time-table for increasing war pensions is more flexible.
Since no question of insurance is involved it has always been regarded as
possible to pay the increased rate as from the date when the Royal
Warrant takes effect. In my time-table I have followed the usual
practice of bringing war pensions increases into force before the others.
I am providing a certain measure of priority for them, but we must be
careful not to lay ourselves open to the criticism of favouring the war
disabled unduly.

Proposed programme

6. The Appendix sets out a programme for bringing increased rates
of pensions and benefits into payment under a reasonably orderly arrange-
ment. It involves some risks but I think they are reasonable ones. The
really crucial point in all these plans is the signature of the report of the
Phillips Committee. We have attached so much importance to having
it that it is almost impossible now to make detailed announcements about
our proposals for National Insurance pensions and benefits before it is
at any rate signed. If signature is delayed we may have to make a
separate announcement about war pensions and national assistance and
defer for a few days our announcement about National Insurance benefits
and pensions. Provided, however, the report is signed by about the
middle of December at latest we should be able to adhere to the programme set out in the Appendix so far as payment of the various benefits are concerned, but of course if we cannot take the Second Reading of the Bill before Christmas the Parliamentary time-table when we re-assemble is likely to be difficult.

I shall be prepared, if desired, to inform my colleagues of the nature of the increases which I propose in the main rates of pensions, benefits and contributions involved in the operation. I have agreed these with the Chancellor of the Exchequer. While I would propose to submit a detailed paper on this subject in all its complexity later in the month, I see advantages in obtaining the reaction of my colleagues to the schemes I have in mind so that I may start preparing my plans in the knowledge that I have my colleagues' support. In view of the importance of secrecy, I would prefer at this stage not to circulate a detailed plan.

O.P.


8th November, 1954.
APPENDIX

PROGRAMME FOR INCREASING BENEFITS

Early or mid-December  Statement of Government proposals.

Before House rises for Christmas recess  Second Reading, National Insurance Bill.

Beginning of February  Increased war pensions operate.

Mid-February  National Insurance Bill passed.

Last week in April  New old-age, retirement and widows' pension rates come into force.

Last week in May  New rates for sickness, unemployment and industrial injuries benefits start.

First pay-day in June  New contribution rates start.
TOP SECRET

CABINET

The attached paper by the Colonial Secretary is for consideration at tomorrow's meeting of the Cabinet under Item 4 of the Agenda.

Cabinet Office, S.W.1.

9th November, 1954.