CABINET

PENSIONS

MEMORANDUM BY THE SECRETARY OF STATE FOR THE HOME DEPARTMENT AND LORD PRIVY SEAL

At their last discussion on pensions the Cabinet agreed that, before they could reach a final decision on the respective merits of the August and September Plans, it would be desirable to take confidential soundings of certain interests which would be affected if either of these Plans was put into effect (C.C. (58) 29th Conclusions, Minute 2). I am circulating separately, as C. (58) 124, a complete record of the organisations consulted, the working document with which they were supplied (in which the August and September Plans are described as Scheme B and Scheme A respectively) and their reactions to that document. For convenience, I attach, as the Annex to this memorandum, a summary of the full record.

2. The Ministerial Committee on Pensions, under my chairmanship, have reviewed the situation in the light of the results of these consultations. They wish me, in submitting the main problem afresh to the Cabinet, to emphasise three main points:

A.—The Scope of the Consultations

3. The consultations were limited in several respects:

(a) Their scope was limited to the British Employers Confederation and 26 selected private employers (but not the National Farmers’ Union or the Co-operative movement); the Trades Union Congress; the Chairmen of the Nationalised Industries (but not local government).

(b) They were confined to an attempt to establish how far, in the case of the September scheme, employees would be likely to be contracted out and how far it would be necessary and feasible, both under the August scheme and under the September scheme where employees were not contracted out, to adapt occupational schemes. In other respects the working document provided only an outline of the two schemes; in particular, it contained no detailed or comprehensive indication of the rates of contribution and benefit entailed by either scheme.

(c) Nor did the working document disclose the Exchequer’s interest in this question and the connection between the finances of the two Plans and the emerging deficit on the National Insurance Fund.

4. We must bear the above points in mind in assessing the weight to be attached to the opinions expressed in the consultations.

B.—The Result of the Consultations

5. Certain points emerge fairly clearly:

(a) There is some doubt among employers whether our present economic circumstances constitute the right occasion for any extension of the existing National Insurance arrangements.

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(b) Several employers emphasise that the complex issues raised by both Plans need to be publicly discussed in much greater detail before it will be possible to reach any sensible decision.

(c) There is no great welcome for either Plan; and although each has its supporters, neither has been enthusiastically received. There is no decisive majority in favour of the principle of contracting out in the private sector; among those firms who favour that principle there are some significant concerns who have said that they would not themselves wish to take advantage of it. Equally some who prefer the August Plan would like it to include contracting out (which is impossible).

(d) There is a strong preponderance of view that the adoption of either Plan would involve substantial modification of occupational schemes.

(e) The Trades Union Congress want contracting out but would prefer it on an individual basis; we feel that the latter cannot be conceded.

C.—The Next Step

6. Four possible courses of action now appear to be open to us:

(a) We can abandon the whole project of a graduated pensions scheme.

(b) We can seek to reach a decision as between the August and September Plans in the very near future and proceed to give legislative effect to that decision as early as possible next session.

(c) We can publish a White Paper describing our policy in general terms and defining the issues to be resolved, with the intention of legislating next session if this proves to be feasible. Given the length of time which it would take to obtain any informed and constructive public reaction, this course would make it necessary for the White Paper to be published in the very near future, preferably before the summer recess; and it would make it unlikely that we should be able to introduce a Bill until the early months of next year—in which case we might be hard put to it to get the Bill on to the Statute Book before the end of the session.

(d) We can defer publication of the White Paper until the autumn (which would allow more time for its drafting), in the knowledge that we should then in effect be abandoning any hope of legislating next session and should probably need to be content to outline our intentions in our Election Address.

7. After considering these four courses the Ministerial Committee are agreed that:

(i) It is out of the question for the Government to take no further action. Even if unemployment becomes no worse, the deficit on the National Insurance Fund will be greater in 1959 than in the current year; and the implications for the 1959 Budget, if the Government were seen to be taking no steps to remedy this situation, are clear.

(ii) The ideal solution would be a Cabinet decision in the very near future on the rival merits of the August and September Plans, followed by legislation at the beginning of the next session. (This course would not preclude publication of a White Paper, either simultaneously with, or possibly in advance of, the Bill. But such a White Paper would be purely explanatory of the Government's decision; it would not be designed to test the reaction of the public to a hypothetical Plan.) It is for the Cabinet to judge whether they feel able to agree on such a decision in the next few weeks.

(iii) If an immediate decision proves to be impossible, the best course would be to publish a White Paper designed to elicit a more informed public reaction to a possible plan than we have so far succeeded in obtaining. On this assumption the timetable implied in course (c) is preferable to that implied in course (d), mainly because the latter would have the undesirable result that a matter of national importance would become the subject of Party political controversy and the Government's proposals would be discussed, in competition with the plan published by the Opposition, in the atmosphere of an impending General Election.
(iv) If we adopt course (c), the following points arise: —

(a) Should the White Paper discuss both the August and the September Plans or should it be confined to only one of these? And, if so, to which one? The Ministerial Committee feel, with some reservation on the part of the Chancellor of the Exchequer, that a White Paper dealing with both Plans would imply weakness and indecision on the part of the Government, and would confuse, rather than clarify, the issue. But it would be possible, and preferable from the point of view of the Chancellor of the Exchequer, to include a description of both Plans in the White Paper and to indicate that, if a preponderant demand for contracting out could be established, the Government would introduce the September Plan but that, in the absence of any such demand, they would regard the August Plan as the simpler and more effective course.

(b) Whether the White Paper deals with both Plans or with only one of them, it will need to contain a full description of the Government's proposals, particularly as regards the level of contributions and benefits involved; it will need to relate these proposals to the requirements of the Exchequer in the context of the emerging deficit on the National Insurance scheme; and it will need to incorporate any detailed amendment of the proposals which appears desirable in the light of the results of the recent consultations, e.g., an amendment of the interest rate assumed for the purposes of the September Plan. Before committing ourselves to course (c), therefore, we need to be assured that it will be physically possible to produce a White Paper on these lines in the very near future—as will be essential if we are to have any hope of legislating next Session.

8. In fact in summarising this complex matter for the benefit of the Cabinet it must be stated frankly that, if we plump for a White Paper, we must take a line. If we take a line it appears inevitable that we must decide either pro or con putting forward any scheme in which contracting out is a feature. On this we need advice from the Chancellor of the Exchequer whether any scheme including contracting out will meet the Exchequer problem. Then, having decided that we are dealing with the financial aspect soundly and for the long term, we must opt for a scheme which offers good value and is politically tolerable if not alluring.

R. A. B.

Home Office, S.W. 1,
16th June, 1958.
ANNEX

SUMMARY OF THE RESPONSE TO CONSULTATION ON ALTERNATIVE LINES OF POLICY

C. (58) 124 consists of the following documents:

Appendix I.—The Working Document which was supplied to the interests consulted.

Appendix II.—The replies from the British Employers' Confederation and 26 Chairmen of large and medium-sized firms.

Appendix III.—The replies from the nationalised industries.

Appendix IV.—The views of the Ministers responsible for the Public Services.

Appendix V.—The replies from organisations concerned with pensions schemes.

Appendix VI.—The comments of the Trades Union Congress.

Appendix I.—The Working Document

2. Those consulted were asked to answer certain questions and were given an opportunity to comment on the brief outlines of Scheme A (September Plan) and Scheme B (August Plan) given in the Working Document. They were particularly asked to indicate whether they would wish to contract out from Scheme A, but were not specifically asked to express a preference between the two schemes, although some have done so. They were also asked to indicate what adaptation of their occupational schemes might be necessary, in order to avoid the contributions and pensions under a combination of the national and occupational schemes being excessive; and to indicate the nature and likely extent of consultation with employees which would be required if changes were to be made in existing occupational schemes.

Appendix II.—Private Industry

(a) Contracting Out

3. A distinction has to be drawn between views on the principle of contracting out and expressions of intention if contracting out were permitted. On the former, only 7 of the 26 replies express themselves definitely for or against the principle of contracting out—5 (viz., Imperial Tobacco, Churchills, Stewarts & Lloyds, Colvilles, and Swan, Hunter and Wigham Richardson) in favour and Bristol Aeroplane Company and Unilevers against.

4. On the question of intention to contract out if it were permitted, 4 of the above 5 (i.e., all except Churchills) and 8 other private employers (Midland Bank, I.C.I., Vickers, English Electric, Shaw Savill, Pilkingtons, Guinness and Jeyes) have said that they would probably or certainly contract out in respect of some or all of their occupational schemes. Eleven private employers (viz., Churchills, Bristol Aeroplane Company, Unilever, A.E.I., Cleggs, Sainsburys, Fords, John Lewis Partnership, Courtaulds, Shell and Caffyns) have said that they would probably or certainly not contract out. The remaining three (viz., James Longley, Beaver and Company and Moss Bros.) are uncertain.

5. The reply from the British Employers' Confederation expresses the view that an option to contract out should be available even although they think it would not be widely exercised.

Unilever (iv) and Sainsburys (x) recall that when the United States scheme was being introduced serious consideration was given to the question of allowing employers to contract out, but that it was decided that it would be unworkable.

(b) Preference

6. Where a preference has been expressed, 6 firms have favoured Scheme A and 11 Scheme B. A number of these preferences are expressed as "on balance" and in the main relate to aspects of the Schemes other than contracting out. Several firms, in expressing a preference for Scheme B, suggest that it should be modified to include the option to contract out.
(c) Consultation

7. The interest of many of the firms consulted has now been aroused. Only a minority appear hitherto to have given this question much consideration. There is therefore a strong demand for further consultation and “public discussion” before a decision is taken (e.g., I.C.I. (v), Stewarts & Lloyds (xii), Longleys (xxii)). Several replies specifically mention the desirability of a White Paper (e.g., B.E.C. (i), Imperial Tobacco (vi), Churchill Machine Tools (vii) and Bristol Aeroplane Company (xvi)).

(d) Finance

8. Several replies doubt the attractiveness of Scheme A while the upper tier is based on the assumption of a 3 per cent. interest rate. Many occupational schemes are earning a bigger return (e.g., I.C.I. (v) show that their scheme is earning 5 per cent., Pilkington (xvii) 4 per cent., and Colvilles (xix) claim to be able to produce comparable benefits on a contribution of approximately half the 8s. required by the Government scheme). Some firms appear to take the view that the schemes would represent an expensive advance in social service legislation.

(e) Occupational Schemes

9. There is a fairly widely expressed fear among those with well-established schemes that an improved State scheme would adversely affect the private sector (e.g., Fords (xii), Bristol Aeroplane Company (xvi) and Arthur Guinness (xx)). Most employers indicate that if either scheme were introduced they would have to adapt their occupational schemes. The danger of excessive pensions is widely recognised. Many pension funds are operated as Trusts and any future legislation would need to include powers to vary Trusts. Most employers indicate that consultation either with the staff or with trustees would be necessary, but none expect any substantial difficulties other than lengthy negotiations to arise over this.

(f) General

10. The following more general points are made:

(i) Unilever (iv) make the point that only a State scheme can fully cover the whole of a working lifetime when there are a number of changes in employment. They point out the potential conflict in the private sector between the desirability of keeping people in benefit for retirement pension, while at the same time ensuring a maximum mobility of labour. Many occupational pension schemes have been devised for the particular purpose of ensuring continuity of service.

(ii) A.E.I. (ii) emphasise that they prefer Scheme A because they do not think it right that employees earning £10 a week or less should have their benefits subsidised by those earning more than £10 a week.

(iii) Several employers draw attention to the time lag between increased contributions and the emergence of improved benefits. It is suggested that this would lead to pressure for higher wages in order to meet increased contributions. It is also suggested that pressure might well develop for unemployment and sick benefits to be on a graduated basis.

(iv) Imperial Tobacco Company (vi) express the hope that careful consideration will be given to the argument that it is not the function of Government to attempt to provide universal wage-related schemes or to go beyond the provision of a universally applicable basic retirement pension.

(v) I.C.I. (v) state that, if a national scheme on the basis of Scheme A were to be introduced, they would wish to contract out so that all their present funds could continue in addition to the basic State pensions.

Appendix III.—Nationalised Industries

11. Most Nationalised Industries are in favour of Scheme A because of the provision for contracting out, a course which they would wish to follow. The British Transport Commission on balance would not contract out; and there is some doubt as to what would be done in respect of mine workers. The Minister of Power is concerned about the danger of additional costs. If all the schemes in the power group (coal, gas and electricity) were contracted out of Scheme A there would be an additional cost to the three Boards of rather more than £1 million per annum. If the mine workers did not contract out and substituted Scheme A for their own, an
additional increase of £2 millions per annum would be involved. If Scheme B were introduced without adaptation of existing schemes the additional cost might be in the region of £8½ millions per annum. The main burden in each case would fall on the National Coal Board. It is the general view that substantial discussions with the staff associations and trade unions concerned would be required, and modification of existing schemes might be difficult to agree. The danger of creating a situation in which contributions and pensions become excessively high is widely recognised.

Appendix IV.—The Public Services

12. Most of the Ministers concerned have expressed the view that the public services under their aegis would be in favour of contracting out. The Minister of Education has commented that if Scheme B were adopted some modification of the teachers pension scheme would be needed in order to prevent the already high levels of contribution and benefits becoming excessive.

Appendix V.—Organisations Concerned with Pensions Schemes

13. The Life Offices Association would oppose Scheme A, being alarmed at the damage it would do to their industry and to the accumulation of private savings. They say that the administrative problems of contracting out would be "vast and complex" and that the State scheme should not make provision beyond "basic need." They accept Scheme B as satisfying this idea. But they stress the desirability of "quick maturity" as imposing financial discipline on the Government of the day; and they oppose Scheme B because it does not mature very much quicker than Scheme A. If quicker maturity were introduced—they indicate one method—Scheme B would be "incomparably healthier," although they suggest that the exclusion of contracting out should be reconsidered if the theoretical impediments could be overcome. The transition to either scheme would, they say, take over five years.

14. The Association of Superannuation and Pension Funds doubt whether the considerable administrative problems of contracting out are worth facing. They do not think many employers would contract out, though some would appreciate the option to do so. Few, they think, would welcome the supervision or control that would be entailed. But they oppose the reduction in contributions involved in Scheme B and they conclude in favour of Scheme A without contracting out.

Appendix VI.—Trades Union Congress Response

15. The main points made by the Trades Union Congress are that a national scheme of wage-related superannuation should be additional to and not in substitution for a flat rate National Insurance pension; a substantial increase in National Insurance pensions is urgently needed; contributions to the National Insurance pension should not exceed the amount actuarially required to provide pension for those entering at 16 years of age; the Exchequer supplement should be restored to its pre-1951 level; contributions in any wage-related sector should not constitute an unreasonable burden; occupational schemes should be allowed to contract out; and the option should be on an individual and not a group basis.