CABINET

PENSIONS

Note by the Secretary of State for the Home Department and Lord Privy Seal

I circulate for the information of my colleagues the full record of the recent consultation with outside interests on the possible developments of pensions policy. A summary of these consultations is annexed to C.(58) 123.

R.A.B.

Home Office, S.W.1.

17th June, 1958
## CONTENTS

### Appendix

<table>
<thead>
<tr>
<th></th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>THE WORKING DOCUMENT</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II</th>
<th>PRIVATE INDUSTRY (B.E.C. and selected Chairmen of firms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Lord McCorquodale (Vice-President, British Employers' Confederation and Chairman of its Pension Committee) 6</td>
</tr>
<tr>
<td>(ii)</td>
<td>Lord Chandos (Associated Electrical Industries Ltd.) 6</td>
</tr>
<tr>
<td>(iii)</td>
<td>Lord Moneciton (Midland Bank Ltd.) 7</td>
</tr>
<tr>
<td>(iv)</td>
<td>Mr. P. A. Macrory (on behalf of Lord Heyworth, Chairman, Unilever Ltd.) 8</td>
</tr>
<tr>
<td>(v)</td>
<td>Mr. R. A. Banks (on behalf of Sir Alexander Fleck, Chairman, Imperial Chemical Industries Ltd.) 10</td>
</tr>
<tr>
<td>(vi)</td>
<td>Lord Sinclair of Cleeve (Imperial Tobacco Co. (of Great Britain and Ireland) Ltd.) 12</td>
</tr>
<tr>
<td>(vii)</td>
<td>Sir Greville Maginness (Churchill Machine Tool Co. Ltd., and Roneo Ltd.) 13</td>
</tr>
<tr>
<td>(viii)</td>
<td>Lord Knollys (Vickers Ltd.) 14</td>
</tr>
<tr>
<td>(ix)</td>
<td>Mr. A. G. Stewart (Stewarts &amp; Lloyds Ltd.) 14</td>
</tr>
<tr>
<td>(x)</td>
<td>Mr. N. C. Turner (on behalf of Mr. A. J. Sainsbury, Chairman, J. Sainsbury Ltd.) 15</td>
</tr>
<tr>
<td>(xi)</td>
<td>Sir Patrick Hennessy (Ford Motor Co. Ltd.) 19</td>
</tr>
<tr>
<td>(xii)</td>
<td>Mr. O. B. Miller (John Lewis Partnership Ltd.) 20</td>
</tr>
<tr>
<td>(xiii)</td>
<td>Mr. H. George Nelson (on behalf of Sir George Nelson, Chairman, The English Electric Co. Ltd.) 21</td>
</tr>
<tr>
<td>(xiv)</td>
<td>Sir John Hanbury-Williams (Courtaulds Ltd.) 22</td>
</tr>
<tr>
<td>(xv)</td>
<td>Mr. B. Sanderson (Shaw Savill and Albion Co. Ltd.) 23</td>
</tr>
<tr>
<td>(xvi)</td>
<td>Sir Reginald Verdon Smith (Bristol Aeroplane Co. Ltd.) 24</td>
</tr>
<tr>
<td>(xvii)</td>
<td>Sir Harry Pilkington (Pilkington Brothers, Ltd.) 25</td>
</tr>
<tr>
<td>(xviii)</td>
<td>Lord Godber (Shell Petroleum Co. Ltd.) 26</td>
</tr>
<tr>
<td>(xix)</td>
<td>Sir Andrew McCance (Colvilles Ltd.) 27</td>
</tr>
<tr>
<td>(xx)</td>
<td>Mr. W. E. Phillips (for Sir Hugh Beaver, Managing Director, Arthur Guinness, Son &amp; Co. (Park Royal) Ltd. (and President of Federation of British Industries) 29</td>
</tr>
<tr>
<td>(xxi)</td>
<td>Mr. S. M. Caffyn (Caffyns Ltd.) 30</td>
</tr>
<tr>
<td>(xxii)</td>
<td>Mr. Norman Longley (Messrs. James Longley &amp; Co. Ltd.) 31</td>
</tr>
<tr>
<td>(xxiii)</td>
<td>Sir Cuthbert Clegg (E. Clegg &amp; Son Ltd.) 32</td>
</tr>
<tr>
<td>(xxiv)</td>
<td>Mr. John Foster Beaver (Beaver &amp; Co. (Bingley) Ltd.) 32</td>
</tr>
<tr>
<td>(xxv)</td>
<td>Mr. E. J. Hunter (Messrs. Swan, Hunter &amp; Wigham-Richardson Ltd.) 33</td>
</tr>
<tr>
<td>(xxvi)</td>
<td>Mr. H. N. Moss (Managing Director, Moss Bros. &amp; Co. Ltd.) 34</td>
</tr>
<tr>
<td>(xxvii)</td>
<td>Mr. T. B. Brown (Jeyes Sanitary Compounds Co. Ltd.) 34</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>III</th>
<th>NATIONALISED INDUSTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Letter from Minister of Power 36</td>
</tr>
<tr>
<td>(ii)</td>
<td>Memorandum on Minister of Power's consultations with Chairmen of National Coal Board, Electricity Council and Gas Council 37</td>
</tr>
<tr>
<td>(iii)</td>
<td>Letter from Secretary of State for Scotland—Views of Chairmen of Scottish Electricity Boards 39</td>
</tr>
<tr>
<td>(iv)</td>
<td>British Transport Commission—extract from Memorandum 39</td>
</tr>
<tr>
<td>(v)</td>
<td>British Overseas Airways Corporation and British European Airways—copy of letter from Sir Gerard d'Erlanger to Minister of Transport 42</td>
</tr>
</tbody>
</table>
IV PUBLIC SERVICES 44
(Civil Service, Local Government, the National Health Service, Teachers, Police and Firemen)

V ORGANISATIONS CONCERNED WITH PENSIONS SCHEMES
(i) Memorandum by the Chairmen of the Life Offices Association and Associated Scottish Life Offices 46
(ii) Letter from the Chairman of the Association of Superannuation and Pensions Funds 55

VI TRADE UNION COUNCIL
Letter from the Chairman of the Trade Union Council Social Insurance Committee 57
APPENDIX I

THE WORKING DOCUMENT

MEMORANDUM

1. Annexes A and B represent two possible developments of National Insurance pension provision which would introduce a measure of wage-related pensions and contributions into National Insurance and put its finances on a sounder basis.

2. In Annex A, the existing system of flat-rate contributions and benefits is retained, graduated contributions and pensions in respect of earnings between £10 and £15 a week being added for employees who are not covered by an occupational pension scheme which is contracted-out under conditions prescribed.

3. In Annex B, the existing flat-rate scheme is replaced by a graduated scheme of contributions and pensions in relation to earnings up to £15 a week from which there would be no contracting-out.

4. On the supposition that adequate statutory powers to adapt schemes by agreement would be available, and that an adequate interval—say two years—would be given, information as to the way in which it is considered occupational schemes might be affected is sought, in particular, under the following heads:

(i) In the case of Annex A, the extent to which employees would be contracted-out.

(ii) In the case of Annex B, and of Annex A to the extent that employees were not contracted-out, any adaptations of occupational schemes which might appear desirable to avoid the contributions and pensions under the national and occupational schemes together being excessive.

(iii) The nature and extent of consultation with employees affected which would be contemplated in connection with either course referred to in (i) and (ii) above, having regard, in the case of (i) above, to the fact that the initiative in contracting-out would lie with the employer.

ANNEX A

Contributions

1. The existing flat-rate contributions for National Insurance, Industrial Injuries and the National Health Service, would continue to be payable as at present, except that they might have to be increased by, say, 1s. a week (6d. a side) at quinquennial intervals.

In respect of employed men earning more than £10 a week, there would be an additional contribution of, say, 4 per cent. a side (i.e., for employer and employee) on earnings between £10 and £15 a week. For employed women, the figures of £8 and £13 might be substituted for £10 and £15 respectively. There would be no State contribution in respect of these graduated contributions.

No graduated contribution would be payable by self-employed or non-employed persons.

Benefits

2. In respect of people not liable for graduated contributions, benefits would continue as at present. In respect of the graduated contributions, additional pension benefits would be provided on a money purchase basis. Thus, assuming a basis of 3 per cent. interest, a man who entered the scheme at minimum age and paid the maximum contributions (i.e., on £15 a week) until minimum pension age, would qualify for an additional pension of £3 a week on top of the existing National Insurance standard rate of 50s. single and 80s. married.
Contracting-Out

3. The scheme would provide for contracting-out of the liability for the graduated State contributions in respect of men earning more than £10 a week (women over £8 a week) who were in occupational pension schemes which satisfied certain criteria. Contracting-out would be on the initiative of an employer applying, with the consent of the trustees, if any, of his pension scheme to an independent registrar whose duty it would be to see that the scheme complied with certain broad criteria to be laid down. There would be no right to opt out of the State graduated scheme on the part of individuals; nor would individual members of a contracted-out scheme be able to opt into the State graduated scheme, but an employer intending to make an application, would be required by law to give due notice of such intention to the employees likely to be affected.

Proposed Criteria for Contracting-Out

(a) Equivalence

4. It would be necessary for the employer to show that the total weekly outlay (employer and worker together) under the occupational scheme in respect of long-term benefits reached a prescribed level of, say, 4s. a week, i.e., the graduated contribution payable under the State scheme in respect of a worker in the middle of the graduated scale. The registrar would have discretion to take account of the contributions paid for any long-term benefits, including widows' benefits, and of payments made by the employer to the scheme otherwise than on a week-by-week basis, e.g., payments in respect of back service rights, or to keep the scheme solvent. In other cases, including non-contributory schemes, an alternative test of equivalency of benefits would be applied.

(b) Solvency

5. The registrar would have to be satisfied that the employer was legally liable to make contributions under the scheme sufficient, with the contributions if any from the employees, to keep it solvent. The contributions would have to be alienated from the employer. Schemes would have to submit periodically returns and valuations to show that the conditions continued to be satisfied, the precise nature of the requirement depending on whether they were self-administered or insured.

(c) Preservation of Pension Rights

6. The occupational scheme would have to provide on change of employment for preservation of that part of pension rights which had been accepted as equivalent to those of the State graduated scheme. Where more substantial pension provision was made in an occupational scheme, the whole of this need not be transferable. In order to avoid occupational schemes having to provide for preservation of rights in respect of very short periods of service, it would be open to the employer to adapt his scheme in such a way that an employee remained covered by the State scheme during an initial period of service. To overcome difficulties which might arise during, say, the first three years of the new scheme, and pending the development of preservation arrangements, undertakings might be accepted from employers that in the event of a worker leaving employment during these first three years, a transfer value would be paid to the State scheme to give that worker equivalent rights in that scheme; contributions due to be returned to the employee in such a case could be applied for this purpose.

ANNEX B

Contributions

1. In respect of the employed, the present flat-rate contributions for National Insurance, Industrial Injuries and the National Health Service would be replaced by a graduated contribution related to earnings up to, say, £15 a week (men) and £13 a week (women). The rate might be 8½ per cent. — 7½ per cent. being attributable to National Insurance and Industrial Injuries benefits and 1 per cent. to the National Health Service. The contribution would be divided between employer
and employed in equal or nearly equal proportions. It might have to be increased at quinquennial intervals by, say ½ per cent. (½ per cent. a side) of earnings. There would also be an Exchequer contribution of 2 per cent. of all earnings up to, say, £8 a week (men) and £6 a week (women).

The contribution which would secure the present standard rates of benefit would be that appropriate to earnings of, say, £8 a week (£6 for women) and this might be charged as a minimum in all cases.

Self-employed persons would pay an appropriate rate of graduated contribution (say 6–7 per cent.) and non-employed persons would pay a flat rate.

Benefits

2. The present flat-rate pension would be replaced by a pension graduated in relation to earnings. The present standard rates of pension would be payable on contributions related to earnings of, say, £8 a week (£6 for women) but where average earnings over insurance life were above this level, the pension rate would be increased on a graduated scale depending on the amount of earnings up to £15 a week (£13 for women) and on the duration of insurance.

This scale would be so arranged that while everyone with earnings averaging more than £8 a week (£6 for women) would get more than the present standard rate of pension, the theoretical maximum rate (i.e., for a man who was age 16 on entry to the scheme and contributed until minimum pension age on earnings of £15 a week or more) would exceed the present standard rate by about £2 a week, or rather less. Benefits other than pensions would remain on the present flat-rate basis.

Occupational Schemes

3. This scheme replaces the present universal scheme and its principles preclude an option to contract-out in respect of occupational schemes.
APPENDIX II (i)

BRITISH EMPLOYERS' CONFEDERATION
(Lord McCorquodale, Vice-President of B.E.C. and Chairman of its Pensions Committee)

Comment on Memorandum

I have now had an opportunity of consulting the Committee and its opinion is that it would only be a minority of employers who would exercise an option to contract out as provided in the Annex A proposals. It was thought, however, that in the event of either the Annex A or the Annex B proposals being implemented, many employers would wish to modify existing schemes, particularly where those schemes already provide a pension which is a high proportion of earnings for persons whose earnings are of the order of £15 per week; these conditions are believed to obtain in regard to a large proportion of pension schemes for salaried staffs. Modifications to existing schemes would generally be simpler under the Annex A proposals where the benefits and the contributions for the individual are directly related than under the Annex B proposals where no such relationship exists.

Consultation with employees would in most cases not involve discussions with trade unions but would be through such consultative machinery as is provided for in the pension scheme itself or is customarily used in the undertaking concerned. It is apprehended that there might be some cases in which such consultation would give rise to difficulties, particularly in so far as non-contributory pension schemes might need to be modified and part of the cost hitherto borne by the employers would in future be thrown on to employees under the revised national insurance schemes.

The Committee considered that statutory powers to adapt existing schemes would need to be widely drawn so that employers would not experience undue difficulty in making modifications of their schemes.

Although it is anticipated that the option to contract-out would not be widely exercised, our view is that this option should be available to employers and we would hope that it would be possible to devise a method by which contracting-out would be practicable under the Annex B proposals.

If the Annex B proposals were proceeded with, it might be difficult to maintain flat-rate benefits for sickness and unemployment in conjunction with wage-related retirement pensions under the national insurance scheme, and the possibility of all these benefits being wage-related would need to be envisaged.

General Comment

Concern is felt that, as a gradual rise in average earnings occurs, it will become increasingly difficult to maintain the levels of earnings shown in the Government's memorandum between which benefits will be related to earnings and that there may be pressure for a revision of these limits in such a way as to throw an increased burden on the taxpayer.

The changes now contemplated are as radical in some ways as those introduced in the national insurance scheme in 1946. These earlier changes were made after several years of public discussion and the issue of a number of White Papers. It seems to us essential that an adequate opportunity for public discussion of the issues involved should be given before the introduction of any Bill to implement the Government's proposals.

APPENDIX II (ii)

ASSOCIATED ELECTRICAL INDUSTRIES
(Lord Chandos, Chairman)

Works: 55,000 works' employees. Ex-gratia scheme; rate of pension depends on length of service; maximum 30s.

Staff: 30,000 staff employees. Pension arrangements in two parts; compulsory and contributory junior (life office) scheme for each company in the group for all staff in respect of earnings up to £750 a year; and an optional contributory
(self-administered) scheme run by the central organisation for those with earnings above £750. Entry at age 20 for men, 30 for women; about 17,000 covered in all. Contributions about 6 per cent. of basic salary (for men) matched equally by employer. Pension is based on average salary over last five years (maximum of £450 per annum for junior scheme). Transfer of rights allowable at discretion of trustees.

Annex A
Provided the benefits are improved and made competitive with those which could be offered by insurance companies or existing pension schemes, we prefer Annex A.

We also prefer Annex A because we 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.

We do not think it right that any scheme should be used to fund any deficit on the National Insurance scheme.

With this proviso, the A.E.I. and its subsidiaries would not wish to contract-out of any such scheme. We have no objection to contracting-out by others, provided it is not on a large scale.

Annexes A and B
A State pension scheme would fit conveniently into our present pension structure and would enable us to wind up a number of junior schemes for our present staff earning up to £750 a year. Furthermore, we should probably discontinue gradually our scheme of small ex-gratia payments to retired long service hourly paid employees.

Whichever scheme is adopted, we should freeze all our junior schemes for employees and discontinue them, giving the present beneficiaries paid-up pensions based on their contributions to date. In addition, we should allow junior employees to join the main A.E.I. Scheme, which would be modified appropriately to enable them to supplement their benefits under the State Scheme thereby avoiding any reduction in their benefits.

Consultation with Employees
We do not at present foresee any undue friction with employees following from any modification to existing schemes.

General
We consider that statutory power would be necessary to enable us to modify our existing schemes.

APPENDIX II (iii)
MIDLAND BANK LTD.
(Lord Monckton, Chairman)
Non-contributory scheme covering whole of permanent staff. Benefits are larger than those suggested in Annex A.

Annex A
Under the plan set out in Annex A we should certainly wish to "contract-out," on the one hand because the pension entitlement is greater under the Bank's scheme than under the proposals as set forth, and on the other hand because the Bank's scheme requires no contribution from the employee. Some modifications of present arrangements would be required, particularly as to transferability of rights (paragraph 6), in order to comply with the conditions indicated for contracting-out.
(self-administered) scheme run by the central organisation for those with earnings above £750. Entry at age 20 for men, 30 for women; about 17,000 covered in all. Contributions about 6 per cent. of basic salary (for men) matched equally by employer. Pension is based on average salary over last five years (maximum of £450 per annum for junior scheme). Transfer of rights allowable at discretion of trustees.

Annex A

Provided the benefits are improved and made competitive with those which could be offered by insurance companies or existing pension schemes, we prefer Annex A.

We also prefer Annex A because we 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.

We do not think it right that any scheme should be used to fund any deficit on the National Insurance scheme.

With this proviso, the A.E.I. and its subsidiaries would not wish to contract-out of any such scheme. We have no objection to contracting-out by others, provided it is not on a large scale.

Annexes A and B

A State pension scheme would fit conveniently into our present pension structure and would enable us to wind up a number of junior schemes for our present staff earning up to £750 a year. Furthermore, we should probably discontinue gradually our scheme of small ex-gratia payments to retired long service hourly paid employees.

Whichever scheme is adopted, we should freeze all our junior schemes for employees and discontinue them, giving the present beneficiaries paid-up pensions based on their contributions to date. In addition, we should allow junior employees to join the main A.E.I. Scheme, which would be modified appropriately to enable them to supplement their benefits under the State Scheme thereby avoiding any reduction in their benefits.

Consultation with Employees

We do not at present foresee any undue friction with employees following from any modification to existing schemes.

General

We consider that statutory power would be necessary to enable us to modify our existing schemes.

APPENDIX II (iii)

MIDLAND BANK LTD.

(Lord Monckton, Chairman)

Non-contributory scheme covering whole of permanent staff. Benefits are larger than those suggested in Annex A.

Annex A

Under the plan set out in Annex A we should certainly wish to “contract-out,” on the one hand because the pension entitlement is greater under the Bank’s scheme than under the proposals as set forth, and on the other hand because the Bank’s scheme requires no contribution from the employee. Some modifications of present arrangements would be required, particularly as to transferability of rights (paragraph 6), in order to comply with the conditions indicated for contracting-out.
Annex B

Under the plan set out in Annex B very substantial changes would be required in the Bank’s scheme, to convert it into an arrangement supplementary to the State scheme, so that the total benefits under both would be more or less commensurate with the present benefits under the Bank’s scheme. Modifications would also be required to allow for the contributory nature of the State scheme.

Consultation with Employees

Since the existing pension arrangements cover all members of the permanent staff, general consent would have to be sought for any changes arising under (i) above. In formulating such changes, consultation would be necessary at all stages with the accredited representatives of the various constituent elements of the staff.

APPENDIX II (iv)

UNILEVER LTD.

(Mr. P. A. Macrory, on behalf of Lord Heyworth, Chairman)

Optional works fund with 17,000 members (male workers only) and compulsory office fund with 18,000 members. Contributory schemes, roughly on a 50/50 basis. Retirement pensions at 65/60 (in case of works employees pension roughly corresponds to additional benefits proposed in memorandum). Widows, children, and dependant pensions also payable. Full preservation of rights given after 10 years membership of the fund.

Female workers number 8,000; the few who reach retirement age with firm are given voluntary pensions from the Company.

Annex A

Annex A sets out the broad outline of a State scheme which is ingeniously designed in such a way as to make contracting-out appear a practicable proposition. In essence, it provides for additional contributions at the rate of 4 per cent. by the employer and employee on earnings between £10 and £15 a week, to be applied to buying extra retirement pensions (and presumable widow pensions) on top of the existing flat rate benefits. The pensions would be calculated by reference to the age of the individual at the time of payment of the contribution; under the system known as “money purchase.”

The system would be unattractive to the electorate, because the additional contributions would be payable immediately but extra benefits of worthwhile amount would not become payable for many years. Employers would therefore be under certain pressure from their staff to contract out, and it would be hard to find convincing reasons for not doing so, bearing in mind that the trend towards higher interest rates that has developed in recent years would enable individual employers initially to calculate their pensions on more favourable tariffs than any Government scheme is likely to be able to offer.

A decision to contract-out would eventually lead an employer into serious difficulties. It seems to us that the scale of benefits under the State scheme would almost inevitably be revised at a later date with some retrospective effect, either to allow for rises in the cost of living or because a changing social climate led to political pressure for more generous treatment of pensioners. An employer who had contracted-out would then find that he was contributing through general taxation towards the cost of revising the State scheme benefits, while at the same time he would be under an obligation to make up the benefits for his own employees to the same level.

This is, in our view, the most serious objection from an employer’s viewpoint to the scheme outlined in Annex A. There are, however, other objections. The administrative complication of calculating, collecting and recording contributions
and benefits on a money purchase basis is likely to be unreasonable, bearing in mind the relatively trivial extra benefits that are to be provided.

Further complications would arise in the interpretation of the various criteria for contracting-out, particularly in the case of private schemes whose basis for the calculation of benefits is entirely different from the money purchase basis proposed for the Government scheme (e.g., schemes in which benefits are related to salary in the final years of service).

It is, perhaps, pertinent to recall here that the question of permitting employers to contract out of the State scheme was given serious consideration when the United States State scheme was introduced. It was then decided that it was unworkable, and it is a fact that no other major country has permitted it, including countries such as Belgium and West Germany, who have earnings-related pensions in their State schemes.

We are in sympathy with the general principle of preserving pension rights, and in Unilever we are already more generous in this respect than almost all other employers. We are prepared in principle to go to the length of seeing that all pension benefits accrued in our service are preserved. There are two reasons why we do not at the present time preserve the pension benefits of employees who leave after very short periods of service. The first is that the benefits would be so small as not to justify the administrative costs involved. The second is that many employees would object to the imposition of paid-up pensions instead of a return of their own contributions. Our experience in Unilever is that more than 80 per cent. of those who are entitled to paid-up policies derived from the total contributions to the fund, prefer to take instead the much less valuable payment of a return of their own contributions. This illustrates that legal compulsion would be necessary before employers could impose full preservation without causing serious resentment amongst their employees.

This leads us to make an observation on the desirability of keeping people in benefit for their basic retirement provision, and at the same time ensuring a maximum mobility of labour. It is not really practicable for private schemes to preserve or transfer accrued rights for very short service employees. Only a State scheme can fully cover the whole of working lifetime when there are a number of changes in employment, and this is particularly so in the case of seasonal workers and in industries such as the building trade.

Because we believe that there can be no effective guarantee that any National superannuation system can continue unsupported by taxation indefinitely, we would be most reluctant to contract-out, even from such a scheme as set out in Annex A. We are afraid that a decision not to contract-out would be difficult to explain, but we would make a determined effort to impress upon our employees the reasons for our action. It is our practice to carry our employees with us in changes of pension matters, but the ultimate decision rests with the Company.

Annex B

Annex B sets out a system which in our view is far superior. It provides for a graduated contribution related to earnings up to £15 a week for men and £13 a week for women. The suggested rate of contribution is 8½ per cent., divided in roughly equal proportions between employer and employees. 1 per cent. would be required for the National Health Service, and the balance of 7½ per cent. would be available for National Insurance and Industrial Injury benefits. There would be an Exchequer contribution of 2 per cent. of earnings up to £8 a week for men and £6 a week for women. The present flat rates of pensions would be replaced by graduated pensions related to earnings, and it is estimated that the maximum pension for a married couple would be in the region of £6 a week. Contracting-out would not be permitted.

This system incorporates many desirable features, and would form a sound basis for any future extensions of the national system. It establishes from the outset important principles, viz.:

(1) Contributions are levied on a relatively small slice of salary, corresponding roughly to the average earnings of a worker. There is thus no serious concealed subsidy of the lower paid by the higher paid (such as is contained in the Labour Party proposals).

(2) It could be co-ordinated easily with supplementary schemes for the higher paid.
(3) Contributions would be shared between employers and employees.
(4) It could be made administratively simple and cheap to run.
(5) It would be readily adaptable to changes in earnings levels.

The main criticism of the scheme in Annex B from Unilever's viewpoint is that the benefits are on the low side, so that the retirement benefits even for the lower paid of our employees would be unsatisfactory by our standards. It is appreciated, however, that higher contributions might throw too severe a burden on the economy and on smaller employers.

There should be no difficulty for any employer, whatever his type of scheme, in adapting his own private fund to fit in with this proposal. Some funds set up under trust deeds are, however, exceptionally rigid, and there may also be benefits included in contracts of service. Statutory power in general terms to permit adjustment therefore seems desirable.

Annexes A and B

The adjustment of our own arrangements following the introduction of the system would vary for works staff and office staff.

Pension fund membership is not compulsorily for works staff, although the great majority are covered for a minimum benefit roughly corresponding to the additional benefits proposed. This group would therefore cease contributions to the fund altogether. We do, however, have an arrangement whereby works staff can pay voluntary contributions which are matched by equal Company contributions, in order to improve their benefits. This arrangement could continue.

Pension fund membership is compulsory for office staff, and we should most probably adjust our arrangements by relating contributions and benefits to an artificial "contribution salary" lower than actual earnings. The deduction from actual earnings to arrive at the contribution salary would either be a fixed amount, or a proportion of the maximum salary on which contributions were payable to the State scheme. The advantage of the latter method would be that an automatic adjustment would be secured when changes were introduced in the State scheme.

An alternative method, which might be more suitable to other employers with different types of funds from ours, would be to require some employees to pay a contribution based on full salary and after deducting and paying over to the State scheme the contributions required under that scheme, to credit the balance to the employer's fund.

One or other of these methods could be used to adapt any type of private pension scheme to any type of National pension system.

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APPENDIX II (v)

IMPERIAL CHEMICAL INDUSTRIES LTD.

(Mr. R. A. Banks, Personnel Director, on behalf of Sir Alexander Fleck, Chairman)

Weekly paid workers: Self-administered scheme, compulsory for all new employees; membership 68,610. Employees pay 2\% per cent. of "total pick-up"; employer pays balance actuarially required to maintain solvency of fund (at present 3\% per cent. for men, 3 per cent. for women). Pensions are one-hundredth of average annual pay throughout service for each year of service. No preservation of rights for workers who leave voluntarily.

Monthly paid employees: Self-administered scheme, compulsory for all new employees; membership 33,220. Employees pay 5 per cent. of salary; employer matches this and pays further 2\% per cent. for male employees' widows and children's benefits. Pension for men is one-eightieth of average annual salary over last 10 years of employment for each year of service; retirement age is 62. Pension for
women is one-seventieth instead of one-eighth; retirement age is 55. Preservation of right “permitted but not generally practised.”

From time to time the Company has paid additional sums into the funds to take some account of the effect of inflation.

Annex A

If a National scheme on the basis of Annex A were to be introduced, the Company would wish to contract-out so that all our present funds could continue in addition to the basic State pensions.

The fact that the proposed Government scheme is based on a 3 per cent. per annum rate of interest, whereas the Company's pension funds are at present earning about 5 per cent. makes it all the easier for the Company to take the decision to contract-out, since the Company can provide its employees with better benefits for a given expenditure than would be economic under the scheme mentioned in Annex A.

The terms under which the Company would be allowed to contract-out are only briefly stated but they do not appear objectionable to the Company, though they would require careful drafting in which a committee of experts from industry and the Government might play a useful part.

The most important changes required of our funds would relate to preservation of rights which is permitted but not generally practised in our staff funds, whereas no provision is made for it in our workers' fund in the case of those who leave voluntarily.

If the Company contracted-out as provided in Annex A, it is assumed that the contract could be reconsidered if in the future the Government scheme were substantially altered.

Annexes A and B

It is we think fairly easy for our Company funds to continue as supplements to basic State pensions as envisaged in the provisions for contracting-out under the arrangements outlined in Annex A; but under the proposals briefly set out in Annex B we believe there would be more difficulty. In any case, as the benefits under A (for those not contracted-out) would we believe be broadly comparable with those under B (from which there is no contracting-out) the scope for additional Company benefits must be less under B than for those who contract-out from A.

In the event of basic State pensions being increased in the future, or a new State scheme, such as that outlined in Annex B, being introduced which precluded contracting-out, the Company might wish to alter one or more of its present funds in order to prevent total contributions and total pensions becoming too large. In this connection our view is that a pension from the State, plus pension from an occupational fund, should not exceed two-thirds of pay over the last few years before retirement.

Consultation with employees

The Company's pension funds are in no case the subject of agreement with the trade unions. The operation of the workers' fund is discussed through the Company's joint consultative machinery and the financial state of the fund is reported, and suggestions for improvements and modifications are frequently made. We should, therefore, want to mention there at the appropriate time any change likely to arise as the result of the Company contracting-out of a Government scheme on the lines of Annex A. As, moreover, it has been our custom to advise the trade unions with whom we deal of any major change in the conditions or provisions of the workers' fund, we would naturally follow this course in such an event. In neither case would we expect serious opposition since the over-all pension provision as the result of contracting-out would presumably be better than that under the State scheme as set out in Annex A.

General

For these reasons [see last but one paragraph] and for others, such as new conditions required of those who contract-out, the trust deeds might need to be altered. Powers already exist for this provided the Actuary certifies that any
alteration does not substantially prejudice the rights of any contributing member or pensioner. This certificate may not be easy to obtain and additional statutory powers might be needed.

I hope that this information will be helpful to you, but I would emphasise that our comments are based on the barest outline of proposals by the Government so that many aspects of the pension plans are left out. For this reason we believe that it would be extremely important to allow full scope for consultation between Government and industry and perhaps others before legislation is adopted.

APPENDIX II (vi)

THE IMPERIAL TOBACCO COMPANY
(OF GREAT BRITAIN AND IRELAND) LTD.

(Lord Sinclair of Cleeve, Chairman)

Main and subsidiary companies have 20,000 works employees and 7,000 staff. Capital value of pension funds exceeds £30 millions. Of total payments into funds so far, company has contributed 75 per cent. Minimum pension age 60 for women. For most male employees 60, with two-sided option to extend to 65; for new male entrants 65, with company option to retire employee after 60. Pension is fraction of final average wage or salary (in last five years) for every year of service after 15 (1/90th for works employees, 1/84th for male staff and 1/80th for female staff). Power to adapt benefits in light of N.I. benefits never exercised. Proposal now under consideration to offer a cold storage pension of twice employee's own contributions (after qualifying service) with interest as an alternative to cash return of contributions.

Annex A

If the Government introduced proposals on the lines of Annex A we would probably wish to contract-out if we were satisfied as to the conditions for doing so.

Annex B

If Annex B were adopted we would want to modify contributions and pensions under the powers in our existing rules. We find it, however, difficult to see any good reason why there should not equally be an option for occupational schemes to contract-out of Annex B, and if such option were incorporated we would probably wish to take advantage of it rather than modify.

Consultation with employees

We would not anticipate any difficulty from the point of view of employee relationships in either contracting-out (because the advantages to them of doing so would be obvious) or modifying or adapting our existing scheme (because the fairness of such proposals could be made abundantly clear). We would, of course, discuss with, and explain to, the employees any such changes just as we did when we modified our scheme after the National Insurance Act 1948.

In this last connection we would like to emphasise the importance we attach to sound occupational schemes as a factor in securing and maintaining good employee relationship and we would hope that anything which the Government have in mind to do in this field would be accompanied by every possible practical encouragement to the extension of occupational schemes within industry.

General

If I am not presuming in doing so, I would express the hope that very careful consideration would 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, coupling that, of course, with every possible encouragement to occupational schemes. It would
seem that neither of the two schemes now proposed goes very far in the direction of meeting the deficit ten years hence on the existing National Insurance Fund, nor do they offer any appreciable benefit to employees who retire in the near future. Annex A, which for some reasons we as a Company would prefer, has less attraction from that point of view than Annex B inasmuch as it does nothing for those men whose earnings are between £8 and £10 per week.

In conclusion, may I say that while we understand that Annex A and Annex B do not purport to be more than outlines, we would hope that if either is being proceeded with, whether with a view to the submission of a White Paper or the introduction of a Bill, a small committee of experts representative of different types of funds might first be appointed to study the proposals and make suggestions as to—

1) Equivalence and other tests to be applied to contracting-out;
2) The preservation of pension rights; and
3) The provision for the contingency of further inflation, or the raising of wage and salary levels as a result of general expansion and improved productivity.

In our own case we would not anticipate any difficulty in complying with any reasonable tests for equivalence; for example, the minimum contribution in respect of our lowest paid female worker is 6s. per week, that is 50 per cent. more than the 4s. minimum in Annex A, and as regards preservation of pension rights, if we contracted-out there would be no difficulty in our assuming the obligation to pay, either to the State or to another firm that had contracted-out (whichever was applicable in any particular case) a sum equivalent to the contributions under the State scheme plus 3 per cent. interest in respect of service prior to leaving.

APPENDIX II (vii)

CHURCHILL MACHINE TOOL CO., LTD. [AND RONEO LTD.]
(Sir Greville Maginness, Chairman)

Manual workers are dealt with by way of lump sum payments on retirement.
Staff: 1,227 covered by pension schemes in the two concerns (1,060 men and 167 women).

Annex A

As regards my own organisations, I do not think we would wish to contract-out but would probably adapt our schemes which are already in existence.

Annex B

You say in your letter that whilst the scheme in Annex A provides an option to contract-out this does not apply to Annex B. There may be good reasons for this but I cannot myself see why the same contracting-out should not apply to Annex B and if this were done I would think that such a scheme would be better from the national point of view.

General

I am very sorry that I cannot give any estimate at all of the extent of either contracting-out or adaptation over the whole range of industry as I feel that no single individual is in a position to hazard any guess on this point.

It might be that some staff pension schemes giving high rates of benefit would possibly wish to contract-out but until the precise intentions of the Government are known it would be impossible for anyone to say whether or not they would wish to contract-out or adapt.

Having regard to the above it seems to me very desirable that the Government should issue a White Paper to permit a full discussion and consideration of any proposals.
VICKERS LTD.

(Lord Knollys, Chairman)

Works: 57,000 employees; non-contributory works scheme with small benefits.

Staff: 23,000 employees; contributory staff scheme. Both schemes are insured.

Annex A

The benefits under our staff schemes are such as would allow us to exercise the option to contract-out, one amendment only seeming to be necessary, i.e., provision to be made to permit of the transfer of pension rights, or some part of them, on change of employment. The benefits under the works schemes, however, are not such as would permit the exercise of the option.

If it were allowed, I feel that it would be right to contract-out in so far as staff employees are concerned, and operate the Government scheme for works employees only. If this could not be permitted, then we should have to decide whether to improve the works schemes to such an extent as would permit us to contract-out; here, of course, the cost to the group would be an important factor. Assuming we could not afford to improve the schemes to the necessary extent, then I consider amendments to the staff schemes would be essential, to avoid the total contributions and pensions under the national and occupational schemes being excessive.

Annex B

If the proposals outlined in Annex B were adopted, it would undoubtedly be necessary for some amendments to be made in our schemes for staff employees for the reasons given above. No amendment to the schemes for works employees would be necessary.

Consultation with Employees

Amendments to the schemes for staff employees could be made upon requisite notice being given. Consultation with the employees themselves, or their representatives would not be necessary.

As to the schemes for works employees, we should, as a matter of general practice, advise the employees' representatives of any proposed amendments, but here again actual consultation would not be called for.

General

The foregoing represents my first thoughts, but you will appreciate that the matter is quite complex, and would require a great deal more study before firm decisions could be taken.

STEWARTS & LLOYDS LTD.

(Mr. A. G. Stewart, Chairman)

Works: Non-contributory self-administered scheme covering 25,500 out of a total of 33,000 workmen. Employer guarantees 3½ per cent. interest rate. All workmen between 21 and 55 with at least one year's service are covered. Basic pension is 9d. a week for each year of service, i.e., 30s after 40 years. Back service rights given for years before the fund started. Additional pension may be purchased by voluntary contributions.

Staff: Contributory and self-administered scheme. Compulsory for all men between 18 and 64½ with at least two months' continuous service. Employees' contributions vary according to salary band between 4½ per cent. and 5½ per cent.;
employer meets residual cost of scheme. Pension on an average salary basis varying according to salary band up to something like two-thirds of average salary. On withdrawal employees receive at least their own contributions or an equivalent cold-storage pension. The cold-storage pension may at the discretion of the trustees include the value of the employers contribution except in cases of fraud or misconduct. Additional pension (up to a defined total) may be purchased by voluntary contributions.

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**Annex A**

Our reaction to Government scheme A is that it would be acceptable for our workmen, but the works fund would be re-modelled and continue to provide a past service pension for those men who by reason of age could not qualify for a full State pension. The death benefit (payable after 10 years' service) would also be continued. So far as the staff fund is concerned it would seek to contract-out of scheme A.

**Annex B**

If scheme B became compulsory the works fund would probably be adapted as outlined above and the staff fund would be adapted so as to provide a reduced pension representing the pension now provided by the fund less the increase in the State pension.

**Consultation with Employees**

The Company has the right to terminate both funds and set up new funds without consulting the employees affected, but they would be given ample notice of our intentions and representations made by them would be considered.

**General**

Whilst appreciating that there may be difficulties about contracting-out of scheme B, we do feel strongly that contracting-out should be available under any scheme which may be introduced.

Particularly in relation to our staff pension fund, we would like to have wide statutory powers to amend.

We would very much hope, from the point of view of obtaining the maximum co-operation from the members of our funds, that whatever scheme is introduced, something in the form of a White Paper is issued prior to legislation.

We would hope that prior to the final drafting of the Bill or Regulations, consultation might take place with representatives of industry to iron out any difficulties of interpretation or administration.

Whilst recognising that pressure from certain directions may be considerable, we feel we must express the view that the introduction of any such scheme at the present juncture of the nation's affairs seems somewhat unfortunate.

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**APPENDIX II (x)**

J. SAINSBURY LTD.

(Mr. N. C. Turner, on behalf of Mr. A. J. Sainsbury, Chairman)

Self-administered re-insured scheme covering 7,300 employees (office staff, central factory and warehouse and retail shops).

**Annex A**

An employer's decision as to contracting-out will obviously depend on his judgment as to the balance of advantage flowing from many different considerations, some of which are:

(a) The employer (and his employees) would inevitably consider the relationship between contributions and benefits in the State scheme and
the corresponding relationship in a private scheme. An employer may well take the view that at the present time at least, owing to high interest rates and freedom from tax on interest income in a pension fund, he could provide better ultimate benefits for the same total outlay than those which would arise in the State scheme from the use of 3 per cent as the interest basis.

The results of the individual employee's consideration however may well differ according to his age and wage level. If some employees consider that they are likely to be better off in a State scheme whilst others consider that they are likely to be better off in a private scheme, then dissatisfaction is bound to arise whatever decision is taken by the employer. The "money purchase" basis of scheme A will accentuate this problem since it will emphasise the very much larger benefit secured by a given contribution in the case of a young man than that secured by the same contribution in the case of an older one.

(b) The employer may feel that it is desirable in principle for pension liabilities to be guaranteed through the establishment of a fund rather than that they should be covered by a promise—even though the promise is made by the State.

(c) He may feel that the development of a fund and its investment is for the country's good in increasing productivity.

(d) If his present scheme provides benefits and contributions at a lower level than that proposed by the State he may well accept the State scheme in place of his own (and so cease a certain amount of present investment).

(e) He must consider what may well be the increased administrative complication of running his own scheme in place of the wage related part of the State scheme.

(f) He may well consider not only the apparent simplicity of contracting-out his scheme as a whole at the present time, but also what variations might be made subsequently in such arrangements by the present or another Government. He might feel that, for example, contracting-out of the private scheme and into the State scheme by individual employees might at a later stage be permitted, thus facing him with the need to deal with an additional set of pension arrangements. He might decide that future alterations of benefit rates could well provide added complication for him which he was not prepared to face. He might expect that at some time in the future a form of "escalator clause" similar to that proposed by the Labour Party might be introduced and which he would not be prepared to introduce into his own scheme.

(g) He could be influenced by the relative numbers of his employees whose wages come below the maximum contribution limit of £15 per week and he may decide to deal himself only with those employees above the limit.

(h) He could take the view that the benefits for all his employees should be at a certain scale and deal with this desire by adjusting his own scheme to provide the benefits he wished, but making them subject to deduction of amounts receivable from any present or future State scheme.

(i) He may feel that he does not wish to submit to the degree of State control and supervision of his contracted-out fund which would be inevitable. (Requirements as to periodic actuarial valuations would cause no problems, but much could go wrong with a fund during an inter­valuation period and, since an insolvent fund of a bankrupt employer would be no guaranty of benefit, some form of continuous inspection would need to be instituted.)

The precise method of determining the "equivalence" of a private scheme is of importance. In scheme A the use of total outlay as the criterion of equivalence inevitably means that ultimate benefits in a private scheme will be different (perhaps appreciably different) in amount and possibly very different in form from those of the State scheme. Individual employees will compare ultimate benefits and if in a particular event benefit received from a private fund is less than would have been received in that event from the State fund, there will be disaffection between employees and employers and between employees and the State which has approved the private fund as equivalent.

SECRET
The inclusion in the test of equivalence of payments by the employer in respect of back service could well produce cases where the employee's accruing benefit was appreciably less than that under a State scheme, since the total payments to the private fund in such a case will in effect be payments in respect of benefits accruing during two separate periods of time.

Requirements for some form of preservation of accrued pension rights for an employee who changes his employment can give rise to considerable problems and difficulties. The principle of preservation does not commend itself to all employers, a number of whom still regard a pension as a benefit which only vests in the employee on his retirement.

The extent of the problem of enforcing preservation contrary to the wishes of some employers would clearly depend on the extent to which preservation is required. There would presumably be little objection if it is required only in respect of benefits at State level arising after the inception of the extended State scheme. There will be stronger objection to a requirement for preservation of all rights accruing in a private scheme after such time and probably serious difficulties if an attempt were made to enforce preservation in respect of rights accrued in private schemes throughout the past working lifetime of members. (J. Sainsbury Ltd. would be happy to provide for preservation of all rights accruing under their own scheme, at least from the inception of the extended State scheme.)

A further question to be considered is whether the rights to be preserved are based on:

(a) accrued benefit in the private fund; or
(b) the amount of benefit which would have accrued in the State scheme; or
(c) the amount of contributions paid into the private fund in respect of the transferring employee; or
(d) the amount of contributions which would have been paid to the State scheme in respect of the transferring employee.

The differing rates of accrual of benefit in a private fund and a State scheme (particularly if the latter is on a "money purchase" basis) would inevitably cause unfortunate comparisons to be made if either (a) or (b) were chosen. (c) would be very undesirable since the method of funding private schemes is frequently to require a total contribution expressed as a percentage of salary, although in fact the employer's share is in practice allocated unevenly as between employees of different ages.

The method of preservation is also of importance. If payment of a transfer value to the State or to a new employer's fund is envisaged there could be many problems for the paying fund, e.g., the difference between the transfer value and the actuarial reserve held in the fund giving rise to possible need to realise investments to produce cash. Further, a transfer value calculated on the basis of the benefit which would have accrued for a young man under a "money purchase" State scheme would in very many cases be considerably in excess of the reserve held in the private fund.

If, on the other hand, the "cold-storage" method is to be adopted, administrative problems arise and continue for a considerable period of years. For an employee who changes his employment at frequent intervals there will the disadvantage of having to collect his ultimate pension from a number of different sources.

Some employers may well be influenced in their consideration by a knowledge of what happened in the United States at the time when social security legislation was being discussed there in the 1930's. It seems to have been the generally accepted view in the United States that some form of contracting-out was desirable. However, very full consideration eventually led to the conclusion that contracting-out could not be made a workable proposition. If, therefore, an employer takes the view that the ultimate decision in this country would inevitably be the same, then he would probably decide that even if contracting-out arrangements are made possible at the outset he will not take advantage of them since he feels that they cannot be maintained.

Although no firm decision can be taken in the absence of complete details of the proposed State plan and of possible contracting-out arrangements, it is felt at the moment that J. Sainsbury Ltd. would be considerably influenced by the points
made in paragraph (f) and the paragraph above and would probably refrain from taking advantage of initial contracting-out arrangements. It is considered likely that many employers would be similarly influenced.

Annexes A and B

The extent of adaptation of existing schemes would clearly vary according to the relationship between the benefits which they provide and the contributions which they require from employees and the corresponding figures for the increase of benefits and contributions in the alternative State schemes. In cases where an existing scheme provides small benefits and requires little or no contribution from employees, employers may well be prepared to continue to operate such a scheme “on top of” the new State scheme. On the other hand, the higher the rate of benefit or the rate of employee contribution under the existing scheme, the more need there is likely to be for adaptation.

The form of adaptation could be either:

(a) reduction of benefits and/or contributions (so as to prevent the total cost of State and private scheme to employer or employees from becoming too high) and consequent operation of such reduced scheme on top of the new State scheme;

(b) the insertion of a provision in the existing scheme to the effect that benefits would be reduced by those arising under the State scheme (or perhaps those arising under the wage-related part of the State scheme). In such a case a corresponding reduction in contributions would also be required.

Any plan for adaptation would normally require the agreement of all members or, alternatively, those members not agreeing would cease to be covered by the scheme. Employees would thus have in effect an option to remove themselves from the coverage of their employer’s scheme which, in the case of younger employees at least, they might be tempted to exercise so as to avoid some payment of contribution. In consequence employers who at present operate generous pensions schemes and require their employees to contribute could be forced to accept what would amount to resignations from their scheme but not from their employment.

In the case of the existing J. Sainsbury Ltd. scheme the rate at which pension benefit accrues to the individual is inevitably different from that of either of the proposed State schemes and it would probably be necessary to adapt the present scheme by providing for a scale of benefits which would be subject to deduction of amounts receivable from the State.

Consultation with Employees

Presumably the majority of employers wishing to contract-out would first take steps to ensure that such an arrangement would not meet with violent opposition from their employees. This could be done in most cases by informal consultations with shop stewards although the latter might be influenced in expressing opinions by any published views of the T.U.C. or Labour Party. Such published views could thus have some effect on the amount of contracting-out which would eventually come to pass.

The practical need for some consultation with employees could well give rise to lengthy and detailed negotiations with the staff as to all the details of an existing or adapted scheme. This again is a point which might influence some employers in deciding not to adopt the contracting-out procedure.

General

Any extension of State pensions which requires from employees contribution in excess of the present rate could well be regarded by them as a reduction in effective (i.e., net) earnings and might therefore lead to increased wage demands. From this point of view scheme B is to be preferred to scheme A since it requires reduced contributions from lower paid workers.

It is implicit in a “money purchase” scheme that benefit will only accrue in respect of contributions after the inception of the scheme. Further, in the case of scheme B it is apparently the intention that benefit in excess of present flat rates would only be paid in respect of years of contribution on a wage-related basis.
Could this intention possibly be maintained in the face of inevitable political and popular pressure for "full" benefits to become immediately payable as has always hitherto been the case with increases of benefits?

It may be noted that any back-dating of rights to wage-related pensions would to some extent duplicate rights which have already accrued (and been funded) in a number of private schemes.

Although the point is not concerned with any of the three specific questions asked, it is noted that both of the alternative State schemes appear to anticipate payment of all pensions (including the wage-related part) out of accruing income. In other words, both schemes appear to provide what is, in effect, a redistribution of part of the national income. No arrangements are apparently contemplated for special steps to be taken to assist an increase of productivity. It is suggested that, in view of the likely demographic situation in Great Britain in future years, an extended State pension scheme would need to rely on productivity increasing to a greater extent than would otherwise be necessary. Failing this, the real resources of the country in future years would not be sufficient to meet the financial spending power of the then employed persons and pensioners. The result could only be further inflation, and neither pensions nor wages would have the real value expected under the terms of the proposed schemes.

It is not suggested that the solution to this problem lies in the creation of an invested fund for State pensions. On the contrary, it is felt that the very large fund necessary would—for several reasons—be highly undesirable. What is suggested is that whatever steps may be taken by the State to increase productivity (for reasons unconnected with National Insurance) would need to be made even more effective if they are to provide for the ultimate economic needs caused by an extension of State pensions.

It is believed that all the problems which would arise from the introduction of enhanced benefits on a wage-related basis would become progressively more serious as the levels of benefits and contributions are increased. Correspondingly the problems would be minimised and be far less disturbing to the very considerable number of satisfactory existing private schemes if State benefits are restricted to what might be termed "basic need." This phrase is not intended to imply a bare subsistence level but rather a reasonable level of benefit in relation to the normal earnings of an average routine industrial employee (possibly £11/£12 a week). Existing benefits might be retained as being appropriate to a somewhat lower earnings rate and wage-related benefits introduced in respect of the difference.

APPENDIX II (xi)

FORD MOTOR COMPANY LTD.

(Sir Patrick Hennessy, Chairman)

22,000 hourly paid operatives, 2,300 hourly paid supervisory and 7,000 salaried staff. Non-contributory self-administered schemes for all three grades. The hourly paid operatives scheme would need a small improvement to bring up to level of benefits in Annex A. The other two are above it. None of the schemes provides for preservation of pension rights.

Annex A

We would not seek, in the case of Annex A, to contract-out.

Annexes A and B

We would seek to amend our own pension schemes so as to provide pensions which, together with National Benefit, were reasonable in relation to earnings. In making such amendments to our schemes, a dominant consideration would be that we should not render ourselves, in this respect, uncompetitive at home and abroad.
Consultation with Employees

We have power to vary the terms of all our schemes at appropriate notice, and
indeed in this connection our Rules visualised specifically the possibility of future
changes in National Social Insurance plans. Further, our schemes are
non-contributory, and we would seek to continue them in that form. It would not
therefore be necessary for us to consult with employees, but naturally the reasons
for any important and fundamental changes in our schemes would be thoroughly
explained in advance to them. In this connection, it would be of the greatest
assistance if the general public were fully informed of Government intentions in
advance of legislation, so that our employees would have the benefit of full
understanding of the proposed Government scheme.

General

In 1951, National Insurance pension benefits represented, for married
hourly-paid employees, only about 25 per cent. of their earnings, and our purpose
in then introducing a pension scheme was to “top up” their benefits so as to
provide, from national and company schemes combined, a pension representing
approximately 50 per cent. of earnings, as a maximum.

The Government schemes now under consideration, both Annexes A and B,
would fundamentally alter the whole background to our own schemes. For
example, under A, a Ford employee with average earnings could receive maximum
benefit from the Government scheme alone of approximately 50 per cent. of
earnings. Also, we have to consider the possibility that further advances in
National pension benefit might be made by subsequent Governments. In
consequence, we believe that the effectiveness of Company schemes will inevitably
tend to be eroded in the future, and it would be better that we should face up to
the position now, and regard the National scheme, with its manifest advantages
of transferability, &c, as the foundation and main future source of pension benefit
for our employees.

APPENDIX II (xii)

JOHN LEWIS PARTNERSHIP LTD.

(Mr. O. B. Miller, Chairman)

12,600 partners in firm. Average age 37½, average length of service nearly
7 years, average pay £8 8s. a week. Non-contributory self-administered pension
scheme. Entry at age 35/30 (30/25 for people joining firm before 1953). Company
contributes 3½ per cent. of total pay. Retirement age is 65/60 (60/55 for those
in scheme before 1953). Pension is 1/60th of every year’s ranking pay with a
maximum of 30/60ths. The fund amounts to £3 millions and in January, 1957
was currently £1,334,000 in deficit because of inflation; eventual deficit thought
to be much less.

Free life assurance of a year’s pay for partners of seven years service having
widows or dependent children.

Ex gratia pensions for service before 1941 and ex gratia supplements granted
for need.

Note about staff turn-over

The partnership’s scheme aims to provide pensions for those of its members,
probably less than 20 per cent. of the total, who remain in the partnership until
they reach retiring age, and no rights or transfer values accrue to the 80 per cent.
who leave earlier.

The figures indicate the rapidity of staff turn-over and the preponderances
of young and female workers. These will be permanent features in any retail
business, since it is uneconomic to employ more men and more older persons
for a great deal of the work.

Annex A

It is most improbable, in the case of Annex A, that any employees would
be contracted-out.

SECRET
Annexes A and B

It is probable that the Partnership's scheme would be adapted, in the case of Annex A or Annex B, by a change of the rules. That change would make it permissive to deduct, from the pension calculated in accordance with the scheme, half—the half paid for by the employer—of the wage-related part of a retiring member's National Insurance pension. Amounts equal to such deductions would be repaid by the pensions fund to the employing company to compensate that company for the wage-related contributions that it had paid.

Consultation with Employees

As the statement indicates, such a change, indeed any change, of the rules would require the consent of a Board and Council on which members of the scheme are very fully represented.

General

For many of the young women employed on relatively low pay in such [retail] businesses the 7s. 8d. (soon to be increased to 8s.), which is now deducted from their weekly pay, is a heavy charge in respect of which, if they marry, they obtain little return unless they can afford to continue their contributions after marriage.

The Partnership is therefore inclined, and I think that most retailers would be inclined, to prefer Annex B to Annex A, since Annex B would reduce the contributions paid by and in respect of any women whose pay is less than about £9 8s. a week.

It is stated in paragraph 4 of the memorandum attached to your letter that "adequate powers to adapt schemes by agreement would be available." It is assumed that the powers would be wide enough to allow variations of trust deeds and that there would be ready acceptance by the Commissioners of Inland Revenue of necessary adaptations of schemes already approved.

APPENDIX II (xiii)

THE ENGLISH ELECTRIC CO. LTD.

(Mr. H. G. Nelson, Managing Director on behalf of Sir George Nelson, Chairman)

Works: Non-contributory scheme for over 25's with 4 years service who can complete at least 25 years service at pensionable age (65). 8,100 members. Pension is 10d. a week for every year of pensionable service. Life assurance in addition.

Staff: Contributory scheme compulsory since January 1958 for over 21's (women 26) with minimum period of service (weekly paid three years, monthly paid one year), about 10,000 members. Minimum contribution of 1 per cent. for existing staff and 3-4 per cent. for entrants since January 1958. Higher contributions can be paid voluntarily. Actuarial pension from employees' own contributions supplemented by provision at Company's cost of at least an additional third of final salary after 33 years or more service. Life assurance in addition.

An employee withdrawing from the staff scheme after less than 15 years of service receives own contributions only; after that, full preservation.

Administrative staff have similar scheme, but more favourable provisions.

Note.—Total employees of Company 45,000, plus 24,000 in other Companies in Group.

Annex A

In the case of Annex A we should be in a position to show that our staff pension scheme complies with the proposed criteria of equivalence and solvency. It would also be possible to make the necessary alterations to conform with the transferability stipulations. These schemes cover approximately 10,000 members of the staff or 22 per cent. of this Company's total number of employees and for them contracting-out could be considered, and our present feeling is that we should do so.
We should not be in a position to contract-out in relation to the members of our works pension scheme who number 8,100 hourly-rated employees.

Annexes A and B

To the extent that employees were not contracted-out, the adaptation of our staff pension schemes would probably take the form of reducing the figure of pensionable salary used in the schemes by an amount which would as closely as practicable ensure that the combined benefits to be derived from the National Insurance scheme and the staff pension schemes would remain unchanged. This the Company would have power to do unilaterally under the rules of the schemes. One effect of this form of change would be to reduce the compulsory minimum contribution of the employee who would be left to decide whether to reduce his contributions in the light of his increased contribution to the National scheme or not.

Consultation with employees

Although there would be no obligation upon the Company to obtain the approval of the members of the scheme to the changes proposed, we should nevertheless take every step to inform our staff of the reasons for the changes by consultation through the various staff committees.

We should here explain that none of our schemes are the subject of agreement with the Unions and changes in these schemes would not be negotiated with the Unions.

APPENDIX II (xiv)

COURTAULDS LTD.

(Sir John Hanbury-Williams, Chairman)

Works: About 20,000 employees. Non-contributory scheme; provision for voluntary contributions for added benefits (about 2,000 such voluntary contributors).

Staff: About 6,000. Voluntary contributory scheme, limited to persons receiving more than £250 a year. Threshold fixed in 1927 by reference to limit for compulsory insurance and no amendment made in 1946 or since.

Annex A

I believe that up to the limits proposed (earnings of £15 per week) the only practical pattern is for the State to be responsible, and I do not think my Company would wish to contract-out.

It would, therefore, be necessary to adapt our Company schemes.

Annexes A and B

Taking our operatives scheme first, we take it that it will continue to be permitted to any employer to give voluntarily a benefit to a retiring employee on the basis of service. Though it may be necessary for us to examine our scale of such benefits in the light of the proposed changes in the Acts, it will probably be unnecessary to make much other change affecting those of our employees who do not contribute, and these of course number the great majority of our people, some 20,000 or more.

The position of the staff scheme, all of whose members—some 6,000 men and women—contribute, and of the contributory members of the employees scheme—some 2,000—is much more difficult. It will first be difficult to decide what is best to do, and this decision can only be reached after lengthy consultation with experts and managers, both inside and outside the Company, and after careful study of the details of the National scheme when it is introduced. One possibility of course would be for the Company scheme to come in only at the stage where the National scheme reached its ceiling, that is to say, £780 per annum, or such other figure as might be the limit from time to time in the future.
Consultation with employees

As to the nature and extent of consultation with members of our schemes, the rules of our schemes do require very full consultation with members about any proposed changes. All members are entitled to a vote, and 75 per cent. of those voting must be in favour before the change can be made. We would use every endeavour of explanation and persuasion to effect the changes necessary without invoking statutory powers, but we feel that it would be essential that adequate statutory powers should be available for the purpose. Indeed, you ask us to assume that adequate statutory powers to adapt schemes by agreement would be available, but I suggest that there would have to be some provision in such powers to deal with a situation where agreement seemed impossible to secure.

General

I believe a graduated retirement benefit to be a desirable development of the National Insurance provisions.

APPENDIX II (xv)

SHAW SAVILL AND ALBION CO. LTD.

(Mr. B. Sanderson, Chairman)

<table>
<thead>
<tr>
<th>Numbers employed (approx.)</th>
<th>Numbers entered in Company's pension insurance schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Management, administrative, executive and clerical in United Kingdom offices</td>
<td>260</td>
</tr>
<tr>
<td>(2) Foremen and late entrants (entered as special members in pension and insurance scheme with joint contribution of 8 per cent.—4 per cent. members, 4 per cent. Company)</td>
<td>75</td>
</tr>
<tr>
<td>(3) At sea: officers in deck, engine and stewards departments</td>
<td>675</td>
</tr>
<tr>
<td>(4) Leading hands and men in deck, engine and stewards departments</td>
<td>2,100</td>
</tr>
<tr>
<td>(5) Stevedores at docks—permanent employees</td>
<td>260</td>
</tr>
<tr>
<td>(6) Casual labour in shore gangs (deck and engine departments) cleaners, joiners, watchmen, &amp;c. Average weekly</td>
<td>300</td>
</tr>
</tbody>
</table>

Note.—Cover under Company's schemes is entirely additional to existing National Insurance benefits.

Annex A

On the supposition that Annex A scheme is operated the Company would in all probability elect to contract-out for categories (1) and (3) above and would be involved in a 4 per cent. contribution on earnings between £10 and £15 per week for categories (4), (5) and (6) and for (2) on the assumption that plan A could fairly be regarded as a reasonable supplementation for that category.

Annex B

On the supposition that Annex B scheme is instituted in relation to earnings up to £15 per week, from which there would be no contracting-out it would appear necessary to make some adaptations to our pension and insurance schemes in order to obviate an excessive overall contribution both from employer and employee angles. Such adaptation would most likely occur in respect of categories (1) and (3) above.
and might take the form of eliminating the first £7 per week of earnings say £30 per month from contribution to the Company's scheme by employee and Company with consequent diminution of benefits. (Note.—Under Annex B the present standard rates of National Insurance benefits are appropriate to earnings of £8 per week and the Company's scheme at present is entirely additional to present National Insurance benefits—Annex B contemplates an extension of contributions and benefits up to £15 per week earnings and the adaptation mentioned above would eliminate the extension appropriate to £7 per week of earnings.) Annex B scheme would operate entirely for categories (4), (5) and (6) and in all probability for category (2).

Consultation with Employees

The adaptation of the Company's scheme would involve an alteration in the trust deed—Following a recommendation by the trustees (representing the Company and members) meetings of the members would be necessary and resolutions passed thereat to alter the trust deed and rules which alterations would also have to be submitted to the Inland Revenue authorities for approval.

General

The above comments are made in respect of men only—since we have comparatively few women employees and these are in offices. It would probably be deemed desirable to restrict the entry of women to our scheme if either A or B schemes were instituted. (Very few women continue in Company's service until pensionable age.)

On broad lines I would say that plan A would be the one likely to be preferred if the shipping industry had to choose between that and plan B and I would not anticipate a great deal of difficulty in exercising a right to contract-out under statutory powers. In this connection we have already had some experience as we have "contracted-out" of the Merchant Navy Officers' Pension Fund and have had our scheme accepted in lieu thereof for officers serving in our vessels. Similarly under plan B I would not expect any great difficulties in securing the approval of our employees to adaptations of our scheme. I think we could reasonably demonstrate that the combined contributions and benefits of both schemes could be fairly held to be excessive. Under both plan A and plan B, however, I think it is inevitable that some form of controlled transferability of minimum benefits will have to be provided for either by legislation or alteration of rules of many private schemes.

In most of what I have written above I have had in mind private contributory schemes which provide benefits greater than those envisaged by the proposed National schemes but I think the cases of non-contributory private schemes present a different problem and approach.

It also seems to me that both plans A and B proceed on the assumption that unemployment and sickness benefits could be retained at their present levels but that pensions would vary with earnings but I am doubtful if this different treatment in National Insurance benefits could be of long duration.

——

APPENDIX II (xvi)

THE BRISTOL AEROPLANE COMPANY LTD.

(Sir Reginald Verdon Smith, Chairman)

[No details of pension scheme supplied]

Note on Position in Aircraft industry

For a variety of historical reasons, in particular the large-scale rise and fall of employment levels in the aircraft industry over the last 20 years, occupational schemes for workpeople (as distinct from staff) in this section of engineering (and probably in most) are uncommon: in our own case workpeople have the benefit of a non-contributory life assurance and lump sum retirement benefit scheme but no pension scheme and we have not thought that with the instability of recent years its introduction has been justified.

SECRET
Annex A

In the case of Annex A, employees would not be contracted-out at all.

Annexes A and B

In either case we should arrange for existing occupational schemes to be modified.

Consultation with Employees

When alterations are made to the rules of the Company’s scheme, consultation is normal and in the case of contributory schemes (staff only) is obligatory but no particular difficulty has been experienced in the past in giving effect to substantial alterations in rules (e.g., to adapt our schemes when the National Insurance Act took effect), nor would it be expected in this case unless there was nation-wide opposition to the proposals.

General

Our general preference would be to see the Government encourage the extension of occupational schemes rather than the extension of the national scheme. We feel that this is in the public interest in channelling private savings through insurance companies into industrial investment generally, rather than through Government into forms of investment or expenditure which are not necessarily productive.

We also feel that the encouragement of company loyalties on the part of employees, which has prompted the introduction of occupational schemes, should be an object of policy on the part of a Government which is convinced of the economic merits of private enterprise.

But if an extension to the national scheme must be introduced, we ourselves would prefer that there should be no contracting-out since we feel that contracting-out not only encourages situations inconsistent with the development of standard national practice, but also (notwithstanding safeguards) discourages mobility within an industry.

We are of course aware that other far-reaching proposals have been canvassed and we recognise that there may be over-riding reasons for the introduction of changes at the present time, but unless there is compelling urgency in the matter we would have hoped that, having regard to the many divergencies of view within industry and the real difficulties of reconciling them, the subject might have been publicly debated against the background of a White Paper before the introduction of legislation.

APPENDIX II (xvii)

PILKINGTON BROTHERS LTD.

(Sir Harry Pilkington, Chairman)

Works: Contributory and compulsory scheme. Minimum contribution of employees, 2s. a week; no maximum, but matched by employer’s contribution up to 5s. a week only.

Staff: Contributory scheme, each side paying 6 per cent. of salary.

Annex A

If scheme A were to be introduced we would be likely to contract-out, for two reasons: first, that our own schemes give a considerably better return than the Government one, at least in part, because our actuaries are willing to accept a 4 per cent. rate of return and the firm guarantees such a rate, whereas the Government actuaries seem to consider that 3 per cent. is the best that can be assumed; and secondly, because we believe that a special scheme with varying benefits for that section of our employees only that earn between £10 and £15 a week would be administratively extremely difficult and unsatisfactory. If we contracted-out we do not think we would need to modify our occupational schemes to any material extent since the benefits given are already better than those proposed under scheme A.
Annex B

If, on the other hand, scheme B, which to us appears a better scheme, were adopted, then we think we would modify our own schemes so that in the earlier stages at least the employees, both in the staff and the non-staff schemes, would have the opportunity of paying no more in total than they pay now. We would, however, expect, by patience and persuasion, to induce the very great majority of our employees in both schemes to continue paying the same matched contributions as at present, thereby securing rather better retirement benefits in the particular salary groups with which your scheme deals.

As regards the staff, under your scheme B those earning £10 a week would pay less than now; those earning £15 a week would pay 2s. 9d. more. If we were to reduce our staff contribution from 6 per cent. to 5 per cent. at this level it would result in a reduced contribution of about 3s. per week, which almost balances the 2s. 9d. but again we believe that we would be able to keep most people convinced that it was worth paying the present percentage in our scheme in addition to your extra contributions.

General

It might interest you to know that in 1947, when the National Insurance scheme started, there was some considerable feeling at the time that it would be impossible to retain our own workmen's pension scheme intact, under which membership of our workmen's pension fund is a condition of employment. After prolonged talks with the Unions and the shop stewards it was possible to get all employees to agree to retain membership as a condition of employment and to be ready for improvements in our own scheme which we have since introduced. I am quite sure that this is now regarded as being a very wise decision. At that time, in our workmen's pension fund, the contribution was only 1s. 2d. per week, matched, and last year we felt that sufficient time had passed for us to be able to make a further improvement and we made the minimum matched contribution 2s. and offered to match up to 5s. There has been no difficulty about this at all and at the moment about 50 per cent. of those eligible are contributing at least the 5s. that we match.

Your proposals are certainly a move in the right direction, but on first reading it seems to me that scheme B is considerably the better of the two, and that we would be able to keep our own schemes as well.

APPENDIX II (xviii)

SHELL PETROLEUM CO. LTD.

(Lord Godber, Chairman)

Contributory funded scheme; covers 7,000 works employees and 12,100 staff on a uniform basis (a further 6,100 works employees and 5,700 staff of the Shell-Mex and B.P. Group are in a separate fund). Contributions and pension benefits are in excess of those proposed under Annex A or Annex B, and take account of those payable under the present National Insurance scheme.

Annex A

In the case of Annex A, we should most probably not contract-out.

Annexes A and B

The contributions to both the funds mentioned above (both by employees and by Companies) are in excess of those which would be payable to either of the schemes in Annex A or Annex B, as are the pension benefits. Contributions to the funds are already reduced by the amount of contributions to the present National Insurance scheme so far as they relate to retirement pensions and widows' benefits and the benefits payable by the funds are correspondingly reduced when National Insurance retirement pensions or widows' benefits become payable. We should expect to be able to continue on a similar basis. It might be that no modification of

SECRET
the present regulations of the funds relating to "State pension deductions" would
be necessary, but this in particular will require further study when the terms of
the National scheme are known.

Consultation with Employees

It will be understood from the above that the introduction of a wage-related
National pension scheme would result in no basic change either in the total of
contributions payable by employees towards retirement pensions or in the total
of the benefits they received. Employees are accustomed to a similar result when
changes are made from time to time in the level of contributions to and benefits from
the present National Insurance scheme and it is thought that a re-affirmation of the
position in the form of an announcement to employees is all that would be required.

APPENDIX II (xix)

COLVILLES LTD.

(Sir Andrew McCance, Chairman)

Staff scheme; insured; covers approximately 2,200 members.

Annex A

The desire to contract-out would arise for two reasons, either:—

(a) that an occupational scheme was already in existence which gave greater
benefits than the State scheme, or

(b) that the benefits equivalent to the State scheme could be obtained from a
smaller total contribution, which would therefore benefit both the
worker and the employer.

The matter of pensions for wage earners has been under consideration by my
Company and a quotation received from our insurance advisers indicates that
pensions equivalent to those of Annex A could be obtained for approximately one
half the proposed combined contribution of 8s. per week given in the memorandum.

For the foregoing reasons, therefore, I would anticipate that the number of
employers who wished to contract-out might be considerable.

Presumably some portion of the contribution of 8s. per week is intended to
cover back service—that is, a contribution to cover the payment of full pension to
contributors who have made only partial contributions to the pension fund from the
date of its inception to the time for their retirement.

If so, this purpose only requires a lump sum total payment and not a weekly
contribution in perpetuity.

Annexes A and B

In existing occupational schemes where the benefits are less than those offered
by the new State scheme, it is not anticipated that any great difficulty would be
found in modifying the scheme to bring it into line with the State proposals. It
should be realised that in some cases action contrary to trustee responsibilities may
be involved.

There are, however, a large number of non-contributory schemes in which the
whole premium is paid by the employer and it is most likely that opposition would
arise if the suggestion were made that they be abandoned in favour of the State
scheme.

The employee could well argue that if the employer could afford to pay for a
non-contributory scheme before the State scheme, no change in these circumstances
had been made by the introduction of the State scheme.

SECRET
I believe that the abandonment of non-contributory schemes in the circumstances might create some industrial resentment.

That being so, there is some danger that quite a number of cases might arise where, owing to combined national and occupational pensions, the total amounts would be excessive.

Consultation with Employees

I would regard it as within the powers of an employer in the case of a non-contributory scheme to take such decisions as he thought fit without consultation with the employees. In the case of a contributory occupational scheme, consultation would be necessary but it is not thought that much difficulty would arise if a change involved improved benefits for the insured persons. In cases where benefits from a private occupational scheme exceeded the proposed State scheme terms, modification to bring it into line with the State scheme would seem to be impossible without great opposition from the employees.

General

The graded contribution principle of Annex B is to be preferred.

The National Health Service and Industrial Injuries benefits should be divorced entirely from pension benefits. This is an unsatisfactory feature of Annex B.

No Exchequer contributions should be made to any scheme of pension improvement. The benefits and contributions in any case for improved pensions should not depart from sound actuarial principles.

I suspect that neither Annex A, nor Annex B, conforms to this condition, although there is insufficient information disclosed to judge properly.

Block contributions from State revenue at the inception of a new scheme provides a precedent for future Governments to offer still greater benefits out of general taxation.

The opportunity might be taken to reconsider the basis of 3 per cent. interest on which calculations in the memorandum have been made.

All schemes should contain a provision for contracting-out.

The principle of transferability will demand a substantial amount of administrative work, requiring enlarged staffs on the part of the employers. It is equivalent to an increase in their contributions.

Without commenting on the additions proposed in the memorandum for augmentation of weekly pensions, it is suggested that this matter requires the most careful deliberation and consideration before any final decision be taken.

Two probable consequences are likely to arise out of any scheme to augment pensions:

(i) the workers will demand wage increases to meet the increase in their contributions, thus increasing costs without any gain in production;

(ii) there will be less incentive for private saving and industrial investment, and therefore industrial progress will suffer. More and more it will encourage the socialist belief that only the State can provide the capital required for industrial expansion.

The comments which I have expressed have been derived from a consideration of the industrial problems which are involved in the proposals and not from the consideration of any political consequences.
APPENDIX II (xx)

ARTHUR GUINNESS, SON & COMPANY LTD.
(Sir Hugh Beaver, Managing Director)

Non-contributory scheme for staff and permanent works employees in the United Kingdom; (separate but identical scheme for staff and employees in Irish Republic). Pensions at age 65 (60) or later retirement; one-sixtieth of retiring salary or pay (one-forty-fifth for female staff) for each year of service after age 18 (up to a limit of two-thirds retiring salary or pay). Pension abated by amount of National Insurance pension for a single man. Scheme at present only partly funded; United Kingdom fund amounts to about £1½ millions (Irish fund about £4½ millions). Fund is at present supplemented from profits sufficiently to meet the cost of using final salary instead of average salary basis.

Benefits are transferable after 10 years’ service.

The scheme also includes ill-health or injury pensions and widows’ pensions.

Annex A

We believe that under your scheme A we would be allowed to contract-out, but this is not certain. There are many grounds—particularly those of our relations with our employees—that would make us wish to maintain our present close personal and intimate scheme. On the other hand we are not certain, so far as we are competent to judge, that scheme A is the better scheme; while at the same time we realise contracting-out may be impracticable under scheme B. In any case we feel that we would wish in such a matter before the final decision were taken to lay the whole matter before the beneficiaries of the pension fund.

There are two further points that affect us—one is the obvious one that if we do not contract-out, but abate the State pension, we shall, as we understand it, be virtually operating two different schemes, for employees under £800 a year and for those over £800. This, though not impossible, would we feel be unhappy. Secondly, we have at present two schemes absolutely identical and operated in exactly the same way for our English company and our Dublin company. Unless we contracted-out, there would have to be two different schemes.

The arguments as we see them at present are therefore in favour of contracting-out, but had we the full schemes and were we able to consult our people the decision might conceivably be different.

Annex B

If scheme B, or something like it, is in the end introduced we have the powers under our approved pension rules to modify our scheme to abate the new State pension; as we do the present in part. There would thus be no question of the combined pensions producing a total exceeding or at least equalling the full wage of an individual. But there would be the grave disadvantages which I have already mentioned.

Consultation with Employees

With regard to your question (iii) it will be obvious from what I have already written that we would like to have the fullest open consultation with all the people in our employ who would be affected. Although the initiative of contracting-out lies with the employer, we consider that in this we are no more than the trustees of our employees' interest. The decision would involve our good faith and the goodwill of our employees; and we feel this is so likely to be the case generally throughout industry that we for our part would hope that in due course the scheme could be made the subject of a White Paper, or the equivalent, and be openly debated.

General

There is one further matter of general impact on which we feel bound to express our views. Both schemes seem partly to arise out of the fact that the

SECRET
present State pensions scheme is financially unsound; both schemes—certainly
scheme A—would apparently only temporarily improve the position. Presumably
however this is already engaging your attention. But on the broader question
we believe that the large part of industry which is already operating good pension
schemes should be encouraged to continue doing so; and that that will produce
greater national economic strength and a sounder national investment position.

APPENDIX II (xxi)

CAFFYNS LTD.

(Mr. S. M. Caffyn, Chairman)

Garage Proprietors

Hourly paid employees: Contributory scheme; weekly contributions of 1s. 6d.
or 3s. at employee’s option; pension (at 65) of 6d. or 1s. for each year of service.

Weekly and monthly paid staff: Contributory scheme; 5 per cent. of salary each
side; pension one eightyieth of average salary over last five years for each year of
service.

Annex A

We should not wish to contract-out in the event of Annex A being put into
operation.

Annexes A and B

We do not think any adaptation of our scheme would be required. In the
case of [hourly paid employees’ scheme] we might introduce the option of
transferring back from 3s. to 1s. 6d. At the present time, if an employee agrees
to 1s. 6d. he can later transfer to 3s., but we do not allow the reverse procedure.
In regard to [weekly and monthly paid staff scheme] it is just possible that we might
introduce a modification to ignore the first part of the employee’s salary, “e.g.,
£100 or £200,” but we think this is most unlikely since the additional contribution
at the maximum for the employee would only be 4s. a week less tax.

Consultation with employees

Our pension scheme is operated by a Board of trustees comprising five
representatives of the Board and five members of the staff who come from five of
our major branches, but a consultation could not be very complete as we have staff
employed in 50 branches. We feel, however, we could arrive at a reasonable
conclusion as to the reactions of our staff. We would add that when our scheme
was instituted in 1947, [the hourly paid employees’ scheme] only allowed for a
contribution of 1s. 6d. and it was on the request of the staff that we gave the option
of 3s. We have been contemplating a possible extension to 4s. 6d. a week, but we
are holding this in abeyance until we know what modifications will be made to the
National scheme.

General

When our scheme was instituted in 1947 we gave all staff the option of joining.
Ninety-one per cent. of the hourly paid staff and 95 per cent. of the weekly and
monthly paid staff joined, and we are of the opinion that there is an increasing
desire to make provision for pensions on retirement, and an addition to the National
scheme would be welcome, and the one you suggest would not be looked upon as
imposing an excessive burden on the staff.

May I make two further observations—

(1) As a member of the Local Authority it appears to me that legislation
would be needed in order to modify the present Local Authority
superannuation scheme, since otherwise a member of the staff earning
£750 per annum, having served for forty years and obtaining the
maximum pension under scheme A for a married man, would
apparently be entitled to a pension of £850 per annum.

SECRET
(2) As a member of the Civil Service Arbitration Tribunal, I am naturally interested as to how this would affect the Civil Service pay conditions, and again it seems to me that the modification in the Civil Service pension scheme would be called for.

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**APPENDIX II (xxii)**

**JAMES LONGLEY & CO. LTD.**

*(Mr. Norman Longley, Chairman)*

*Building Contractors and Joinery Manufacturers*

The Company belongs to an industrial pension fund managed by trustees appointed by the National Federation of Building Trades Employers. [No further details supplied.]

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**Annex A**

I do not think that in my industry (building) there would be a great deal of contracting-out. Undoubtedly firms already having pension schemes would wish to modify their schemes in order to top up benefits under any National scheme. Speaking of industry generally, no doubt, given the opportunity, some firms would opt to contract-out, particularly the larger firms with specialised products and if not given the opportunity to contract-out they might oppose the whole proposal.

**Annexes A and B**

I think that in either case firms that did not contract-out would wish to modify their schemes so that total pension rights were giving retirement benefits slightly more favourable than at present.

In my Company's case, we are members of an industrial pension fund managed by trustees appointed by our trade federation (National Federation of Building Trades Employers) so that many firms are in the same scheme. Any option to contract-out would complicate matters as different firms would have different views and the trustees might well be in a difficult position. But if the scheme in Annex B is applied then the combined benefits of compulsory and voluntary pensions would have to be judged and perhaps re-assessed.

**Consultation with Employees**

Having been told by the trustees of our fund what we could do the directors would decide and tell members of the staff and for this reason they would wish their overall pension position to be slightly improved to prevent resentment.

**General**

I consider the contribution and benefit scales in Annex B preferable to those in A.

I am afraid my views may not be very "consistent." I find the whole question highly involved and I feel that if you contemplate any action plenty of time should be allowed for discussion so that people can grasp the proposals and express opinions after consultation with people having specialised knowledge.
E. CLEGG & SON, LTD.
(Sir Cuthbert Clegg, Chairman)
Cotton Manufacturers

Scheme covers managers, foremen, and office staff; about 100 in all. Pension is related to average earnings over life. Provision for reduced pension on early retirement. Benefit may be foregone in part to provide widow’s pension; death benefit of one year’s salary is provided.

Note on position in cotton industry
So far as my experience goes I think that occupational insurance schemes extending to all classes of workpeople are few in the cotton spinning and weaving industry. How many firms have schemes similar to our own for their managers, foremen and office staff I do not know. The firms with which I am connected, notably, for example, Combined English Mills (Spinners) Limited, which is one of the largest spinning combines, certainly have them, but there may still be quite a large number of smaller firms which do not.

Annex A
I do not think that, so far as my firm is concerned, we should want to contract-out if we were able to do so.

Annexes A and B
I think that on balance scheme A is the better one because the interests of the higher paid workers are not prejudiced in favour of those lower down the scale.

General
I think the principle of establishing an occupational pension scheme to be run by the Government is a good one. It has the result of making it obligatory for a person to provide for his future retirement and to that extent it is a form of national saving.

APPENDIX II (xxiv)
BEAVER & CO. (BINGLEY) LTD.
(Mr. John Foster Beaver, Chairman)
Worsted Spinners

[No details of pension scheme supplied.]

Annexes A and B
I would say that proposals would meet with considerable criticism in many quarters, but that if carried through, Annex B would be preferable. I do not think there would be much desire to contract-out of a scheme, but that the right to amend present schemes would generally be desired. In the case of B, adaptation would I feel be fairly general.
Contributory, insured, covers staff only. Employees' contributions vary according to salary band between 4½ per cent. and 5½ per cent. Pension is on average salary basis varying according to salary band up to something like two-thirds of average salary. Additional pension may be purchased by voluntary contributions. Also non-contributory supplementary scheme for senior officials.

Proposals under consideration for works scheme in 1959 (nearly 12,000 works employees).

Annexes A and B

It will be apparent from these figures [specimen contributions and benefits of Company's scheme] that it would be in the best interests of our members to contract-out of the proposed scheme, or failing that to modify the existing scheme. It would obviously be impracticable to consider continuing the present scheme and, in addition, meeting the extra cost of the proposed scheme because the ratio of aggregate pension to salary would be too high and, what is more important, the combined schemes would impose too heavy a burden of deductions from current remuneration.

Summing up the position so far as this group is concerned, the present occupational scheme covers a relatively small proportion of the total number employed and, while at this stage I could not say whether we would contract-out or modify our existing scheme, we think it highly desirable that there should be a power to take one or the other of these steps. Failing a power to contract-out we would certainly wish to modify our scheme.

Consultation with employees

Our pension schemes are operated through an insurance company by trustees amongst whom are representatives of the monthly salaried and weekly paid staff. It is noted that the employer will have the right to apply to contract-out with the consent of the trustees. It is thought that the trustees may be taken as representing the views of the members and therefore, beyond their consent, no further consultation with employees would be necessary. While it is not considered that the application by the employer to contract-out would lead to any unfavourable reaction on the part of the employee members, it would probably be desirable to circularise the members with a statement setting out the reasons for contracting-out. Modifications to the present scheme would require the sanction of the trustees.

General

Regarding the merits of the two alternative schemes proposed, I would say that Annex B would be more favourably received, particularly since it concedes an immediate benefit in the shape of reduced contributions for those earning under £8 a week. I would be in favour of Annex B if it were possible to introduce a contracting-out clause. The proposals under either Annex A or B will of course be widespread in their application and the scheme is one which I think requires the most careful consideration and full consultation before it reaches its final form.
APPENDIX II (xxvi)

MOSS BROS. AND CO., LTD.

(Mr. H. N. Moss, Managing Director)

Voluntary and contributory scheme; covers full-time permanent employees between 24 and 50 (men) and 24 and 45 (women) with not less than six months’ service; of 340 eligible employees 371 have joined. Pension is approximately one-third of salary.

Annex A

[No specific comment—see general remarks below.]

Annex B

Our scheme, being of recent origin, provides a retirement pension related to the current State pension and therefore if Annex B was adopted our scheme would be modified approximately to the extent of the increased pension under the new State scheme. Having regard to the modification of our own scheme if Annex B was adopted I would strongly urge that we should have statutory powers to effect such modification.

It is exceedingly difficult at this stage to express an opinion as to the reaction of the members of our scheme to Annex B without first ascertaining the revised contributions they would be called upon to pay. I feel however, that the higher-paid staff would present no problem but there might be some reaction from the members in the lower salary grades.

General

In our opinion, so far as this Company is concerned, the scheme under Annex B is preferred.

APPENDIX II (xxvii)

JEYES’ SANITARY COMPOUNDS COMPANY LTD.

(Mr. T. B. Brown, Chairman)

Compulsory and contributory scheme; covers all employees with not less than one year’s service between 21 and 60 (men) and 25 and 55 (women) (300 in all). Benefits are at least as high as those proposed in Annex A.

Annex A

In the event of Annex A coming on the Statute Book my Company would wish to contract-out of the wage-related part of the State scheme. Our contributory occupational scheme will be found, I feel, to satisfy the criteria of equivalence and solvency but, in common with most other occupational schemes, it does not satisfy the criterion of transferability of pension rights. It is probable, however, that the subject of enabling legislation to cover this point is in your mind.

Annex B

If Annex B were to be enacted, it is probable that our decision would be to maintain our occupational scheme with few or no adaptations.

Consultation with Employees

As the decision at which we would arrive under Annex A, or under Annex B if any adaptation of our occupational scheme is considered desirable, is not in the nature of the negotiations normally entered into between trade unions and

SECRET
employers—such as those relating to wage awards—I feel that it would be incorrect to inform our employees of such a decision through such channels. The matter would be handled on a more domestic basis.

**General**

The following points are not in the nature of replies to the questions put in your letter and accompanying document but are, I think, pertinent to the issues involved and have weighed with me in the replies I have given above.

The wage-related addition to the present flat-rate scheme, envisaged in Annex A, stands away from it in a marked way. Unlike the present flat-rate scheme in which the contributions are not specifically hypothecated as between pension and other benefits, the additional pension resulting from the wage-related part of the scheme is, or may be considered to be, directly calculable. In the document the maximum additional pension on the basis of 3 per cent. interest is given as £3 a week. But objection may and probably will be raised to the interest figure assumed. In present, or possible in average, conditions 3½ or even 4 per cent. may be said to be more reasonable, the respective maximum additional pensions being £4, and over £5, a week. The scheme under Annex B is not only more rational and better integrated with the present flat-rate scheme, but the contributions not being specifically hypothecated against the several benefits, does not as easily invite the criticisms that may be levelled against Annex A.

I would like to end this letter by casting a doubt as to the need for the legislation now proposed. The present flat-rate scheme provides in my opinion the desired elements of social security which industry, in its wisdom and in accordance with its ability, supplements. The two proposals provide only for increased pensions but not for any increase in other benefits such as sickness and unemployment, a matter which is likely to be seized on and magnified. In any case I feel that the issues involved are of such import that they should be subject to the fullest debate.
APPENDIX III (i)

NATIONAL COAL BOARD, ELECTRICITY COUNCIL, GAS COUNCIL

(a) Copy of Letter dated 7 May, 1958, from Minister of Power to Minister of Pensions and National Insurance

As requested in your letter of 18th April I have had confidential discussions with the chairmen of the nationalised coal, electricity and gas industries on the impact on their pensions schemes of a national scheme on the lines outlined in Annexes A and B of the memorandum enclosed with your letter.

The summary of the information given me is rather lengthy to incorporate in a letter and may be more useful to you in the form of a memorandum, which I enclose. There are, however, one or two points which I would like to make in the light of my discussion with the chairmen.

The first is that the possibility of substantial increases in pensions benefits is a matter of some concern to all three chairmen in the light of the benefits secured to their employees under their industry schemes which, apart from the mineworkers, may already be considered adequate. The National Coal Board, in particular, are also very concerned about the cost of such increases. They would be especially affected by changes of the kind contemplated because of the higher labour element in production costs, and their present financial difficulties cause their chairmen to view with alarm any proposals for cost increases.

I estimate that if Annex A scheme was introduced and none of the industry schemes for which I am responsible was contracted-out, the Boards' total additional costs in contributions, based on some 1.08 million employees, might amount to nearly £8 millions a year of which just over £6 millions would have to be borne by the National Coal Board.

If all these schemes, including the mineworkers' scheme (which covers some 562,000 employees) were contracted-out of the top tier of Annex A, additional costs would still arise in respect of those employees who are not members of the schemes. At a rough estimate this additional cost to the Boards might amount to just over £1 million a year, as follows:

<table>
<thead>
<tr>
<th>Employees</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>102,000 £827,000</td>
</tr>
<tr>
<td>Electricity</td>
<td>54,000  £262,000</td>
</tr>
<tr>
<td>Gas</td>
<td>13,500  £65,000</td>
</tr>
</tbody>
</table>

If the mineworkers did not contract-out of Annex A but substituted it for their own scheme, this might put up the Coal Board's additional costs of £827,000 by a net figure of about £2 millions a year.

The introduction of Annex B without any adaptation of existing industry schemes, might cost the Boards £8.5 millions a year, of which the National Coal Board might have to bear about £6.5 millions. Even if in spite of the complications and difficulties, all these industry schemes were so adapted as to obviate any additional cost to the employers in respect of existing members of their schemes, as well as new entrants, the national scheme would still cost the Boards about £11.5 millions a year in respect of those employees outside the schemes, including £900,000 from the National Coal Board.

But the mineworkers' scheme with its comparatively low benefits could not be cut back in the same way as the staff schemes; it might be discontinued on the advent of Annex B in which case the net costs to the Coal Board, additional to the £900,000 to which I refer above, might be about £2.5 millions a year.

Secondly, all three Chairmen emphasised the personal nature of the views they have expressed in the absence of any consultation with the management committees of their schemes, on which employers and members are represented, or with the unions. They point to the necessity of such consultations in advance of any further information for which they may be asked.
The three chairmen were asked for their advice on how far their industry schemes would be affected by national schemes as outlined in and described as Annex A and Annex B. In particular—

(i) To what extent would their employees be contracted-out of the graduated part (top tier) of Annex A?

(ii) Under Annex B (and Annex A to the extent that employees are not contracted out)—

What adaptations of their occupational schemes would appear desirable to avoid the aggregated contributions and pensions under national and occupational schemes being excessive?

(iii) What is the nature and extent of the consultations required with their employees in connection with—

(a) Contracting-out of Annex A (top tier), bearing in mind that the initiative lies with the employer?

(b) the adaptation of their schemes to avoid excessive contributions and pensions?

**Annex A Preferred**

All three industries have pension schemes covering their staff and manual workers (the latest is for gas manuals which is planned to come into effect on 1st June). The three chairmen all expressed, on the information given them, their strong preference for Annex A over Annex B scheme for all their employees, because it provides an option to contract-out of those benefits and contributions which would be additional to those under the present national insurance scheme.

**Importance of the Option to Contract-Out**

This option to contract-out is considered by the chairmen to be of very considerable importance because the higher benefits envisaged under either of these schemes, when added to the industry scheme retirement benefits, would become so large in relation to salary as to be a disincentive to employees to remain at work beyond minimum retiring age. They assume that this would be contrary to any Government's policy with the result that, where it arises, steps would have to be taken to remove it.

**Excessive Pensions**

The coal, gas and electricity staff schemes already provide at age 65, and after 40 years service, a retirement pension of two-thirds retiring salary (or its equivalent of one-half retiring salary plus a lump sum); for all new entrants to the schemes since 1948 these pensions are abated by 26s. a week in respect of the national pension but, with its increase to 50s. a week, a single man's total pension after 40 years may now be equivalent to over 70 per cent. of his salary (over 80 per cent. if a married man).

**Adaptation of Schemes**

It is recognised that for the first 10 years or so of the new national scheme the additional pension payable under Annex A would not be very large (5s. in the case of a £15 a week man after 10 years), but the scheme is based on additional benefits rising to 45s. after 40 years and 60s. after 50 years and accordingly the alternative to contracting-out of these additional benefits must, in the view of the chairmen, lead to adaptation of their own industry staff schemes. This, it is thought, would be regarded as involving loss of existing benefits and would arouse serious discontent among those affected and strong resistance from the Unions, though it would be accompanied by a reduction in contributions to the industry scheme, and even perhaps though such adaptation was restricted to new entrants.

**Contracting-Out**

The Boards of the three industries would therefore wish to contract-out from the graduated part of Annex A all their pensions schemes and retain these intact. The chairmen think—

(i) the members of the staff schemes would readily accept this;
(ii) the same applies to the electricity manual workers’ scheme, but not necessarily to their protected workers’ schemes, some of which provide very poor benefits;

(iii) the gas manual workers’ scheme, which is to provide roughly only half staff scheme benefits and would not give rise to excessive pensions, probably meets the requirements of the gas workers who should therefore be prepared for the scheme to be contracted-out.

Members Affected

Based on this advice some 312,000 workers in these three industries would be contracted-out of the top tier of Annex A scheme, or up to 350,000 if members of electricity pre-vesting schemes should be included.

Mineworkers

There is considerable doubt about the workers’ attitude to contracting-out the mineworkers’ scheme which has a present membership of nearly 600,000.

The introduction of a national scheme with higher benefits than at present would clearly not be without interest to the miner; the maximum benefit he can get under his industry scheme is 30s. which is just under one-half the total pension he would get as a single man (including the present national retirement benefit), but the raising of the maximum national scheme benefit by up to £3 a week would make his industry scheme benefit seem very small.

Price for Contracting-Out Costly Improvements to Scheme

The National Coal Board would prefer that, if possible, the industry scheme should continue to provide a substantial part of the miner’s retirement benefits, and to contract-out of the top tier of Annex A, but the chairman finds it impossible to say, without consultation with the Union, whether the men’s reaction would be the same. He has little doubt that, as a price for contracting-out of Annex A, the miner would want substantial improvements in the mineworkers’ scheme (which the Board cannot afford at present) and the Union might, therefore, prefer to take the full national scheme in substitution of their own scheme; to take it in addition to their own scheme would cost most of them another 4s. a week in contributions.

Assume Mineworkers Scheme May Not Contract-Out

At present, therefore, it should not be assumed that the mineworkers’ would be contracted-out of Annex A scheme.

Annex B and Excessive Pensions

The introduction of Annex B would give rise to the same problem of excessive pensions as under Annex A, but since it includes no provision for contracting-out of benefits in excess of those at present provided, the effect on all industry schemes, except perhaps the mineworkers’ scheme, would be more keenly felt. The amount by which the industry scheme benefits would be cut back would not necessarily be quite as big because the maximum pension which could be earned under Annex B is theoretically not so large (£2 as against £3 for a single man), but without further adaptation the increases generally would be higher than under Annex A.

Effect of Compulsory Adaptation of Industry Schemes

The chairmen regard the possibility of further adaptation of their schemes, without any alternative with considerable concern because it would be so strongly resisted by the members who would see their Boards taking away from them what Parliament had given. When the present modification arrangements were introduced in 1948 and a distinction had to be made between existing members and new entrants, this gave rise, and still gives rise to considerable feeling; further compulsory adaptations involving reduction in benefits, even on a basis of reduced contributions, would aggravate this situation.

Adaptation Necessary to Reduce Additional Costs of Annex B

Nevertheless the chairmen are firmly of the opinion that their schemes would have to be adapted in order to reduce the additional costs which would otherwise fall upon the Board. The National Coal Board estimate that the introduction of Annex B would cost them in respect of members of the mineworkers’ scheme, if not adapted, an additional £5 millions a year.
Consultations with Unions and Staff Associations on Contracting-Out

A decision to contract-out one or all of their schemes from the top tier of Annex A would not in itself involve any amendment of existing industry schemes, save in respect of transferability, but all three chairmen feel it would be necessary to consult trade unions and staff associations before taking any such action. Questions of alternatives to contracting-out would arise and the Boards would wish to feel assured that they carried their employees with them on any proposal affecting them so closely.

Consultations on Adaptation to Schemes

The rules of all these industry schemes (except the mineworkers' scheme) provide for alterations in contributions and benefits to be made by the employer in the event of changes in National Insurance legislation. While this provision overrules other provisions under which a majority of two-thirds of contributors affected must approve any proposal to reduce the benefits of an existing member of the industry scheme, the chairmen consider it would be essential to have informal discussions with the trade unions and staff associations before any amendment or major modification to their schemes was introduced.

Under the rules of the mineworkers' scheme any proposed amendments must be agreed with the Union before submission for the Minister's approval, and no alteration may be made which would have the effect of reducing the amount of any benefits already earned or accrued. If the Board and the Union are unable to agree on any amendment which the Board wish to make, the matter becomes a question under the conciliation scheme for the industry.

APPENDIX III (ii)

SCOTTISH ELECTRICITY BOARDS

Extract of Letter dated 21st May, 1958, from Secretary of State for Scotland to Minister of Pensions and National Insurance

Very briefly, the answers to the three specific questions which you asked in paragraph 4 of the memorandum you sent me on 18th April are:

(1) If Annex A were adopted the Boards would prefer to contract-out their employees; that means that the great majority of the Boards' employees would be contracted-out since 80 per cent. of the eligible manual workers and most of the other staff of both Boards are members of their existing schemes, which provide comparable benefits.

(2) If Annex B applies or if there is no contracting-out of Annex A the Boards could modify their schemes in the same way as they are already modified to take some account of national insurance contributions benefits.

(3) Neither Board is required to consult the employees' side of the industry in framing or modifying superannuation schemes, but in practice both Boards do so.

APPENDIX III (iii) (a)

BRITISH TRANSPORT COMMISSION

(Sir Brian Robertson, Chairman)

Extract from Memorandum submitted by Commission to Minister of Transport

GENERAL CONSIDERATIONS ON THE PROPOSALS

It would make for greater flexibility and lessen difficulties in adapting existing schemes if it were permissible for distinction to be drawn between various groups of staff, for instance, under Annex A:

(a) to contract-out for existing staff, but not for future entrants;
(b) to contract-out for male wages staff, but not for female wages staff.
The Commission's approach might be conditioned by the views of other employers, and the attitude of both employers and employees could well depend on the scale of State pension in relation to contributions. If, as is suggested, the proposals are based on 3 per cent. interest accumulation, a smaller benefit would be produced for like contributions than in the British Transport Commission salaried funds (usually 4 per cent. accumulation) and the male wages grades scheme (3 per cent. accumulation). It may be that this would also be true of the majority of occupational schemes, whether self-administered or insured.

If that were so, there would probably be: —

(a) a reluctance on the part of employers and staff to acceptance of the arrangements in Annex A in preference to existing arrangements.

(b) pressure on employers to supplement Annex B benefits.

No mention is made of death and ill-health retirement benefits in the proposals, a serious disadvantage compared with the Commission's schemes. The Commission's salaried schemes also permit of optional retirement at or after age 60 for men (55 for women).

For like contributions the “money purchase” basis would produce substantially lower pension for women than for men, because of the earlier retirement age for women and women's lighter mortality at advanced ages.

An unexplained feature is that the Annex A scheme would provide an additional pension of £3 a week, and under Annex B the graduated pension would be £2 a week (or less) above the standard rate, whereas under Annex A and Annex B the total contributions for men in the £10 to £15 band would seem to be within coppers of each other; similarly for women earning £10 to £15 a week.

ANNEX A

Dealing in detail with the Annex A proposals, a number of points emerge.

Considerations as to Salaried Staff

(i) It would be virtually impossible for the maximum benefit to be obtained because salary progression is usually steady through the grades, and the average retiring salary for men on British Railways after long service is probably no higher than about £650 a year at the moment.

(ii) Even with the present modifications of the main superannuation funds the accrual of benefits is substantially greater than under Annex A.

(iii) The logical course would seem to be to contract-out, at any rate for existing staff. The alternative would be to make further complicated modifications in the superannuation funds to take account of the new State pension arrangements, although inequalities might well result from the differing actuarial bases of the funds and the State scheme.

(iv) Again logically, the course would seem to be to rely on the Annex A proposals (by not contracting-out) for future entrants, and to close the superannuation funds to new entrants. There would, however, undoubtedly be opposition from the trade unions to what would be a worsening of the overall arrangements for new entrants, unless some supplementary arrangements were introduced.

Considerations as to Wages Staff

(i) British Transport Commission (Male Wages Grades) Pension Scheme

(a) At the £12 10s. level, contributions and benefits seem to correspond fairly closely with the Annex A proposals. This may, or may not, satisfy the first criterion for contracting-out.

(b) For men earning, say, £13 to £15 a week consistently for long periods, Annex A may prove better; therefore there could be no contracting-out for existing staff or new entrants, but closure of the British Transport Commission scheme might have to follow.
(c) Men earning less than £13 a week would be worse off under Annex A. Supplementary arrangements would therefore be needed if there were no contracting-out, and the British Transport Commission scheme would have to be modified. This would undoubtedly be somewhat complicated.

(d) Contracting-out might well be precluded because contributions are not alienated from the Commission.

(ii) Ex-gratia Arrangements

Contracting-out might be precluded because the arrangements are not contributory; there is the further difficulty of equivalence of benefits in different forms, i.e., in comparing lump sums and pensions. But, if the male wages grade scheme were to be modified to take account of the State pension arrangements, this might similarly be done for the ex-gratia arrangements.

Other Considerations

(i) Generally, it would be difficult, in considering whether or not there should be contracting-out, to decide on equivalence of benefits when comparing the flat rate benefits of the Commission's wages grade arrangements and the graduated State pension proposals.

(ii) If the Commission were to contract-out for any section of the staff, their provisions for preservation of pension rights would require alteration. The Government proposals would leave many small cold-storage pensions in occupational schemes, and provision for a cash payment to the State, which might then become responsible, would be preferable.

ANNEX B

On the Annex B proposals, the principal considerations are:

Considerations as to Salaried Staff

The Commission's existing schemes are better than those proposed. The course would, therefore, have to be that the present basis of benefits would have to be maintained for existing staff by modification of the schemes, leaving those schemes to pay the balance of existing benefits, or by supplementation. To rely simply on Annex B for new entrants would lead to opposition by Trade Unions on the grounds of worsening of conditions. Other large employers would probably find themselves in the same position.

Considerations as to Wages Staff

The Annex B benefits would be better for a few, but worse for most, compared with existing arrangements. Some supplementation from Commission sources would, therefore, be necessary.

Conclusions

It would be possible to contract-out from Annex A for existing salaried staff, and leave future entrants to be covered by the proposals. There would, however, be Union opposition to this latter suggestion.

Equally, it would seem feasible to contract-out of Annex A for lower-graded wages staff who have pension cover, but not for certain senior pensionable wages staff. The Unions would be likely to oppose contracting-out as they would clearly desire the best of both arrangements, and the difficulty would be in deciding where the line should be drawn, and where supplementation would be required.

Under Annex B, some betterment from Commission sources would seem to be inevitable, since there would be no contracting-out.

Instinctively, the thought of being able to contract-out where benefits are duplicated is attractive. But past exception from the State pension arrangements for salaried staff has, looking back, had disastrous effects for them in the lack

SECRET

53581
of the State pension for them unless they became voluntary contributors. It would seem wise not to allow the same situation to arise again by contracting-out, quite apart from difficulties contracting-out might bring with the Unions.

If the Commission were to contract-out, they would be under implicit obligation to maintain future benefits from their schemes at least at the State pension level.

To safeguard the future as regards the individuals and the State scheme, it would seem on balance that the Commission ought not to seek to contract-out for any of their staff, but to take advantage to the full of any proposal as regards State pension, and modify as necessary their own arrangements, which would properly be supplementary to those of the State.

If, however, this is accepted, the modification of the Commission’s schemes should be on a realistic basis related to the factual State pension and not to the 1948 rates of State pension. It is assumed that Ministerial Regulations would be authoritative on this aspect.

Modifications of the Commission’s schemes, which might prove complicated, would be a matter for the Commission to discuss with the Trade Unions, prior to any request for Ministerial Regulations; but acceptance of modification by the Trade Unions might be difficult to obtain, except in the knowledge that the same course would be followed by the Civil Service, Local Government and the other Nationalised Industries.

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APPENDIX III (iii) (b)

BRITISH OVERSEAS AIRWAYS CORPORATION
BRITISH EUROPEAN AIRWAYS

(Sir Gerard d'Erlanger, Chairman, Airline Chairmen’s Committee)

Extract from letter dated 19th May, 1958, from Sir Gerard d'Erlanger to Minister of Transport

The following are our views on the proposals:

(a) As you know, there are two alternative proposals put forward and, from the information available, it would almost certainly seem that the Corporations would prefer scheme A to scheme B. The main advantage in our eyes of scheme A is that there is provision for contracting-out in respect of certain categories of employees.

(b) Since it appeared obvious that the Corporations' pension scheme as it at present stands produces better benefits than either of the proposed State schemes, the right to contract-out if scheme A was adopted would almost certainly be exercised. It appeared that the Corporations' scheme satisfies the proposed criteria for contracting-out on the points made regarding equivalence and solvency. The arrangements for transferability so as to ensure preservation of pension rights would undoubtedly, however, require further attention to bring them into line with the proposals set out in your paper.

(c) If scheme B was adopted in view of the proposal that there would be no option to contract-out, substantial alterations to the Airways pension scheme would be necessary. The extent of such alterations cannot be assessed without considerably more detailed knowledge of the proposed scheme B.

(d) As it is visualised that the adoption of either scheme A or scheme B would require material alterations in the rules of the Corporations’ pension scheme, we consider that such changes would require prior consultation and agreement with the Trade Unions on the National Joint Council; in this context, it can be assumed that there would be little or no prospect of reaching agreement with the Unions on any points which had the effect of lowering the pension, or increasing the contribution without a commensurate increase in benefits.

SECRET
(e) Should this State scheme provide higher pension benefits (by either of the alternatives), it would almost certainly be necessary to amend the present rules so far as to deal with the exclusion from the calculation of pension and contributions of the first £100 per annum of pay. This figure would probably have to be increased, either to a predetermined fixed amount or by way of percentage of pay.

(f) The proposed alternatives to the State pension scheme referred to earnings and not basic pay and this can present administrative difficulties owing to fluctuating earnings. It is suggested that it would be an administrative convenience if deductions from pay were calculated on the earnings of a preceding period, e.g., the preceding twelve months or six months.

(g) As a general comment, it is hoped that you will not find it necessary to cancel your existing regulations governing the pension schemes of the Corporations in order to meet the Government policy on State pension schemes. It is hoped that whatever plans are finally agreed on, employers should be given the facility to adapt their schemes rather than have to replace them. The general policy on which such alterations would be based would be the maintenance of the existing total benefits by a combination of State and occupational schemes.
APPENDIX IV

PUBLIC SERVICES

(Civil Service, Local Government, National Health Service, Teachers, Police and Firemen)

At a meeting under the chairmanship of the Chancellor of the Exchequer on 1st April, 1958, departments concerned with pensions for the Civil Service, Local Government, the National Health Service and teachers expressed the view that if the September scheme (now represented by Annex A of the working document at Appendix I) were adopted, most of those concerned would on balance be in favour of contracting-out. A note of the conclusions of this meeting has been circulated to all Ministers affected.

Subsequently the departmental Ministers concerned were sent a copy of the working document (Appendix I) for any further comments they wished to make. In general Ministers do not wish to amplify what was said at the meeting, except that the Secretary of State for Scotland wishes to withdraw the suggestion made on his behalf that police and fire authorities in Scotland might not contract-out.

The Minister of Education makes the following additional comment on Annex B of the Working Document (i.e., the August Scheme):

"There can be no doubt, in my opinion, that both the teachers and their employers would, under Annex B, demand that modification of the teachers' pension scheme should be extended to cover all additional National Insurance benefits above the 26s. per week already covered. This, if indeed it is practicable, would be tantamount to contracting-out, and would involve very complicated and expensive administration. Moreover, such a demand would be sound in principle, for the problem of excessive pensions is probably more acute in the teachers' scheme than in other public services. Successive legislation has brought us to the position that many teachers will from now on be retiring on a pension based on 40 years or more of pensionable service. Their benefits already exceed two-thirds of retiring salary, and we could not reasonably expect additional contributions to be paid for further unwanted and excessive benefits."

The Secretary of State for Scotland also makes an additional comment on Annex B:

"Adaptation of occupational schemes would certainly have to be considered if we had the scheme in Annex B, and would be controversial. Teachers, for example, would think a total employee's contribution of 9 1/2 per cent. burdensome but the corollary of some reduction in it—abatement of teachers' pension beyond the present rate of 26s. a week—would not be easy to impose. With policemen and firemen, who are already entitled to a two-thirds pension after 30 years service, the problem is even worse, for we should presumably have to try to 'abate' the service pension by an amount equal to the whole of the new national pension. . . . . . . .

"It will be recalled that the teachers' associations were consulted about the modifications to service pensions required in 1948, and there is specific provision for pension matters in the joint machinery for the police and fire services. The Police Council in particular would have to be with us if we were to have any hope of passing without the most acute controversy the Bill that will be necessary if we are to tamper with the safeguard for pensions of serving members which was written into the Police Pensions Act, 1948."

On the question of police and firemen in England and Wales the Home Office (who were not represented at the meeting of 1st April, 1958) have made this comment:

"On the assumption that there could be only one decision for each of the services as a whole, our view is that, as police and fire officers meet less than one-quarter of the cost of their pensions and the pensions schemes of the two services are already more expensive than other public service pensions schemes because of the early age of retirement, the attitude of police and fire
authorities would be influenced largely by financial considerations. If, as seems possible, on the information at present available, they would incur additional expenditure by remaining in the scheme, they are likely to exercise their right to ask that scheme A should not extend to police and fire officers. Fire authorities and, to a lesser extent, police authorities are however also likely to be influenced by whatever decision is reached about the application of the scheme to local government employees.

On the second question, on the best estimates we can make without consulting the local authorities or the Commissioner of Police, we have no reason to suppose that the additional contributions involved in either scheme would in themselves create real difficulty either for serving officers or for police and fire authorities, though it may be contended otherwise by representatives of the police or the authorities. If, as we understand is likely, it was considered necessary to provide for the abatement of public service pensions at age 65 to ensure that the combined service and State awards did not exceed two-thirds of retiring pay, it appears to us that this would deprive police and fire officers of virtually all the additional benefits which the schemes are intended to provide, so that the payment of additional contributions would be made without a corresponding return and this would be greatly resented.

The answer to the third question is that there would have to be consultation with the Police Council for Great Britain and Central Fire Brigade Advisory Council.
APPENDIX V (i)

LIFE OFFICES ASSOCIATION
(Mr. J. H. Kitten, Chairman)

ASSOCIATED SCOTTISH LIFE OFFICES
(Mr. K. K. Weatherhead, Chairman)

INTRODUCTION

First, we wish to make it very clear that whatever scheme may ultimately be enacted our two Associations and our individual members would do their utmost to assist Government in making it a good and workable scheme.

Secondly, the subject is one which touches us closely and in the interim period between the Government's intentions becoming public knowledge and the passing of the necessary legislation we would wish to comment freely—and maybe forcibly—on certain aspects.

This memorandum is divided into five parts:—

I.—General Views of Life Offices.

II.—Background Information.

III.—Study of Scheme A.

IV.—Study of Scheme B.

V.—Suggestion by Life Offices.

PART I

GENERAL VIEWS OF LIFE OFFICES

We think that we should begin this memorandum by stating in general terms the views of the Life Offices regarding the provision of pensions by the State. We believe that the State should confine its activities to making provision for "basic need," leaving to thrift and private enterprise the development of pensions beyond this level. Obviously we recognise that what constitutes "basic need" is debatable and we do not rule out the idea that a small graded pension element might reasonably be included in any State provision for "basic need." If any scheme were intended to make provision beyond "basic need," then we would oppose it for that reason.

Any State pensions scheme must have financial discipline. One such discipline would be for the contributions paid in respect of any graded pension element to be carried to a separate fund and accumulated at interest, this fund not to be taken to offset the growing deficit under the existing National Insurance scheme nor to be "raided" in any way. We shall, however, assume that this approach will not be adopted, but we felt that we should mention it for the sake of completeness.

We believe that any State scheme confined to "basic need" should be of "quick maturity"; in other words, even the older members of the population should be able to qualify for some reasonable proportion of any graded element—the limiting factor being the level which the National finances could support. The great importance of this principle of "quick maturity"—which in practice means that a scheme would be largely financed on a "pay-as-you-go" basis and include some element of past service—is that the quicker the maturity of a scheme of graded pensions the firmer is the financial discipline imposed on the Government of the day. Under a "quick maturing" scheme it would be more difficult for a future Government to enlarge the scheme by promising bigger pensions at some remote future date without at the same time increasing the pension rates for those already.
nearing pension age. Thus any increase in benefit would be reflected more quickly in the burden on the Exchequer and so some financial discipline would be maintained.

It is inevitable owing to the growing proportion of old people to the working population that any National Insurance scheme providing pensions must face rising costs—any scheme of a “slow maturing” nature must aggravate this feature.

The idea of “quick maturity” is fundamental to our appreciation of the National position. We regard with uneasiness any State scheme which relates pensions for present employees to future contributory service only; it is slow to mature and promises a remote disbursement of benefits for an immediate collection of contributions. Such a scheme could place a very heavy remote burden on the Exchequer in years to come in return for an immediate relief by way of collection of contributions. Further, it would always be a temptation as Government succeeded Government for the process to be repeated—for increases to be made in immediate contributions in return for increases in remote pensions resulting in further immediate relief to the Exchequer and a further burden on future generations. We greatly fear the dangers of this cumulative process both for the Nation and for our industry.

### PART II

#### BACKGROUND INFORMATION

The activity of the Life Offices in recent years in providing pensions schemes has resulted in some of the largest Offices in the country deriving over one-half their total life premium income from pensions business. In addition, provision for old age has been made by means of endowment assurance policies effected through both the ordinary and the industrial branches of the Life Offices. It is of the utmost importance that nothing should be done which could lead to serious damage to the Life Offices—and through them to the insurance industry as a whole.

The following figures are extracted from Table 24 of “National Income and Expenditure, 1957” published in August 1957:

#### DISTRIBUTION OF PERSONAL INCOME, 1956

<table>
<thead>
<tr>
<th>Range of income before tax</th>
<th>Number of incomes</th>
<th>Income before tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not under £</td>
<td>Under £</td>
<td>Thousands</td>
</tr>
<tr>
<td>50</td>
<td>250</td>
<td>...</td>
</tr>
<tr>
<td>250</td>
<td>300</td>
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<td>5,000</td>
<td>10,000</td>
<td>...</td>
</tr>
<tr>
<td>10,000</td>
<td>20,000</td>
<td>...</td>
</tr>
<tr>
<td>20,000 and over</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

Income not included in the distribution by ranges 25,000 14,420

Total personal income 17,050 2,630

Note.—We appreciate the fact that the above table shows incomes as distinct from earnings.
The table can be recast as follows to indicate the importance to pensions business of various ranges of income:

<table>
<thead>
<tr>
<th>Group</th>
<th>Range of income before tax</th>
<th>Total amount of income before tax falling within the range shown*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Under £400</td>
<td>£8,732</td>
</tr>
<tr>
<td>2</td>
<td>£400-£500</td>
<td>1,348</td>
</tr>
<tr>
<td>3</td>
<td>£500-£800</td>
<td>2,334</td>
</tr>
<tr>
<td>4</td>
<td>Over £800</td>
<td>2,006</td>
</tr>
</tbody>
</table>

* i.e., an income of £1,250 appears as £400 in Group 1; £100 in Group 2; £300 in Group 3 and £450 in Group 4.

Hitherto our business has come from all groups, but Group 1 might be regarded as covered—to a large extent—by the National Insurance pensions. Scheme A makes quite substantial provision for (approximately) Group 3 and scheme B makes a smaller provision for (approximately) Groups 2 and 3. We think that the above figures will help to explain the effects which scheme A and scheme B would have on Life Office pension schemes.

PART III

STUDY OF SCHEME A

Benefits and Contributions

The scheme set out in Annex A is based on interest at 3 per cent, and this appears to be so uncompetitive as to be unrealistic. Table A1 illustrates the benefits which would appear to be secured by the scheme. Table A2 compares the graded part of the pension with a scale of benefits which would result from using the more realistic interest rate of 4 per cent. (without, however, making any allowance for administrative expenses).

---

### Table A1

<table>
<thead>
<tr>
<th>Weekly earnings throughout life</th>
<th>Weekly contribution at outset</th>
<th>Possible in 10 years</th>
<th>Total weekly pension at age 65 (single man)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ s. d.</td>
<td>£ s. d.</td>
<td>£ s. d. s. d. s. d. s. d. s. d. s. d.</td>
</tr>
<tr>
<td>8</td>
<td>18 2</td>
<td>20 2</td>
<td>50 0 50 0 50 0 50 0 50 0 50 0 50 0 50 0 50 0 50 0</td>
</tr>
<tr>
<td>11</td>
<td>19 9</td>
<td>21 9</td>
<td>51 3 53 0 55 3 58 6 62 0 62 0 62 0 62 0 62 0 62 0</td>
</tr>
<tr>
<td>12</td>
<td>21 4</td>
<td>23 4</td>
<td>52 6 56 0 60 6 67 0 74 0 74 0 74 0 74 0 74 0 74 0</td>
</tr>
<tr>
<td>15</td>
<td>26 2</td>
<td>28 2</td>
<td>56 3 65 0 76 3 92 6 110 0 110 0 110 0 110 0 110 0</td>
</tr>
</tbody>
</table>

**Note.**—We have insufficient information (widow’s pension, remarriage, &c.) to reproduce accurately on the basis of 3 per cent, the figure of £3 a week mentioned in paragraph 2 of Annex A. If we accept this figure the remaining figures seem reasonably consistent on a 3 per cent, interest basis.

### Table A2

<table>
<thead>
<tr>
<th>Age at beginning of scheme</th>
<th>Graded part of weekly pension at age 65 of a man whose weekly earnings throughout working life have been £15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>On Annex A basis</td>
</tr>
<tr>
<td></td>
<td>£ s. d.</td>
</tr>
<tr>
<td>55</td>
<td>6 3</td>
</tr>
<tr>
<td>45</td>
<td>15 0</td>
</tr>
<tr>
<td>35</td>
<td>26 3</td>
</tr>
<tr>
<td>25</td>
<td>42 6</td>
</tr>
<tr>
<td>16</td>
<td>60 0</td>
</tr>
</tbody>
</table>

**Note.**—Despite the lack of information referred to in the note to the previous table, we think that the two scales of benefit closely reflect the effect of the difference in the rates of interest used.

SECRET
An examination of Table A2 leads us to doubt whether any Government could sponsor a scheme under which the terms were seen to be so poor as compared with those which might be put forward by private enterprise, and we believe that political pressure would compel the adoption of a more realistic scale of benefits in return for the contributions paid.

"Basic Needs"

We would repeat our view that the State should confine its activities to meeting "basic needs." The above tables show that even on the basis of 3 per cent, interest, the developments envisaged in Annex A go beyond what we would have thought was reasonable provision for "basic needs" for young entrants, but fall short of any such interpretation for older entrants. If a realistic basis of calculation is used Table A2 shows that the scheme would go far beyond the provision of "basic needs" for young entrants—in the case of a married man the combined flat and graded pension could reach £7 a week (or more)—but that older entrants would be little affected.

It is a fundamental truth that a "money purchase" scheme of the character set out in Annex A is quite unsuitable for dealing with "basic needs." Indeed any form of contributory future service scheme is unsuitable; "basic needs" are, by definition, immediate and cannot be dealt with appropriately by such schemes.

The very slow maturity of the scheme would make it highly vulnerable to the dangers which we have discussed in Part I of this memorandum.

Effect on business of Life Offices

It is exceedingly difficult to make any estimate of the reduction in business which would be suffered by the Life Assurance Offices as a result of the developments set out in Annex A. The extent of "contracting-out" would depend on the following factors:

(a) Would the terms granted by the State in fact be competitive with those granted by private enterprise?
(b) Would political reasons, possibilities of friction between employer and employees, possibilities of future subsidy of the State scheme, &c., lead employers and their advisers to avoid "contracting-out"?
(c) How many private schemes would fail to qualify for "contracting-out" on account of inadequate size (contributions and benefits) or on account of inadequate solvency?
(d) What would be the relative administrative problems—from the point of view of employers—of "contracting-out" on the one hand and "modifying" their private schemes on the other?

Existing business would be lost through employers modifying their existing schemes to allow for the new State scheme; on the other hand, a certain amount of new business might be secured more quickly than would otherwise have been the case through employers accelerating the adoption of new schemes in order to be able to "contract-out" of the new State scheme. It is impossible to estimate the net effect on the pensions business of Life Assurance Offices; on the one hand, if the State scheme were uncompetitive there would be an accretion of business to the Life Offices; on the other hand, if the State were competitive—or even subsidised—the Life Offices would lose a considerable amount of business.

General problems

There are certain general problems that would be created by any scheme such as that set out in Annex A. There are three main reasons for grave concern and these may be stated briefly as follows:

(a) Direct competition between the State and the private sector

(i) In general terms we are concerned—and indeed we think that the State also should be concerned—at the idea of the State entering into direct competition with the private sector. Table A2 shows how uncompetitive and indeed how unrealistic would be the rates of benefit secured by the basis set out in Annex A. We repeat that we do not believe that as Government succeeded Government the State could stand in the market offering pensions on terms which were not competitive with those offered by private enterprise.
(ii) This form of competition, where one of the competitors—the State—would not be inhibited by commercial considerations, does, however, cause us concern. It would be so easy for some Government at some time to quote rates of benefit which were not commercially sound, to add "fringe" benefits, e.g., graded widows' pensions—for which no proper charge was made, to incorporate some "escalator clause" linking the benefits to the cost of living. These are the kind of actions which the private sector would be unable to take and they might lead to serious friction where employers had "contracted-out" of the State scheme.

(b) Labour relations

(i) We note in Annex A that responsibility for "contracting-out"—after consultation with the employees—is to rest on the employer and that once the decision has been taken that a pension scheme will "contract-out" of the State scheme individual employees in that firm will have no choice of staying in the State scheme. With respect—and our knowledge of the negotiations which take place in arranging pension schemes is very extensive—we would have thought that such an arrangement was fraught with dangers of friction between employer and employee. Pension schemes, whether State or private, do not remain static and it would seem a thousand pities to introduce a scheme which could provide a source of friction between employer and employee according to whether it appeared on any particular change that those who had "contracted-out" were better favoured or less well favoured than those who had not.

(ii) On the other hand, the giving of the option to individual employees—while attractive from the point of view that it would moderate the need for "control" by the State of schemes which had "contracted-out"—has drawbacks. Apart from problems of administration, controls might have to be introduced to prevent the disruption of perfectly good private pension schemes owing to all the young employees going into the State scheme because of the better transferable pensions at young ages—leaving only the older lives in the private pension scheme.

(c) Possibility of future subsidy

(i) If a scheme were in fact started on the lines suggested in Annex A political pressure for "quicker maturity," i.e., for better pensions for the older employee, would become great, most probably leading to the State scheme becoming subsidised.

(ii) The effect of the fall in the purchasing power of the £ on pensions is most clearly shown by the history of the various increases in pensions which have been proved necessary under the National Insurance scheme. It appears to us inevitable that sooner or later the State graded pensions would prove to be inadequate and that the State would therefore have to take action. The State itself might well provide in whole or in part by way of subsidy the amounts necessary to secure the required increases in pensions; it appears to us most improbable from a political point of view that the State would, in fact, be prepared to face the odium of increasing adequately the employers' and employees' contributions. (The past history of pensions under the National Insurance scheme would appear to justify this belief.)

(iii) Any developments such as envisaged in the previous paragraphs would be disastrous for those schemes which had "contracted-out." Pressure would be brought upon employers to increase the benefits under their schemes to "keep in step" with the State scheme, and they would therefore be faced with the double burden of the increased cost of their own private schemes and the increased (general) taxation necessary to finance the subsidy to the State scheme.
It appears to us that the scheme set out in Annex A has been created largely for the purpose of enabling “contracting-out” to take place. If the contributions were commercially sound and the scheme were properly funded and maintained in its strict integrity, and if employers and their advisers believed that it would be so maintained, then “contracting-out” might take place on a substantial scale. If, however, our appreciation of the position is correct—particularly in that subsidy might be forced into the scheme—then employers and their advisers would not be justified in holding this belief—and “contracting-out” would prove to be temporary and its effectiveness illusory.

We are alarmed by the damage that could be done to the life assurance industry by such a scheme as envisaged in Annex A and by the damage that would be done to the accumulation of private savings by its adoption, and we would oppose the scheme.

Administration

The administrative problems of “contracting-out,” e.g., the problems of “equivalence,” “solvency” and “transferability”; the problems of “modifying” schemes which did not wish to “contract-out”:—all these are vast and complex. Even in the simplest setting over five years would be necessary to enable all those concerned—Inland Revenue, employers, consulting actuaries, pensions advisers, Life Assurance Offices, &c.—to carry through the various arrangements consequent upon the enactment of the scheme.

PART IV

STUDY OF SCHEME B

General Comment

The first general observation which we would wish to offer on the developments set out in Annex B is to comment on the linking of the cost of the flat benefits to a graded contribution. Two very important things are achieved:—

First, an immediate diminution of the burden on the lowest-paid workers, and

Secondly, the great advantage that in the event of earnings rising contributions rise before the granting of a demand for increased flat benefits.

We cannot help but feel—that if only a “quicker maturity” element could be introduced into Annex B the scheme set out therein would be incomparably healthier than that set out in Annex A. The scheme would then have the important discipline—to which we have already referred in Part I of this memorandum— inherent in “quick maturity” and “pay-as-you-go”; this principle was perhaps best expressed to us by a leading American actuary who remarked that a National pension scheme was only healthy when it was insolvent!

Benefits and Contributions

From the information available the following figures have been compiled:—

<table>
<thead>
<tr>
<th>Weekly earnings throughout life</th>
<th>Weekly contributions</th>
<th>Total weekly pension at age 65 (single man)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At outset</td>
<td>Possible in 10 years</td>
</tr>
<tr>
<td>£</td>
<td>s. d.</td>
<td>s. d.</td>
</tr>
<tr>
<td>8</td>
<td>13 7</td>
<td>15 2</td>
</tr>
<tr>
<td>10</td>
<td>17 0</td>
<td>19 0</td>
</tr>
<tr>
<td>11</td>
<td>18 8</td>
<td>20 11</td>
</tr>
<tr>
<td>12</td>
<td>20 5</td>
<td>22 10</td>
</tr>
<tr>
<td>15</td>
<td>25 6</td>
<td>28 6</td>
</tr>
</tbody>
</table>

Note.—The table is based on 1/160th—or 1½d. per £ per year, maximum 5s.

SECRET
The first point which we wish to make regarding the scheme set out in Annex B is that while we would accept it as not going beyond our idea of "basic need" in size, it has little element of "quick maturity" in it; in fact, it is nearly as slow in maturity as the scheme set out in Annex A. For this reason we oppose the scheme.

We regret, too, that it is stated in Annex B that the principles of the scheme "preclude the option to contract-out." While recognising that in theory there are some impediments to permitting "contracting-out," we suggest that this matter calls for reconsideration having regard to the desire of certain employers to have the opportunity of maintaining their present schemes in full.

**Effect on Business of Life Offices**

We believe that the adoption of Annex B would, in the long run, mean a considerable reduction in the premium income which we might expect to receive from pensions business. We repeat that the scheme lacks the financial discipline of "quick maturity" and so is very liable to grow—it is this possibility of growth that causes us alarm.

**Administration**

We have no further comments to offer on the developments set out in Annex B which, from the point of view of the Life Assurance Offices, would merely be an extension of pensions under the National Insurance scheme, the principle of universality continuing to apply. The main problem for our members would be to deal with those existing private schemes which might require to be "modified"—the problems would be widespread and complex. It would take over five years for all the parties involved to carry through the transition.

**PART V**

**SUGGESTION BY LIFE OFFICES**

**General Comment**

We are very conscious that we have criticised and rejected the suggestions put forward in Annex A and Annex B and we believe it to be our duty to make some positive comments. In offering these comments we shall make two assumptions:—

First, that some graded pension element will, in fact, be introduced into the National Insurance scheme within the concept of "basic need." After exhaustive examination of the problem, however, we are left wondering whether the difficulties and dangers of this course should not, in fact, lead the Government to adhere to the existing flat pension benefit system.

Secondly, that the contributions collected in respect of a graded pension element would be used in meeting the current and growing annual deficit under the National Insurance scheme, and that they would not in fact be wholly carried to a separate fund accumulating at interest to be used only for the payment of graded pensions benefits.

**Benefits and Contributions**

In pursuance of our wish to quicken the maturity of the scheme set out in Annex B we suggest that instead of the gradation being based on 1d. per £ per year with a maximum of 5s. per £ it should be based on 1d. per £ per year with a minimum of at least 2s. per £ operating at age 55, and a maximum of, say, 4s. 6d. per £ at age 25 (i.e., 10 years at 1/100th plus 30 years at 1/240th).

Note.—The exact application of the 1/100th and the 1/240th is a matter of great importance—one possible application would be that the first 10 years of every man's service after the inception of the scheme would rank for 1/100th, the remainder of his service ranking for 1/240th; the total fraction would be applied to his average earnings throughout working life (any earnings below £416 or above £780 in any one year not to rank).
The benefits shown in Table B would then become: —

**TABLE C**

<table>
<thead>
<tr>
<th>Weekly earnings throughout life</th>
<th>Total weekly pension at age 65 (single man)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60*</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>£</td>
<td>s. d.</td>
</tr>
<tr>
<td>8</td>
<td>50 0</td>
</tr>
<tr>
<td>10</td>
<td>52 0</td>
</tr>
<tr>
<td>11</td>
<td>53 0</td>
</tr>
<tr>
<td>12</td>
<td>54 0</td>
</tr>
<tr>
<td>15</td>
<td>57 0</td>
</tr>
</tbody>
</table>

Next we turn to two major considerations: —

(a) *During the first 10 years the 1/100th scale would operate, but during the first 5 years small lump sums might be paid—in lieu of pensions—to those attaining age 65.

(b) We are unable to determine what should be the contributions, but we think that this point could be met without great difficulty, in particular by making immediate a part of the possible increases in the rate of contribution envisaged (in Annex B) in 5 or 10 years time.

The scheme suggested would share with that set out in Annex B the complete integration of the part of the contributions payable in respect of the graded pension benefit and the part payable in respect of the flat benefits—this would be an added financial discipline in the sense that it would be difficult politically for contributions to be increased without increasing the flat benefit thus imposing an immediate burden on the Exchequer.

Obviously we have not been able to consult our members, but even bearing in mind the fact (which is stated in Annex B) that such a scheme might not have “contracting-out” arrangements embodied in it, we believe that—at the size suggested—they would not find it objectionable.

**Effect on Business of Life Offices**

We believe that the adoption of the scheme suggested would, in the long run, mean a reduction of up to 40 per cent. in the potential premium income which we might expect to receive from pensions business. As regards existing schemes, it is exceptionally difficult to assess what would be the action of employers—the best estimate which we can make is that premiums might suffer a reduction of between 10 per cent. and 30 per cent. This overall figure is reached after considering the action which might be taken by various groups of employers:

**Group I.**—A number of employers would continue their private sector schemes unchanged—that is, they would regard the developments set out here in the same way as at present they regard National Insurance pensions.

**Group II.**—A number of employers would modify their private sector schemes in the sense that contributions and benefits would be diminished to offset—wholly or partially—the increases under the developments set out here.

**Group III.**—A number of employers might discontinue private sector schemes providing small benefits.

It will be appreciated that the above percentages are necessarily speculative. For those offices that have specialised in pensions business, however, the reductions would, in any event, be heavy. It is possible, however, that the suggestions put forward in this part of this memorandum would in the long run stimulate the general interest of employers and employees in pensions schemes and that there would be some countervailing increase in pensions business due to employers wishing to provide better pension schemes and not merely to rely on the State scheme.

**Administration**

The administrative problems would be similar to those which would arise under Annex B.
CONCLUSION

Whatever developments take place the work to be done by the Life Assurance Offices will be vast in quantity and complex in character; it is the type of work which can only be handled by skilled and experienced manpower. Our supply of such manpower is limited and in many cases it is already fully extended in dealing with the adjustments necessary following the Finance Act, 1956. We would plead most earnestly not only for simplicity in any new scheme that may be introduced but also—in order to remove unnecessary burdens being borne by Life Offices—for legislation to extend some of the provisions of the Finance Act, 1956. (See our letter to the Home Secretary dated the 3rd March, 1958.)

We conclude:

First, it is our earnest desire to help Government in the working of any scheme which may become law.

Secondly, for the reasons given in this memorandum we would reject the schemes set out in Annex A and Annex B. We believe that the potential damage would be so great that our members would resist the adoption of such schemes with all the means at their disposal; we believe that in the scheme in Annex A even the anticipated advantages of “contracting-out” would be temporary and illusory.

Thirdly, if it is decided to depart from the traditional basis of flat benefit for flat contribution, then we would earnestly ask that consideration be given to a “quick maturing” scheme such as that set out in Part V of this memorandum. We believe that our members (although, obviously, we have not been able to consult them) would accept such a scheme.

If there is any information which we can add we shall, of course, be only too glad to do so. We cannot end, however, without expressing our grave doubts from the National point of view as to the wisdom of Government entering the field of graded pensions gradually built up by virtue of contributions paid. An exhaustive study of the subject has led us to fear greatly the long-term effects on the National finances as Government succeeds Government of the State collecting immediate contributions in return for remote benefits. The temptations and dangers seem too great.
THE ASSOCIATION OF SUPERANNUATION AND PENSIONS FUNDS

(Mr. Henry Lesser, Chairman)

Copy of letter to Deputy Secretary,
Ministry of Pensions and National Insurance

ANNEX A

An increase from 50s. to 110s. (married 80s. to 140s.) in pension is suggested if the maximum additional contributions are paid for the maximum period. It is, of course, unlikely that an entrant at 16 would be earning £15 per week, so that it would seem that Annex A would in the large majority of cases increase the pension by well under £3 with presumably no increase of additional pension for a married man, or other benefits (except the limited increase in widow's benefit mentioned in Mr. Carswell's letter of 7th May). We are, therefore, left wondering whether the problems connected with contracting-out which were dealt with in my letter to Mr. Boyd-Carpenter of 23rd August, 1957, and the considerable administrative problems involved in Annex A are worth facing for the sake of the proposed increase. On balance we feel considerable doubts. As stated below, we do not think many employers would contract-out though it may be that some employers would appreciate the option to do so in the region where no State subsidy is suggested, i.e., beyond a wage of £10 per week.

We have given careful consideration to the suggested criteria for contracting-out.

(a) Equivalence

We are not clear as to whether the 4s. per week mentioned in paragraph 4 is intended as an average per employee or as a minimum for any member—we presume the former. We should like to consider this matter again when more detail, particularly regarding the last sentence, is available.

As additional widow's pension is suggested then presumably the private scheme would have to include widows' benefits before contracting-out could be permitted.

(b) Solvency

It must be realised that in a large number of existing schemes the employer is not legally liable to pay contributions indefinitely, nor in most cases does he give a guarantee of solvency. All such schemes would, therefore, require amendment, in these respects, if the employer decided to contract-out. Presumably the solvency referred to here is in respect of the equivalent benefits (some schemes, of course, provide pensions up to £2,000 or even £5,000 per annum) but we find it difficult to visualise how it is going to be possible to show that part of a self-administered fund is solvent. It would involve determining what part of the contribution was applicable to these equivalent benefits and also what part of the existing fund was so applicable. These matters are, no doubt, possible from an actuarial point of view (although a good many arbitrary decisions might be involved) but unless there is some legal division of the fund, the contributions and the benefits, how can a part be said, in the strict sense, to be solvent or insolvent? Possibly the equivalent benefits might be given priority in a winding-up.

(c) Preservation of pension rights

Some arrangements for the preservation of pension rights are, of course, essential if contracting-out is to be effective. We feel that a system on the lines suggested could be worked out. The wording of paragraph 6 (end of second sentence) seems to equate preservation to transferability. If a person who has paid contributions to the State on salary in excess of £10 joins a firm which has contracted-out, is it proposed that the State should pay or credit a transfer value?

In paragraph 4 you suggest a period of two years to adapt schemes. It may well be that a longer period would be required in view of the actuarial and legal work involved and we suggest that there should be power to extend this period if necessary.

SECRET
ANNEX B

If it is decided that graduated contributions and benefits are inevitable then something on the lines of Annex B would be simpler to operate than Annex A, but we would prefer to see no reduction from the present rate of contribution, the State subsidy being granted up to the same level as in Annex A and the benefit available being based on the money purchase principle related to the contributions by the employer and employee. We have made no attempt to go into the figures given in Annex B as presumably there would be another opportunity to do that once general principles have been decided upon. We would, however, draw attention to the fact that 8½ per cent. of £8 is 13s. 8d., i.e., a good deal less than the 17s. 6d. which is the present contribution for an adult male. 84½ per cent. of £10 is in fact only 17s. It would appear that the self-employed contribution would be collected with income tax because the amount could not be known until that tax was assessed.

Turning now to the specific questions you have raised in paragraph 4 of your memorandum:

(i) Few employers would welcome the element of supervision or control as the case may be and we are very doubtful whether many employers would take the responsibility. Nevertheless we believe that some employers, having regard to the interest rates they could earn in their funds, would desire to contract-out, but in our view most of them might well prefer to let their employees enter the State scheme to the full extent and use any other moneys available to augment the benefits privately where appropriate.

(ii) A substantial number of modern schemes base the pensions and contributions on a formula, such as salary less £5 per week, or some modification of this general idea. In those cases the adaptation would be a simple one. In other cases it should be possible to adjust the benefits appropriately, provided always there were power to do so. Both in contributory and non-contributory schemes the contributions could be actuarially adjusted to fit in with the revised benefits and if the amendments gave rise to a surplus in the existing fund a temporary adjustment might also be involved.

(iii) A pension scheme provides benefits for the employees, and the employer gets no direct monetary benefit; it would, therefore, seem desirable that the employees should be brought into full consultation before any decision concerning contracting-out is taken. However, a decision not to contract-out should be entirely in the hands of the employer. In the case of amendments to adapt the scheme to integrate with the full State scheme, consultation would also seem to us desirable; there may, however, be a less urgent case where there is a non-contributory scheme. In considering amendments arising because of a desire to contract-out we should regard full consultation as desirable for both contributory and non-contributory schemes.

Thus we reach the conclusion, that on the whole the ideas of Annex A may be preferable, but possibly excluding contracting-out. The money purchase principle for contributions and benefits on salary or wages over £10 appears to us more suitable because no State subsidy is proposed at that level and under it a person gets value for money (his and his employers).
THE TRADE UNION COUNCIL

(Mr. C. R. Dale, Secretary of the Social Insurance Committee)

Copy of Letter to the Minister of Pensions and National Insurance

You may find it convenient to have this record of the main points we put to you in discussion this morning:—

1. If a national scheme of wage-related superannuation were to be introduced it should be additional to, not in substitution for, a flat-rate National Insurance pension.

2. An immediate and substantial increase in National Insurance pensions was urgently needed, and every effort should be made to increase and maintain the pension at the amount needed for adequate subsistence.

3. (a) Contributions for the National Insurance pension should not exceed the amount actuarially needed to provide pension for those entering insurance at 16 years. The Exchequer supplement to contributions should be restored to its pre-1951 proportion.

   (b) Contributions for the wage-related element should not be an unreasonable burden on the insured contributor.

4. There would be strong opposition:—

   (a) If those already covered by satisfactory occupational schemes were not allowed to contract-out.

   (b) If the option to contract-out were given on a group rather than an individual basis.