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CABINET

RETIREMENT PENSIONS AND NATIONAL ASSISTANCE

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

Against the background of the demand for an increase in retirement pensions and the knowledge of the promises our opponents are making and will continue to make, the Ministerial Committee on Pensions have considered three possible courses of action—

(A) To do nothing.

(B) To increase national assistance.

(C) To increase retirement pensions (and other benefits).

The second and third are each susceptible of several variations, which are discussed below.

(A) To Do Nothing

2. If this is politically feasible, it would have the advantages that—

(i) It would avoid Exchequer expenditure for which no provision has been made in the current year, at a time when departmental forecasts for the following year already show disquieting increases.

(ii) It would avoid further demands on Parliamentary time, which would be very difficult to meet.

(iii) It would leave us more room for political manoeuvre at a later stage.

I return to this at the end.

(B) To Increase National Assistance

3. We have considered a plan prepared at our request by the Minister of Pensions, which would consist of the following elements—

(i) An increase in the scale rates from 45s. to 50s. for a single person and from 76s. to 85s. for a married couple. The real (as distinct from nominal) value of the current rates has remained substantially unchanged since 1948 and the increase could and would be presented as a real improvement in standards. They could be effected by regulations requiring affirmative resolution in both Houses and, in a full year, might cost about ... ... £27 millions

(ii) An increase in the amount of the various types of income (disability, occupational and other pensions, earnings, &c.) which are already disregarded in the assessment of need. These disregards have remained unchanged since 1948 and a 50 per cent. increase would approximately restore, but not increase, their real value. With the exception of the earnings disregard, it would require a short Bill and, in a full year, would cost about £2 millions

(iii) A revision of the treatment of capital assets, possibly involving elimination of the war savings disregard. Similar considerations, including the need for legislation, apply as to (ii) above and the cost in a full year might be about ... ... £1 million

(iv) An increase in the amount of the contributions assumed to be made towards household expenses by self-supporting members of the household (a minority of cases), together with offsetting increases to meet the rent in full where the allowance for rent is now restricted by reference to an out-of-date "local rule" fixed nine years ago. These adjustments could be effected as in (i) above and in a full year would cost about ... ... £2 millions

about £32 millions

4. We have considered whether, in order to reduce the demands both on the Exchequer and on Parliamentary time, this plan could be restricted to those parts of it which could be effected by regulations—that is, an increase in the scale rates and the earnings disregard and the adjustments referred to at 3 (iv) above (costing about £30 millions altogether)—or even to the scale rates alone (costing about £27 millions). The parts of the plan which would require legislation would add about £2 millions to the cost, and we are conscious that, even if the Financial Resolution were drawn tightly enough to preclude new disregards, there would be Parliamentary pressure to extend the disregards further.

5. We are doubtful whether, if the plan does not comprise all the disregards mentioned, it is one with which we could be satisfied. It must be presented, if at all, not as a sop to public opinion but as a real improvement in standards for the poorest section of the community. Moreover, the National Assistance Board, under Sir Geoffrey Hutchinson, whose recommendation of new scale rates is a prerequisite of the plan, are known to feel strongly that the time has come to improve all those disregards described. So the situation is this: there is a truncated plan, without legislation, which is better than nothing, but it would in the view of the majority of the Committee be better to increase the scales and legislate on the disregards.

6. It might be possible to make the plan more attractive by changes in the nomenclature of national assistance, especially when granted to retirement pensioners—*e.g.*, by reintroducing the term "supplementary pension"—or by some such administrative device. Some of us attach great importance to a development on these lines but there are, at the same time, serious arguments against it and the various possibilities are being further examined. Such changes could not in any event be applied for some time.

(C) To increase the retirement pension

7. The cost of increasing the retirement pension alone by 10s., with an appropriate increase for married couples, would be about £130 millions in the first full year. This alone could be effected by amendment of the current National

Insurance Bill. But we do not believe that we either could or should confine the increase to retirement pensions. If it were extended to the other National Insurance benefits (widows', sickness, unemployment, &c.) and to industrial injury benefits the cost would be nearly £200 millions in the first full year, rising every year. For this a separate Bill would be required. Nor could we avoid in such circumstances an increase in war pensions and an increase in national assistance (though the cost of a 5s. increase in the latter would be offset by savings resulting from the increased benefits). The total cost would be not less than £210 millions in the first full year.

8. The immediate cost of the Labour Party's proposal of a 10s. increase without any additional increase for married couples would be about £115 millions if applied to retirement pensions only and of the order of £160 millions if applied to all benefits.

9. The cost of a 5s. increase would be half the amounts given in the two preceding paragraphs.

10. In order to cover the increased expenditure contemplated in paragraph 7 by increased contributions, the increases necessary in the first full year would be as follows—

	Additional contributions required—		
	Employed man (weekly contribution)	*Employer (weekly contribution)*	*Exchequer (annual cost)*
For retirement pensions only	1s. 1d.	1s. 1d.	£20 millions
For all benefits	1s. 9d.	1s. 9d.	£30 millions

These increases would preserve the present ratio between contributions from employers, employed and Exchequer respectively.

The total increased cost to the Exchequer in the first full year on this basis would be as follows:—

	£ Millions
If retirement pensions only were increased	20
If other National Insurance benefits were also increased	10
For war pensions	15
Gross cost	45
Less National Assistance net saving ...	— 3
Net cost (say)	42 in first full year

11. These increases in the contributions would be higher than would be actuarially appropriate in relation to the increased benefits. In other words, they would contain a degree of overload. If the increases in the contributions were limited to the appropriate actuarial amounts, the result would be an immediate increase in the deficit in the Fund—*i.e.*, a smaller extra burden on employers and employed, but a larger extra burden on the Exchequer.

But even if the overloaded contributions were charged as in the first table, they would not suffice to meet the additional expenditure after the first year, so that the deficits now in prospect (until the new Bill is in operation) would in any event then be increased unless the contributions were put up yet again. Although the new Bill removes the deficits now in prospect, the contributions which it charges would be far too low to cover also the cost of immediate higher benefit rates: they would therefore have to be increased if we are to avoid being faced with a fresh series of deficits.

12. There are the following reasons why it would be undesirable to raise the contributions—

(i) It would be incompatible with our defence of the current National Insurance Bill on the ground that it reduces contributions for the lower-paid.

(ii) It would involve substantial amendments of the figures in that Bill.

(iii) It would lay an additional burden on many who will receive little or no benefit from the income-tax concessions in the Budget.

(iv) It would bring contributions to a level which the lower-paid worker at present wage-levels would find heavy and it would lead to both wage-demands and price-increases and the consequent danger to economic stability.

(v) It would impose a heavy additional burden on the Exchequer.

And it is in any case by no means certain that such a rise in the contributions would not go far to nullify any political credit we might obtain from raising the pension.

Conclusion and Recommendations

13. It follows that, in our view, there are grave difficulties in an increase in the retirement pension at the present time. Some of these derive from the increase in contributions, some from the Exchequer outlook and some from the effect on our present National Insurance Bill and the need to amend it. Are we then to do nothing or to increase national assistance? On balance, we favour the full plan for increasing national assistance and dealing with the disregards, as sketched in paragraph 3, though the Chancellor of the Exchequer wishes at this stage to reserve his position. We are under no illusion that we may not get a great deal of political gratitude, if we adopt this course. But there is much to be said for it on merits: it is timely and honourable.

14. We prefer the course mentioned in the previous paragraph to doing nothing. But the possibility of " standing pat " can be discussed at Cabinet.

15. A very early decision is necessary if we are to have time to bring the plan into effect by, say, the beginning of September.

16. We therefore (subject to the Chancellor's position being reserved and to the recommendations of the National Assistance Board) invite the Cabinet—

(*a*) to agree to the preparation of—

(i) regulations to raise the scale rates of national assistance by 5s. single and 9s. married (£27 millions); and

(ii) a Bill and regulations to make, broadly, a 50 per cent. improvement in the income disregards and a revised treatment of capital assets, eliminating the war savings disregard (£5 millions).

Failing that,

(*b*) to consider whether we should be justified in adopting either of the following alternatives, which could be effected without legislation but which we regard as open to real objections—

(i) to raise the scale rates alone, as in (*a*) (i); or

(ii) to raise the scale rates and make certain adjustments in the earnings disregard, &c., leaving the main disregards alone.

R. A. B.

Home Office, S.W. 1,
5th May, 1959.