

PRIME MINISTER

TEACHERS' SUPERANNUATION SCHEME (ENGLAND AND WALES)

You asked me, in response to my December letter to the Chancellor, to consider further the possibility of sharing the increase of 0.8% required in the normal contribution rate for the Teachers' Superannuation Scheme among employers and employees. I have the same inclination as you, and hope we shall agree to increase the employees' contribution to this scheme soon.

I must however announce within the next week or so any changes that are to operate from 1 April 1984, so that the local authorities can budget for 1984-85. Any increase in the employees' contributions statutorily requires consultation, in the course of which I would have to justify a proposed increase. I do not see how I can do this without at least to some extent pre-empting the outcome of the collective consideration we shall need to give to the issue when the official committee reports. The level of the employees' contribution is essentially a policy decision (actuarial analysis can tell us what the total contributions should be, but not how that total should be shared between employers and employees); and there are no obvious reasons why the teachers' percentage should be different from eg Health Service employees. Even maintaining the present employers' and employees' proportionate shares of the total would be a policy change and require a change in the regulations. All this points to our deciding on an increase for the teachers when we have taken a policy decision for normal accrual public service schemes in general.

When we increase the contributions, there will be arguments about the consequences for pay. But if we decide now, on what will appear to be an arbitrary basis in the absence of a general policy, to increase teachers' contributions to 6.4% (or more), then I believe the employers might well be sympathetic to an appeal from the teachers for a compensating pay increase. The veto would not necessarily enable us to prevent this for, as

in 1982, the employers might outvote us and agree to arbitration.

I still believe therefore that we should not increase the employees' contributions in 1984, unless colleagues agree within the next few days on a statement of policy covering normal accrual public service schemes generally. But I would favour strengthening my proposed announcement as in the attached draft, to make it clear that we do propose to increase their contributions later, probably from 1985 onwards. This draft also includes the addition suggested by the Home Secretary.

Copies of this minute go as previously to members of E(PSP), the Secretaries of State for Scotland, Wales and Northern Ireland, and to Sir Robert Armstrong.

KJ

16 January 1984

DRAFT STATEMENT ON TEACHERS' SUPERANNUATION CONTRIBUTIONS

I presented the Government Actuary's report to Parliament on 19 December last. His review identified a need for increased contributions totalling 1.05% of salary. Under present regulations governing the scheme the employees' share of the normal contribution rate is 6.0%. To meet the increase required the employers' share of the normal contribution rate increases to 7.7% and the supplementary rate, met by employers, rises to 1.75%, bringing the total contribution payable by employers to 9.45%.

I do not propose to amend the regulations at present. For 1984-85 the contributions of employees and employers will be 6% and 9.45% respectively. I would however remind the House of the Government's firm commitment to reform the present public service pension arrangements so as to bring the cost of Pensions Increase into account and to set realistic contribution levels for employees, where this has not already been done.

EDUCATION: Teachers Pam

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10 DOWNING STREET

From the Principal Private Secretary

Prime Minister

Sir Keith Joseph has retracted his proposal for loading all the increase on employers, his only concession being slightly tougher wording on future intentions. This seems to me to be inconsistent, not only with the Manifesto but also with the conclusions of Cabinet on 15 Sept.

The Chancellor ingeniously suggests presenting splitting the £ increase as the present balance.

Agree Sir Keith be asked to implement sharing the increase?

1. Like the Chancellor's ^{AT} 18/1, approach. We really can't load it all on to employers - especially as we are asking L.A.'s to contain their expenditure. Perhaps the three of us can have a word _{me}

file



10 DOWNING STREET

HMT	D/Trans.
HO	CSO, HMT
D/En.	M/Art
DOE	
DHSS	+ SO
DTI	WO

From the Private Secretary

19 January 1984

CDHO	NIO
D/Emp.	CO

b.c. Oliver letter

TEACHERS' SUPERANNUATION SCHEME (ENGLAND AND WALES)

The Prime Minister has seen your Secretary of State's minute of 16 January which reiterates his original proposal for putting the entire increase in contributions required on employers, but suggests revised wording for the announcement on the Government's future intentions. She still feels that the correct course is to split the increase between employers and employees. This would be consistent both with the Manifesto and with the conclusions of Cabinet on 15 September which read "Meanwhile any convenient opportunities which presented themselves for adjusting employees' pension contributions in the public services should continue to be pursued".

The Prime Minister is attracted by the presentation suggested by the Chancellor of the Exchequer in his minute of 18 January. She agrees that splitting the increase could be presented as maintaining the current balance between employers and employees.

She would be grateful if your Secretary of State could re-consider this. Should he still wish to pursue his original suggestion, she will hold a meeting of the Ministers concerned.

I am sending copies of this letter to the Private Secretaries to the members of E(PSP), to John Graham (Scottish Office), Colin Jones (Welsh Office), Derek Hill (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Elizabeth Hodkinson,
Department of Education and Science.

E. R.
18 January 1984

MR TURNBULL

TEACHERS' SUPERANNUATION SCHEME

Keith Joseph argues that it would be unwise to increase the employees' contribution this year because:

- (1) This would pre-empt Cabinet decisions on general public sector pensions policy.
- (2) A change in teachers' contributions would seem arbitrary if announced in advance of a general policy.
- (3) The employers might match the increased contribution by increasing teachers' pay.

These arguments are far from overwhelming:

- (1) The Manifesto already commits the Government to achieving realistic employee contributions; only the scale and timing of the increase remain to be decided. A modest rise in teachers' contributions could not, therefore, reasonably be construed as pre-emptive.
- (2) If the Government were to increase teachers' contributions, it could well explain that, so far from being an arbitrary move, this was merely the first step towards fulfilling the Manifesto commitment.
- (3) Even if the employers matched the increase by increasing teachers' pay, we would have gained a point of principle without any net addition to public spending. And it is quite possible that the employers would not match the increase in contributions: they have an interest in keeping pay down.

We conclude that if the Prime Minister wishes to join the Treasury in insisting on a rise in the employees' contribution, there is no real obstacle to her doing so.

OL.

OLIVER LETWIN



SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Sir Keith Joseph MP
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

ccyo
NRPM AT 19/1
NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

19 January 1984

Keith

TEACHERS' SUPERANNUATION SCHEME ENGLAND AND WALES

Thank you for copying me your letter of 22 December to Nigel Lawson. I have also seen the letter from the Prime Minister's Private Secretary to yours on 5 January, and your response of 16 January.

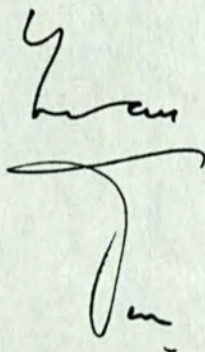
As you know teachers in Northern Ireland contribute to a separate Superannuation Scheme and the Government Actuary (GA) carried out an investigation similar to that for England and Wales. The teachers' rate of contribution in Northern Ireland is the same as in England and Wales (6%); the employer contribution is 8.3% (0.1% lower than England and Wales).

The GA Report on the Northern Ireland Scheme for the period 1976/81 is due later this year and, should he recommend an increase in contributions, the increase will be introduced from 1 April 1985. The practice in Northern Ireland has been to maintain close parity with England and Wales and the established pattern of making necessary adjustments to the employers' rather than the teachers' contributions has been followed. If an increase in teachers' contributions, were to be reflected in whole or part in the 1 April 1984 Burnham salary settlement I could face some difficulties in Northern Ireland. Burnham Settlements and salary scales are implemented more or less automatically but the Government Actuary's Report will not be available, because of his other priorities, to allow adjustments in contributions earlier than 1 April 1985. However this difficulty is not insurmountable and is not so serious as to affect policy on public section pensions generally.

As far as Pension Increase is concerned I agree with your view that revised policies should be tackled on an "across the board" basis. It seems to me that it could be counter-productive to tackle the issue in this isolated sector but I would support the terms of the second paragraph of the draft statement which you circulated with your note of 16 January to the Prime Minister.

I note your comments about the economic assumptions underlying the GA's report and am content with your line on this aspect.

I am copying this letter to the Prime Minister, Members of E(PSP), the Secretaries of State for Scotland and Wales and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. L. ...' with a large flourish below the name.

Education : Teachers Day 173.

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