



Ref. A084/725

PRIME MINISTER

TSRB Pensions

## BACKGROUND

Flag A

On 9 February a meeting of Ministers under your chairmanship considered the effect on pensions of the Government's decisions on the 1983 recommendations of the Top Salaries Review Body (TSRB). It had been represented that the staging of the award had had severe effects on the pensions of those retiring before 1 January 1984 and that, in particular, the deferment of the operative date from 1 April 1983 to 1 August 1983 seriously affected those retiring between those dates.

2. The meeting did not exclude the possibility of a concession on the lines of what has become known as 'Option 2' (that is, backdating the salary award from 1 August 1983 to 1 April 1983 for pension purposes), but you pointed out that if such a concession were made ways would have to be found of minimising the repercussions. Changes ought to be made to the basis on which final salary for pension purposes were determined for the judiciary and senior officers of the Armed Forces. In principle, all TSRB groups should be on the same basis. More information was needed before firm decisions were reached. I was asked to prepare a factual paper setting out relevant information as the basis for a further meeting: this is now to take place on Wednesday 7 March.

Flag B

3. The information requested is contained in the note attached to my minute of 27 February to Mr Turnbull. This shows:

(a) that in the case of the judiciary there is no technical problem about adopting the same definition of 'final salary' for pension purposes as in the case of the Principal Civil Service Pension Scheme, which applies to the higher Civil Service; but the change would require primary legislation; and it would probably be resisted by the Lord Chancellor





as worsening judges' terms of service unless it was accompanied by improvements elsewhere;

(b) that in the case of the Armed Forces it would not be possible to apply the Civil Service arrangements directly; but it would be possible to devise something with broadly the same result. The new arrangements would have a number of advantages; but they would take a considerable time to work out and introduce; and they might be somewhat more expensive to administer.

4. The note also makes the points:

(c) that changes could not be retrospective: they could not apply to those who have already retired; and

(d) that much of the current resentment arises from disappointed expectations; to prevent a recurrence it would be helpful to issue a clear statement that in future pensions will follow pay.

#### MAIN ISSUES

5. The main issue remains as on 9 February: what, if any, special action should be taken to mitigate the effects of the staging of the 1983 pay award on the pensions of the TSRB groups. The relevant considerations are set out in the brief submitted for the earlier meeting by Mr Gregson: for convenience I attach a copy.

Flag C

6. The meeting on 7 March will also wish to consider the following:

(i) Are the changes outlined in my note of 27 February worth making for their own sake?

(ii) Although they would not directly affect those who have retired, would introducing them make it easier to defend a concession on the lines of 'Option 2' if Ministers regard that as in principle desirable?

Are the changes worth making?

7. In principle, there seems a good deal to be said for the changes described in the note. In particular, they would avoid the 'cliff edge' effect of current arrangements for the judiciary





and Armed Forces; and they would reduce (but not remove) the anomalous effects on pensions of pay distortions, such as can arise from different treatment of the TSRB groups and their juniors (between April 1983 and August 1983, for example, there was virtually no salary differential between one-star and two-star officers). However, the Lord Chancellor, in particular, may be unwilling to commit himself to change unless he is assured that his colleagues will be ready to consider improvements in other features of judicial pension arrangement.

Would the changes make it easier to defend concessions?

8. The two main arguments against 'Option 2' identified in previous discussion are as follows:

(a) Option 2 would be inconsistent with the Government's wish to avoid basing pensions on notional pay.

(b) Option 2 would lead to complaints from others whose pay settlements have been staged: the doctors and dentists; and members of Parliament.

9. As a matter of logic, it can be argued that there is no relation between the changes suggested in the note and a concession on the lines of Option 2. However, in presentational terms it might be possible to defend a package in which:

(i) the pay increase on 1 August 1983 was backdated to 1 April 1983 for pension purposes;

(ii) the Government announced its intention of avoiding such backdating in future;

(iii) in recognition of the fact that it is more difficult to avoid such backdating if there is a 'cliff edge' effect, the Government intended to change the Armed Forces Pension Scheme and, when legislative opportunity arose, the judicial pension arrangements.

10. There are conflicting considerations regarding possible repercussions.

(a) On the one hand, the doctors and dentists actually received the first part of their pay award from 1 April 1983.





If Option 2 is adopted, the three TSRB groups will be no better treated than the doctors and dentists in terms of pension; and they will certainly have been worse treated in terms of pay. As for Members of Parliament, their pay settlement was fundamentally different.

(b) On the other hand, the pensions of hospital doctors and dentists are based on a definition of pensionable pay similar to that in the PCSPS: that is, it is subject to 12-month averaging. (General practitioners have a significantly different pension scheme and are not relevant to the present argument). It could be argued that because backdating is particularly beneficial to the judiciary (and, to a lesser extent, the Armed Forces), since their pay is based on salary on the day of retirement, they would receive a greater benefit in substance than the argument in the preceding sub-paragraph allows. Against that, if the TSRB groups had received the initial instalment of their pay award from 1 April, the doctors and dentists would have had no obvious cause for complaint.

#### Announcements

11. For the reasons indicated in my note it is likely to be common ground that the Government should announce that in future it does not intend to allow pensions to be based on notional salaries. This strengthens the arguments identified in Mr Gregson's brief for a formal announcement of the Government's decisions. If the meeting agrees that an announcement is appropriate, you may wish to invite the Chancellor of the Exchequer to circulate a draft.

#### HANDLING

12. You will wish to invite the Chancellor of the Exchequer to open the discussion. The Lord Chancellor and the Secretary of State for Defence will be able to comment both on the general issues, and the particular suggestions in my note of 27 February, as they affect the services for which they are responsible. The Secretary of State for Social Services will wish to comment





on possible repercussions on doctors and dentists, and on the bearing of his current review of pension arrangements more widely. The Lord Privy Seal can advise on possible repercussions from Members of Parliament.

## CONCLUSIONS

13. You will wish the meeting to reach conclusions on the following:

(i) Should any special action be taken to mitigate the effects on the pensions of the three TSRB groups of the staging of the 1983 pay award?

(ii) Should changes be made in the Armed Forces Pensions Scheme and the judicial pension arrangements on the lines described in the note attached to my minute of 27 February?

(iii) Should the Government make it clear to those concerned that in future it intends to avoid basing pensions on notional salaries?

(iv) Announcements.

ROBERT ARMSTRONG

6 March 1984