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10 DOWNING STREET

From the Private Secretary

7 March 1984

Dear John

TSRB PENSIONS

The Prime Minister held a meeting today to discuss the pension consequences of the Government's decisions on the 1983 pay award to the groups covered by the Top Salaries Review Body. Present were the Lord Chancellor, the Chancellor of the Exchequer, the Lord Privy Seal, the Secretaries of State for Defence and Social Services, and Sir Robert Armstrong.

The problem facing Ministers was that in the absence of special action all members of the TSRB groups would receive smaller pensions than they would have done if the rates payable from 1 January 1984 had been payable from 1 April 1983. There were different effects on the different groups, which were particularly severe for those retiring between 1 April 1983 and 1 August 1983. If pensions were related to a salary deemed to be payable rather than actually paid, those settlements where deemed salaries were not used could be re-opened.

When the group had met on 9 February, it had asked Sir Robert Armstrong to consider what was involved in changing the pension arrangements of the judiciary and the armed services so that the determination of final salary for pension purposes came more into line with that in the PCSPS, thereby making pensions less sensitive to the precise date of retirement and to any staging of pay awards. This was set out in the paper attached to Sir Robert's minute to me of 27 February.

In discussion, it was agreed that changing future arrangements for pensions for the judiciary and the armed services would not contribute to resolution of the present problem and that no change should be made. In the case of the armed services, major administrative changes would be required; in the case of the judiciary, imposition of final year averaging would represent a worsening in the pension terms for 900 members. This could not be done without offering some compensating measure. (There were twelve judges affected by the issue under discussion.) After discussion, the meeting agreed that option 2 of the original proposals

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should be adopted, i.e. backdating the 1 August 1983 increase to 1 April 1983 for pensions purposes but with no backdating of the 1 January 1984 increase. Efforts should be made to minimise the repercussions on past settlements and to prevent a repetition in the future. Attempts to re-open existing settlements should be strenuously resisted. In announcing its decision, the Government would make it clear that it was allowing an element of deeming in the present case because there was a possibility that those affected may have made decisions on their retirement in the expectation that deeming would be adopted. For the future, it would be stated that the Government would always make it clear, when announcing the terms of a TSRB pay award, what the pension arrangements would be, and that the normal presumption would be that pensions would be related to salaries payable at the time.

The Prime Minister asked Sir Robert Armstrong to draft the terms of a written answer which she might give. He should first clear it with Ministers represented at the meeting and with the Chief Whip, in view of his interest in the Parliamentary Pensions Bill. The text should then be circulated to Cabinet colleagues for comment as there could be implications for pay groups for which other Ministers were responsible.

I am copying this letter to Richard Stoate (Lord Chancellor's Office), David Heyhoe (Lord Privy Seal's Office), Richard Mottram (Ministry of Defence), Steve Godber (DHSS), Mary Brown (Lord Gowrie's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew

Andrew Turnbull

John Kerr, Esq.,
HM Treasury.