



MINISTER OF STATE, PRIVY COUNCIL OFFICE

Prime Minister (4) AW

Lord Gowrie concludes
that the Armed Forces scheme
is not of much
relevance to the Civil Service.

PRIME MINISTER

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EARLY RETIREMENT: ARMED FORCES MODEL

When we discussed public service pay on 3 May Michel Heseltine suggested that we should examine the possible relevance to the Civil Service of the armed forces approach to early retirement which he described as "up or out".

... My officials in consultation with officials from the Treasury and the Ministry of Defence have prepared the attached note. The salient points are:-

- (a) The civil and defence services have very differing requirements for staff. A civil servant will be doing much the same sort of work throughout his full career and irrespective of whether he is promoted or not can be every bit as effective - and may well be considerably more effective - at 60 as at 25. The armed forces on the other hand need two quite distinct groups of people: a large number of fit and able youngsters who can fly aeroplanes, command platoons or serve as deck officers in the Navy - and who for all practical purposes become too old at 40 for these tasks; and a much smaller number of older people who take on the tasks of higher command, staff work, administration and so on. These two phases of a military career are very different and require different qualities.
- (b) The Civil Service is therefore able to organise its retirement procedures in the expectation that its staff will be able to follow a full career to 60 and in some grades to 65. The armed forces on the other hand need mechanisms which enable them to get rid, honourably, of those officers who cannot make the required career change at 40. Among other means for coping with this problem (including for example short-service commissions) the armed forces operate a system whereby they may compulsorily retire officers aged about 38-40 if they have not achieved certain target ranks by that date. By no means all who do not achieve the target are retired, but management has the option. This is in fact the only point in the career of an officer in the armed forces where

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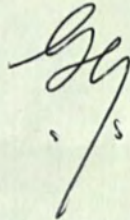
"up or out" operates. And the target ranks are not high - they equate roughly to the grade of HEO in the Civil Service. Any officers who leave under these arrangements are paid an immediate pension of about 30 per cent of their final salary plus a lump sum of three-times pension.

- (c) Once an officer in the armed forces has passed the mid-career break-point he is guaranteed a full career to age 55 (which is the common retiring age of all except the most senior officers). On retirement then he receives immediate payment of a full (normally about one half of final salary) pension. In addition however the armed forces in effect give officers in their 40s and early 50s the option of retiring at will on immediate payment of the accrued pension they have earned at the date of retirement. By contrast the Civil Service is very sparing in allowing staff below 60 to retire early with immediate pension. This can and does happen but the number allowed to go on these terms is small and early retirement is only permitted when there is a clear and specific management advantage to justify the cost.
- (d) The armed forces are able to operate the "up or out" option at around 40 because the prospect of this is clearly built into the terms and conditions of service of those who enter the armed forces. No such provision is built into the terms on which we recruit civil servants and we can compulsorily retire them early only if we do not transgress the "unfair dismissal" provision of general employment legislation. In other words we can compulsorily retire staff only if we are prepared to defend our action in open court.

My Department has nearly concluded a general review of early retirement policy and the issues will come to us for decision soon. I think it unlikely that we will see advantage in importing significant features from the armed forces pension scheme into the Civil Service. The cost could be very high and not easily defensible and the management gain would be small. I think that the problem we face in the Civil Service is likely to be best dealt with by further development of the special early retirement measures. I doubt whether complex technical changes in our retirement policy - even if we could agree them in time - would have much presentational value when we commend our decision on the Review Body Reports to Parliament and the public.

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I am copying this minute and enclosures to the Lord President, the Lord Chancellor, the Chancellor of the Exchequer, the Secretaries of State for Defence, Social Services and Employment, and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to be 'Gowrie', with a small 's' written below it.

LORD GOWRIE

4 June 1984

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EARLY RETIREMENT : ARMED FORCES MODEL

Note by Officials

Background

In discussion of possible managerial changes which might be introduced for TSRB grades in the Civil Service, Ministers instructed officials to examine the approach of "up and out" adopted by the Armed Forces. This note examines the nature and purpose of the Armed Forces arrangements and their relevance to the circumstances of the Civil Service.

Retirement Arrangements in the Armed Forces

2. Since the Armed Forces require a preponderance of younger people, recruitment and retirement arrangements are designed to offer the majority a short career with early access to pension benefits. This is achieved by means of short service commissions and by the use of target ranks which must be attained by a given age or length of service if the officer is to be allowed to serve a full career. Normal retirement age for career officers is 55; some senior officers and those in certain specialist disciplines (including in this case some other ranks) can serve up to age 60. The number of officers serving between 60 and 65 is normally very few and is restricted to those in specialist areas.

3. Because of the special nature of careers in the Armed Forces the pension arrangements differ significantly from other public service pension schemes, notably in the much earlier ages at which pensions are available and the faster accrual rate. Salient features are:-

a) the Armed Forces Pension Scheme provides for officers' pensions to be put into immediate payment after 16 years service from age 21. RAF officers serving on pensionable terms who have not obtained the rank of Squadron Leader by age 38 or 16 years reckonable service (whichever is the later) and who cannot be offered further service as a Flight Lieutenant, are required to retire at that point. However, because of the need to retain experience most are currently assimilated to a full career to age 55. Army officers on Regular Commissions who have not attained the rank of Major on achieving 16 years reckonable service - which is rare - are normally retired at that point. In the RN promotion to Lieutenant Commander - the rank equating to Squadron Leader and Major (these three Service ranks broadly equate to the HEO grade in the Civil Service) - is on the basis of time served and there is no compulsory retirement of officers at 16 years reckonable service. The benefits available to a Major (and equivalent ranks in the other two Services) on attaining 16 years reckonable service, are an annual pension of £4140 and a lump sum of £12,420. The pension is index linked from age 55;

b) in general, officers who continue their service beyond 16 years reckonable service may serve to age 55 (in the RN to age 50 for Lieutenant Commander and age 55 for Commander, and for up to 9 years as a Captain), but may choose to retire with immediate payment of pension benefits at ages below that, and this is normally approved. Indeed, all three Services rely

on voluntary retirement to reduce the number of older serving officers. A full pension of half pensionable pay is earned after 34 years reckonable service - that is age 55 if entry was on or before age 21;

c) of the most senior ranks - Major General and equivalent and above who total 158 for all three Services - 23% are currently aged 55 or over. Service is normally given beyond age 60 in a few specialist disciplines only. At present there are 5 officers at Major General and equivalent and above who are aged over 60. (There are also 15 officers at Colonel and equivalent and 2 officers at Major equivalent who are aged over 60).

Existing Civil Service Arrangements

4. The work of Government needs people with long experience who may themselves be innovators as well as younger people. The Civil Service therefore requires a structure which will retain and keep well motivated good people at the middle management levels who will not get to the top. The retirement and superannuation arrangements therefore reflect the fact that for the most part staff are recruited for and are needed for a full career. A full pension accrues only after 40 years service and there is no general provision for a pension to be paid before the minimum retirement age of 60. In general, retirement at senior levels is automatic at this age (which means that those who entered from higher education will often not be able to earn a full pension).

5. There are a number of arrangements whereby staff can be retired before that age. Provided that the requirements of employment protection legislation are complied with, civil servants can be retired prematurely on grounds of redundancy, limited efficiency, for structural reasons, on medical grounds, or on grounds of inefficiency. The first three of these categories count as "retirement in the public interest" and attract enhanced early retirement terms.

6. Since 1981 arrangements known as Flexible Premature Retirement (FPR) have been in operation under which Departments have been able to offer "public interest" terms to selected individuals whose compulsory retirement would not be justified under the law, but who are willing to leave. These arrangements have been used to ease out those whose performance has tailed off or whose early retirement would help Departments to overcome organisational and structural difficulties. This year, the Prime Minister authorised the extended use of these arrangements to enable some 100 additional retirements to take place amongst senior staff in order to make room for additional promotions so as to relieve promotion blockages and to bring on younger talented staff.

7. Early retirement is costly. For example, a Grade 3 officer retiring at age 56 with 32 years service would receive additional payments in respect of compensation and early payment of annual pension of some £65,000-£70,000 in total, in addition to the early payment of the lump sum superannuation benefit. Both the existing FPR arrangements, including the special scheme, and the current review of early retirement arrangements, therefore assume that any more flexible arrangements in the future would operate at management discretion.

Relevance of Armed Forces Arrangements to the Civil Service

8. The Services needs as jet pilots, deck officers or platoon commanders, young people of high ability who quickly become too old for those jobs but for

whom there is no need as commanders of higher formation. The system is one which is designed for people who seek short term physical challenge and adventure, prior to a career elsewhere. The severance and retirement arrangements therefore prune the Armed Forces of large numbers of ranks which would equate to the Civil Service middle management grades of HEO-Principal, whom the Services do not need for a full career. Those who reach a rank corresponding to those middle management levels by the age of about 40 then have the assurance of a career at least until age 55 though they can leave at their own initiative with immediate payment of pension at any stage before that.

9. The staffing needs of the Civil Service are quite different to those of the Armed Forces. It needs staff at lower and middle levels well beyond the age at which they would cease to be of use in the Armed Services, and the career structure has to reflect this requirement. Applying the Armed Forces approach in the Civil Service would have the perverse effect of removing a large part of the middle management back bone of the Service without affecting the age structure of the senior Civil Service in any way.

10. The automatic target rank break point after 16-18 years service does not therefore seem to have any direct relevance to the circumstances and needs of the Civil Service. Any such arrangements, involving immediate payment of pension on a wide scale to 40 year olds would be extremely expensive and open to public criticism. Apart from this consideration, already the Civil Service is experiencing difficulty in recruiting sufficient talent on a prospectus of a full career, as evidenced by the shortfalls in recent years in recruitment in the Administration Trainee competition, a number of specialist graduate recruitment schemes, as well as this year's Direct Entry Principal competition, whose outcome was particularly disappointing. If we were to seek high grade people for limited period appointments akin to those of the Armed Forces, it seems likely that that could only be done by offering very high pay or experience which could be readily marketed elsewhere (for example expensive training for a professional qualification) or both. The widespread use of the Armed Forces model of limited term engagements has therefore been ruled out in the past as undesirable and impractical, though there may be some scope for greater use of arrangements akin to short service commissions and this is under examination in the context of promotion blockages.

11. The feature of the Armed Forces arrangements which could have more relevance to the Civil Service is that for more customary retirement at senior levels at age 55.

12. There is already provision to enable this in the Civil Service as indicated in paragraph 6 above. Because of the legal impediments to compulsory retirement except where such dismissal can be shown to be fair, early retirement at management instigation generally needs to be by persuasion and therefore relies on the relative generosity of the terms. Applying the Armed Forces model to the Civil Service would presumably involve the more automatic expectation of retirement at age 55 for those staff in senior grades not expected to progress further. Variants could be envisaged whereby retirement might occur after a set period in the grade. But however devised the legal constraint referred to above would rule out any immediate change in the expectations of present incumbents. A new regime could for that reason only be applied to staff on promotion to the grades covered by it.

13. Whether a mechanistic approach of this kind would offer longer term advantages over the present more flexible approach to retirement in the public interest is questionable. Certainly there would be a number of disadvantages:-

- a) if management had the right to retire staff before normal retirement age for reasons other than those which would constitute legal grounds for dismissal, it would be difficult to avoid a corresponding right for individuals to retire at their own option. There would be a risk that the Service would in this way lose numbers of staff it would wish to retain;
- b) staff who preferred the assurance of full time employment to age 60 (which is already low compared with what is normal in business and the professions) might decline promotion or seek jobs elsewhere. It might be necessary to offer substantial inducements, in the form of significantly higher pay to compensate for diminished career expectations;
- c) fairly automatic retirement on public interest terms at age 55 would be expensive. There are currently some 4,300 staff at Grade 5 level and above, of some some 1,300 are 55 and over. If 1,000 of these retired now, the immediate public expenditure cost could amount to some £60 million, of which some £40 million would represent additional expenditure (the remainder representing the early payment of lump sum superannuation benefits). While as explained in paragraph 12 above this scale of retirement could not occur on a compulsory basis in the short term, it indicates the size of the potential commitment;
- d) if retirement became virtually compulsory at age 55, ie 10 years before the statutory retirement age, there would almost certainly need to be a radical change in, and perhaps the abandonment of the Business Appointment Rules.

Conclusions

14. There are radical differences between the retirement arrangements of the Armed Forces and those of the Civil Service, reflecting the needs of the Armed Forces for a predominantly young population in the more junior ranks which equate to Civil Service middle management. The nature of Civil Service work does not produce a similar requirement; indeed the accumulation of maturity and experience in its middle management is a major strength. The automatic target rank break point after 16-18 years service does not therefore seem to have any direct relevance to the staffing needs of the Civil Service.

15. Of closer relevance may be the Armed Forces model of more customary, retirement at senior levels at age 55. This could not be practised on a compulsory basis in the short term because of the requirements of employment protection legislation, but this need not rule out moves towards it in the longer term. There would be significant public expenditure implications and could be an unwanted drain of talent at senior levels. This in turn might require improvement in the terms and conditions of the grades affected. The Business Appointment Rules would also be called into question.

16. The Cabinet Office is currently completing a fundamental review of all early retirement arrangements in the Civil Service, with the aim of devising a coherent package of measures to meet the current and prospective needs of the Service over the next 10-20 years while offering value for money. The results of this review will be reported to Ministers shortly. It has proceeded on the assumption that these needs are likely to be best achieved by flexible arrangements which operate at the discretion of management (albeit in many cases with the consent of the individual), rather than by way of a more mechanistic system in which early retirement could become automatic at the

instigation of either party. Ministers may, however, wish to consider that choice in the light of the forthcoming report of the review.

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10 DOWNING STREET

From the Private Secretary

18 June, 1984

EARLY RETIREMENT: ARMED FORCES MODEL

The Prime Minister saw over the weekend Lord Gowrie's minute of 4 June about the possible relevance to the Civil Service of the Armed Forces approach to early retirement. She is content with Lord Gowrie's conclusion that there is unlikely to be advantage in adopting significant features of the armed forces model.

I am sending a copy of this letter to the Private Secretaries to the recipients of Lord Gowrie's recent minute.

(David Barclay)

Miss S. Phippard,
Lord Gowrie's Office

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