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PRIME MINISTER

CABINET 29 APRIL: INDEX LINKED PENSIONS

1. I support the general recommendations John Vereker makes in his memorandum of 26 April. But in addition to the points he makes, I think there are two other major considerations which are ignored in the Chancellor's memorandum.
2. First, there is no opportunity for any civil servant or other employee to opt out of an index-linked pension. Everyone has to have them, and pay for them, whether they need them or not, whether they want them or not.
3. But this, although bureaucratically tidy, must make Civil Service jobs less attractive on the average than if they had the option of contracting out. Consequently we shall pay more for our manpower than if we had a more flexible arrangement.
4. Of course, it may be argued that everyone would wish to contract in. But in that case we would know that the price of an indexed pension was too cheap. Thus allowing the option would give us a test of the value of that right to an indexed pension. If, for example 20% or 30% contract out, then we know that the price is probably about right. If, on the other hand, only 1% contract out, then we know we are charging too little. It seems to me therefore that at the very least a wide variety of forms of contracting out should be open for consultation and discussion over the next few months.
5. Secondly, I believe that the Chancellor's memorandum doesn't take into account what we hope may be the approach to pay settlements after Megaw. In principle the value of an indexed pension will be reflected in the turnover rates, which we want to see becoming a main determinant of pay settlements. John Vereker is quite right in saying that the charge for an index linked pension will be bound to appear in the pay claim. And logically, using the turnover rates as an indicator of the market for labour, we would be on very slender ground if we tried to oppose such claims.

Conclusion

6. I suggest, therefore, that, in addition to John Vereker's recommendations, you also suggest that the issue of opting out

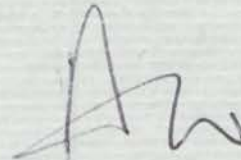
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- 2 -

should be investigated first on the grounds that such variety in wage employment conditions can only reduce the cost of labour, secondly that it will increase the choice available to candidates, at no cost to the Exchequer, and thirdly that it will enable us to monitor the take-up of indexed pension arrangements and so judge the perceived value of those rights to the employees.



ALAN WALTERS

27 April 1982

cc Chancellor of Exchequer

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