JW

3 pp

CONFIDENTIAL

Prime Minister

MINISTERIAL GROUP ON UNEMPLOYMENT AND FAMILY SUPPORT ISSUES
EARLY RETIREMENT

I attach a further note by officials, following on from the notes I sent you on 3 December, on various aspects of possible early retirement provision for men over 60. It has been prepared in collaboration with officials at the Treasury and Employment.

2. The note discusses briefly the wide range of options which officials have examined and which are considered in more detail in the Annex. I think some clear conclusions emerge which offer us the possibility of an attractive package of reforms, especially if they are combined with some of the proposals which Norman Tebbit sent you on 9 February. At fairly modest cost we could present an imaginative and sensible approach to current unemployment problems which would also reduce the figures on the unemployment register significantly and quickly. To have maximum political impact the total package should be announced at the time of the Budget and implemented as quickly as possible thereafter.

3. The proposals on which I think we should concentrate in these papers are:-

1. removing the requirement for unemployed men over the age of 60 to register at an unemployment benefit office if all they want is contribution credits to protect their entitlement to basic retirement pension when they reach 65. This would remove 75,000 men from the register, many of them occupational pensioners. There would be a loss of £2 million in contribution revenue, because some 9,000 men now paying voluntary contributions to maintain their insurance records would no longer have to do so; this could be done almost immediately - from the start of the next tax year in April;

2. awarding the long-term (ie higher) rate to men on supplementary benefit over the age of 60 straightaway instead of requiring them to qualify by a year on benefit at a lower rate first, as happens at present. This would in effect treat them as if they had reached pension age and would take 42,000 off the register. It will also benefit the same number of sick and disabled over 60, and so solve what is known as the "invalidity trap" for that age group. The cost would be £27 million and some 200 staff if it were introduced as part of the November benefit uprating, or some 300 if done earlier, as would be feasible and in my view preferable politically;

3. Norman Tebbit's proposals for early retirement on JRS conditions on a part-time basis from age 60 and on a full-time basis from age 63.

4. I think the case for the first proposal is overwhelming and that we should announce the change in the Budget and proceed to implement it immediately. But if we are to minimise criticism that we are simply manipulating the register,we shall need to present this as part of a total early retirement package.

5. The second proposal is a vital element of the package if it is to carry conviction as a set of early retirement measures. It has one difficulty, which I regard as awkward but not insuperable, in that it would focus even more attention than at present on the capital cut-off rule for supplementary benefit. Those who were unemployed over the age of 60 but had capital of over £2,500 (eg from a redundancy payment or the surrender value of life insurance policies) would not be able to qualify for supplementary benefit and would have to live on their other resources, including their capital and any occupational pension, until they reached 65. This would contrast with the position of those with less than £2,500 who would in effect be able to receive a supplementary pension from age 60, and might aggravate the criticism we already face for penalising thrift. This is an inescapable criticism, however, of

supplementary benefit in general and of the capital cut-off rule in particular. We could not meet it by easing the cut-off rule for those between 60 and 65 (because of the impossibility of re-imposing a tighter rule at age 65) but only by a further easement in the rule generally. Even if this were not possible at this stage, however, the proposal could be firmly defended on the grounds that it helps many, hurts none, and concentrates any available resources to best effect on the poorest.

6. The three propositions in paragraph 3 would together mean that at age 60 people could either

a. remain in full-time work, or

b. partially retire or

c. automatically have their basic pension rights protected without having to register just for this purpose; and,

d. if they are the least well off of all and on supplementary benefit, in effect be treated as if they were retired.

7. Thus at an initial net total cost to public expenditure of some £50 million in 1984/85 and some 200 (or 300) staff we could provide part-time work or early retirement as appropriate for those over 60 and remove about 200,000 from the register, in a way which, unlike changes in retirement pension age, might be reversible if circumstances changed.

8. If we adopt this three-part package and announce it at Budget time, we could bring in the credits easement in April (75,000 off the register), the supplementary pension change in June (another 42,000 off the register) and start the JRS changes in the autumn (a further 70,000 off the register).

9. I am dealing in a separate and briefer minute with the other issue left over from our discussion on 23 December - the rules about suitable employment.

10. Copies of this minute go to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry and for Employment, Mr Sparrow, Mr Mount, Sir Robert Armstrong and Mr P L Gregson.

18 February 1983 N F

MINISTERIAL GROUP ON UNEMPLOYMENT

EARLY RETIREMENT

1. The attached Annex examines in detail possibilities discussed at the meeting of Ministers on 23 December for early retirement to encourage more of the unemployed to withdraw from the register. There are possibilities through -

(A) changing NI contribution rules so that men over 60 do not have to register to get credits to safeguard their state pension entitlement until they reach 65;

(B) changing retirement benefit provision to encourage early retirement by lowering the age for benefit, either universally or selectively;

(C) changing supplementary benefit rules to encourage the poorer unemployed between 60 and 65 to leave the register.

A. CONTRIBUTION CREDITS (PARAS 4-15)

2. At present 75,000 men between 60 and 65 register to get credits for their retirement pension. If regulations were amended to guarantee automatic award of credits to men who were not paying contributions beyond age 60, these numbers would come off the register. There would be no net increase in benefit expenditure, but a loss of £2m in contribution revenue from those not in employment paying voluntary contributions (class 3) to fill gaps in their insurance records no longer having to do so.

3. Though open to criticism as a device to reduce the register, this is a relatively cheap option raising no difficult issue of principle. Its cost could be reduced by limiting it to people unemployed for 6 months or more, but the introduction of this element of complication hardly seems justified, and it would reduce the numbers going off the register.

B. <u>EARLY RETIREMENT</u> (PARAS 16-33)

4. The cost of a straight reduction in the age of retirement for men to 60, at £2.5bn net, is prohibitive: and this could also put up the contribution costs for occupational pension schemes by as much as 50%. This is not a practicable option.

5. A more limited selective early retirement benefit (SERB) would reduce the costs. Three options are explored -

Option 1: paying the standard basic rate of retirement pension to men over 60 unemployed for at least 6 months.

Option 2: as option 1, but limiting it by off-setting occupational pensions above £35 and earnings above £12.

Option 3: paying the standard basic rate of retirement pension to men over 60 unemployed for at least 12 months, and off-setting occupational pensions above £20, with cut-off (ie no benefit at all) if weekly earnings exceed £4 for man and £12 for his wife.

6. The costs of these options rise over time because they will attract some people at present retired and not registering. They will come on to the register for the requisite qualifying period, to be able to claim the new benefit; their numbers have to be set against those immediately leaving the register; and their benefit costs will be an additional expense reducing the cost-effectiveness of these options.

7. When these options settle down, after 18 months or 2 years, their costs are quite high, and the numbers off the register are relatively moderate:

	Option 1	Option 2	Option 3
Number off register	155,000	140,000	65,000
Net cost to Government	£450m	£255m	£180m
Net cost per person off register	£2880 pa	£1830 pa	£2720 pa

8. Primary legislation would be required.

C. <u>SUPPLEMENTARY BENEFIT SOLUTIONS</u> (PARAS 34-45)

9. Already men over 60 who are unemployed over 12 months can cease to register and claim the long term rate (LTR) of supplementary benefit - which otherwise becomes available at retirement age. This has put them on equal footing with the long-term sick. Some 30,000 men have come off the register already, as a result.

10. Possibilities are explored of extending these "early retirement" rules. But any improvement in the rules for the unemployed over 60 would put them at an advantage over the long-term sick, and this is thought to be too difficult to justify. So the memorandum assumes that other supplementary beneficiaries over 60 (chiefly the sick) would have to be treated equally. This increases the costs.

11. The possibilities considered are:

<u>Option (a)</u> - reduce the qualifying period for the LTR to 6 or 3 months. This, though cheap per person off the register, is anomalous chiefly because it would not cover people receiving unemployment benefit.

<u>Option (b)</u> - to overcome this anomaly, periods on unemployment benefit or credits, as well as on supplementary benefit, could count towards the qualifying period for the LTR. This has one considerable attraction: it cures the invalidity trap for the over 60s. The length of the qualifying period could be varied - the shorter it was, the more people would benefit. Costs in benefit and staff would mount up, but about 35% of those gaining would be other groups, not the unemployed. Most important, this option is not consistent with the idea of awarding credits automatically (paras 2-3 above). If that proposal is adopted, this option does not run.

Option (c) - this is the simplest option - to give all supplementary benefit claimants over 60 the long term rate and relieve them of signing on. This would be automatic early retirement for people over 60 on supplementary benefit.

12. The relative costs of these supplementary benefit options are as follows:

	Option (a)	Option (b)	Option (c)
Number off register (3 month qualifying period)	27,000	38,000	42,000
Costs			
money	£14.5m	£25m	£27m
staff	(small)	200	228
Cost per person off register	£637	£657	£642

Given the objections to (a) and (b) (see para 11), option (c) is the most effective option here with the largest effect on the register. It would require amending regulations, but not primary legislation. (If other steps were taken to cure the invalidity trap, the cost of option (c) would reduce to £21m and 100 staff. If not, option (c) would solve the trap for the over 60s.)

13. The idea is explored of a higher capital disregard for men between 60 and 65, to enable more to qualify for supplementary benefit.

But since it would hardly be feasible to fix a more generous limit at 60 and reduce it again at 65, this really entails a raising of the limit for everyone over 65 which would benefit retired people generally much more than the unemployed between 60 and 65. It would have a high staff cost, and would not be a cost-effective way of reducing the register.

CONFIDENTIAL

EARLY RETIREMENT PROVISION FOR MEN AGED BETWEEN 60 AND 64

INTRODUCTION

1. This Note sets out a range of possible ways of making early retirement provision for men over 60 who have left employment. The proposals are set within the context of the following objectives:-

i. reduction in the numbers approaching retirement who need to register as unemployed either for benefit or credits purposes, preferably in ways which reduce the dependence of long term unemployed people over 60 on supplementary benefit;

ii. encouragement of early retirement among those prepared and able to leave the employment field, bearing in mind the possible need to replace or supplement existing temporary schemes, such as Job Release, with more permanent early retirement provisions.

The working assumption is that the schemes would be limited to unemployed men over 60 but below pension age and that women over 60 would not be eligible other, perhaps, than as dependants of their husbands, since they are free from age 60 to draw any retirement pension which they have earned on their own contributions.

2. The Note deals in Section A with the possibility of extending the provision of national insurance contribution "credits" to men over 60 so that registration for employment or the receipt of benefit was no longer a pre-condition for the award of such credits; in Section B with a possible lowering of men's minimum pension age; and in Section C with the possibilities of extending the present supplementary benefit scheme provisions for early retirement.

3. The current numbers of the various groups of men aged 60-64 who might benefit by the different proposals are as follows:

ACTIVITY AND BENEFIT STATUS OF MEN 60-64 IN 1983

	Duration of unemployment				
	Up to 6 months	Over 6, up to 12 months	Over 12 months	All men	Of whom, Numbers of men with an occupational pension
A. UNEMPLOYED MEN					
UB only	41	42	2	85	
UB + SA	3	6	-	9	
SA only	4	5	18	27	
No benefit	21	13	70	104	
Total unemployed	70	65	90	225	120
B. OTHERS					
Full time employed				680	105
Part time employed				75	
IVB recipients				195	105
JRS				60	30
Long term SA who have ceased registering				40	-
Inactive occupational pensioners not included above				140	140
Others (Includes other supp ben and unregistered unemployed people)				40	-
Total population				1,455	500

. a given

for those

A. POSSIBLE CHANGES IN NATIONAL INSURANCE CONTRIBUTION CREDIT PROVISIONS FOR MEN OVER 60

4. A fairly simple and inexpensive option for reducing the number of people registering as unemployed would be to remove for men over 60 the present requirement to register in order to get contribution credits for the purposes of safeguarding their entitlement to basic retirement pension when they reach 65. This would most straightforwardly be done by automatically awarding retirement pension credits to fill any gaps in the contribution record of men between the ages of 60 and 65 whether the gaps were due to unemployment or low earnings. About 75,000 men over the age of 60 currently register solely for the purpose of gaining credits. Alternatively, credits could be awarded to men in the 60 to 65 age group who had been unemployed for a specific period of time - say six months or more.

Presentation

5. The proposal need not be seen as a radical departure from credits policy or a serious dilution of the contributory principle. Already, men over 60 who register as sick or unemployed receive credits; and those unemployed men who have been on supplementary benefit for twelve months or longer are awarded the long-term rate of that benefit and credits and are no longer required to sign on at an Unemployment Benefit Office. As far as credits for the unemployed were concerned, the change would merely abolish the qualifying period. If a qualifying period is adopted it might be sensible to align it with that for long-term supplementary benefit recipients. Alternatively, "pre-retirement" credits could be presented as a means of helping men over 60 who really would prefer not to work to ease their way into retirement without loss of basic pension rights; the credits would mean that, if they took up lower-paid, or even occasional part-time, work, or participated in job-sharing, and their earnings fell below the lower earnings limit for contributions, their pension entitlement would still be safeguarded. This would be the logical counterpart of the starting credits awarded to school leavers; and the rationale would seem particulary apt if

a scheme without an unemployment qualifying period were adopted, since this would presumably induce some employed or self-employed men to retire early.

Legislation

6. Section 13(4) of the Social Security Act 1975 provides for the making of regulations to allow credits in respect of particular benefits. Primary legislation would not therefore be required.

Compliance

7. "No-Card" notices would no longer be issued from the DHSS Newcastle Central Office computer to any over-60 contributor who left self-employment and told the Department that he had opted for early retirement instead. If, for whatever reason, he later decided to become self-employed again without telling the Department, and without paying self-employed contributions, he would give a boost to the Black Economy. His failure to pay contributions would stand a reasonable chance of remaining undetected for the rest of his working life.

Staffing Implications

8. If no unemployment qualifying period was specified, the credits could be awarded automatically by the Records computer at the DHSS Newcastle Central Office, so the staff costs would be negligible. If there was a qualifying period, it would be necessary for a notification to be sent to the Records computer that unemployment had lasted for six months (by the unemployment benefit computer or clerically). It is estimated that the staff cost to unemployment benefit offices would be in the region of six staff.

Benefit costs/contribution revenue effects

9. The award of credits to everyone over the age of 60 would presumably persuade some employed or self-employed men whose main reason for working was to protect future title to full basic retirement pension to retire before the age of 65. The National Insurance Fund would be

deprived of their contributions, but in most cases the employed men, at least, would be replaced, at similar earnings levels, by younger, currently unemployed, men. The net amount of contributions foregone would therefore be small and offset by savings in unemployment supplementary benefit payments to the "replacements". In terms of public expenditure there would be a further saving through reduced payments of supplementary benefit.

10. The automatic award of credits could also have two effects as far as Class 3 (voluntary) contributions were concerned:-

(i) Pension entitlement could be increased in a very small number of cases where the insured person had a deficient record and had been making no attempt to qualify for full basic pension by paying Class 3 contributions. The number of cases in question might be of the order of 10,000.

(ii) Where contributors were paying Class 3 contributions to compensate for gaps in their records, they would no longer have any need to do so. On the basis of 1980-81 data, the loss of contribution income in 1983-84 could be between £1 million and £2 million from some 9,000 contributors who might cease paying.

Timing

11. Pre-retirement credits could be introduced by fairly straightforward regulations under Section 13(4) of the Social Security Act 1975. These would have to go before the Social Security Advisory Committee but as they would be wholly beneficial to contributors they would not be likely to prove contentious. Any decision to introduce pre-retirement credits could be implemented by early summer unless they were part of a wider package requiring legislation.

Summary

12. The credits proposal would not involve any insuperable problems of policy, presentation or compliance; the staffing implications would be acceptable and the scheme could be introduced fairly quickly.

13. The scheme would have no net additional public expenditure costs. It could be assumed that the cost of the small number of new entitlements (see paragraph (i)) would be balanced by the savings in unemployment benefit and supplementary benefit mentioned in paragraph . There would however be a modest loss of contribution income - revenue foregone - of up to £2 million a year in Class 3 contributions. The staffing implications within DHSS would be negligible but, if a scheme with a qualifying period of unemployment were adopted, about six additional staff would be required in the Department of Employment.

14. If a pre-retirement credits scheme were to be adopted, a single scheme without a qualifying period would seem, on grounds of simplicity and staff numbers, to be the best option, and would reduce by about 75,000 the number of men registering as unemployed.

15. Moreover, the absence of a qualifying and arbitrary period of unemployment would demonstrate more clearly that the option was not intended simply as a means to reduce the count, but was intended to encourage early retirement. Application to a wide range of men over 60 - including the sick, low paid, people in part-time or job-sharing work, and those in employment and self-employment who gave up work - would justify the absence of a requirement to sign on and to be included in the count. But the consequent reduction in the count can be expected to attract substantial political and press criticism, especially if it were to be introduced soon after the change in unemployment statistics in November, 1982. Presentation would need to be careful, dealing in particular with why the change was introduced now and not before and perhaps the only way in which a major controversy over "fiddling" the unemployment statistics could be avoided would be if this option were associated with other measures towards early retirement.

B. LOWERING MEN'S MINIMUM PENSION AGE

16. The most obvious way of making early retirement provision from age 60 is to allow full pension to be paid from that date, ie to lower men's minimum pension age to 60. The report of the Social Services Select Committee on the Age of Retirement is relevant to this. The gross pension cost of a change to a male minimum pension age of 60 would, at 1981/82 benefit levels, be of the order of £3 billion, plus a further £0.4 billion in lost contribution and tax revenue. The gross cost would be offset by savings of £0.9 billion in other social security benefits, giving a net cost to public funds of around £2.5 billion. These estimates assume that 1.34 million extra men would receive retirement pensio

17. Of these about one quarter to one-fifth of the total would currently be receiving another social security benefit. Similarly only about one-third would actually make way for someone currently unemployed to fill their job, and even then this might not always yield savings in unemployment benefit. It is further estimated that a change to age 60 for men would put up the cost of contributions to occupational pension schemes by as much as 50 per cent if equivalent benefits to those currently applying were provided. Clearly, therefore, the kinds of cost involved in a straight lowering of the pension age in the short term would be quite unacceptable.

SELECTIVE EARLY RETIREMENT BENEFITS

18. There would however be various possible ways of limiting the cost of an early retirement benefit payable to men aged 60 to 64:-

(i) restriction to those who had already been proving unemployment for a specified period (one year; six months, etc) and by the application of a restrictive earnings rule (eg for Job Release, unemployment benefit or supplementary benefit);

(ii) restriction of the rate payable below the full or standard basic pension rate (eg to the standard unemployment benefit rate; or the standard rate of non-contributory (over 80s) retirement pension)

(iii) restriction of entitlement where occupational pension above a given amount is in payment (a £35 limit as for unemployment benefit for those over 60; or some modest level - say £20);

(iv) restriction of entitlement by reference to capital or other income so as to provide more generous rules than for supplementary benefit, to help those excluded from the latter;

(v) Increasing the lower age of entitlement above age 60.

19. Of the possibilities outlined above, Option (v) would be a fall back reserve to reduce the cost of all alternative options. Options (iv) ~~and (v)~~ would be likely to give rise to difficulty in application, though any restriction on benefit entitlement would inevitably increase the administrative costs involved in monitoring and enforcement. The present non-means-tested maintenance benefits all have some form of earnings rule, and people over 60 are now used to the application of an occupational pension rule governing claims to unemployment benefit. But if a capital rule were introduced, or a test related to other forms of income, the benefit would effectively become a means-tested scheme. This would involve costly duplication of administrative effort unless the rules in each case were identical, and it would seem better simply to refine the existing supplementary benefit scheme to meet the needs of early retirers. But if the rules were made more generous, it would be necessary to extend the generosity to all people over age 60, including supplementary pensioners, to avoid a cut in benefit income on reaching pension age.

20. There are a wide range of possible options covered by the restrictions referred to at 18(i) to (iii) above. In order to avoid undue confusion, three main variants of early retirement benefit have been costed, which indicate the range of effects of each restriction.

OPTION 1. A FLAT-RATE RETIREMENT BENEFIT FOR THOSE UNEMPLOYED OVER 6 MONTHS

21. Under the first variant a flat-rate, non-contributory benefit of £32.85 a week (the standard basic rate of retirement pension) would be payable to men over 60 who had been registered as unemployed for at least six months. Where the claimant had a dependent wife, he would be able to claim a married rate of £52.55. Initially 160,000 men already on the register would be able to claim benefit, of whom 75,000 would have previously been receiving unemployment benefit and/or supplementary allowance and 85,000 would have been registering for credits only. The initial cost would be around £245 million in terms of net increased public expenditure, but additional tax revenue could bring the net cost to central government down to around £180 million.

22. However, it would be open to people no longer economically active and not registered as unemployed (mostly occupational pensioners) to register simply in order to qualify for the new benefit. Initially, by, say, six months from the scheme's start, about half of these inactive people might have joined the register for this purpose, and they would offset the favourable register effects brought about by reducing the number on unemployment and supplementary benefit. In this situation, the net effect on the register would be a reduction of 80,000 at a net cost per person off the register of £2,230 per annum.

23. Gradually, the number of inactive people added to the register would diminish as more of them qualified for benefit, and after, say, eighteen months the total number of people receiving benefit would have settled at about 360,000, of whom about half would previously have been inactive occupational pensioners. The net benefit cost at this stage would be £630 million per annum, and the cost to public funds net of tax would be £450 million per annum. The unemployment register would then be reduced by about 155,000, , the cost per person so removed being raised £2,880 per annum.

24. These costings make no allowance for behavioural changes amongst those in employment, particularly part time workers, who might be attracted into benefit at extra cost. If the early retirement benefit was presented as a long term or permanent measure it could be expected to accelerate the decline in activity rates

experienced since the mid 1970s. How far or fast employment would fall in this age group is difficult to judge, but it is quite possible that under this option employment could fall by 20 per cent or more within 5 years. Even if the fall was only 10 per cent (75,000) the net cost to public funds of the new benefit scheme would be an additional £ 110 million per annum, taking the total net cost to £ 560 million.

OPTION 2: A GRADUATED BENEFIT FOR THOSE UNEMPLOYED OVER 6 MONTHS

25. On the assumption that costs of this order would be unacceptable, alternative variants have been looked at which would place tighter restrictions on entitlement. Under the first of these alternatives, the benefit would remain open to those men over 60 who had proved unemployment for at least six months, but costs would be limited by:-

a. reducing entitlement on a pound for pound basis for each £1 of occupational pension above £35 (as for unemployment benefit);

b. setting a low earnings rule limit of £12 a week (broadly corresponding to the effect of the supplementary benefit rule for single parent families) and reducing benefit by £1 for each £1 of either the man's or his dependent wife's earnings above that level.

26. Initially this would involve a net public expenditure cost of about £150 million and a net cost to central government of around £ 110 million, but as more inactive people qualified for benefit these costs would rise to £ 355million and £255 million respectively.

About half of this money would go on a sliding scale basis to people in receipt of occupational pensions of up to £90 a week who were not previously receiving unemployment benefit or supplementary benefit. It might give some limited help, too, to cases where the wife's earnings preclude the payment of supplementary benefit. There would also be a gain in income for the 45,000 in this age group who were receiving unemployment benefit only. A large number of the 30,000 recipients of supplementary allowance would gain little though they would be floated off supplementary benefit and would probably remain entitled to housing benefit. The cost per person removed from the unemployment register would be £ 1270 per annum initially rising to £ 1830. As with the first option the costing does not allow for men in employment to be attracted to the new benefit: costs could rise substantially because of this, though less than in the first option considered.

27. In all, an estimated 265,000 men and their dependants would receive additional income as a result of a scheme on these lines. Costs would only be a little over half of those arising under the previous option - but still high.

OPTION 3: A GRADUATED BENEFIT FOR THOSE UNEMPLOYED OVER 12 MONTHS

28. Further restriction of the benefit costs could be achieved by imposing tighter occupational pension and earnings rules and limiting entitlement to those out of employment for at least 12 months on or after the age of 60. For illustrative purposes an occupational pension limit of £20 a week has been used, with benefit progressively tapered above that limit and an all-or-nothing earnings rule limit set (as for the Job Release Scheme) of £4 a week for the claimant and £12 a week for his wife. If the earnings limit were tapered, it would make little difference to the costings.

29. This would have much the same effect as the previous variant, but would reduce the gain for those with reasonable occupational pensions and increase the waiting time for benefit. The initial public expenditure cost would be reduced to about £105 million (£80 million net cost to central government), but as more inactive people qualified for benefit costs would increase: after, say, two years the net public expenditure cost would be £250 million (£180 million net cost to central government) and in all some 170,000 men could be expected to derive additional benefit. This option would exclude most cases now receiving unemployment benefit only, and increase the cost per person removed from the unemployed count to £2,720 per annum. This option would thus be less costly, but also less target-efficient.

30. As before, these estimates take no account of men in work who might be attracted to benefit, but their number would be smaller than in the previous option because of the stiffer qualifying conditions.

31. An analysis of the costs, and numbers affected, under each variant scheme of selective early retirement benefit is set out in the Annex. It is based on the standard retirement pension rate, and applied from age 60. The costings assume continuation of the Job Release Scheme; if that scheme were to be wound up the costs would be higher than those shown (retirement pension rates are less generous than the Job Release allowances). In broad terms the cost of all three variants could be reduced by one-quarter if payment were made at the standard single and married rates of unemployment benefit, rather than at the basic retirement pension rates; or by 40 per cent if payment were made at the non-contributory rate of retirement pension (which is 60 per cent of the standard basic contributory rate). Costs could also be reduced significantly by increasing the lower age limite of entitlement above the age of 60. (For example with an age of 62 the costs might fall by perhaps 40 per cent.)

Summary

32. In brief outline, the costs (which vary over time) are:

	Option 1	Option 2	Option 3
Net reduction in numbers on register:			
initially -	80,000	85,000	30,000
rising to -	155,000	140,000	65,000
Net cost to central government (net additional PE minus tax):			
initially -	£180m	£110m	£80m
rising to -	£450m	£255m	£180m
Cost net of tax per person off register:			
initially -	£2,230 pa	£1,270 pa	£2,410 pa
rising to -	£2,880 pa	£1,830 pa	£2,720 pa

33. Even the cheapest of the various possible options outlined above would still involve a high cost; moreover, most of the additional money would go to people already living above supplementary benefit level, and not currently receiving benefit. There would also be a risk of attracting increased costs by stimulating early retirement among those who are now in part-time or low-paid employment. In current economic circumstances it is probable that only half of these would be replaced by people off the register. A new social security benefit would require both primary legislation and the creation of the necessary administrative machinery. It could not therefore be operative very quickly. Such a benefit might fit in

awkwardly with the longer term possiblities for development of the pension scheme outlined by the Social Services Committee although this can be minimised by careful presentation. More difficult is the very limited immediate effect of such a benefit on reducing the numbers registering as unemployed. The requirement to register for a period to prove unemployment would, at least initially, tend to attract unoccupied people in order to qualify for benefit.

C. EARLY RETIREMENT UNDER THE SUPPLEMENTARY BENEFIT SCHEME

34. A possible alternative approach would be to focus improved arrangements f "early retirement" on the poorer groups among the unemployed by building on arrangements which already exist in the supplementary benefit scheme. Unemploye men aged 60 or over who have received supplementary benefit for one year become entitled to the long term scale rate (LTSR) and are no longer required to be available for work or sign on at a UBO. At present about 30,000 men benefit under this provision and are no longer counted among the unemployed.

35. This scheme could be extended so as to increase the numbers no longer required to sign on. This could be done either by shortening the qualifying per or by counting periods on unemployment benefit as well as on supplementary benefit or by abolishing the qualifying period altogether for over 60s. These options, and the possibility of increasing the numbers able to benefit by easing the capital rule, are considered below.

36. The present scheme treats unemployed men over 60 in the same way as other supplementary allowance cases, eg the sick. Any of the possible forms of extension of the long term rate arrangements would involve treating them more favourably. There seems no way in which this could be justified, and any change would thus have to apply to other claimants in the over 60 age group. Costs are therefore shown for other groups of claimants over 60 as well.

(a) Reduction of the qualifying period

37. The proposal is that the qualifying period on supplementary benefit should be reduced from twelve months to six or three months. Table 1 below shows numbers affected and costs:-

TABLE 1[1]

Period	Unemployed		Others (mainly sick)		TOTAL[2]			
	Number	Costs	Number	Costs	Number	Costs	Staff cost	Cost per pe[r] off regist[er]
6 months	16,000	£8m	2500	£1m	18,500	£9m	Small	£562
3 months	27,000	£13m	3500	£1.5m	30,500	£14.5m		£537

[1] Likely numbers for 1983/84 at 1982 benefit rates

[2] There would be some small offsetting savings in DE in this and the other options, but the introduction of equal treatment will increase costs.

small amount, require very few extra staff, and is the most cost-effective option terms of cost per person off the register.

39. The main disadvantage would be that it would be extremely difficult to prese the arrangements in a way which would avoid the accusation that it was simply a device to reduce the numbers counted as unemployed. Those benefitting from the LTSR would not be long-term unemployed, nor those who had spent long periods on a low income ie on supplementary benefit. It would be difficult to explain why people drawing supplementary benefit for a few months should be allowed to "retir while those on unemployment benefit had to carry on signing. The shortness o the qualifying period would increase the strongly felt injustice of the invalidit trap, whereby people who just fail to qualify on the short term rate are barred from the long term rate and there would bound to be pressure to extend the shorter period to people under 60.

39A. Another difficulty might be that about a quarter of potential beneficiaries would be drawing unemployment benefit. Unemployment benefit can only be paid through UBOs, and thus, if the new arrangements were to achieve their end of reducing the numbers signing at UBOs, unemployed people would need to be persuad to stop claiming the contributory benefit to which they were entitled. There is no reason to believe that many people would see much point in continuing to have to attend the UBO regularly, in order to draw their UB, but to the extent they did, the numbers taken off the register would be eroded. (This would apply also to the second and third options in Table 2, and to Table 3).

(b) Counting periods on social security benefits or credits only towards the qualifying period

40. The proposal here is that periods on unemployment benefit or credits only should count towards the qualifying period, as well as periods on supplementary benefit. This could be combined with shortening the qualifying period. The numbers affected and costs are set out in Table 2 below.

TABLE 2[1] (See footnotes 1 and 2 to table 1)

Period	Unemployed			Recipients of other social security benefits (mainly sick and disabled)			Total [2]			
	No.	Cost	Staff cost	No.	Cost	Staff cost	No.	Cost	Staff cost	Cost per person of register
12 months	23,000	£11m	21	31,000	£6m	136	54,000	£17m	157	£739
6 months	34,000	£16m	42	36,000	£7.9m	147	70,000	£23.5m	189	£691
3 months	38,000	£17m	50	38,500	£8m	156	76,500	£25m	206	£657

41. The main advantages of this approach, at any rate if a qualifying period of a year were adopted, would be that it could credibly be presented as early retire[ment] for the long term unemployed because "early retirement" would link closely with the total period of unemployment. The effect would in the main be to enable supplementary benefit claimants who had had an initial period on unemployment benefit only to count that towards the twelve months (hence there would be a considerable overlap with option (a), but option (b) would exclude people with short periods of unemployment but all of that period spent in receipt of supplementary benefit.) The inclusion of the sick under the option would repres[ent] a major step towards solving the "invalidity trap" (about half of all people in the trap are over 60). To end this anomaly when resources are available has lon[g] been a Government commitment. The implication would be that this way of calcula[ting] the qualifying period would eventually be extended to younger sick people but, given the existing commitment, no new obligations would be involved.

42. The disadvantages would be that the cost would be higher than for option (a) and the staff cost substantial. A higher proportion of the cost (35 per cent) wo[uld] go on groups other than the unemployed making it the least cost-effective of the three options in terms of cost per person off the register. There is also a par[tic]ular difficulty if this option were combined with the proposal for automatic awa[rd] of credits to everyone over 60. The qualifying period ought to include periods [on] the register signing for credits after unemployment benefit had run out - otherw[ise] people who did not get short term supplementary benefit would never be able to qualify. If signing for credits were abolished however there would be no obvious way in which such a person could establish his title. In effect we would have established two contradictory schemes: the credits scheme would be treating any[one] not on benefit as effectively retired, while this scheme requires claimants to demonstrate a period of unemployment. If this scheme is adopted for the long te[rm] scale rate therefore the credits scheme ought to have a qualifying period which coincides.

43. If the qualifying period under this option were set at six or three months there would also be most of the difficulties set out in paragraphs 39 and 39A - as well as an additional cost.

(c) Paying the long-term scale rate to all claimants over 60

44. The proposal is that all men over 60 would be paid the long-term scale rat[e] as soon as they came on to supplementary benefit, and that they would not be

required to sign on as unemployed at all. They would thus be treated in exactly the same way as people over pension age are at present except that their benefit would be technically supplementary allowance not supplementary pension. The numbers affected and costs are set out in Table 3 below.

TABLE 3[1]

(See footnotes 1 and 2 to Table 1)

Unemployed		Recipients of other social security benefits (mainly sick and disabled)		Total[2]			
Number	Cost	Number	Cost	Number	Cost	Staff cost	Cost p[er] person off th[e] regist[er]
42,000	£18m	43,000	£9m	85,000	£27m	228	£642

The costs in the Table relate only to people already unemployed. The availability of a "pension" without the need to sign as unemployed would probably draw some people out of employment. That would increase costs. On the other hand it would be an advantage to the extent that it made jobs available to younger people.

45. The advantages of this approach would be that it would be simple and logical present as an early retirement option and get the maximum number of people off the register; unlike option (b) there would be no difficulties in combining it with t[he] automatic credit option for all over 60s and it would be rather more cost-effectiv[e] getting people off the register than option (b); like option (b) it would solve t[he] invalidity trap for the over 60s; but it would draw a line much easier to hold against pressure for extension to younger people; and it would be administratively simpler than either of the other options or the present arrangements for the over 60s. The disadvantages would be that the additional benefit expenditure would be larger than in the other options and the staff costs substantial. There would also be a presentational difficulty in that this option would highlight the favourable treatment being given to the poor. People coming on to supplementary benefit over 60 would get automatic early retirement. Other unemployed people would have to continue to sign at the UBO in order to get their unemployment benefit. This sharp contrast would be mitigated somewhat if combined with the automatic credits option, but it would not entirely disappear.

Increasing the capital disregard

46. There will be some men between 60 and 64 who are prevented from drawing supplementary benefit because they have capital in excess of £2500. They are thus prevented from taking advantage of any of the supplementary benefit early retirement options. The indications are however that the numbers are small. We have reliable figures only for those now on the margin of the old capital disregard with capital just below £2000 and there were only 4000 of them in December 1981. Any increase in the capital disregard would have to apply at least to everyone over 60: one can hardly put it up for people below 65 and cut it down when they reached that age. This would bring in a far larger number of pensioners: in the figures quoted above pensioners outnumbered men aged 60 to 64 by 6:1, and the indications are that as the amount of capital goes up the proportion of pensioners as compared to this age group brought into benefit would increase. For example, an increase to £5000 could bring into entitlement upto 200,000 pensioners (although the extent to which people with this amount of capital would wish to claim benefit could well be very low) but less than one-tenth of that number of men between 60 and 64. Although the amount of benefit involved might not be large (perhaps of the order of £30 million, though all these figures are very broad brush) the large numbers brought onto benefit, substantially swelling the total numbers on supplementary benefit, would be an undesirable side effect and carry a very high staff cost. Moreover, as long as there was a qualifying period for the long term scale rates, these men would not be removed from the unemployment count immediately - indeed they might swell it. All told therefore this does not look a very cost-effective way of tackling the problem - a substantial proportion of this group of people could be reached more effectively through the automatic credits option.

Conclusion

47 All three of the alternative ways of extending the long-term rate offer viable and reasonably cost-effective ways of reducing the numbers on the register. It should be noted however that they do so only for the poor: none of these schemes would provide early retirement for any one whose resources were above the long term supplementary benefit rate. The cheapest option, option (a), suffers from very serious presentational disadvantages, which are shared to a considerable extent by the three and 6 month verions of option (b). The 12 month version of option (b) and option (c) both offer early retirement options which stand up well

in their own right. Option (b) is cheaper, helps people with long periods on benefit rather than all the over 60s but will be complex to operate and would require a qualifying period in the credits option discussed in the following section. Option (c) is more expensive, but gets more people off the register and is more cost-effective. Both options have substantial staff costs. Increasing the capital disregard does not look like a cost-effective way of getting people off the register.

COSTS OF SELECTIVE EARLY RETIREMENT BENEFITS

1. The attached table shows the numbers of recipients and costs in terms of 1983/84 unemployment levels and November 1982 benefit rates for three alternative versions of a selective early retirement benefit (SERB) for men aged 60-64. In each version the benefit would be paid at the basic retirement pension rate, ie single - £32.85 pw, married man with a dependent wife - £52.55; it would be taxable, and it would be restricted to men in the following circumstances:

	Period unemployed	Occ. Pension Limit (a)	Earnings Limit (b)
Option 1	6 months	None	Husband: £57 pw Wife: £45 pw (RP earnings rule)
Option 2	6 months	£ for £ reduction above £35 pw	£ for £ reduction above £12 pw each for husband & wife
Option 3	12 months	£ for £ reduction above £20 pw	"Sudden death" above: Husband: £ 4 pw Wife: £12 pw

Notes (a) Limit applies to husband's occupational pension only

(b) Wife's earnings limit applies only to dependency addition

In each case a wife aged 60 or over drawing her own retirement pension would not attract the dependency addition unless her basic pension was less than the dependency addition, in which case the balance would be payable.

2. It is possible to distinguish three different stages as the cost of SERB emerges:

Stage I : The "Initial" Cost

When the benefit begins, men already on the register for the required period will qualify immediately for benefit. Inactive people - mainly occupational pensioners - will start joining the register in order to qualify for SERB. (This may raise problems of equity since many of them will have spent the requisite period on the register but be unable to qualify for benefit immediately since they had already left the register.) For each of the three options "initial" costs have been calculated to represent the position, say, six months after the scheme's start, and it is assumed that by then half of the relevant group of inactive men will be on the register for the purpose of qualifying for SERB. The relevant group excludes half of the 64 year olds where the waiting period is six months and all the 64 year olds where it is one year.

Stage II : The "Intermediate" Costs

After a period of, say, 18 months where the qualifying period is 6 months on the register (2-2½ years where it is 12 months) the number of inactive men additionally on the register will have stabilised at a lower level than in the initial period as more of them earn title to benefit. It is assumed that three quarters of the inactive men would under current arrangements have spent the necessary period on the register prior to becoming "inactive", so that in the mediu and longer term only one quarter of them will additionally have to register. Of these, it is assumed that 10% will be on the register at any one time where the qualifying period is six months (20% where it is twelve months). The "intermediate" costs, which include payment of benefit to all men now inactive not receiving another state benefit (IVB, job release allowance etc), are shown for all three options.

Stage III : "Long-term" Costs

Detailed long term net costs are not shown, but an estimate of £560m cost is given in the text for the first option. These "long term" costs assume that 10% of men in employment in the 60-64 age group are attracted to the new benefit, and that half of the jobs they leave are filled (ultimately) by someone who would otherwise be on the register.

3. Other points to note are:

(a) the Job Release Scheme continues to operate and Job Release Allowance (JRA) recipients are not allowed to claim SERB as well as JRA (JRA rates; single - £52.00 pw, married man with dependent wife - £64.50 pw);

(b) in options 1 and 2 no allowance is made for the cost of bringing forward to six months entitlement to the long-term rate of supplementary allowance for this age group (which appears to be a concomitant of SERB) nor for housing benefit effects - both these should be relatively small;

(c) no allowance is made for men who become unemployed, who under the current regime would find work again but who, under SERB, would change their behaviour and would not resume work or would earn less: if as many as 10% of SERB recipients who are now classified as unemployed changed their behaviour in this way, additional net costs of the order of £6 to 8 million would arise; and

(d) it is assumed there are no transfers of people from long-term sickness and disability benefits; if such people were allowed to claim SERB there would be some - probably small - rise in costs.

RECIPIENTS AND COSTS OF A SELECTIVE EARLY RETIREMENT BENEFIT (SERB)

	Option 1	Option 2	Option 3
	Time from introduction		
	6 months	6 months	12 months
A. 'INITIAL' COSTS			
I. SERB recipients			Thousands
Now on 'register' and receiving			
UB	44	44	2
UB + SA	6	6	-
SA	23	23	18
Total with UB/SA (rounded)	75	75	20
Now on 'register' no benefit	85	65	55
Total now on 'register' who would be removed and receive SERB	155	140	75
Inactive men who join 'register' to qualify for SERB	80	55	45
Net reduction in 'register'	75	80	30
II. SERB costs			£m
Net rise in public spending	240	145	105
Cost to public funds net of tax	175	105	80
			£pa
Cost net of tax per person off the 'register'	2,330	1,310	2,410

RECIPIENTS AND COSTS OF A SELECTIVE EARLY RETIREMENT BENEFIT (SERB)

	Option 1	Option 2	Option 3
	Time from introduction		
	18 months	18 months	24 months
B. 'INTERMEDIATE' COSTS			Thousands
I. SERB recipients			
Total now on 'register' who would be removed (see 'initial' costs at A above)	155	140	75
Inactive men who join 'register' to qualify for SERB	5	5	10
Net reduction in 'register' (rounded)	150	135	65
Long term SA who had ceased registering	40	40	40
Other inactive (mainly occupational pensioners)	160	110	85
Total recipients of SERB	355	290	200
Total who gain from SERB	325	260	170
			£m
II. SERB costs			
Net rise in public spending	630	350	250
Cost to public funds net of tax	445	250	180
			£pa
Cost net of tax per person off the 'register'	2,950	1,880	2,720

(2)

10 DOWNING STREET

Prime Minister

(Flags A, B, C)

These three minutes from Norman Fowler arise from the two unemployment meetings, in October and December.

To be aware. I will resubmit, with advice.

MLS 18/2

Thankyou MT