

File

A

SM

MASTER

cc ECON POL: TSRB: PES.



## 10 DOWNING STREET

From the Private Secretary

9 February 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, Lord Gowrie and Sir Robert Armstrong. The issues were set out in the Chancellor's letter to the Secretary of State for Defence of 21 November. 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. It was noted that there were different effects on the different groups, which were particularly severe for those retiring between 1 April 1983 and 1 August 1983. In some cases, those retiring later might receive smaller pensions than those who had retired earlier.

The meeting considered whether action should be taken to mitigate such effects. In correspondence the choice had been narrowed down to Option 2 in the Chancellor's paper, which would backdate the 1 August 1983 increase to 1 April 1983 for pensions purposes; and Option 5 which would relate pensions strictly to actual pay.

The Chancellor argued that it was wrong to adopt backdating for the two groups most seriously affected, judges and senior officers. Both groups received adequate pensions so there could be no question of hardship. The danger of making a concession would be that the settlement agreed for doctors and dentists could be reopened, which would be very expensive.

The Secretary of State for Social Services agreed. He argued that, with some difficulty, the Government had eliminated the practice of basing pensions on notional pay. This was a practice which was not possible in the private sector and it would be wrong to revert to it now. The Lord Privy Seal also agreed that no concession should be made as this could lead to the settlements made with other groups being reopened which would highlight the

/ disadvantage

Tul


disadvantage of MPs. All three, therefore, favoured Option 5.

The Lord Chancellor said that he recognised the reasons of public policy which had led to the staging of the award. He would not have been able to agree to this if he had known that members of the judiciary would be so seriously disadvantaged. This was not simply a case of delaying payment but represented a lower pension for the rest of their lives. He was particularly concerned about the position of some judges who had retired voluntarily but who, if they had known what the pension treatment was going to be, would have been able to delay their retirement. His advice was that Option 2 would put judges on the same basis as that already being implemented for doctors and dentists. He therefore favoured Option 2.


The Secretary of State for Defence also favoured Option 2. Thirty five senior officers were substantially disadvantaged and could receive pensions no higher than those of their immediate subordinates. He too argued that backdating would do no more than put these officers on a par with doctors and dentists.

The Prime Minister said that her initial reaction had been that judges and senior officers were being treated unfairly, but on further examination it appeared to her that the apparent anomaly arose from the method for determining final salary for pensions purposes for these groups. Judges and senior officers had their pensionable salary based on the rate of pay on the last day of service, a system much more generous than that applied to the Civil Service which took the average salary over the last twelve months of service. A judge retiring on 31 July, though much worse off than a colleague retiring a day later, would be treated no worse than a Permanent Secretary retiring on the same day.

Summing up the discussion, the Prime Minister said the meeting was not in a position to take a decision. If a concession were made for judges and senior officers, ways would have to be found of minimising the repercussions. Changes ought to be made to the basis of which final salary was determined for these groups. The meeting agreed that there was a strong case in principle for putting all groups on to the same basis. The meeting could not resolve this immediately as it needed more information on what was involved in making such changes.

 Sir Robert Armstrong was asked to prepare a factual paper setting out the pension arrangements for the different groups including salaries, the rate of accrual, the determination of final salary and pensions payable. It would also examine what was involved in bringing the method of determining final salary of judges and senior officers into line with other TSRB groups. When this paper was available the Prime Minister would reconvene a meeting of the Ministers present.

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 (Department of Health and Social Security), Mary Brown (Lord Gowrie's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely  


(Andrew Turnbull)

John Kerr, Esq.,  
 HM Treasury