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DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Secretary of State for Social Services

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Chancellor of the Exchequer
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6 March 1984

Nigel

PUBLIC EXPENDITURE IN THE LONGER TERM *and K*

Thank you for sending me a copy of your minute of 29 February to the Prime Minister enclosing a copy of the draft Green Paper.

As you know, I welcome the publication of a Green Paper of this kind and in the main I am content with the presentation. I am sure you would not find helpful, nor have I had time to suggest, too many drafting amendments at this stage. I have, therefore, concentrated on the sections covering my own programmes.

My main concern is with the section on future prospects for social security. As at present drafted, the section is a little misleading. For instance, the juxtaposition in paragraph 32 of an increase in the number of pensioners with a statement about the average cost per pensioner ignores the fact that the actual cost increase will be considerably less. This is because most of the new pensioners will be married women who became entitled to pensions in their own right. The additional cost will, therefore, only be the difference between the current adult dependency addition and the basic pension, not the full pension itself. It is also misleading to say (end of paragraph 32) that under SERPS pensioners will "in general be a lot better-off, even relative to those in work, than they are now". In fact on the present policy of price upratings and historic experience on real earnings' growth, most pensioners will, by the end of the population projection period, be no better-off in relation to earnings than they are now.

I think it is also important that the Green Paper should record the fact that the Government is conducting a major review of this field, without appearing to prejudge its outcome. As I have a number of points on paragraphs 29 - 32, I attach a revised draft of this section which I hope you will find suitable.

I am copying this letter only to the Prime Minister. ✓

you ever *Norman*

NORMAN FOWLER

SECRET

29. The main factor affecting the social security programme is the provision which has to be made for the elderly. About half of present expenditure goes on this group and the proportion is likely to increase. Demographic pressures are the main cause of this increase. The total number of people above pension age will show very little increase between now and 1995/96 - from about 9.9 million to 10.2 million. But after the turn of the century numbers will rise rapidly as those born during the high birth rate period of the 1950s and early 60s reach retirement age. The latest projections suggest a total of 12.3 million by 2025/26.

30. But before the turn of the century other factors will have a major impact on the costs of provision for retirement. Although the elderly population will not increase much, the number of pensioners will increase by some 600,000 - largely because more people - particularly married women - will be entitled to a pension in their own right. More significantly, the earnings-related element of the State Earnings-Related Pension Scheme (SERPS) established under the 1975 Social Security Act is beginning to increase expenditure. After SERPS reaches maturity, most people without a private occupational pension will be entitled to a full earnings-related pension in addition to the basic state pension.

31. The cost of provision for the elderly during this period, and after the turn of the century, depends on the interaction of many factors - including demography; the balance between private and state pension provision; the relationship between prices (by which benefits are uprated) and earnings (on which contribution costs depend); and the level of additional support available through supplementary pension and housing benefit. The implications of the present SERPS scheme are

under study in the Government's Inquiry into Provision for Retirement but remain a major factor in the future pressures on social security expenditure.

33. (renumbered) etc as before

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