Original in G/R c.c. CSD
Const.
Mr. Gow

CF to note

24 January, 1980.

Dear Elaine,

Thank you for your letter of 7 January enclosing one from your constituent Mr P L Stiles, proposing that public service pension increases should be related to salary movements for the groups in question, rather than to movements in prices.

As Mr Stiles says this is not a new idea. The case for "parity" as it is known, was pressed strongly by public service pensioner organisations at the time of the Pensions (Increase) Act 1971. It certainly has some theoretical attractions. It would, for example, have avoided "overtaking", whereby somebody who retired between 1976 and 1979, when pensionable salaries were depressed by the Labour Government's incomes policy, can receive a lower pension than a colleague retiring before or after that period.

The big drawback to parity, however, is its cost. Historically, earnings have normally increased faster than prices: the period of the last Government's incomes policy was exceptional in this respect. As a result the greater cost of parity in the long run has not been readily apparent over the last few years. But as real earnings begin to increase parity becomes more expensive than price protection. As you know, we have proposed in the Social Security Bill that the basic retirement pension should henceforth be linked to price movements rather than, as now, the higher of earnings and prices.

The Government are examining the inflation-proofing of public service pensions. In particular, if present arrangements for inflation-proofing are to continue, it is essential to ensure that pension contributions paid by public servants are fair and seen to be fair

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by the public generally. As Paul Channon told the House on 7 November, we believe there should be an independent scrutiny of the calculations on which Civil Serviee pension contributions are based. We are at present considering how this could best be achieved.

Yours ever,

(SGD) MT

Mrs E Kellett-Bowman MP