British White Paper On Social Security Reform*

Significant changes in Britain's social security system have been proposed in a White Paper recently released by the Government to provide an opportunity for comment and discussion of the recommended changes before the necessary legislation is introduced in the 1969–70 session of Parliament. Because the proposals will be of interest to program planners and administrators throughout the world, most of the White Paper is presented here.

The sections describing the major features of the proposed program and its rationale are presented, with only omissions of detail. Three chapters—on the relation of the new State scheme and occupational schemes, the preservation and transferability of occupational pension rights, and possible alternatives to extending the State scheme have been omitted. The White Paper is primarily concerned with pensions and long-term benefits; full details on the other types of social insurance benefits are to be announced later. The question of contracting-out by occupational schemes is among the most controversial issues raised by the new proposals. When graduated pensions were introduced in Great Britain in 1961, provision was made for contracting-out from the graduated addition (but not from the flat-rate pension). Almost two-thirds of the employees now contracted out are in public service or nationalized industries. The problem of assuring equitable treatment under a contracting-out arrangement when the basic system is dynamic is of a different order than that faced hitherto. The White paper suggests a feasible approach but leaves the details to be worked out in the course of subsequent discussions. The questions involved are highly technical, with historical and other aspects that are special to Great Britain. The final position on contracting-out will be reported in the BULLETIN *when it is adopted.*

*Great Britain, Department of Health and Social Security, *National Superannuation and Social Insurance: Proposals for Earnings-Related Social Security*, Presented to Parliament by the Secretary of State for Social Services by Command of Her Majesty, January 1969 (Cmmd. 3883), London, H.M. Stationery Office, 1969.

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INTRODUCTION

1. The Government are proposing the most fundamental changes in social security since the present national insurance scheme was introduced soon after the Second World War.

2. The present scheme is clearly inadequate. Nearly 30 percent of all pensioners are dependent in some degree on supplementary benefit. The existing flat-rate scheme has failed, despite the effort made in 1961 to shore it up by introducing an element of graduated contribution and pension. And the extent of this failure will grow unless the whole system is radically reconstructed.

3. This White Paper sets out the Government's proposals for replacing the present national insurance scheme by a new scheme of national superannuation and social insurance, in which both contributions and benefits will be related to the earnings of the individual employee. The new earnings-related contributions will mostly be higher than the present-scheme contributions, especially for higher earners. In return, those who pay the new contributions will earn new and higher personal pensions and other benefits—personal in two particular senses. First, national superannuation pensions will be related to the individual's personal earnings record; the uniform flat-rate pension will go. Secondly, unlike pension rights under most private superannuation schemes, those under national superannuation will never be lost, however many times or for whatever reason the individual changes his job.

4. The new earnings-related pensions and other benefits will only be available to those who have paid the new contributions. Twenty years of new-scheme contributions will be required before the first pensions at the full new-scheme rates are paid, to people reaching pension age then. These full rates will normally be adequate, even for those whose earnings have been relatively low, to live on without other means. Contributors who reach pension age during the twenty-year build-up period will earn pensions at intermediate rates. As more and more people draw the higher pensions which they will have earned by their new-scheme contributions, the proportion of pen-

sioners needing supplementary benefit will gradually decline.

5. The new earnings-related pensions will not be available to those who are pensioners already. But they will continue to share in the nation's rising living standards, through periodical increases in their pensions. The rate to be paid to present-scheme pensioners when the new scheme starts will be decided by the Government at the time.

6. The income of the new scheme will automatically rise as earnings rise. This buoyancy will help to make possible a new guarantee covering pensions and other benefits already in payment. The Government will be required by law to undertake a review every two years of the main rates of benefits in payment, both under the present scheme and under the new. The increases made will, as a minimum, compensate for any rise in prices during the two-year period. The amounts of increases beyond this will be decided by the Government of the day, in the light of the general situation on each occasion.

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THE NEED FOR CHANGE

The financial position of pensioners today

10. Since 1965 the Government have done much to improve the position of elderly people, by pension increases and in other ways . . . . But it is still true that most pensioners have incomes around, or not far above, supplementary benefit levels.

11. Nearly a third of all pensioners are widows. This is the poorest group among the elderly. Nearly half of these widows receive supplementary benefit, compared with about a fifth of other pensioners. It is likely that, if the level of supplementary benefit were raised by £1 a week, well over 80 percent of widow pensioners over 60 would be eligible for it.

12. It is estimated that over half the total income of pensioners comes from national insurance pensions and supplementary benefits, and that their average income is around two-thirds of that of the rest of the population (counting children as a half). The general standard of living of pensioners is therefore substantially below that of the working population.

The Beveridge plan

13. How has it happened that the present scheme of national insurance, founded on the principles of the Beveridge Report,[1] fails to provide an adequate income in retirement? In 1948 the Report seemed a great step forward for Britain and a model for many other countries.

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16. The principles laid down by Beveridge were widely acclaimed at the time and were accepted as the basis for the planning which led up to the National Insurance Act of 1946. Yet it is clear in retrospect that the national insurance scheme, as it has developed over the last 20 years, has failed to achieve Beveridge's main objective—adequate pensions and other benefits by right of contributions.

17. The basic reason for this failure was undoubtedly the acceptance—which was almost unanimous—of Beveridge's recommendation that the scheme should be based on a system of flat-rate contributions and benefits; but there were four other factors—

(a) In the first place there was the increasing proportion of the population over pension age. This had been foreseen by Beveridge, but his method of dealing with it was not adopted. He had envisaged that twenty years after his scheme had started, when the first full pensions would be paid, the taxpayer would contribute nearly half the cost of the scheme. In practice, successive Governments have been reluctant to enlarge the Exchequer Contribution to anything approaching this extent, as they considered that the cost of an insurance scheme should fall predominantly on the contributors.

(b) Secondly, the Government decided that existing pensioners should receive the full rate of pension straight away. Thus from 1948 the same level of benefits was given to all—pensioners, the sick, the unemployed and other categories. Furthermore, the decision was taken to offer full pensions to those approaching pension age after only ten years of

[1] Sir William Beveridge, *Social Insurance and Allied Service* (Cmmd. 6404), London, H.M. Stationery Office, 1942. See Martha D. Ring, "Social Security for Great Britain—A Review of the Beveridge Report," *Social Security Bulletin*, January 1943.

contributions (to be paid between 1948 and 1958). These two concessions, although inescapable in the circumstances of the time, further weakened the financial foundations of the Beveridge scheme.

(c) Thirdly—and this was only dimly envisaged in the 1946 Act—there was a continuing need to improve the real value of pensions and to keep them moving upwards in step with the rising living standards of those in work.

(d) Fourthly, when the national assistance scheme came into operation in 1948 its levels (including allowances for rent) were in most cases substantially above the level of national insurance pensions and benefits. From the start, therefore, hundreds of thousands of old people needed to supplement their national insurance pension with an allowance from the National Assistance Board. Supplementation had become the rule for those with little or no other income—not, as was Beveridge's ultimate objective, the exception. This situation has persisted ever since.

18. Underlying these factors was the basic weakness of the flat-rate system itself. A flat-rate contribution falls equally on the incomes of rich and poor. It is easily borne by the better-off, but hits the poorest hardest. The flat-rate contribution had to be set, therefore, at a level which the lowest wage-earner could afford. Experience has shown that under this system the level of contribution necessary to provide adequate pensions would place too great a burden on the lowest-paid contributors. As already indicated, the alternative of placing the extra burden on the Exchequer was rejected by successive Governments. Nor were they prepared to adopt the course followed in some other countries of financing adequate pensions out of much higher employers' contributions, because of the unacceptable effect on prices and the cost of living.

19. These were the problems which led to the introduction of the graduated pension scheme in 1961. The immediate purpose of this scheme was to find a new source of contribution income to buttress the ailing finances of national insurance. But the relief it provides to the finances of the flat-rate scheme is inherently limited; and in any case it does not tackle the long-term problem. Further, the grafting on to the flat-rate scheme of a separate structure of graduated contributions and pensions has created extra work for employers and made the system more difficult for people to understand.

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Conclusion

22. Neither the flat-rate scheme by itself, nor the present combination of flat-rate and graduated schemes, has succeeded in providing adequate pensions by right of contribution. For those without occupational pensions or private means, it is not the national insurance scheme which provides security in old age, but the supplementary benefits scheme. The latter is not, as was intended, just a "safety net" for the exceptional case. Instead it is a vast platform which now helps to support some two million people over pension age.

23. Like the original flat-rate scheme as planned in the Beveridge Report, the present scheme is static, and the existing structures of both benefits and contributions have failed in their purpose. The only real way forward, which tackles the problem at its roots as well as having great merits of its own, is to create a comprehensive scheme of fully earnings-related benefits and contributions. . . .

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BASIC OBJECTIVES

(1) *Rights to benefit must be earned by the payment of contributions*

25. It is as true today as when Beveridge wrote his Report that benefit in return for contributions is what the people of Britain desire; and the State has already undertaken obligations to those who have paid contributions, often for very many years. These obligations have to be honoured. The present annual cost of retirement pensions alone is over £1,500 million, which is equivalent to 5s. 3d. on the standard rate of income tax. Even if it were remotely realistic to consider a transfer of this order from contributions to taxation, the Government would still think it wrong for pensions to be wholly tax-financed.

People do not want to be given rights to pensions and benefits; they want to earn them by their contributions. Moreover, the level of wholly tax-financed pensions would undoubtedly be low. This is because people are prepared to subscribe more in a contribution for their own personal or family security than they would ever be willing to pay in taxation devoted to a wide variety of different purposes.

26. For all these reasons the Government reaffirm their commitment to the contributory principle. The success of the new scheme must not depend on the willingness of future Governments or future generations of taxpayers to prop it up with an increasing proportion of support from the Exchequer. The same share of the scheme's income will come from the taxpayer as at present, and this proportion should not need to be changed. In every year the major part of the scheme's income must come from contributors and their employers.

(2) *Benefits and contributions must be related to the contributor's earnings*

27. The principle of relating benefits to the individual contributor's earnings, and so to his standard of living while at work, is already widely accepted in the social security schemes of other countries.

28. About three-quarters of the members of occupational pension schemes are in schemes which are earnings-related. This is clearly the trend and is what more and more people are coming to expect from a good pension scheme. This makes it all the more important that the State scheme itself should be based on the principle of earnings-relation. If it were to be kept basically flat-rate, retired people would continue to be divided into two nations—those with good occupational superannuation, and those with little or nothing to add to their basic State pension except supplementary benefit based on a test of means and needs.

29. The principle of earnings-related benefits means, in turn, that contributions must be earnings-related as well. Payment of higher benefits to those with higher earnings cannot be justified unless they have paid, and are known to have paid, higher contributions to the scheme. Earnings-related contributions also have great advantages in themselves. They enable the total contribution income of the scheme to be increased, and to be made automatically buoyant in that it rises as earnings levels rise. At the same time the burden on contributors with low earnings can be reduced. This has particular importance for people who work at low rates of pay or cannot manage a full working week.

30. Earnings-relation does not mean, however, that the State scheme will be extended to cover the whole of a person's earnings, however large. Many people would consider compulsory State pension provision justified only up to a certain point. . . . The State scheme will continue to leave sufficient room for occupational pension schemes. Indeed, superannuation is only one way of providing for old age, and some people will prefer to make part of their provision by buying their own homes, or by investment. These are all reasons why there should be a maximum to the State pension and in consequence an annual earnings "ceiling" above which employees are not required to pay further contributions.

(3) *Benefits must normally be sufficient to live on without other means*

31. It might seem at first sight that, as in some occupational schemes, pensions under the new scheme should be the same percentage of earnings at all levels up to the scheme's ceiling. But if this percentage were set high enough to ensure adequate pensions for low earners, the cost of applying it uniformly up to the ceiling would be very great, and the contributions needed to finance the scheme would be much too high. State provision at this level for the middle and higher earner would not be justified. The scheme must therefore strike a balance. It must provide adequate pensions at all levels, but without requiring excessively high contributions. This will be achieved by a pension formula which gives greater weight to the contributions paid on the first third of earnings covered by the scheme.

(4) *Benefits must take into account changes both in price levels and in general living standards*

32. Beveridge could not foresee, or allow for, the great economic changes which have taken

place even over the quarter of a century since he wrote his Report. A pension scheme spans not just a quarter of a century but the whole of adult life. For the individual there will be some forty to fifty years during which rights to pension are earned, followed by, in many cases, twenty years or more during which pension is drawn. Among risks which must be pooled is the risk that money will change its value. Among needs which must be met is the need for pensioners to share in the nation's rising living standards. . . .

33. For these reasons the new scheme must meet two separate requirements. First, when pensions come to be awarded they must reflect changes in general earnings levels which have taken place during the contributor's working life. Secondly, pensions in payment must be adjusted regularly for further economic changes which take place during retirement. In both cases adjustment is needed not only for changes in price levels but also for changes in general living standards. . . .

34. The new scheme will accordingly provide a "dynamic" pension, earned by the individual's contributions on his earnings over working life but with his record in each year re-valued according to subsequent changes in earnings levels generally, up to the time he reaches pension age. This will ensure that the earnings figure from which his pension is calculated—and so the pension itself—is in line with general living standards at the time he reaches pension age. Further regular adjustments will then be made to the pension during the years of retirement. Those at work are in a position to use their bargaining strength to increase the amount of their share of the nation's income. Pensioners do not have the power to protect their interest in this way.

(5) *Women will contribute on the same basis as men and earn similar benefits*

35. The new scheme, like the present one, must take account of family needs. Some wives are away from paid work for long periods looking after their families. Furthermore, among married women who will reach pension age in the next twenty or thirty years, even those who have spent substantial periods at work will often have achieved no corresponding insurance record, since under the present scheme they are able to choose not to pay the flat-rate contributions. Pensions and other benefits based on their husbands' records will therefore still be needed both for married women and for widows. But at the same time those who do go out to work must be enabled to earn benefits in their own right, and must expect to pay their fair share towards a scheme which pools risks and depends on contributions based on earnings.

36. Under the present scheme, a married woman usually obtains a relatively unfavourable return for such contributions as she has paid. Not only does she normally receive a reduced personal rate of flat-rate sickness or unemployment benefit, but she may gain no extra pension from flat-rate contributions she had paid before, or during, her marriage: If her husband had retired or has died, she receives no pension from her own flat-rate contributions unless they have been sufficient to earn more than the amount for which she qualifies in any case on his record.

37. This is one reason why married women are at present offered an option whether or not to pay flat-rate national insurance contributions. A second reason for the option is to prevent a serious disincentive to their undertaking part-time work. Normally a person who works for more than eight hours a week is liable to pay the full flat-rate contribution. This can take a very large slice out of part-time earnings. . . .

38. The new scheme must recognize that it is now very common for married women to go out to work. In 1931 less than a million did so. By 1951 the number had risen to more than 2½ million. Now it exceeds 4½ million. For the combined pensions of a married couple who have both worked to reflect the standard of living achieved by their joint efforts, they must be based on the earnings of both husband and wife.

39. Under the new scheme women who go out to work, whether they are single, married or widowed, will contribute on the same basis as men, and will earn pensions and other personal benefits in their own right. When they are sick or unemployed, married women will receive the same personal rate of benefit as single men and women with the same earnings. They will also be entitled to have their pensions calculated on their earnings in the same way as single people. But for wives who, for one reason or another, do not have a

substantial record of their own, a pension on the husband's record will continue to be provided. For widows, the right which will be given to older widows to inherit the husband's full rate of earnings-related pension will be one of the new scheme's most beneficial features.

40. Besides its pension provision, the new scheme, like the present one, will include benefits for widows of working age. These benefits will be based on the earnings record of the husband, and will be available to widows with children and to childless widows above a certain age.

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(6) *The scheme will be run on the "pay-as-you-go" principle*

43. . . . The new scheme will have two separate funds: a National Superannuation Fund and a Social Insurance Fund. Neither of them will be "funded" in the technical sense in which most occupational schemes are funded. Both funds will be run, like the present scheme, on the "pay-as-you-go" principle. This principle is that current contribution income is used to meet current benefit expenditure—the contribution rates for any period being accordingly fixed to meet the expected expenditure in that period.[2] Thus contributions paid into the National Superannuation Fund will be used to finance current pensions expenditure. At the same time, the State will undertake to provide the contributors with pensions, calculated according to the new scheme's provisions, when they themselves come to retire. The cost of these future pensions will in turn be met from contributions paid at the time. Since the new scheme's contributions will be earnings-related, the income they produce will automatically rise with the higher earnings levels which can be expected to accompany economic growth. In this way the new scheme, with its earnings-related contribution income, will be able, without imposing an excessive burden on future generations of contributors, to give pensioners and other beneficiaries not only protection against the effects of price increases but also a share in the general improvement of the nation's living standards.

[2] In the early years of the new scheme, the income of the National Superannuation Fund will be somewhat more than will be needed to meet its current expenditure.

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(7) *The State scheme will work in partnership with occupational pension schemes*

45. As a result of the growth of occupational pension schemes in recent years, people will increasingly become entitled to superannuation consisting of two parts—one part from the State scheme and the other from an occupational scheme. For them the State scheme will serve as a foundation for the type of provision which occupational schemes are most suited to provide.

46. Occupational pension schemes have an important part to play in partnership with the State scheme. This partnership cannot consist, however, of a division of the population into two sectors of pensioners, State and occupational. It would be extremely difficult to apply any such division to people who move into and out of occupational schemes at different stages of their working lives. The best foundation for the success of occupational schemes is the existence of a substantial basic compulsory State scheme; and strong arguments can be advanced that, so far from handicapping occupational schemes, the new State scheme will assist their long-term development.

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(8) *People changing their employment will be legally entitled to have their occupational pension rights preserved*

49. At present there are no universal or comprehensive arrangements for safeguarding occupational pension rights on changes of employment. A Committee of the Minister of Labour's National Joint Advisory Council, which was appointed to report on the economic and social implications of existing arrangements for preservation of pension rights on change of employment, concluded that there were strong social arguments for more extensive arrangements for safeguarding occupational pension rights.[3]

[3] "Preservation of Pension Rights"—Report of a Committee of the National Joint Advisory Council, H.M.S.O., 1966.

50. The Government endorse this conclusion and accordingly intend to impose on all occupational schemes the obligation of offering to their members the right, if desired, to have their pension rights preserved on change of employment. Those employees who prefer will however still be able to have their contributions returned to them.

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THE GOVERNMENT'S MAIN PROPOSALS

Contributions for Employed Persons

Employees' contributions

54. The present contributions for employed persons are in three parts. First, there is the flat-rate contribution, which is collected through the stamped card system. Secondly, there is the contribution for graduated pension, charged at 4¼ percent on earnings between £9 and £18 a week. Thirdly, there is the contribution for earnings-related short-term sickness, unemployment and widowhood benefits, charged at ½ percent on earnings between £9 and £30 a week. The last two contributions are collected together through the PAYE income tax system.

55. Under the new scheme these three contributions will all be abolished, and with them the present system of stamped cards. Instead, all employees coming within the PAYE system will pay a single type of contribution, collected through that system. This contribution will be a straight percentage of all their earnings in each year, up to a maximum or "ceiling" of about 1½ times national average earnings.[4] At April 1968 earnings levels this ceiling would be £1,700 a year (equivalent to about £33 a week); the cash amount will increase over the years as national average earnings rise. In 1968, about 7 percent of the 22 million employees covered by PAYE were earning £1,700 a year or more, and so would have paid the new contributions on their yearly earnings up to that amount but not beyond. The remaining 93 percent would have paid the new contributions on the whole of their earnings.

56. The percentage contributions will be paid by employed men and women alike. The percentage rate will be the same for both; and the new contributions (unlike the present flat-rate contributions) will be compulsory for married women and widows who go out to work, on the same basis as for other employees. At the start of the scheme the total contribution rate payable by employees will be 6¾ percent. Of this total, 4¾ percent will be for national superannuation. The remaining 2 percent will be for social insurance benefits, industrial injuries benefits and a contribution to the National Health Service.

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Employers' contributions

58. Employers' contributions under the new scheme will be calculated as a percentage of their total PAYE payroll, with no earnings ceiling. At the start of the scheme, the total contribution rate for employers will be 6¾ percent. Of this total, 4½ percent will be for national superannuation; this will produce approximately the same total income as the employees' rate of 4¾ percent, which will apply only up to the earnings ceiling. Employers and employees as a whole will therefore contribute approximately the same to the National Superannuation Fund. Of the remaining 2¼ percent of the employers' contribution rate, 2 percent will be for social insurance benefits, industrial injuries benefits and a contribution to the National Health Service; and ¼ percent has been allowed for the Redundancy Fund (replacing employers' present flat-rate contribution to that fund). The contribution to the National Health Service will be at the same percentage rate for employers as for employees (in the former case without an earnings ceiling); this is in contrast to the present flat-rate National Health Service contributions, which are much lower for employers than employees.

The Exchequer contribution

59. The total Exchequer contribution to the present national insurance scheme is now about

[4] Here and elsewhere, "national average earnings" is used, for convenience, to mean the average earnings of adult male manual workers in manufacturing industries and certain non-manufacturing industries and services, as obtained from the Department of Employment and Productivity's half-yearly enquiries into earnings. The latest available figure (for April 1968) is about £22 5s. a week.

£340 million a year; this amounts to about 18 percent of the combined national insurance contributions of insured persons and employers. Under the new scheme the Exchequer will contribute approximately the same proportion; and the amount this produces will increase automatically as earnings levels rise.

National Superannuation Benefits

Retirement Pensions

Pension ages and the retirement condition

60. The minimum ages for pension will remain at 65 for men and 60 for women. The pensions will still be retirement pensions: that is, until age 70 (men) or 65 (women) they will be paid only to people who have retired from regular employment. Up to these ages there will therefore still need to be an earnings rule, whereby a retirement pension is reduced if the pensioner earns more than a certain amount. Those who retire after age 65 (men) or 60 (women) will earn extra pension, the amount of which will take into account both the contributions they have paid after reaching pension age and the amount of pension they have forgone through their later retirement.

Transition to the new-scheme rates

61. Rights to the full new pensions will be built up gradually over the first twenty years of the scheme. Pensions for people reaching pension age during this twenty-year "maturity period" will be at intermediate rates, calculated by combining rights earned by contributions under the present flat-rate scheme with rights earned under the new scheme. Those who reach pension age after the first year of the new scheme will get nineteen-twentieths of the present-scheme rate, plus one-twentieth of the new-scheme rate based on their earnings since the new scheme began. Those reaching pension age after the second year will get eighteen-twentieths and two-twentieths respectively—and so on, until the first fully mature new-scheme pensions are paid to those reaching pension age twenty years after the scheme begins. The pensions awarded during the maturity period will remain at intermediate rates; but the rates in payment will be reviewed every two years.

End of the present graduated scheme

62. When the new earnings-related scheme begins, the present graduated scheme will come to an end; and no further rights will be earned under it. The graduated pension rights already earned up to that date will be preserved, and paid on top of the new-scheme pensions. The amounts earned under the present graduated scheme will not be covered by the two-yearly reviews of benefit rates.

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How new-scheme pensions will be calculated

(i) *The main pension formula*

64. The pensions earned under the new scheme will, like the contributions, be wholly earnings-related. The fully mature new-scheme pension for a single person will be made up of 60 percent of his or her earnings up to half national average earnings, and 25 percent of the remainder up to the scheme's ceiling. This is the new scheme's main "pension formula." At April 1968 earnings levels, the changeover point between the two parts of the formula would have been at earnings of about £11 a week, and the ceiling at earnings of about £33 a week. Both the changeover point and the ceiling will increase as national average earnings rise.

* * *

(ii) *Earnings over working life*

66. Under the present scheme, both the flat-rate and the graduated pension entitlement depend on the contributions paid during the whole of working life. On the other hand, many occupational schemes calculate pensions on earnings during the last few years of employment. This is appropriate for schemes which cover only salaried

workers who can expect to reach their peak earnings just before they retire. But it would not be suitable for many manual workers. In many occupations the earning ability of manual workers drops in their forties and fifties because they can no longer do the more strenuous work, or can no longer work at the same pace. . . .

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(iii) *Life average earnings*

68. When a contributor's life average under the new scheme comes to be calculated, his earnings in each year will be re-valued in line with the changes which have since taken place in the level of national average earnings. In this way his earnings will be converted into their up-to-date equivalent at the time he reaches pension age. As a result, for example, a man who had had exactly national average earnings every year of his working life would have his pension calculated on national average earnings as they were at the time he reached pension age, not on the money average of his actual earnings over life. . . . All the necessary recording and calculation will be done by computer.

(iv) *Credited earnings for periods of sickness or unemployment*

69. If pension were calculated only on actual earnings, adjusted as described above, people with considerable sickness or unemployment might not receive adequate pensions. During periods when sickness or unemployment benefit is paid, and in some other circumstances, contributors' records will therefore be credited, for the purpose of calculating their future benefit entitlement, with earnings of, normally, half the national average (that is, about £11 a week at April 1968 levels). This will correspond to the full 60 percent part of the pension formula.

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The New Deal for Women

Pensions for married women

72. A married woman's retirement pension will be calculated in whichever of the following ways is more favourable for her—

(1) A pension based on her own life average earnings and calculated from the main 60 percent/25 percent pension formula in exactly the same way as for men and single women.

or (2) A flat-rate pension on her husband's record, as under the existing scheme (the present rate being £2 16s. a week), plus an earnings-related addition of 25 percent of her own life average earnings.

73. At the start of the new scheme, calculation (2) will be better for the great majority of pensioner wives; but the build-up of married women's earnings records under the new scheme will gradually increase the numbers of whom calculation (1) is more favourable. Under either calculation all the wife's contributions paid after the new scheme begins, whether before or during marriage, will bring her extra pension. For dependent wives under age 60, a flat-rate addition to the husband's retirement pension will be paid, as under the existing scheme (the present rate being £2 16s. a week).

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Women widowed after reaching age 60

75. A wife whose husband dies when she is aged 60 or over will receive whichever of the following pensions is more favourable for her—

(1) The same personal rate of retirement pension as her husband was receiving, or had earned, when he died. If he died before reaching age 65, her pension will be based on his life record of average earnings, with the years he had still to live before reaching age 65 filled in by crediting earnings at, normally, one half the national average.

or (2) A pension based entirely on her own life average earnings and calculated from the main 60 percent/25 percent formula in the usual way.

Younger widows

(i) *Widow's allowance*

76. There will continue to be an earnings-related widow's allowance for the first six months of widowhood. As now, this will be based on the husband's earnings in the previous tax year. The method of calculating the allowance will be revised to take into account the abolition of flat-rate contributions and benefits.

(ii) *Widowed mother's allowance*

77. A widow who has a child under 19 in her family will receive an earnings-related widowed mother's allowance. This will be calculated in the same way as the pension in paragraph 75(1), with the addition of a flat-rate allowance for each dependent child. As at present, the amount of this allowance will be higher than child allowances generally.

(iii) *Widow's pension*

78. An earnings-related widow's pension will be paid to women who are widowed after reaching age 50, and also to widows who are aged 50 or over when their entitlement to widowed mother's allowance ceases. This pension will be calculated in the way described in paragraph 75(1). Any contributions of the widow after her husband's death will add to the eventual retirement pension which she will receive on his record. Alternatively, if better, her retirement pension will be based entirely on her own life average.

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80. Under the new scheme, a woman who is between age 40 and 49 when she is widowed, or when her entitlement to widowed mother's allowance ceases, will receive, while she is under age 60, an earnings-related widow's pension. This will be calculated in the same way as in paragraph 78 but scaled down according to her age at that time, with a minimum pension corresponding to about £1 10s. a week at present-day levels. Her eventual retirement pension will take into account both her husband's earnings record and any earnings of her own after his death. Alternatively, if better, her retirement pension will be based entirely on her own life average.

81. Existing widows will be able to qualify for a scaled-down flat-rate pension under the new arrangements, if they would have satisfied the new qualifying conditions at the time when they were widowed or when their entitlement to widowed mother's allowance ceased.

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Death Grant

86. Death grant, which is paid to help with funeral expenses, will continue to be at a flat rate. The grant will be extended, on the insurance of close relatives, to cover the deaths of handicapped people who were living with them and who had never been able to work and contribute.

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Occupational Pension Schemes

Partial contracting out of the new scheme

94. Employees in occupational pension schemes can be contracted out of the present State graduated pension scheme, but not out of the basic flat-rate scheme. The Government are confident that fair and workable arrangements can be made to allow employees in occupational schemes to be contracted out of part of the new retirement pension provisions. Under such arrangements the employee's and employer's contributions to the new scheme would be reduced, and part of the employee's retirement pension would be provided instead by the employer through the occupational scheme.

Preservation of occupational pension rights

95. At present many employees in occupational pension schemes forfeit part or all of their pension rights when they leave a job. In future those who have satisfied certain minimum qualifying conditions will be given the right to have the amount of occupational pension which they earn preserved for them until they reach the age for drawing it. Those who prefer will still be able

to have their contributions returned to them when they change their employer.

The Self-Employed

96. Self-employed people are not included in the present graduated pension scheme. In principle their new-scheme contributions and benefits, like those for employees, should be related to their earnings. But thorough study of the problems has shown that this is not practicable, at least for the time being (see Appendix 1, paragraphs 29 to 32) . The self-employed will therefore be brought into the new scheme by contributing to it at a flat rate. Someone with a mixture of employment and self-employment during his working life (as most self-employed people will probably have) will still have a single integrated record.

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Low Earners and Non-Earners

99. Employees whose earnings are too low to bring them within the PAYE system (at present this means those earning less than £5 5s. a week) will not be compelled to pay contributions under the new scheme. Nor will people who do not earn at all. There will however be arrangements for voluntary contributions to be paid to bring a person's record for any year up to the level which would produce a pension at the standard rate then in force for present-scheme pensioners (at present £4 10s. a week for a single person, £7 6s. for a married couple).

REVIEWS OF PENSIONS AND OTHER BENEFITS IN PAYMENT

100. In the past there has been no proper system for increasing benefits already in payment. The intervals between increases have varied considerably; and the changes have rarely come into effect at what is clearly the best time of year, before the beginning of winter.

101. Under the new scheme the Government will be bound by statute to review every two years the main rates of pensions and other benefits (including industrial injuries benefits) in payment. The reviews will cover present-scheme as well as new-scheme pensions and other benefits. The increases, which will always come into operation in the autumn, will compensate for any rise in price levels since the previous increase. But this inflation-proofing is only a minimum. Pensioners and other beneficiaries will also continue to share in the nation's rising living standards. The actual amount of improvment on each occasion, beyond the inflation-proofing, must be left for decision by the Government of the day, which will need to take into account such factors as movements in earnings levels, changes in the standard of living of the community as a whole, and the general economic situation.

102. The Government propose that the benefit increases should be brought about by regulation, without the present need for a new Act of Parliament on each occasion.

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TIMING OF THE SCHEME'S INTRODUCTION

104. The Government hope that the new scheme will be thoroughly discussed, in Parliament and elsewhere, before its details are finally settled; and they will consult organizations with special interests in this field. After taking account of these consultations, they intend to introduce the necessary legislation in the 1969–70 session of Parliament. Because of the link with the PAYE system, the scheme must start at the beginning of an income tax year, in April. The target date is April 1972.

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Financial Implications

165. Under the existing scheme all national insurance contributions are paid into one fund and all national insurance benefits are paid out of it. Under the new scheme, this single fund will be replaced by two funds, the National Superannuation Fund and the Social Insurance Fund. Each fund will receive the appropriate proportion of the total contribution income, including the Exchequer contribution. The money accumulated

in the funds—including the present scheme's reserves, which will be divided between them—will bring in interest which will, as now, help towards meeting the scheme's expenditure.

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167. In principle the new scheme, like the present one, will be financed on a "pay-as-you-go" basis—that is, with current income designed to meet current expenditure. Most people must expect, however, to pay more for their higher benefit prospects. Furthermore, frequent changes in the percentage contribution rates ought to be avoided, especially in the early years when the scheme is settling down. The initial national superannuation contribution rates proposed leave room, therefore, for the growth of expenditure for some years ahead.

168. The result is that there will be a surplus of income over outgo in the National Superannuation Fund at the outset of the new scheme. How long this position will last depends upon the actual levels of income and outgo; and these in turn depend on a number of factors. Most important among these are: the extent to which, over the years, the growing national income will permit improvements in the real value of pensions after award; the arrangements for contracting out; and the number of employees covered by these arrangements.

169. The two-yearly reviews of pensions in payment will ensure that, as a minimum, they are raised sufficiently to compensate for any rise in prices. The costings of the new scheme have been done in terms of April 1968 earnings levels. They therefore illustrate what the relative growths of income and expenditure would be if pensions in payment were always to rise in line with earnings. However, the figures do not take account of contracting out. Because decisions have still to be taken on the degree of contracting out in the scheme, the Government Actuary has given estimates of what the position would be if there were no contracting out at all, accompanied by an indication of the effect of each ¼ per cent a side by which the contribution was reduced for those contracted out.

170. The Government Actuary estimates that with contributions at the proposed level, and before making any allowance for contracting out, the accumulated National Superannuation Fund would reach a maximum of about £3,400 million (in addition to its share of the present reserves) in 1987–88, the year in which expenditure would exceed income for the first time. The contribution rates would then need to be increased somewhat, to maintain income in line with expenditure, on the pay-as-you-go principle. If the numbers contracted out were the same as at present, the point at which expenditure first exceeded income would be advanced by about 18 months for every ¼ per cent a side by which the contribution was reduced for those contracted out, and the maximum size of the fund would be correspondingly reduced.

171. Against the extra expenditure on new-scheme pensions there will be some saving because of the gradual reduction in the numbers and amounts of supplementary pensions in payment. It is not possible to provide any accurate forecast of these savings. Expenditure on supplementary benefits is at present about £450 million a year of which over £200 million is for supplementary pensions. The prospect is that, in terms of 1968 levels, this will decline after the start of the new scheme, though only slowly during the first decade or so, with the probability that by the turn of the century expenditure on supplementary pensions will be at a very much lower level.

Economic implications

172. The main purpose of the new scheme is to raise the standard of living of pensioners, both absolutely and in relation to the rest of the population. It is estimated that at present national insurance and supplementary benefits provide pensioners with about a third of the average income of the rest of the population. Other sources provide about a further third, so that the average income of pensioners is now around two-thirds of that of the rest of the population; but there are wide variations on either side of these average levels.

173. When the new scheme has been running long enough for the bulk of pensioners to be receiving pensions at the fully mature new rates—that is, some time after the turn of the century—the pensions provided might amount on average to around half the average income of the rest of the population. This would mean that, even if the relative provision from other sources were no greater than now, the average income of pen-

sioners would approach 80 percent of that of the working population.

174. The improvement in the relative standard of living of pensioners will not be spread evenly throughout the retired population, but will tend to be concentrated on the groups with fewest resources beyond their State retirement pension. Those who will gain most will be the widows, who often have no appreciable other income of their own.

175. At present, pensioners account for 10 percent of total personal consumption, and the rest of the population for 90 percent. The projected increase in the living standards of pensioners might raise their share of personal consumption to about 12 percent by the turn of the century, thus reducing the share available to the rest of the population by about 2 percent of the total.

176. The reduction in the share of personal consumption going to the working population represents the real cost of the new scheme. But it will come about only gradually over a period upwards of thirty years, and will be much more than offset by the increase in living standards resulting from normal economic growth. It is not possible to forecast the rate of economic growth over periods as long as this; but if, for example, real incomes were to double, the introduction of the new scheme might mean that workers' living standards would increase by 95 percent rather than by 100 percent. Thus, at any rate of economic growth comparable with what has been achieved in recent years, the increase in the pensioners' share would only have a relatively small effect on the rate of increase in the living standard of the working population and would not be felt by them as an appreciable burden.

177. From the point of view of each contributor, the scheme implies some postponement of consumption from the working years to the years of retirement. For the community as a whole, what is available for personal consumption at any one time is determined by the potential size of the total national product and by the claims of investment, public services and exports. As long as the scheme does not result in an increase in the total proportion of the national income devoted to personal consumption, there should be no adverse effect on productivity or employment, or on future economic growth.

178. . . . The Government have decided that at the start of the scheme the level of contributions should be somewhat higher than is necessary to meet the expected current expenditure. The resulting surplus in the scheme's early years will have a restraining effect on the pressure of demand, and thereby enable any given level of public expenditure to be financed with a somewhat smaller recourse to general taxation. The extent of this easement will depend on how far the surplus is offset by any consequential reduction in private savings as a whole, including savings through occupational pension schemes. It would be prudent to assume, at any rate initially, that there will be some effect on occupational pension schemes which will not be fully offset by increases in other forms of private saving.

179. It is estimated that the increase in employers' contributions to 6¾ percent of earnings (including their contributions to the Redundancy Fund) implies an increase of about ½ percent in total labour costs, which in turn—taking both direct and indirect effects into account—may increase the general level of prices by a similar percentage. There may thus be a small adverse impact on the balance of payments when the new scheme begins.

Conclusion

180. The new scheme requires people to spread their incomes more evenly throughout their lives, so that they have somewhat less during working life and substantially more during retirement. From the social point of view, it implies a long-term commitment, by the Government on behalf of the community as a whole, to reduce substantially the present gap between the living standards of the working population and the retired population. This change will come about gradually; and it will still leave the working population able to look forward to a steady improvement in their own living standards.